

**norcross**

**Preliminary  
Results**

Year ended  
31 March 2019



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## **Introduction**

**Martin Towers  
Chairman**

- Tenth consecutive year of growth
- Underlying operating profit up 25.5% at £34.4m (2018: £27.4m)
- Strong cash generation – net debt reduced by £12.1m to £35.0m
- Underlying ROCE at 18.2% (2018: 18.0%)
- Full year dividend increased by 7.7% to 8.4p
- Acquisition of House of Plumbing on 1 April 2019

**Revenue**  
£331.0m                      +11.6%<sup>1</sup>

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**Underlying operating profit**  
£34.4m                        +25.5%

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**Underlying EPS**  
31.7p                            +7.5%

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**Underlying operating cash flow**  
£39.8m                        +28.4%

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**Underlying ROCE %**  
18.2%                         +20bp

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**Full Year Dividend**  
8.4p                             +7.7%

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

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## **Financial Review**

**Shaun Smith  
Group Finance  
Director**

# Income Statement

	2019	2018	+/-	+/-
	£m	£m	Reported	Constant Currency
Revenue	<b>331.0</b>	300.1	+10.3%	+11.6%
Underlying <sup>1</sup> operating profit	<b>34.4</b>	27.4	+25.5%	+27.4%
<i>Margin</i>	<b>10.4%</b>	9.1%		
Finance charges – cash	<b>(1.8)</b>	(1.1)		
Underlying <sup>1</sup> PBT	<b>32.6</b>	26.3	+24.0%	
Exceptional operating items <sup>2</sup>	<b>(4.0)</b>	(2.1)		
IAS19R admin expenses	<b>(1.5)</b>	(1.4)		
Acquisition related costs <sup>3</sup>	<b>(3.8)</b>	(4.3)		
Finance income/(charges) – non cash <sup>4</sup>	<b>2.1</b>	(5.0)		
PBT as reported	<b>25.4</b>	13.5	+88%	

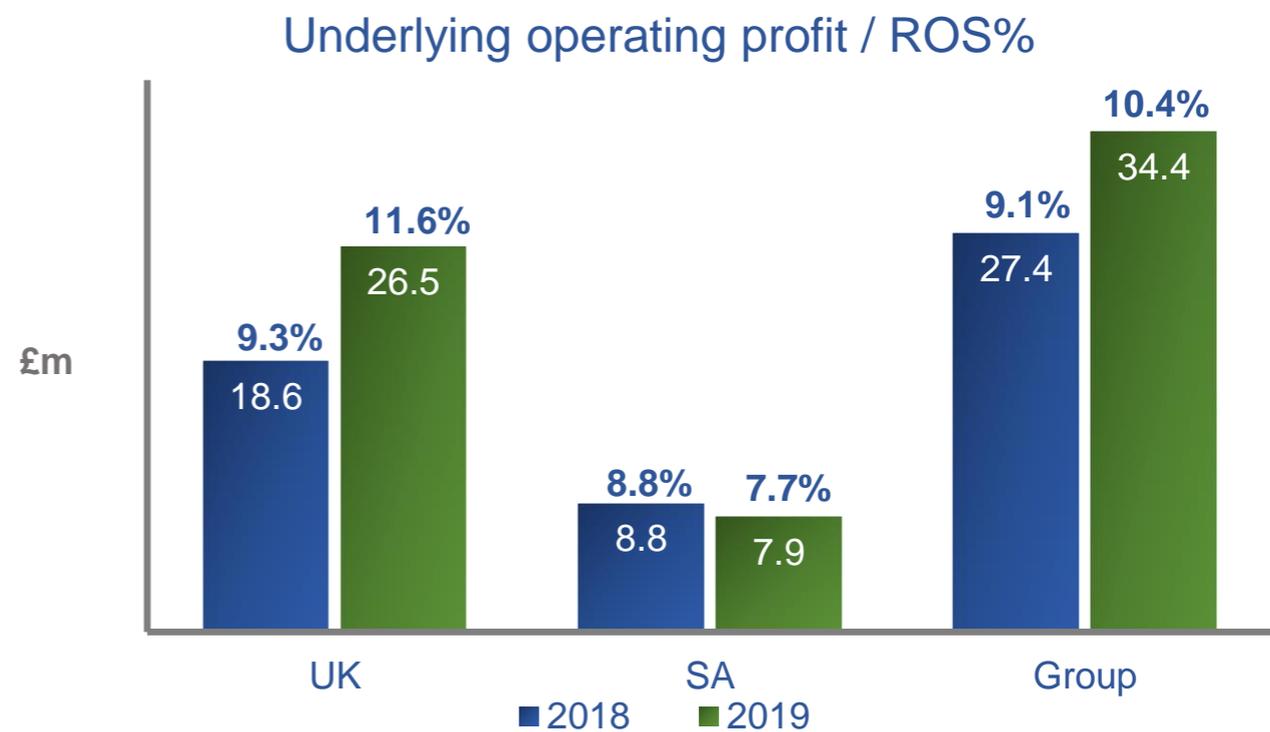
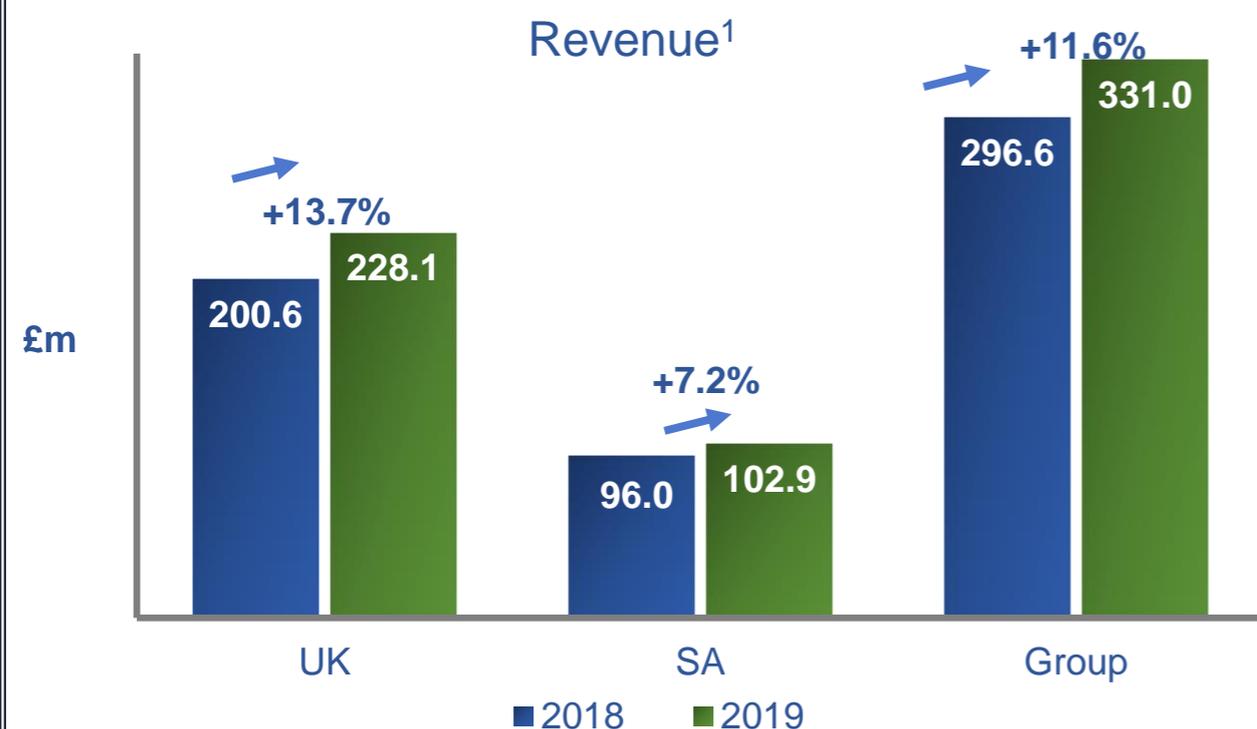
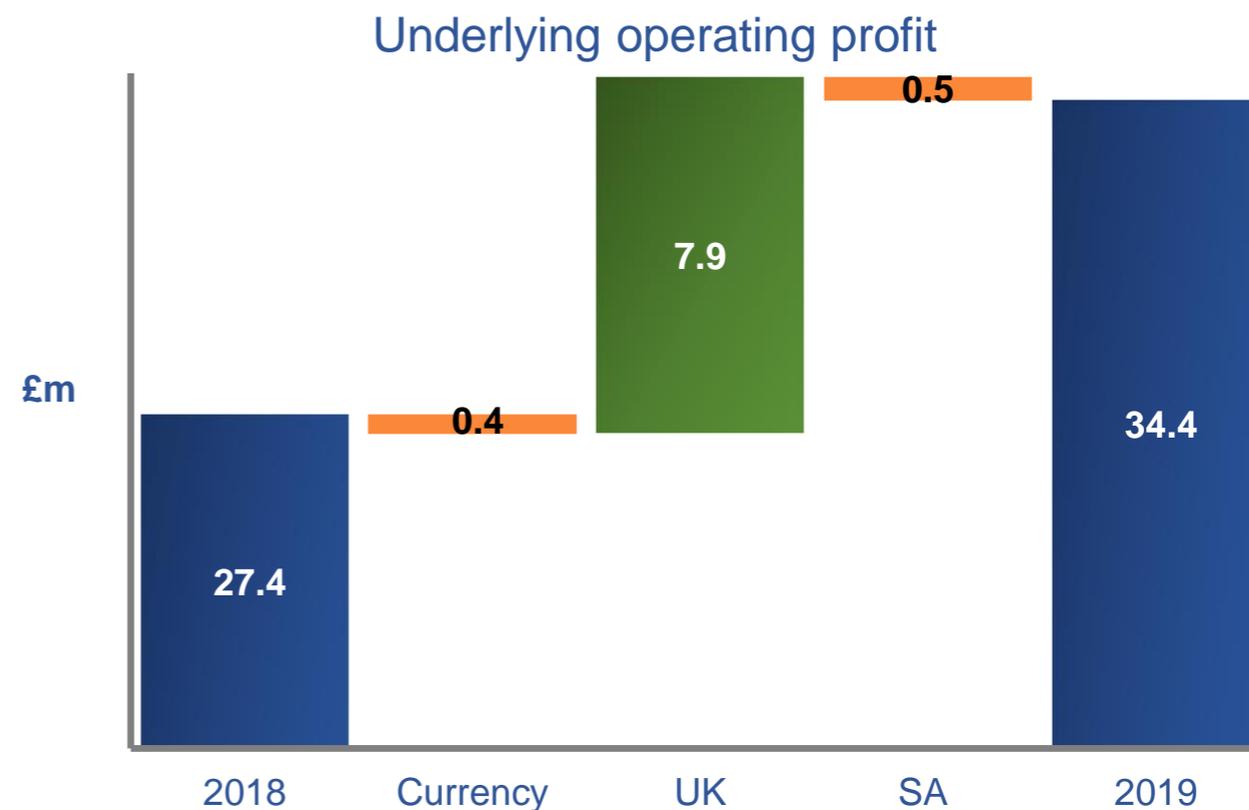
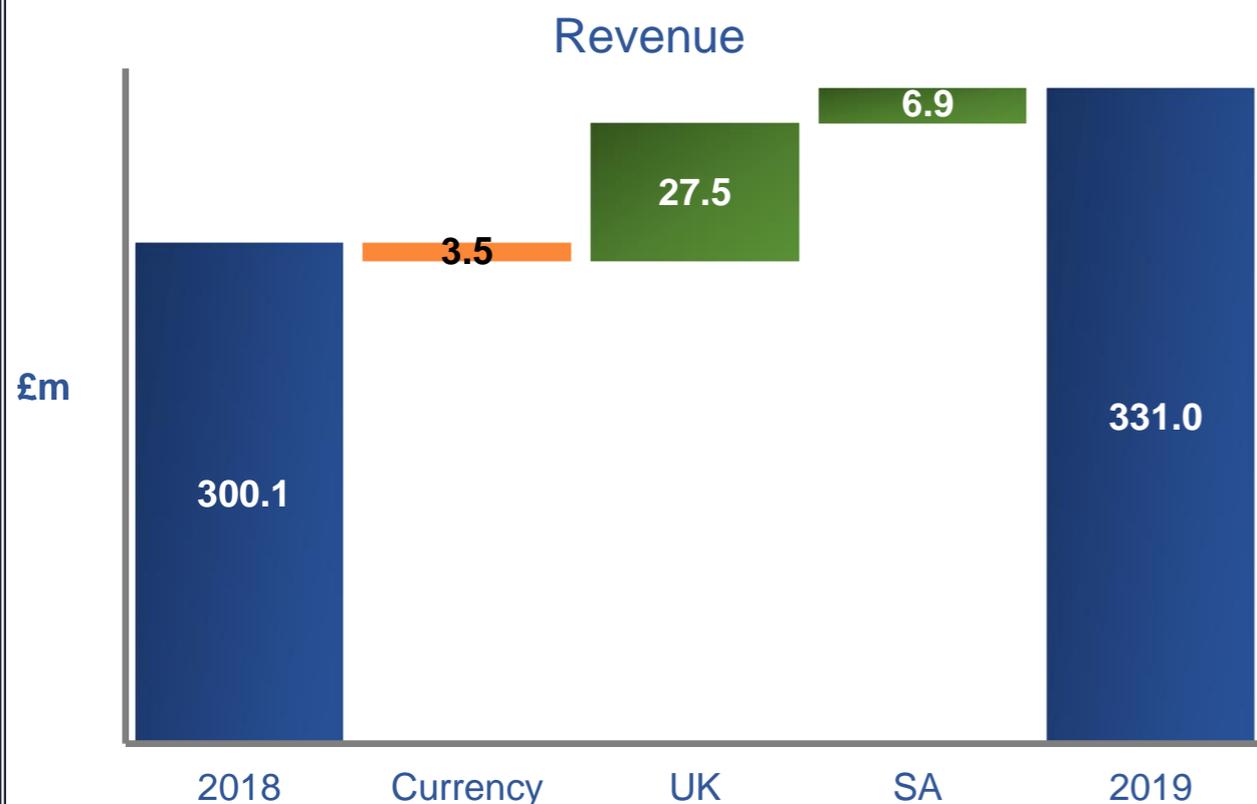
<sup>1</sup> Underlying means before exceptional operating items, IAS19R admin costs, acquisition related costs and where relevant, non-cash finance costs

