# Norcros plc - Preliminary Results
# Year ended 31st March, 2011

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# Introduction

John Brown

Chairman

# 2011: Highlights



- Revenue growth +8.3% (LFL[1] at constant currency)
- Trading profit +60% at £11.7m (2010: £7.3m)
- Resilient performance from UK operations and SA Adhesive business
- Significant turnaround in SA tile manufacturing and retail
- Benchmark PBT[2] of £10.2m (2010: £3.4m)
- Disposal of Beaumont investment realising c. £4.4m net, completed June 2010
- Net debt (before prepaid finance costs) of £12.4m (2010: £18.9m)
- Final dividend 0.24p, payable August 2011 in addition to 0.12p interim paid Jan 2011
- Resolved substantial legacy lease exit – completed 31 May 2011

[1] Adjusted for the current period of 53 weeks compared to 52 weeks last year

[2] Benchmark PBT is before exceptional items, non cash finance charges and share of results from associates

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# Financial Review

Martin Payne

Group Finance Director

# Financial Highlights



- Revenue and profit
  - *Revenue of £196.1m, +15.6% (2010: £169.6m) – as reported*
  - *Revenue of £192.4m, +8.3% (2010: £177.7m) – LFL (52 weeks) at constant currency*
  - *Trading profit of £11.7m, +60.3% (2010: £7.3m)*
  - *Benchmark PBT of £10.2m, +200.0% (2010: £3.4m)*

- Cash
  - *Cash generated from operations of £10.8m (2010: £10.6m) - effect of higher revenues on working capital*
  - *Capex at £6.3m (2010: £3.9m) 0.95x depreciation; UK Tiles – manufacturing capacity, UK Adhesives expansion, manufacturing plant and store upgrades in South Africa*
  - *Proceeds from Beaumont disposal £4.4m realised June 2010*
  - *Post year end legacy lease exit for £7.8m cash - £3.3m annualised free cash flow saving until March 2017*

- Net debt and covenant compliance
  - *Net debt (before prepaid finance costs) of £12.4m at 31 March 11 (2010: £18.9m)*
  - *Net debt / Ebitda of 0.7x (covenant < 3.9x)*
  - *Interest cover of 12.3x (covenant > 2.3x)*

# Summary Income Statement



| | 2011 £m | 2010 £m | % |
|---|---|---|---|
| Revenue | 196.1 | 169.6 | + 15.6 |
| **Group trading profit** | **11.7** | **7.3** | **+ 60.3** |
| Other operating income / costs | - | 0.1 | |
| Group operating profit – pre exceptionals | 11.7 | 7.4 | + 58.1 |
| Finance charges – cash | (1.5) | (4.0) | |
| **Benchmark PBT** | **10.2** | **3.4** | **+ 200.0** |
| Exceptional operating items | (1.1) | (8.2) | |
| Finance charges – non cash | (1.6) | (2.4) | |
| Share of associates results – non cash | - | (2.8) | |
| **Profit / (loss) before tax – statutory** | **7.5** | **(10.0)** | |

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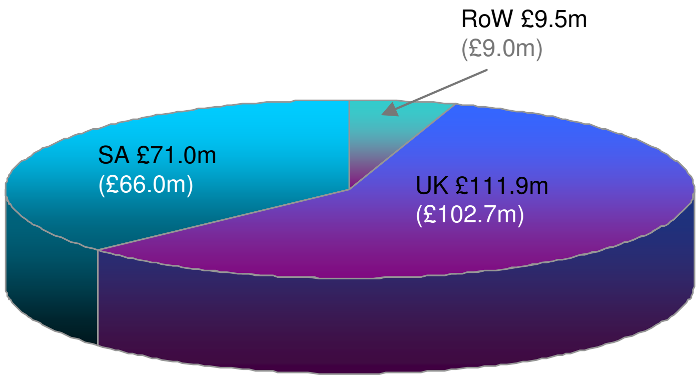
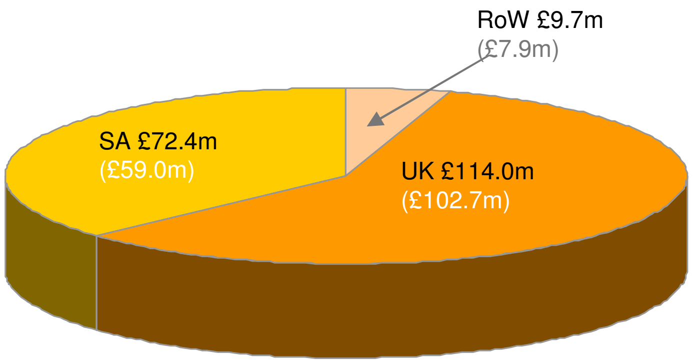
# Revenue by Geographic Segment



**LFL at constant currency +8.3%**




**As reported +15.6%**




- LFL revenue growth at constant currency in all segments
  - *Group +£14.7m; +8.3%*
  - *UK +£9.2m; +9.0%*
  - *SA +£5.0m; +7.6%*
  - *RoW +£0.5m; +5.6%*