<sup>2</sup> Other costs / Business unit restructuring, see Page 41 for details

<sup>3</sup> See Page 41 for details

<sup>4</sup> Includes £6.7m variance in income/(charges) relating to “mark to market” on FX forward contracts. (FY19: £3.6m income, FY18: £3.1m charge)

# Income Statement – Key Bridges



<sup>1</sup> Constant currency basis

# Tax, Earnings and Dividends

	Underlying <sup>1</sup>		Reported	
	2019 £m	2018 £m	2019 £m	2018 £m
Profit before Tax	<b>32.6</b>	26.3	<b>25.4</b>	13.5
Tax charge	<b>(6.9)</b>	(5.7)	<b>(6.0)</b>	(3.6)
Earnings	<b>25.7</b>	20.6	<b>19.4</b>	9.9
Effective Tax rate	<b>21.2%</b>	21.7%	<b>23.6%</b>	26.7%

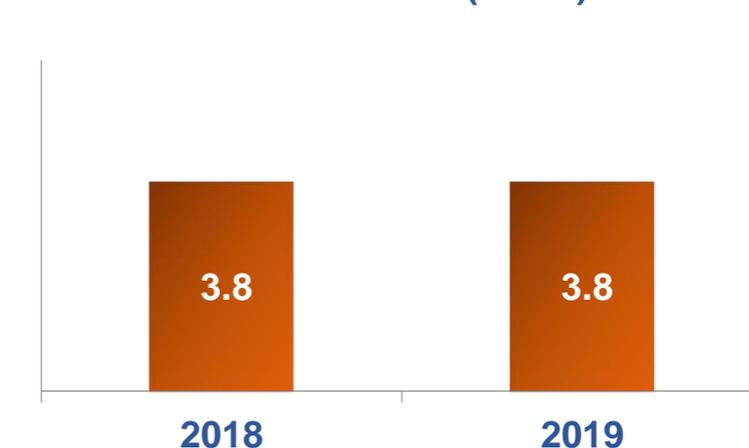
Diluted underlying EPS (pence)



Dividend per share (pence)



Dividend cover (times)

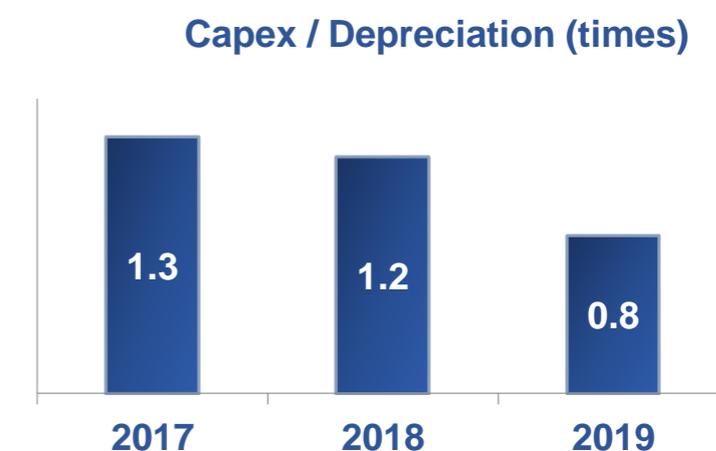
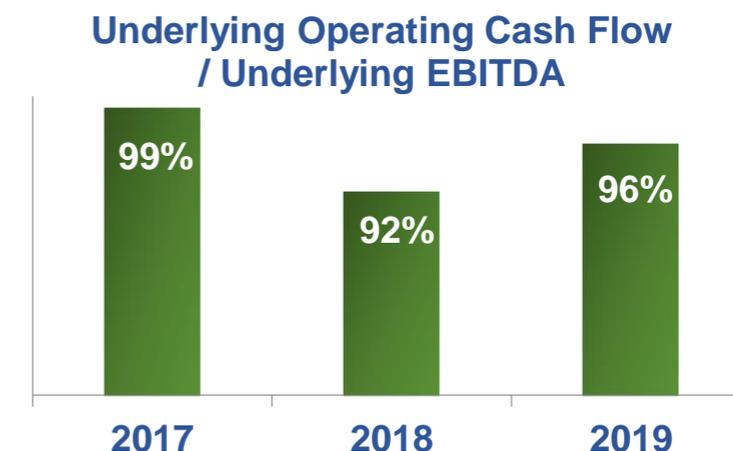


- Diluted underlying<sup>1</sup> EPS 31.7p (2018: 29.5p), +7.5%
- Full year dividend up 7.7%

<sup>1</sup> 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

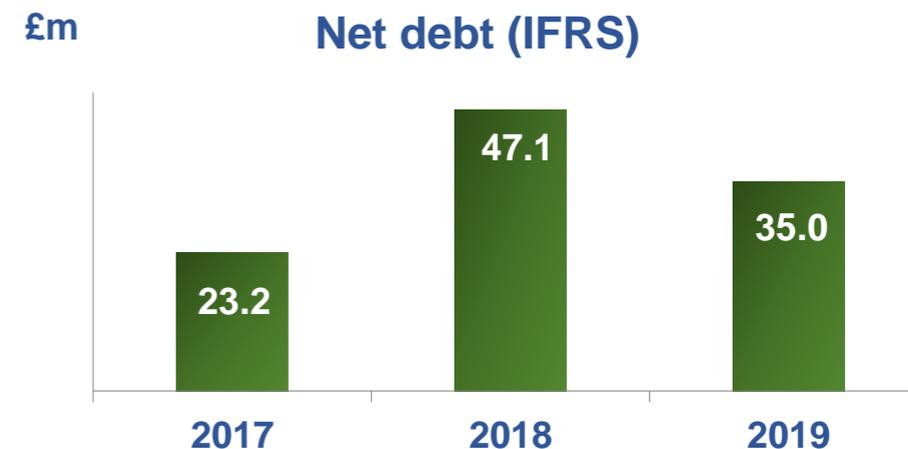
# High cash conversion

	2019 £m	2018 £m
<b>Underlying EBITDA</b>	<b>41.3</b>	<b>33.8</b>
Working capital	(2.1)	(2.8)
Other	0.6	-
<b>Underlying operating cashflow</b>	<b>39.8</b>	<b>31.0</b>
Capital expenditure	(5.6)	(7.7)
Property proceeds	0.1	-
Pension deficit recovery	(2.6)	(2.5)
Tax	(4.6)	(4.9)
<b>Underlying free cash flow pre-financing &amp; dividends</b>	<b>27.1</b>	<b>15.9</b>
Exceptional and acquisition related costs	(1.9)	(5.0)
Interest	(1.8)	(1.1)
Dividends	(6.4)	(5.0)
Acquisition of subsidiaries	(2.1)	(59.1)
Purchase of treasury / issue of new shares	(0.9)	30.1
<b>Net Cash Flow</b>	<b>14.0</b>	<b>(24.2)</b>

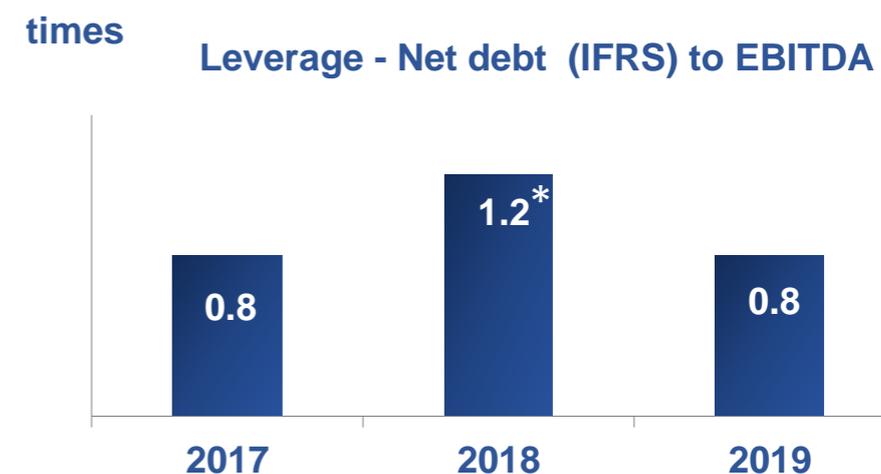


# Strong Balance Sheet

➤ Strong cash generation leaves net debt at £35.0m

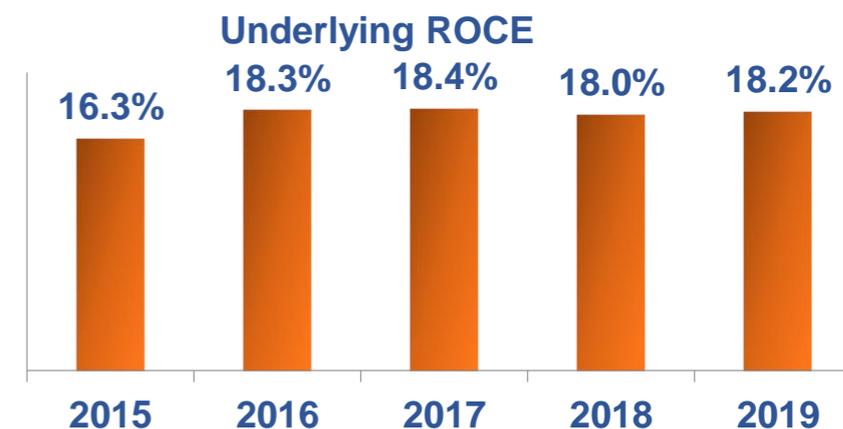


➤ Leverage 0.8x underlying EBITDA



➤ £120m bank facility – maturity date extended to November 2022

➤ Underlying ROCE at 18.2% above our medium term strategic target

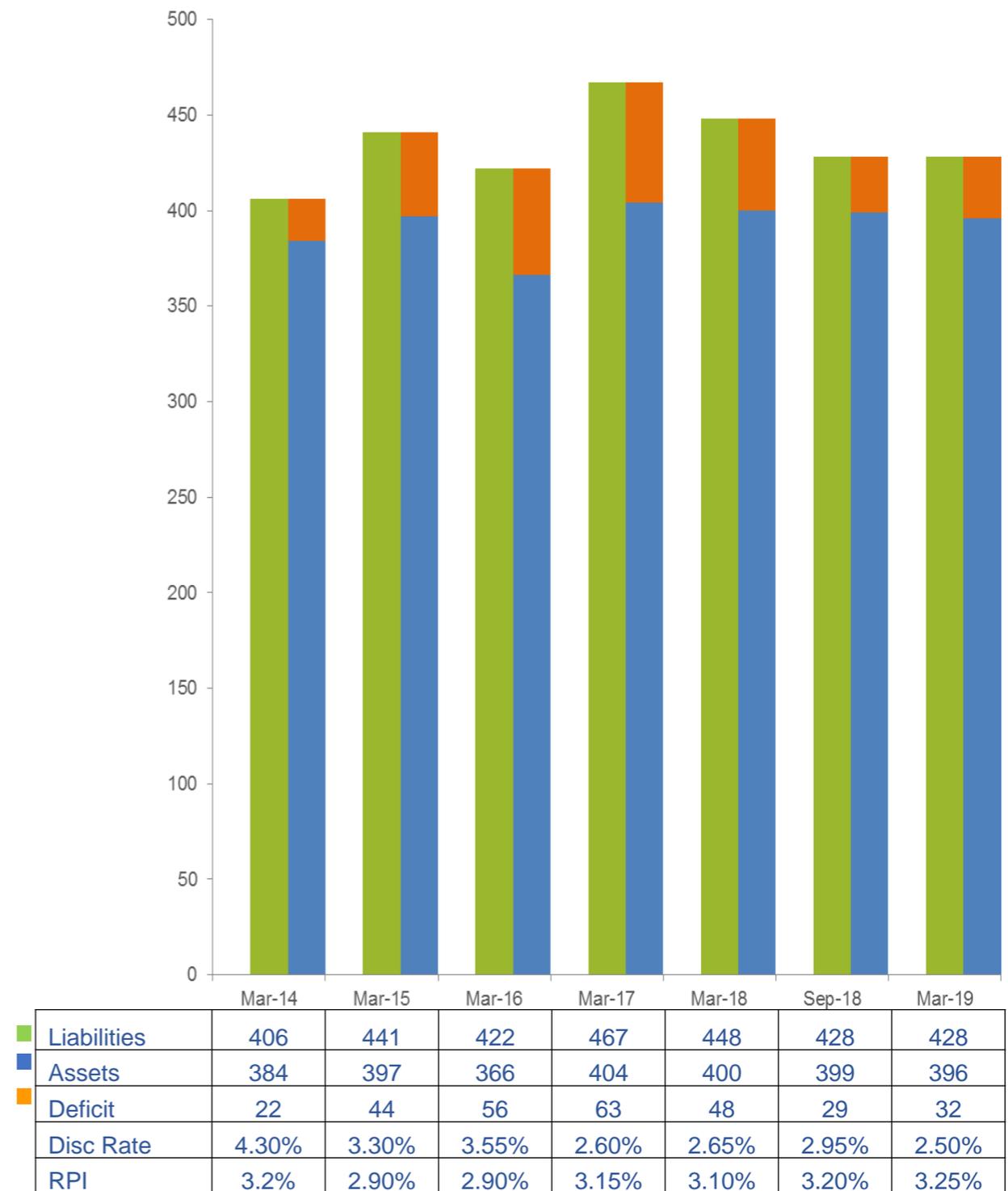


\* Pro forma EBITDA includes full year EBITDA for Merlyn

# UK Pension Scheme

- IAS 19R deficit £31.6m (March 18: £48.0m)
  - Assets reduced by £3.2m to £396.4m
  - Liabilities reduced by £19.6m to £428.0m - mainly a result of actual mortality experience
- Triennial valuation as at 1 April 2018 agreed between Company and Trustee
  - Deficit £49.3m (2015: £73.5m)
  - New recovery plan agreed; contributions £3.25m plus CPI for 6.5 years to 30 Sept 2025
  - Valuation submitted to TPR
- Company and Trustee agreed to investment de-risking strategy
- Super-mature scheme
  - 7,035 members (March 2018: 7,309). 69% of pensioners with average age 77
  - Annual pensioner payroll near peak at £20m pa
- Scheme closed to new entrants and future accrual in 2013

UK Pension IAS 19R Assets & Liabilities



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## **Operating Review**

**Nick Kelsall  
Group Chief  
Executive**

# Key Messages

## ➤ Strong Investment Case

- Decade of revenue & profit growth
- Proven business model underpinning resilience
- Clear, consistent and focused strategy driving outperformance
- Experienced management, leading market positions & strong brands

## ➤ UK

- Robust UK revenue growth
- Merlyn – strong performance in first full year
- Johnson Tiles return to profit
- Triton –share gains; Abode – significant momentum
- Sustained growth in trade and specification

## ➤ South Africa

- Revenue growth and market outperformance
- House of Plumbing – highly complementary acquisition; significant growth & synergy opportunities

## ➤ Acquisition Pipeline

- Well developed and focused consolidation opportunities

## ➤ 2023 Strategic Vision

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

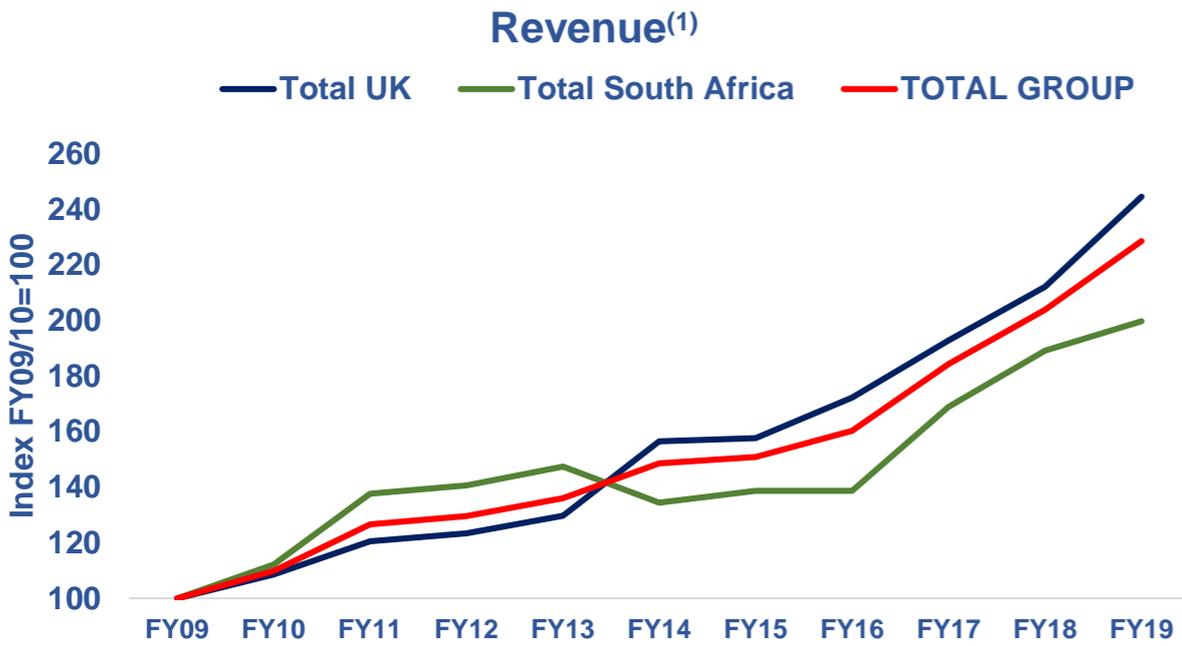


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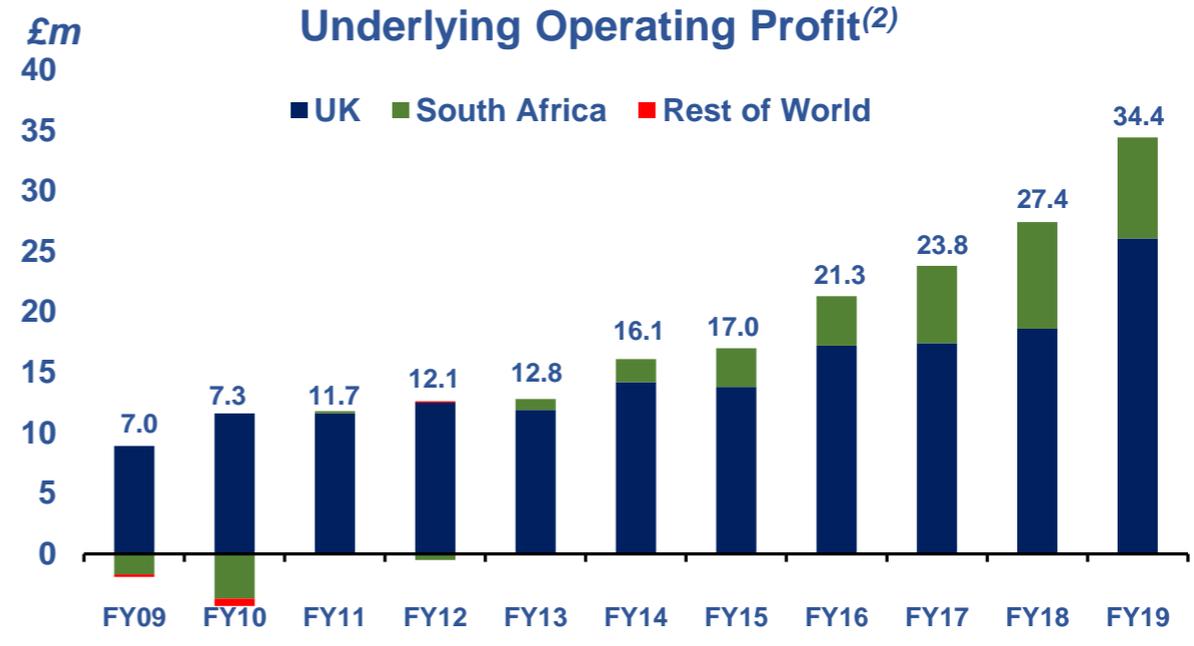
**Strong Investment  
Case**



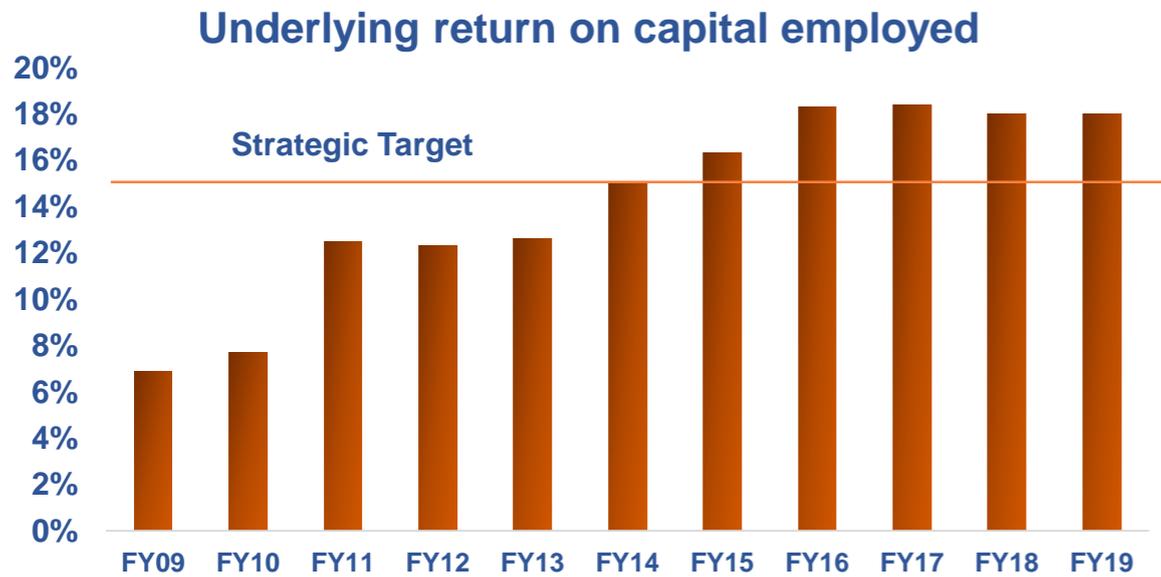
# Strong Investment Case – Decade of Sustained Growth



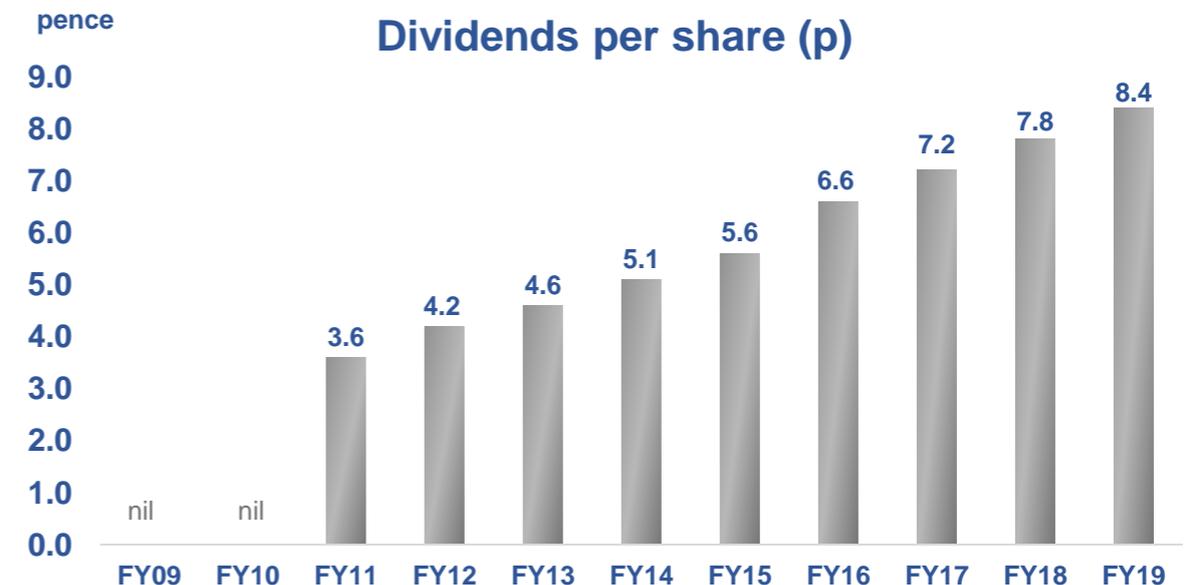
**Organic growth enhanced by acquisitions**



**UK profit growth, SA turnaround & exit RoW**



**Strong Return on Capital ~ increasing ROCE %**



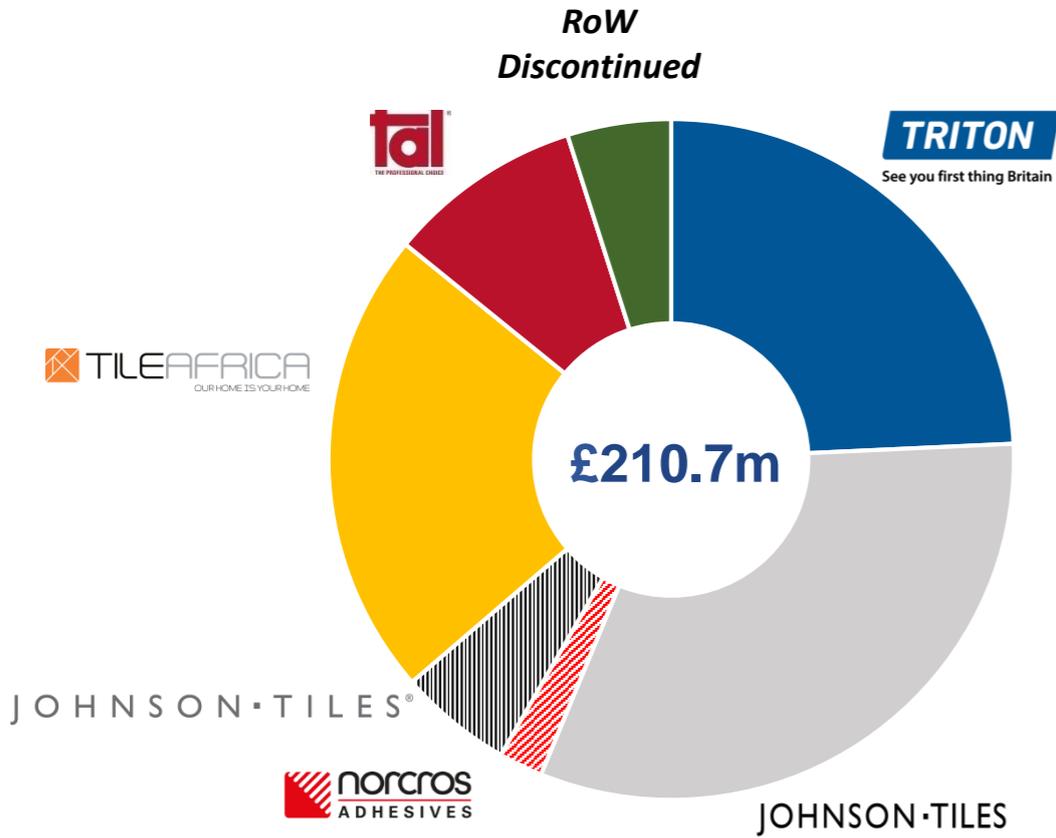
**Track record of progressive dividend growth**

<sup>1</sup> Reported - financial years ending 31<sup>st</sup> March, total Group includes Rest of World