- Reconciliation to reported growth

| | £m |
|---|---|
| **FY 10 – as reported** | **169.6** |
| FX effect | 8.1 |
| **FY 10 – at constant currency** | **177.7** |
| Underlying growth | 14.7 |
| Extra week effect | 3.7 |
| **FY 11** | **196.1** |

# Summary Cash Flow



| | 2011 £m | 2010 £m |
|---|---|---|
| **Cash generated from operations** | **10.8** | **10.6** |
| Capex | (6.3) | (3.9) |
| Disposal of businesses | 4.4 | - |
| Net asset disposals & Dividends received | - | 0.1 |
| **Free cash flow, pre financing** | **8.9** | **6.8** |
| Interest and tax | (1.6) | (3.0) |
| Dividends paid | (0.7) | - |
| Net proceeds from capital raising | - | 27.7 |
| Payment of rolled up interest | - | (0.5) |
| Bank refinancing costs | - | (3.5) |
| Net cash flow | 6.6 | 27.5 |
| Exchange | (0.1) | (0.3) |
| Decrease in net debt (before prepaid finance costs) | 6.5 | 27.2 |

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# Balance Sheet Highlights



| | 2011 | 2010 |
|---|---|---|
| Capex (£m) | 6.3 | 3.9 |
| Depreciation (£m) | 6.6 | 6.7 |
| Capex / Depreciation | 0.95x | 0.58x |
| Net bank debt – before prepaid finance costs (£m) | 12.4 | 18.9 |
| Net bank debt/ Ebitda* | 0.7x | 1.3x |

* covenant basis

- Mature and well funded UK pension scheme – see further details in Appendix
  - Recovery plan agreed with Trustees - £9.7m injection agreed; spread over 12 years
    - FY11 and FY12 : £1m p.a.
    - FY16 – FY22 : £1.1m p.a.
  - IAS 19 position at March 2011 – £7.0m deficit v £9.3m deficit at March 2010
    - Benefit of change to CPI from RPI for deferreds - £6.4m.

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# Operating Review

Nick Kelsall

Group Chief Executive

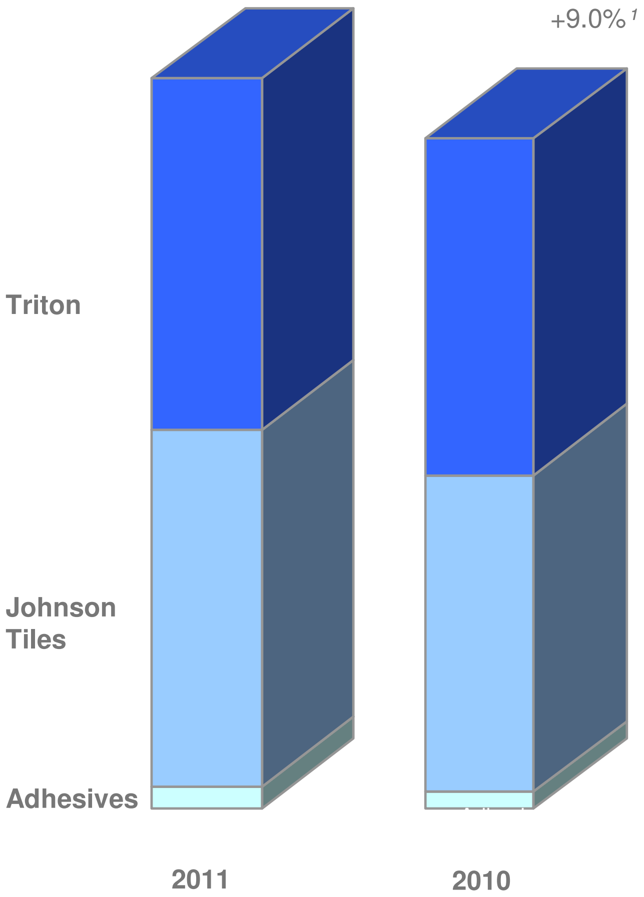
# Market Environment



- UK Shower Market
  - *YoY overall market -2.3%*
  - *Market still c. -20% from peak*
  - *Electric showers +1%; Mixers -7%*
  - *Electric outperformance driven by replacement activity*
- UK Tile Market
  - *Total market c. -5%*
  - *Market c. -25% from peak*
  - *Independent Retail / Housebuilder hardest hit, but recovering from low base*
  - *Private Sector Contracts experienced slight decline*
  - *Public Sector held up well but expected to decline significantly due to Government action*
- South Africa
  - *Total market c. -2%*
  - *Building completions c. –22% YoY and c. 40% lower than the high of 2009*
  - *Significantly steeper decline in non-residential completions*
  - *However improving trend in both residential and non-residential approvals*
  - *Tile market c. -20% from peak*