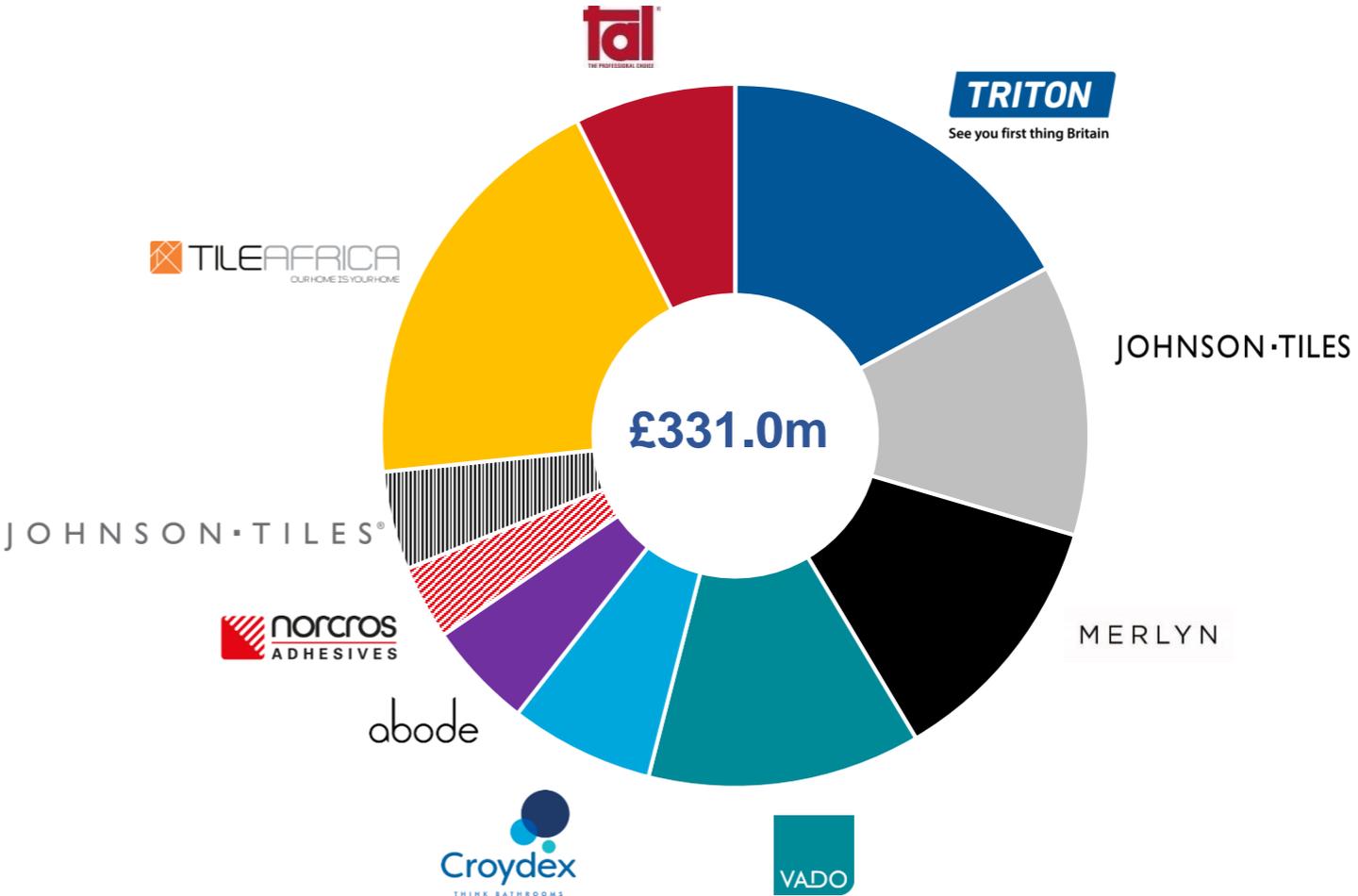
<sup>2</sup> Underlying Operating Profit Underlying means before exceptional operating items, IAS19R admin costs, acquisition related costs and where relevant, non-cash finance costs

# Strong Investment Case – A Better Balanced Business

Revenue FY13<sup>(1)</sup>



Revenue FY19<sup>(1)</sup>

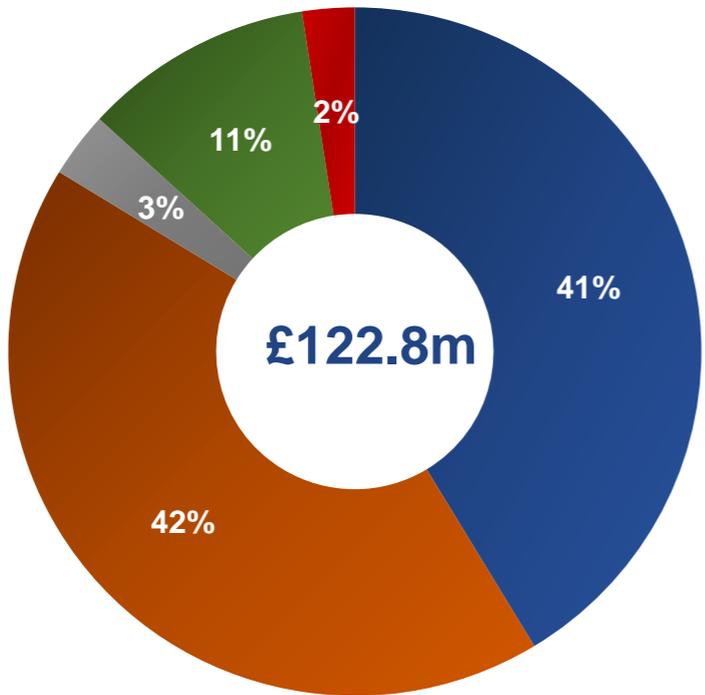


**Strong portfolio of complementary brands; reduced reliance on Triton**

<sup>1</sup> Financial years ended 31<sup>st</sup> March

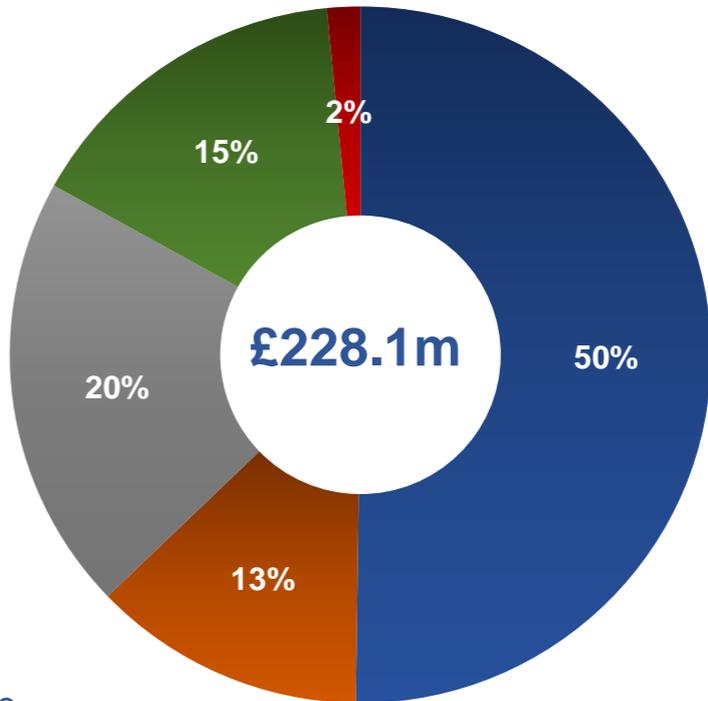
# Strong Investment Case – Significant Shift To Attractive Channels norcross

UK Channel Revenue - FY13<sup>(1)</sup>



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

UK Channel Revenue - FY19<sup>(1)</sup>



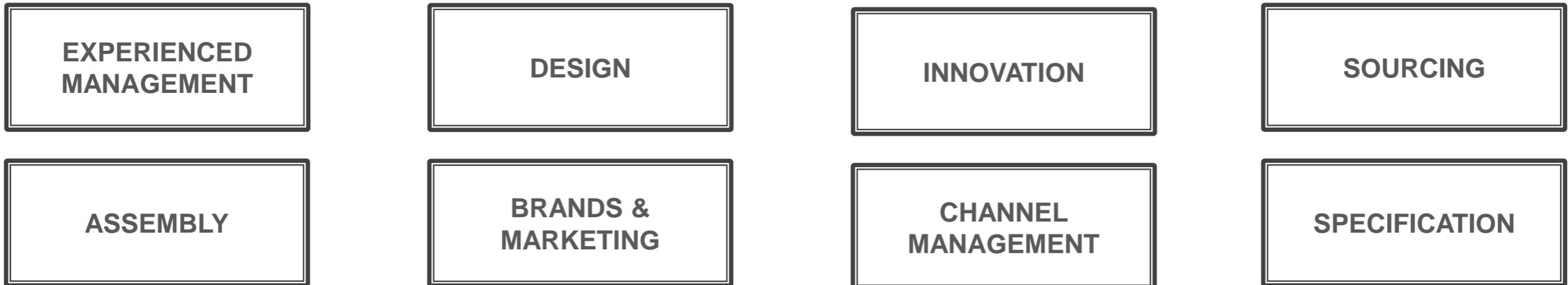
- Trade
- DIY Retail
- Independent & Specialist Retail
- Export
- Other

**UK business better balanced with strategic focus on attractive trade, specification & independent segments**

<sup>1</sup> Financial years ended 31<sup>st</sup> March

# Strong Investment Case - Norcros DNA; Key Driver of Outperformance

## Core Competencies



Cohesive portfolio of specialist, well invested, market leading businesses outperforming the market



See you first thing Britain  
#1 UK & Eire



#1 UK & Eire



#1 South Africa



Leading niche designer & distributor



#1 UK Tile Manufacturer

Share opportunities as failures of under-capitalised competitors in fragmented market



Shower Enclosures  
October 2018  
Wound up



Taps & Sinks  
April 2018  
In administration



Tile Manufacturers  
February 2019  
In administration

Norcros business model winning share in fragmented markets

# Strong Investment Case – Significant Market Opportunities

## Existing Product Portfolio – Organic Growth Opportunities



## Potential to Broaden Product Portfolio – Organic and Acquisition Opportunities



## Well Developed Pipeline – Complementary Acquisition Opportunities

## Chosen Markets Suitable for Consolidation

**Organic growth and acquisition opportunities in complementary markets**

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## **Business Review**



# Business Overview

Group Revenue <sup>(1)</sup> % **norcros**

UK	 See you first thing Britain	Market leader in the manufacture and marketing of showers in the UK	£ 56.6m	17.1
		Market leading supplier of shower enclosures and trays	£ 39.5m	11.9
		Leading manufacturer and supplier of taps, mixer showers, bathroom accessories and valves	£ 41.4m	12.5
		Market leading, innovative designer, manufacturer and distributor of high quality bathroom furnishings and accessories	£ 21.7m	6.6
		Leading niche designer and distributor of high quality kitchen taps, bathroom taps and kitchen sinks	£ 16.2m	4.9
		Leading manufacturer and supplier of ceramic tiles in the UK	£ 41.4m	12.5
		Manufacturer of tile and stone adhesives, grouts and related products	£ 11.3m	3.4

<b>UK Revenue Growth</b> (12 months to 31 <sup>st</sup> March 2019)	<b>+13.7%</b>	<b>£ 228.1m</b>	<b>68.9%</b>
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SOUTH AFRICA	 OUR HOME IS YOUR HOME	Leading chain of retail stores focused on ceramic and porcelain tiles, and associated products, such as sanitary ware, showers and adhesives	£ 63.9m	19.3
		Leading manufacturer of ceramic and building adhesives	£ 24.0m	7.3
		Leading manufacturer of ceramic and porcelain tiles	£ 15.0m	4.5

<b>South Africa Revenue Growth</b> (constant currency 12 months to 31 <sup>st</sup> March 2019)	<b>+7.2%</b>	<b>£ 102.9m</b>	<b>31.1%</b>
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<b>Group Revenue Growth</b> (constant currency 12 months to 31 <sup>st</sup> March 2019)	<b>+11.6%</b>	<b>£ 331.0m</b>	<b>100%</b>
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SA		Market leading supplier of specialist plumbing materials focused on the specification and commercial segments.	£ 22.1m <sup>(2)</sup>	
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<b>Group Pro Forma Revenue</b> (including House of Plumbing)	<b>£ 353.1m</b>
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<sup>1</sup> Reported – 12 months ended 31<sup>st</sup> March 2019

<sup>2</sup> Note: House of Plumbing acquired 1<sup>st</sup> April 2019; Audited revenues for year ended 30<sup>th</sup> April 2018

**norcross**

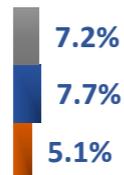
## **UK Operations**

**Nick Kelsall  
Group Chief  
Executive**

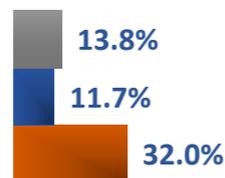


# UK Revenue – Continued UK Growth; Export Mixed

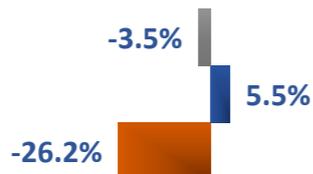
**% Revenue Change (FY19 v FY18)**  
 ■ Overall ■ UK ■ Export



➤ Solid momentum in both UK and Ireland



➤ Specification and retail growth in both UK and Ireland



➤ Solid growth in UK trade & retail. Specific country export issues being addressed



➤ UK trade growth; UK retail stable (excl. Homebase). Soft German market against strong comparator



➤ Continued strong growth; new account momentum



➤ Kingfisher unified impact moderating in H2 - trade and export stable



➤ UK retail gains offset tougher trade performance - strong momentum in the Middle East

<sup>1</sup> Acquired 23<sup>rd</sup> November 2017, % growth for full-year revenues to 31<sup>st</sup> March 2019

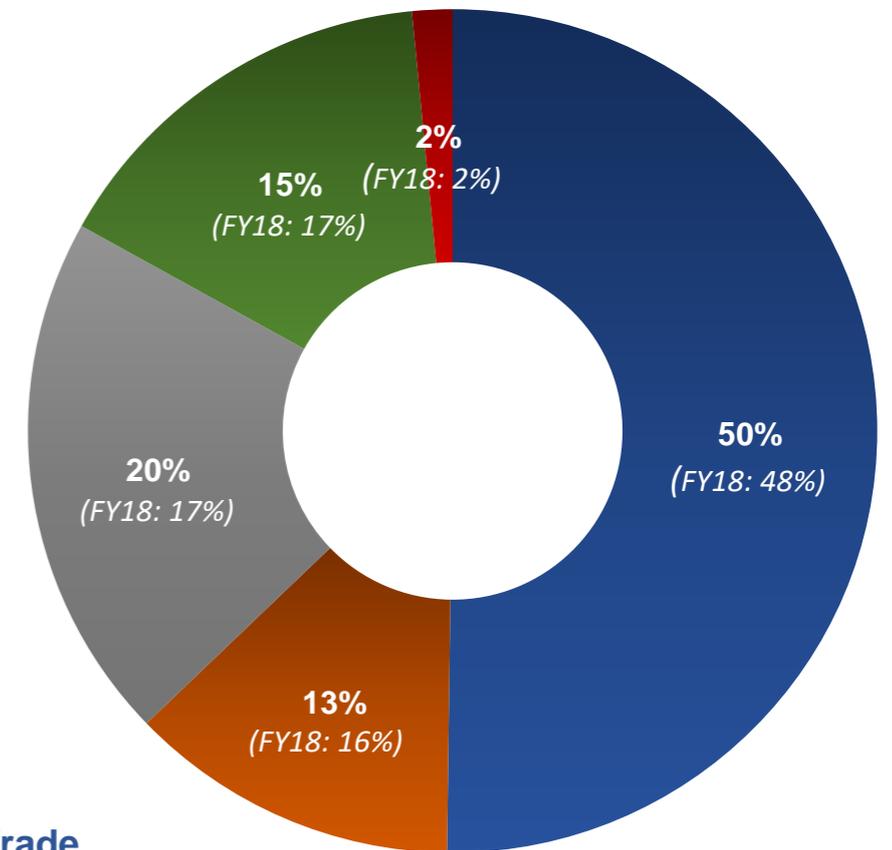
## ➤ Trade

- Triton – continued Screwfix momentum; Toolstation growth
- Housebuilder and specification growth – major contract wins:
  - Vado – St. James, Ashford Homes and Crest Nicholson
  - Johnson Tiles – Shell, Royal Wharf (London), Trinity Way (Manchester) and Tottenham’s new stadium
  - Merlyn – Bloor Homes
- Abode – successful sink ranges expansion into Travis Perkins
- Merlyn – new accounts including IPG buying group & Toolstation; Grafton - strategic partner
- Croydex – trade channel growth driven by Screwfix and Toolstation

## ➤ Independent & Specialist Retail

- Vado – increased penetration & new account wins
- Abode – John Lewis’s sink supply contract
- Merlyn – increasing share of Independents – benefits of cross mapping account representation with Vado

**UK Norcross - FY19 (vs FY18)**



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

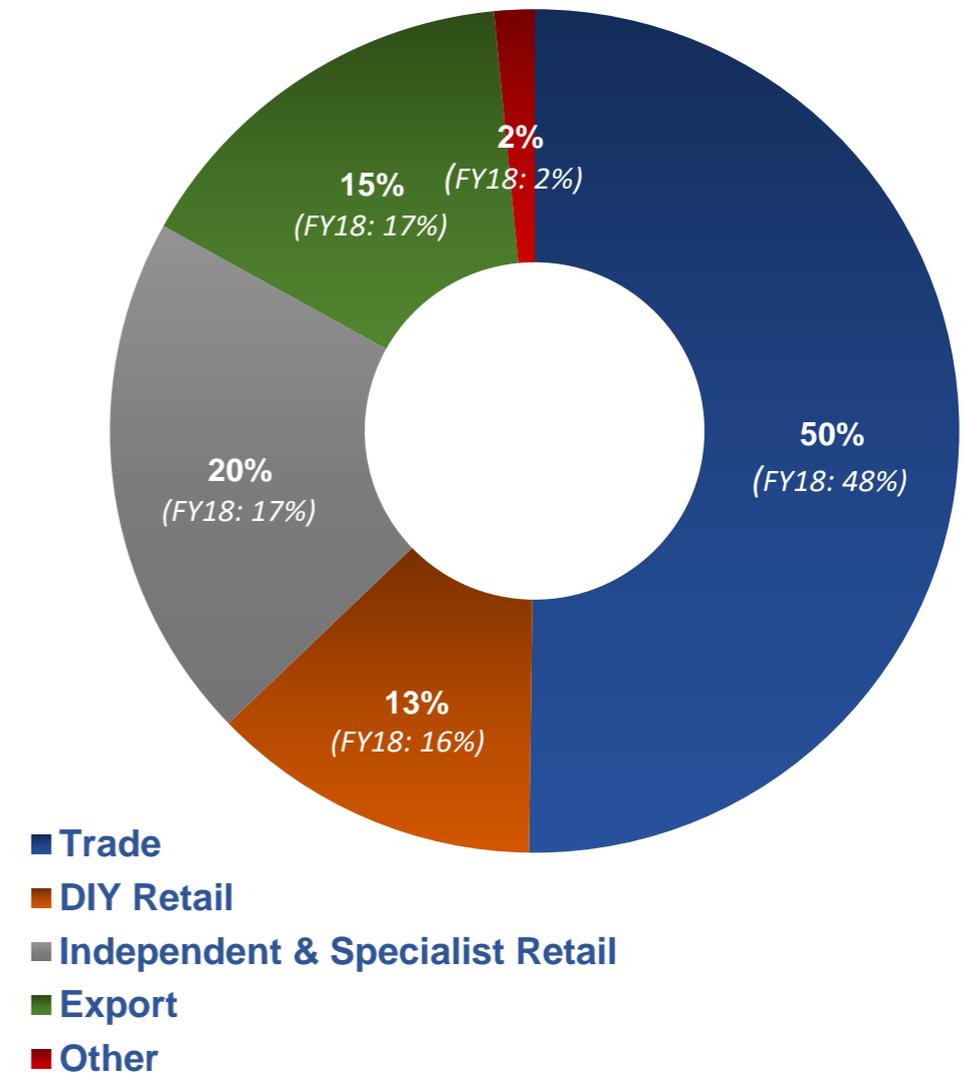
## ➤ DIY Retail

- Triton – strong retail mixer sales
- Croydex – Homebase impact significant but stable
- Wickes growth – Abode, Johnson Tiles and Triton
- Johnson Tiles – unified driven B&Q decline moderating in H2 and stable
- Adhesives – strong growth in Wickes

## ➤ Export

- Triton – excellent mixer growth in Ireland
- Johnson Tiles – H2 growth; new pod manufacturer account
- Vado – continued challenges in Middle East, action plan initiated
- Croydex – new Italian accounts; USA stable; lacklustre Germany
- Adhesives – additional Middle East project wins; increasing scale
- Merlyn – continuing strong growth and share gains in Ireland

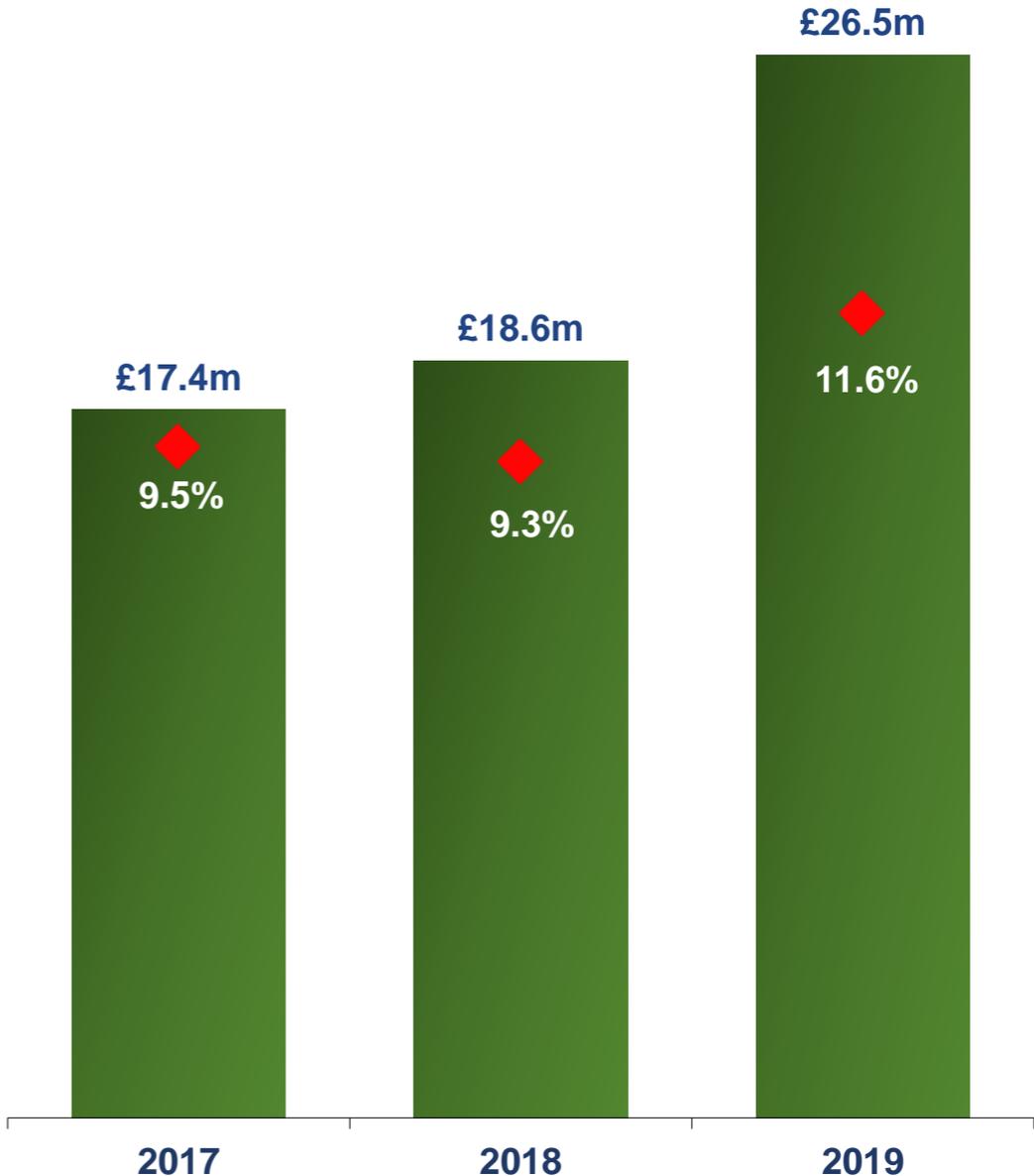
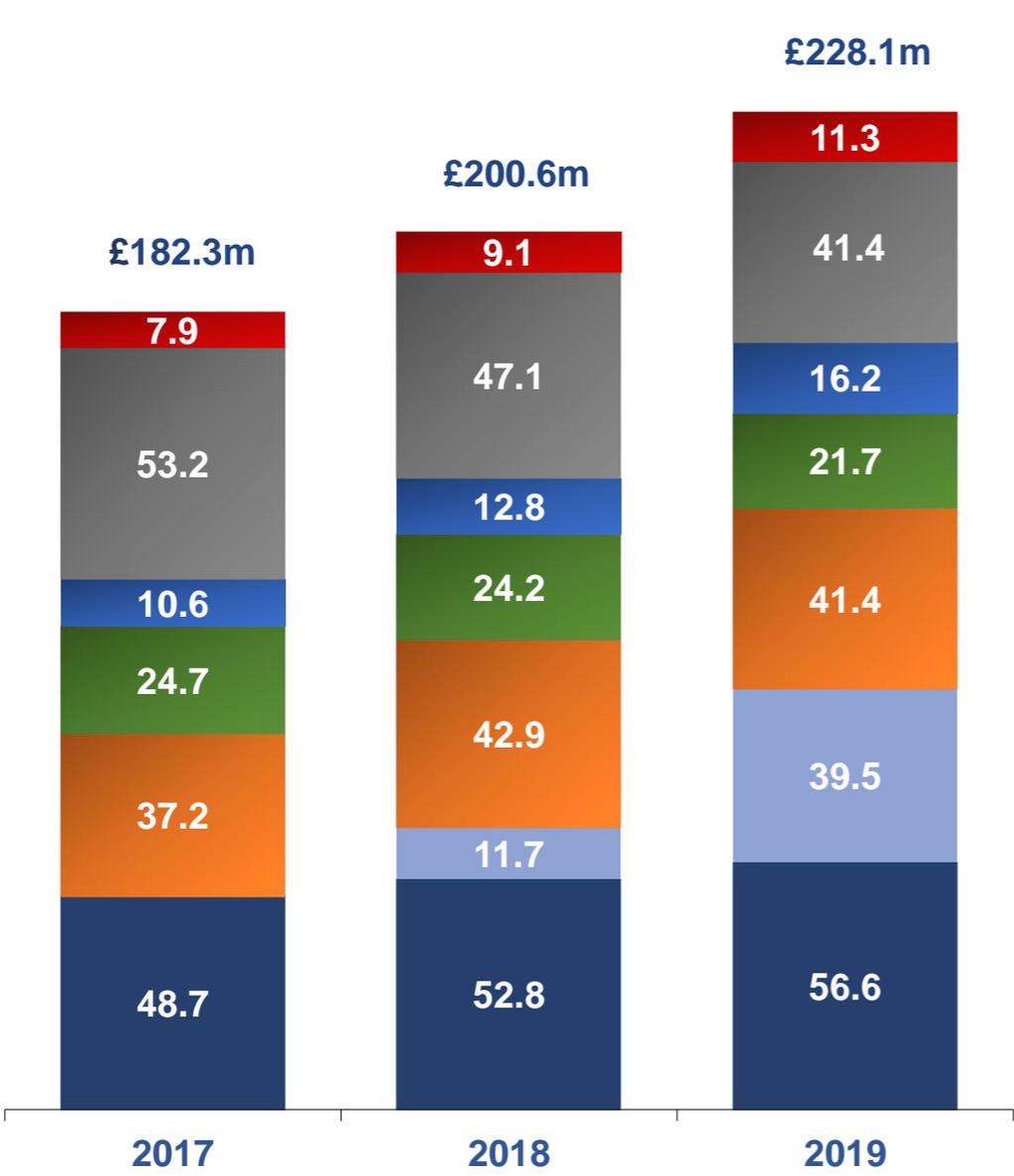
### UK Norcross - FY19 (vs FY18)



# UK – Sustained Revenue & Profit Growth With Higher Margins

**Revenue**

**Underlying Operating Profit**



- Triton
- Merlyn<sup>1</sup>
- Vado
- Croydex
- Abode
- Johnson Tiles
- Adhesives

- Underlying Operating Profit
- Return on Sales %

<sup>1</sup> Acquired 23<sup>rd</sup> November 2017



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## **South Africa Operations**

**Nick Kelsall  
Group Chief  
Executive**

# South Africa Revenue – Growth in a Challenging Market

% Revenue Change (FY19 v. FY18)

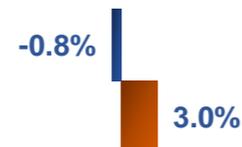
■ £ Reported ■ Constant Currency



➤ Consistent growth across H1 and H2



➤ Successful VFM store development – strong revenue growth in bathroomware, taps and adhesives



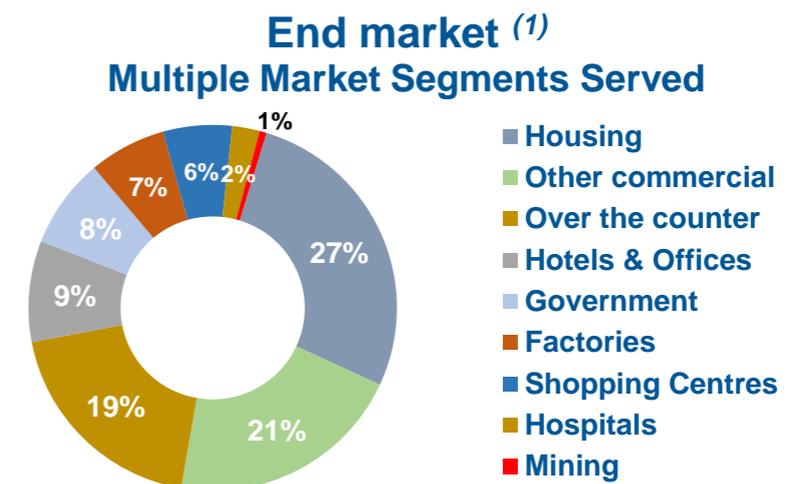
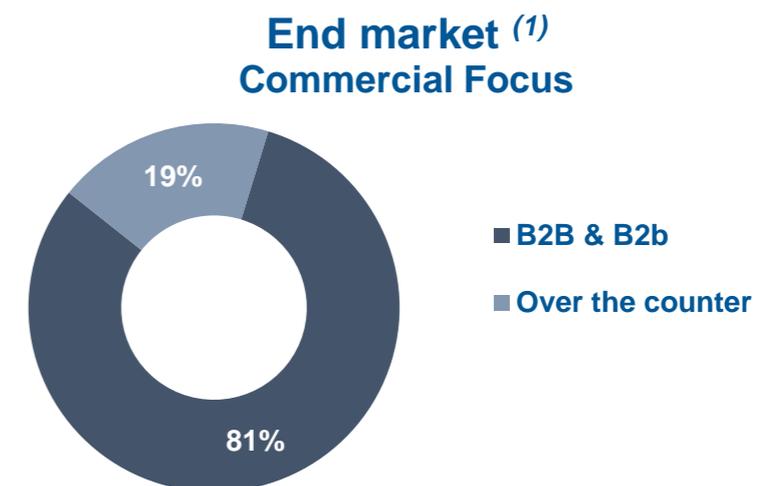
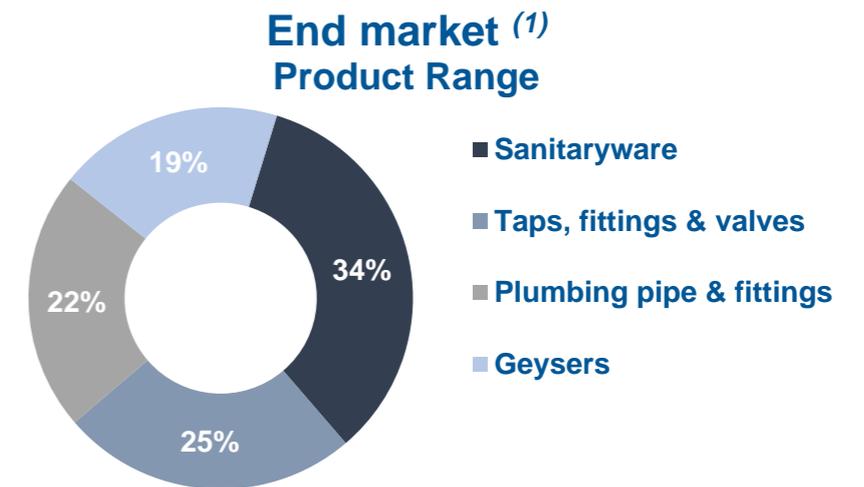
➤ Solid growth in construction products categories – partially offset by soft export sales into Zimbabwe



➤ Benefit of strong NPD and continued focus on independent customer base

# House of Plumbing – Highly Complementary Acquisition

- 1 Specialist plumbing business supplying contractors & professionals
- 2 Leading position in Gauteng specification market
- 3 Experienced management team
- 4 Well established customer relationships & trusted reputation
- 5 Superior customer service
- 6 Further growth opportunities e.g. national footprint
- 7 Significant synergy opportunities e.g. Norcros China supply chain & specification collaboration



## Business Model

- *Focused on the specification and commercial segments*
- *Wide stock range and availability*
- *High levels of customer service*
- *Branches – Johannesburg, Pretoria & Lephalale*
- *“Behind the wall” product focus*
- *Low capital requirement; sustained high levels of cash generation*

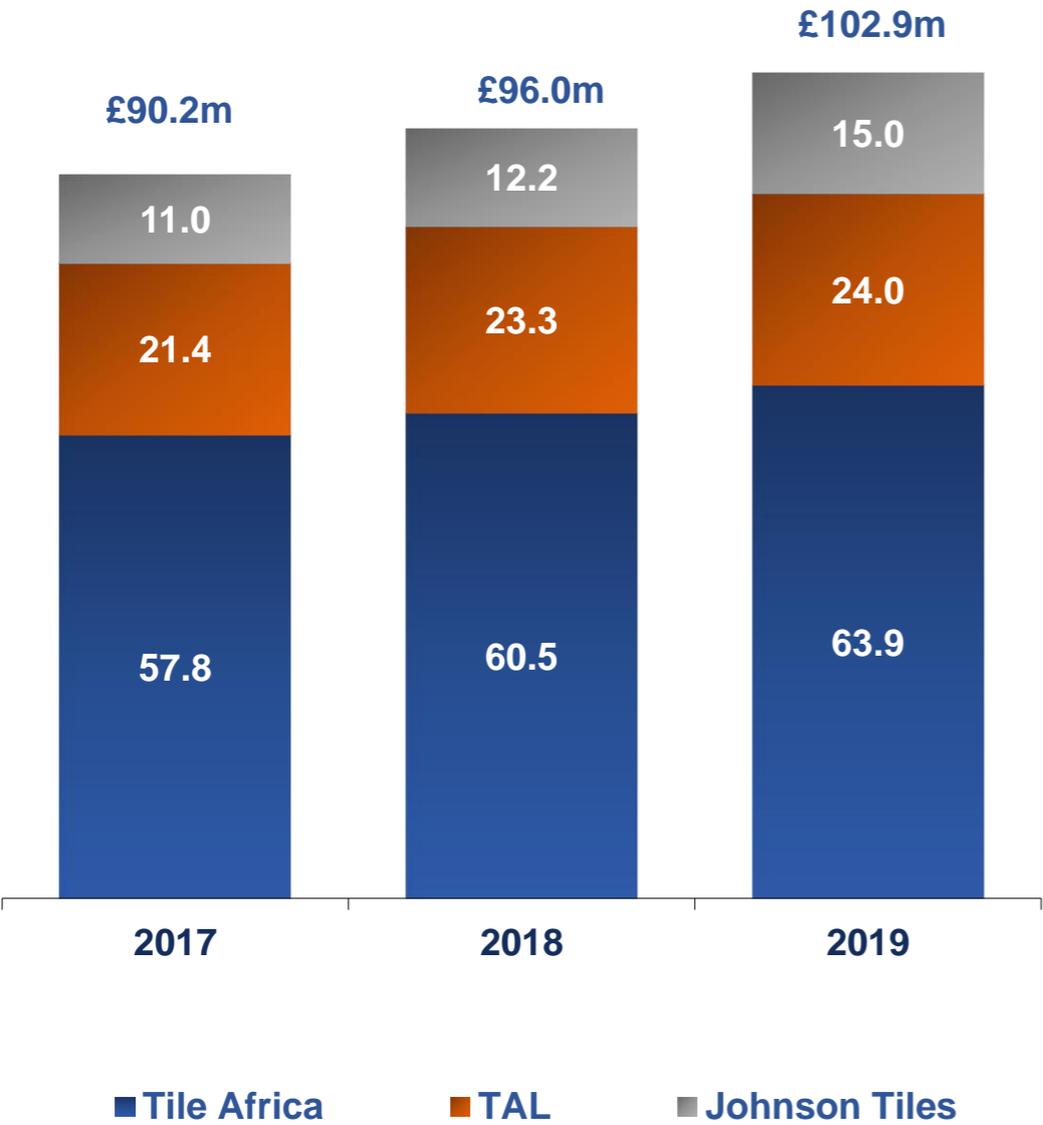


<sup>1</sup> Shown as a percentage of gross revenue (all unaudited figures)

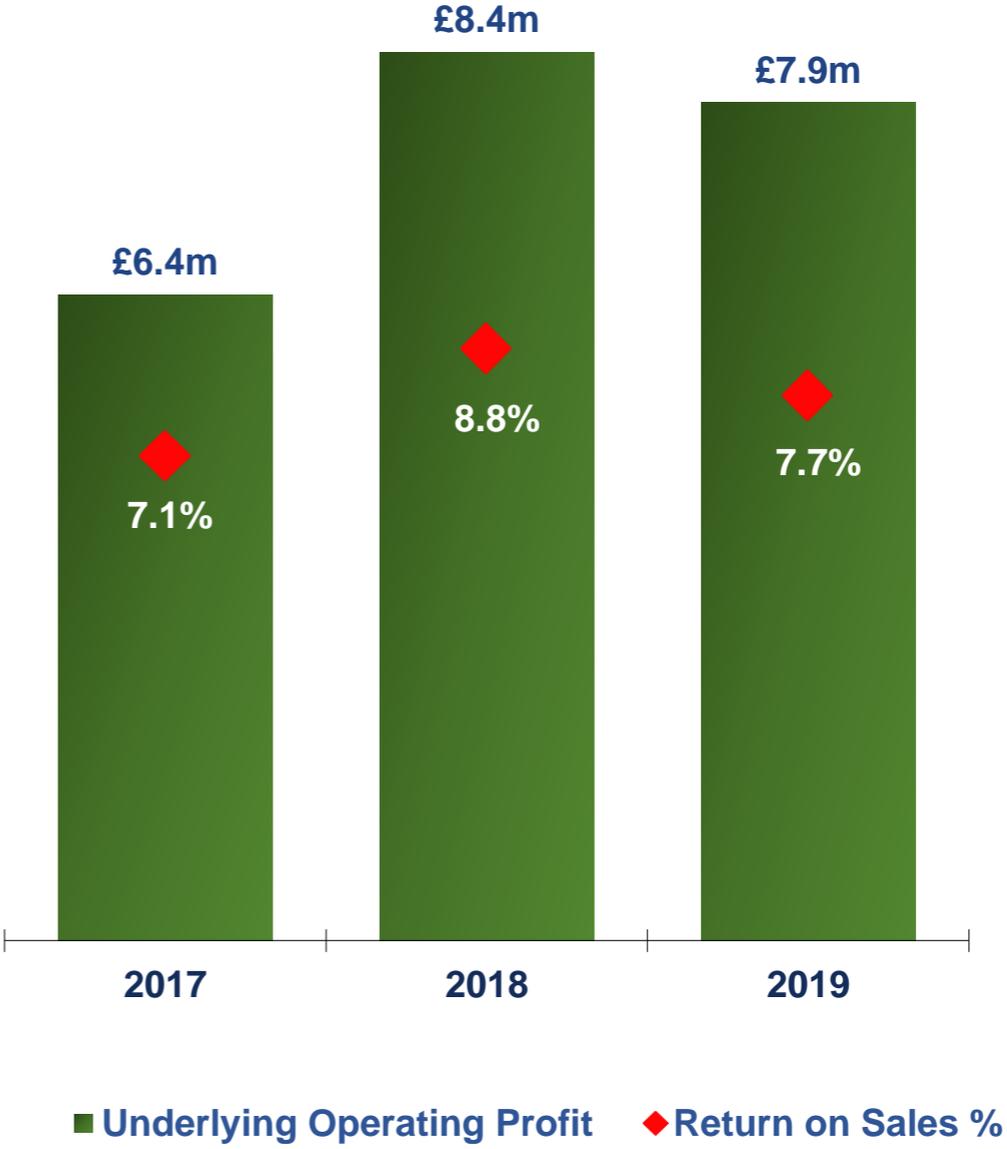
<sup>2</sup> Audited figures for year ended 30th April 2018

# South Africa – Revenue Growth & Robust Profit Performance

Revenue <sup>(1)</sup>



Underlying Operating Profit <sup>(1)</sup>



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

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## Group Outlook & Strategy

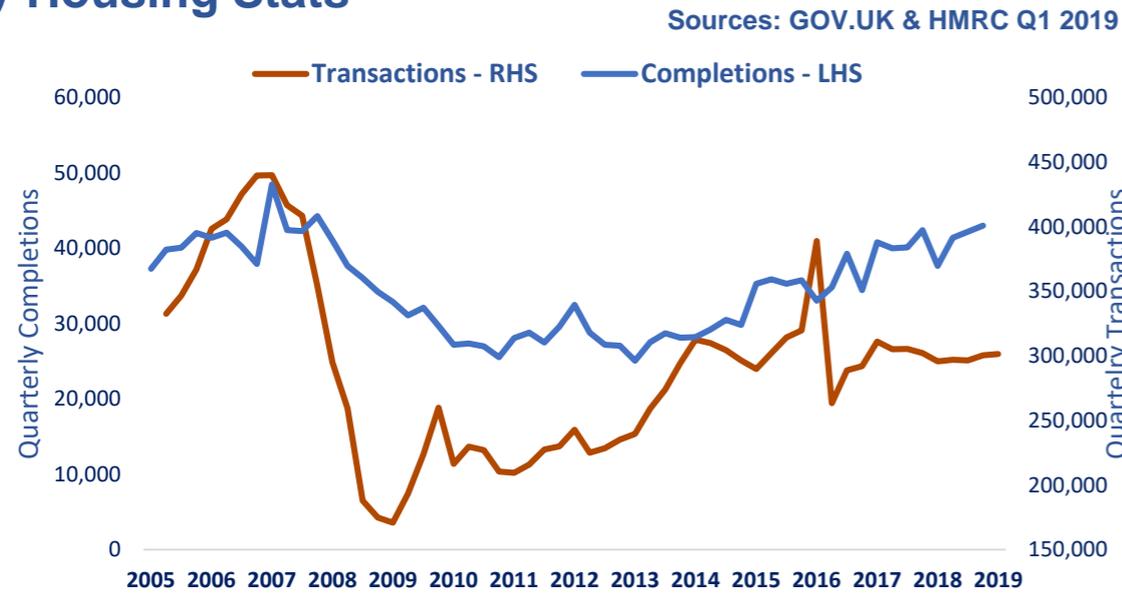
Nick Kelsall  
Group Chief  
Executive



# UK

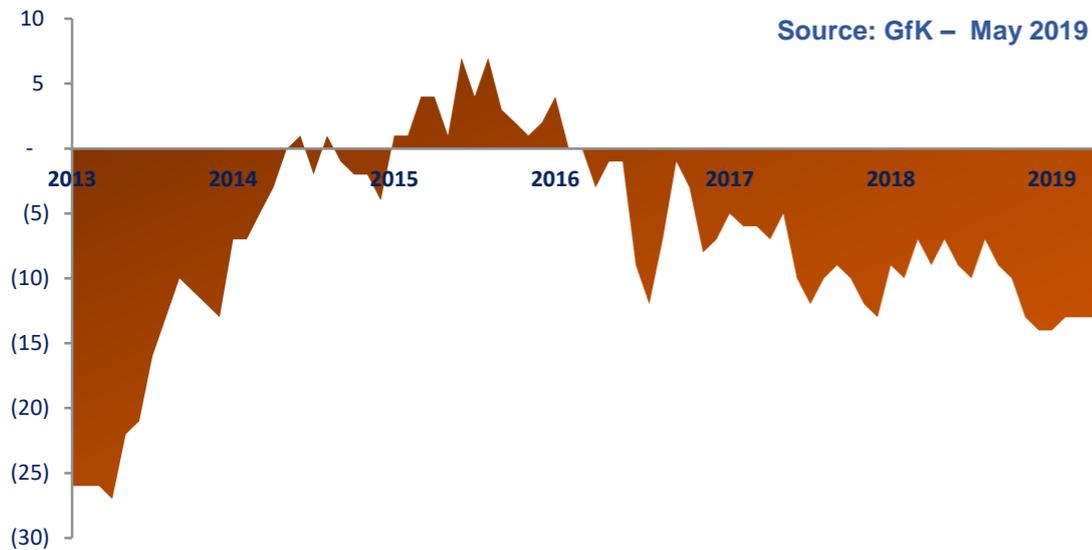
## Stable but Lacklustre Market

### Key Housing Stats



Completions growth; transactions stable

### GfK Consumer Confidence

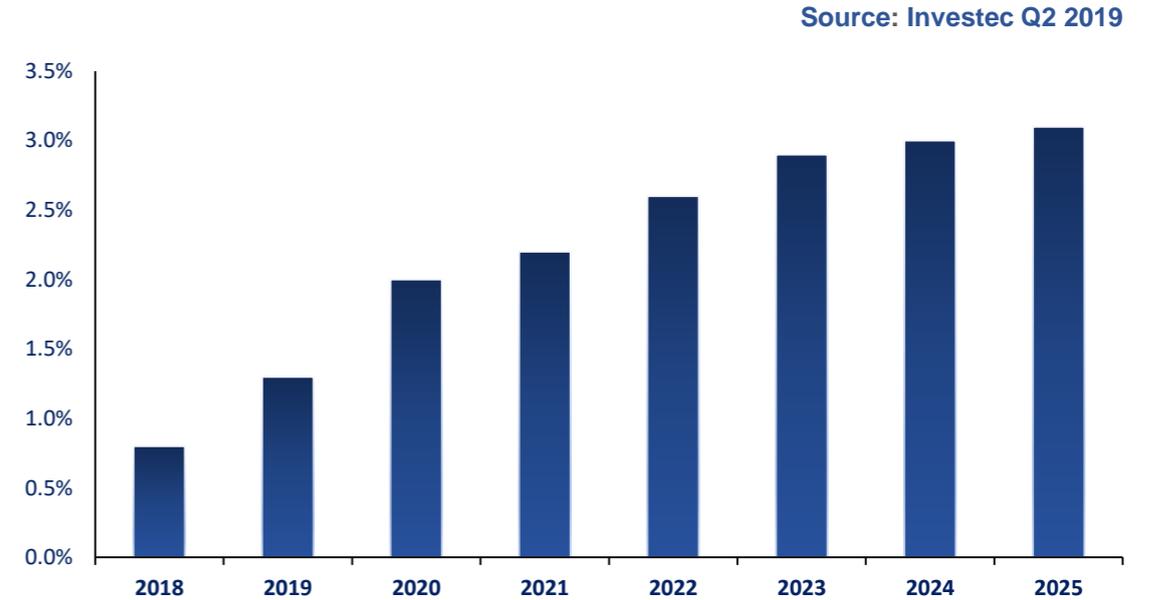


Brexit continues to impact fragile consumer confidence

# South Africa

## Improving Sentiment

### % GDP growth



Cautious economic recovery

### NXSA Sales<sup>(1)</sup> v RMI Indicator (Index March 2013=100)



General Election May 8<sup>th</sup> May 2019 ~ President Cyril Ramaphosa

*"We must not have an economy that discourages and chases away investors from investing in South Africa"*

Norcros South Africa outperforming the market

<sup>1</sup> NXSA Financial Year to 31<sup>st</sup> March (Rand)

## 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



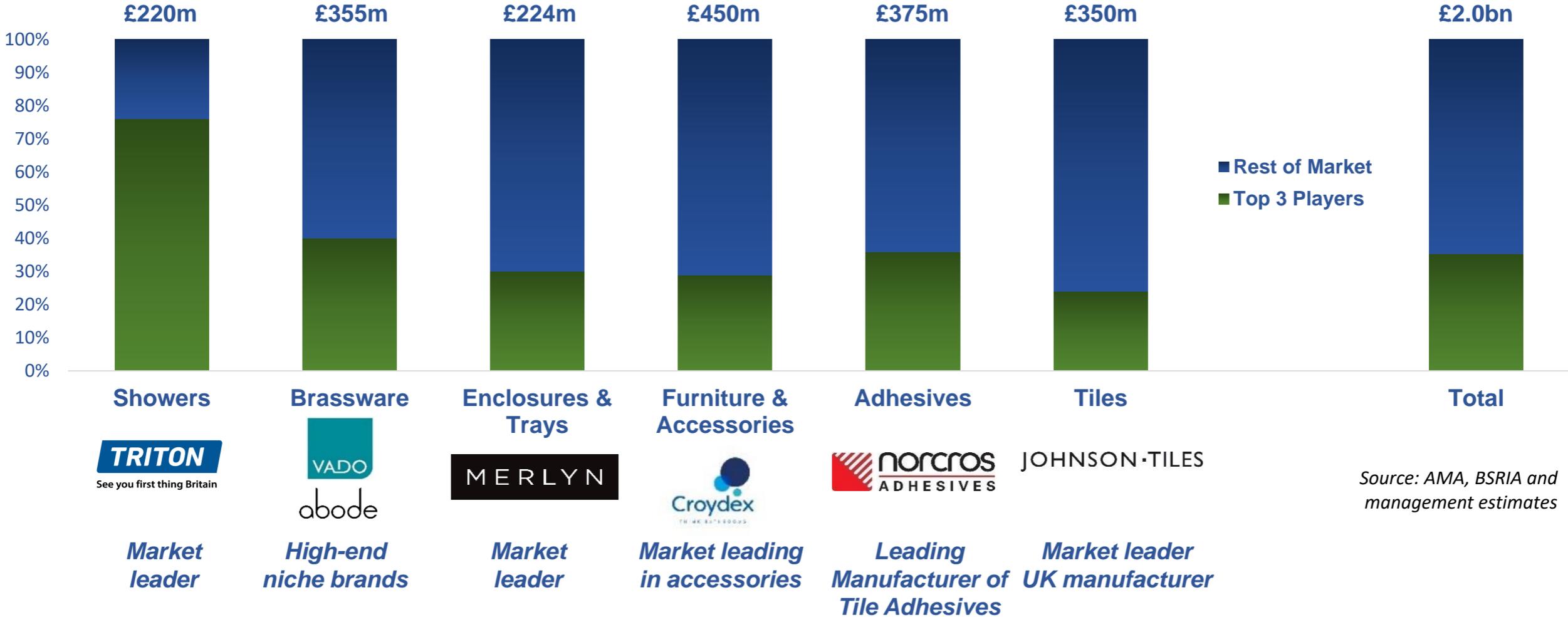
**£600m revenue by 2023**  
*Organic & Acquisitions*

**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 – remains highly fragmented – no dominant player
- Sub-market segments are also highly fragmented
- Weaker players failing and opportunity for share gains
- No one company serves all segments and channels – significant consolidation opportunity
- Well developed pipeline of selective targets in preferred segments
- Norcross current channel and product position – excellent platform to progress consolidation strategy

**Significant UK market consolidation opportunity**

# Key Messages

- Robust FY19 Results
  - Challenging market conditions
  - Strong UK performance
  - South Africa – continued market outperformance
  - House of Plumbing – complementary acquisition; growth potential
- Strong Investment Case
  - 10 years' sustained growth
  - Better balanced UK business
  - South Africa – track record in a challenging market; growth potential
  - Norcross model proven and successful
- Acquisition Pipeline
  - Well developed and focused opportunities
  - Strong acquisition track record
- Strategy
  - £600m revenue target by 2023
  - 50% revenues derived from overseas
  - Sustainable ROCE of >15%
  - Significant market consolidation opportunity



Thank You  
Q & A



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# Appendix

# Strong Investment Case – Delivering Meaningful Synergies

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- Increasing collaboration driving synergies
- Triton & Vado – joint new product development
- Croydex and Vado – success in Tile Africa
- Abode – Wickes & Travis Perkins new business
- Merlyn and Vado – channel alignment:
  - Independent retail
  - Housebuilders
  - Merchants
- Merlyn opportunities across wider Group
- Specification collaborative approach
  - Johnson Tiles
  - Triton
  - Merlyn
  - Vado
  - Adhesives
- Johnson Tiles – London design studio – showcasing Group brands
- Increased utilisation of Far East supply chain



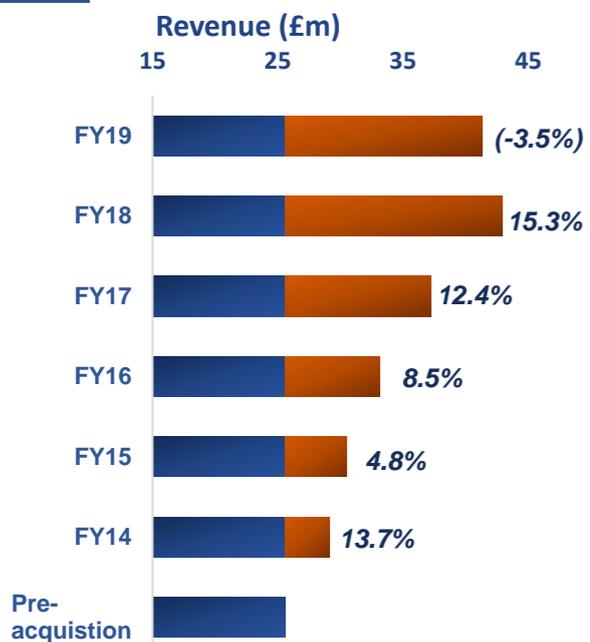
**Meaningful synergies being delivered across the Group**

# Strong Investment Case – Acquisition Track Record

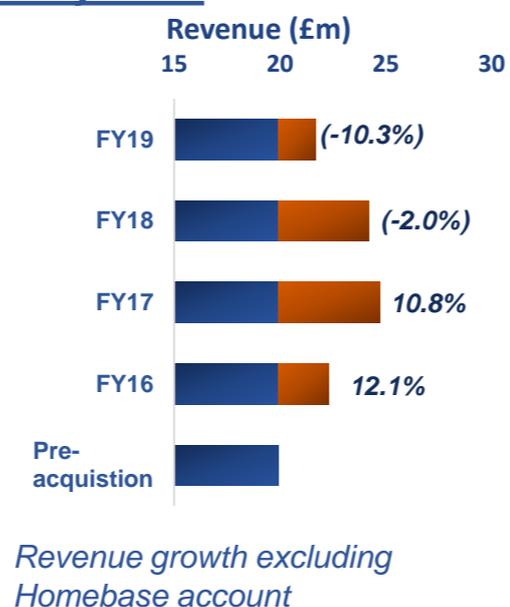
		VADO	Croydex	abode	MERLYN	House of Plumbing
Group strategy	1 Revenue target	✓	✓	✓	✓	✓
	2 Underlying ROCE of >15%	✓	✓	✓	✓	✓
	3 Geographic fit	✓	✓	✓	✓	✓
Acquisition criteria	4 Complementary market	✓	✓	✓	✓	✓
	5 Preferred channel mix	✓	✓	✓	✓	✓
	6 Export potential	✓	✓	✓	✓	✓
	7 Growth potential	✓	✓	✓	✓	✓

Management have a successful track record of acquiring and integrating complementary businesses and developing them

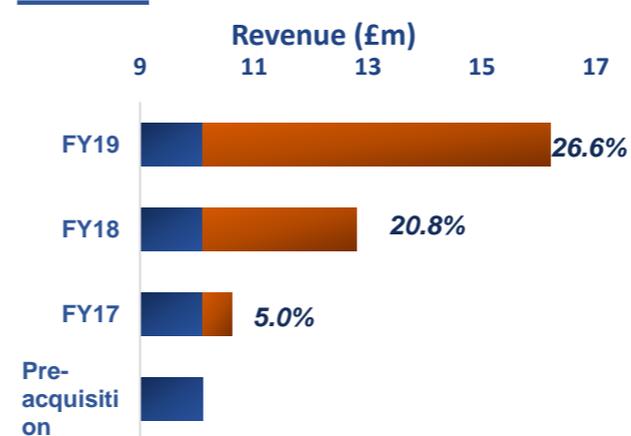
## Vado<sup>(1)</sup>



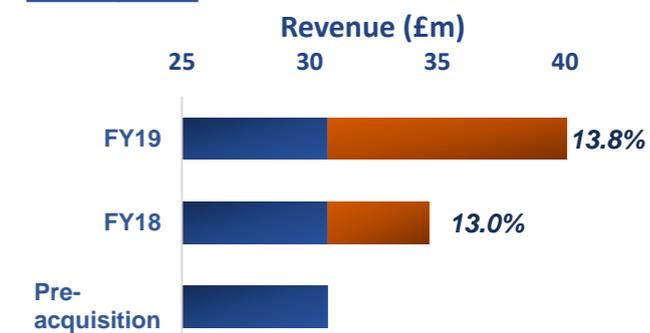
## Croydex<sup>(2)</sup>



## Abode



## Merlyn<sup>(3)</sup>



Highly selective acquisitions delivering strong growth

<sup>1</sup> Pre-acquisition revenue to 31<sup>st</sup> December 2012;

<sup>2</sup> FY16 revenue includes 3 months pre Norcross ownership; pre-acquisition revenue to 31<sup>st</sup> December 2014

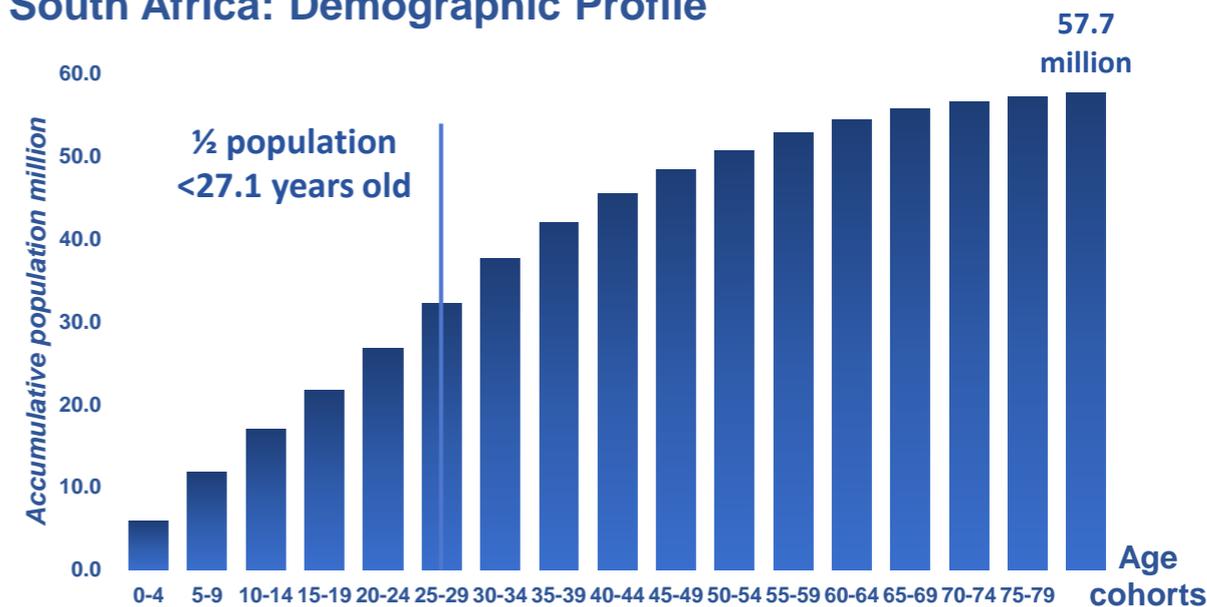
<sup>3</sup> FY18 revenue includes 8 months pre Norcross ownership

# Strong Investment Case – South African Opportunity

## ➤ NXSA & House of Plumbing

- Strong market positions and track record
  - TAL No. 1, JTSA No.2 and TAF No.2
- House of Plumbing complementary acquisition
  - Expands product portfolio - bathroom & plumbing specialist
  - Significant cross-selling opportunities
  - Meaningful margin enhancement potential
  - Geographic expansion (*South Africa & Export*)

## South Africa: Demographic Profile

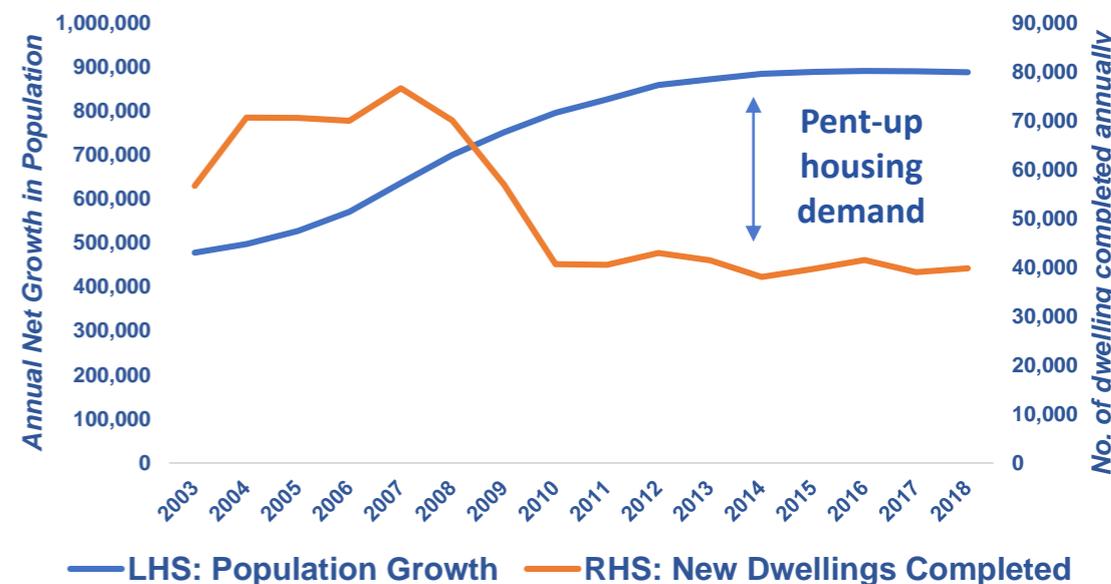


**Population dynamics driving housing formation**

## ➤ Medium Term Market Opportunity

- Shortage of housing
- Construction levels remain half of 2007 peak
- Supportive long-term demographics
  - Large economy
  - Young and growing population
  - Relatively large & growing middle class
  - Educated and aspirational workforce
- Improving political situation

## Annual Population Growth v Dwellings Completed



**Significant opportunity ~ Pent-up housing demand**

**NXSA – strong track record of outperformance in a tough market; significant growth potential**

# Strong Investment Case – Multiple Sales Channels



Housebuilding



Specification



DIY Retail



Merchants



Specialist Retail



Trade



End consumer



Tradesmen

Multiple sales channels increasing market penetration

# Exceptional items and acquisition related costs

	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
<b>Exceptional operating items</b>		
Business unit restructuring	-	(2.1)
Onerous lease	(3.0)	-
GMP Equalisation	(1.0)	-
	<u><b>(4.0)</b></u>	<u><b>(2.1)</b></u>

	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
<b>Acquisition related costs</b>		
Acquisition related deferred remuneration (earn out)	(0.2)	0.3
Intangible asset amortisation	(3.5)	(2.2)
Staff costs and advisory fees*	(0.1)	(2.4)
	<u><b>(3.8)</b></u>	<u><b>(4.3)</b></u>

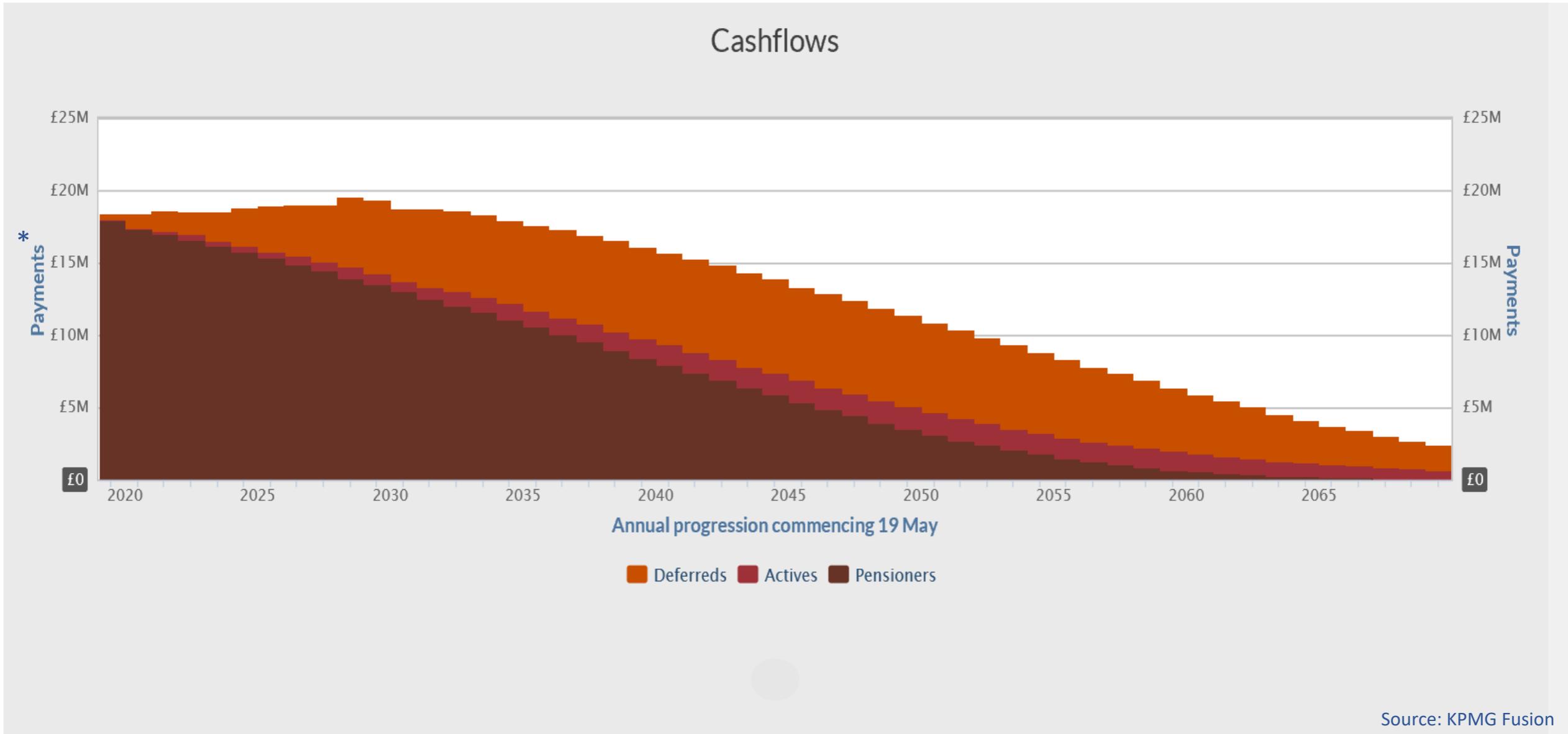
\*Professional and advisory fees incurred in connection with the Group's business combination activities and the costs of maintaining the in-house acquisitions department. During the year to 31 March 2019 the costs of the in-house acquisitions department of £0.4m have been recognised in underlying operating profit. Previously they were excluded from underlying operating profit

# Net debt reconciliation

	2019 £m	2018 £m
Net debt (IFRS) – opening	(47.1)	(23.2)
Net cash flow	14.0	(24.2)
Other non cash movements	(0.2)	(0.2)
Foreign exchange	(1.7)	0.5
Net debt (IFRS) - closing	<b>(35.0)</b>	<b>(47.1)</b>

# UK Pension Scheme cashflows

➤ Cash outflow remains close to peak



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

- Modified retrospective approach where the right of use asset on transition will equal the lease liability
- No impact on cash flow or how we run business
- Assessment of impact on 2019/20 opening balance sheet
  - Recognise estimated financial lease liability of £27m
  - Recognise estimated right of use asset of £27m
- Based on the opening balance sheet impact assessment the differential between the lease cost under IAS 17 and depreciation under IFRS 16 will give rise to the following estimated income statement impact in the year to 31 March 2020:
  - Increase to underlying operating profit of £0.3m
  - Decrease to underlying profit before tax of £1.5m
- The impact assessment does not take into account any leases acquired or entered into after the 31 March 2019
- Interim accounts for the period ending 30 September 2019 will be prepared on an IFRS 16 basis

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**Preliminary  
Results**

Year ended  
31 March 2019