# UK Operations – Strong revenue growth reflecting market share gains






- **Triton**
  - *Overall revenues +4.7%[1]*
    - *UK +5.7%[1]; Exports -1.3%[1]*
  - *Strong growth in retail; share gains in key accounts*
  - *Solid performance in UK Trade (National and Independent Merchants)*
  - *Exports – resilient performance despite very weak Irish market*
- **Johnson Tiles**
  - *Overall tile revenues +12.4%[1]*
    - *UK +16.7%[1]; Exports -10.1%[1]*
  - *DIY share gains – successful ink jet products*
  - *Trade sector growth through private specifications – Absolute range*
  - *Exports impacted by supply issues in Middle East, partly offset by a strong performance in North America*
- **Norcros Adhesives**
  - *Overall revenue +30.8%[1]*
  - *New accounts, new product introductions & increased contract business*
  - *Increased sales resource and marketing activity*

# UK Operations – Resilient performance; Trading profit maintained



| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Trading Profit (£m) | 11.6 | 11.6 | 8.9 |
| ROS % | 10.2 | 11.3 | 9.4 |

- Triton
  - *Revenue growth in challenging markets*
  - *Resilient profits and margins*
    - *Strength of new product introductions*
    - *Higher input costs offset by cost savings/operational efficiency*
    - *Increased investment in sales & marketing*
  - *Excellent cash conversion*

- Johnson Tiles
  - *Revenue growth despite market decline*
  - *Market share gains and increased contribution*
    - *Demise of Pilkington's + Overseas suppliers*
    - *Success of new product programmes*
    - *Higher value added revenue mix*
    - *Manufacturing efficiency*
  - *Increased investment in sales resource, product design & development + marketing programmes*

- Norcros Adhesives
  - *Revenue growth ahead of LY*
  - *Margin benefits from new product introductions*
  - *Profits in line with last year; investment in sales resource*

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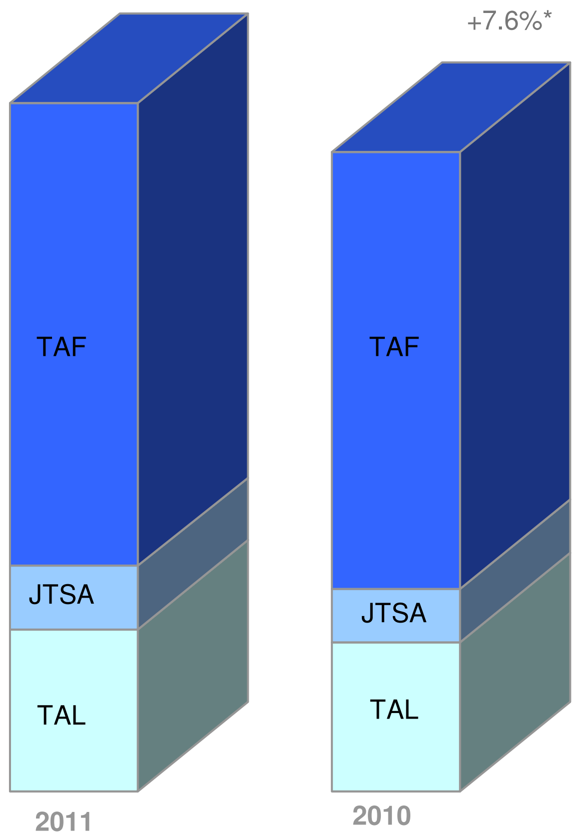
# South Africa - Revenue +7.6% driven by improved customer proposition






* at constant currency

- TAF revenues +5.8%[1]
  - *LFL retail sales +11.0%[1]*
  - *Increased 'supply & fit' projects*
  - *Higher brand awareness from focussed marketing*
  - *19 stores now upgraded to Lifestyle format; closure of one underperforming store in H1*
- JTSA revenue +18.2%[1]
  - *Improved product offering*
  - *Increased sales to the independent sector*
  - *Strong export growth in contiguous markets*
- TAL revenue +9.2%[1]
  - *Strong growth in Tile Adhesives; new rapid set products*
  - *Good growth into Africa*
  - *Industrial Adhesives; increase in market share*

# South Africa – Significant turnaround in performance



| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Trading Profit / (Loss)* (£m) | 0.2 | (4.1) | (2.1) |
| ROS % | 0.3 | (6.2) | (3.0) |

*at constant currency

- TAF
  - *Significant reduction in trading loss*
    - *Benefit of operational leverage from higher revenues*
    - *Improved margins*
    - *Unprofitable store closures – 4 LY, 1 H1*
    - *Range improvements*
    - *Tight overhead control*
- JTSA
  - *Trading loss half that of LY*
    - *Higher revenues*
    - *Increased manufacturing throughput / production efficiency*
    - *Continued focus on unit manufacturing costs and operational improvements*
- TAL
  - *Trading profits significantly higher*
    - *Revenue growth across all sectors*
    - *Higher value added product mix in Tile Adhesives*
    - *Benefits of procurement focus*
    - *Lower cost formulations*

# Operational Initiatives



**Triton**

- *Continue to drive share gains across all product segments and customer channels*
- *Comprehensive new product programme*
- *Increase share of Commercial and Care markets*
- *Continue to drive benefit from value analysis and engineering programme*

**Johnson Tiles**

- *Maintain leading position in ink jet products*
- *Deliver benefits of new capacity and additional ink jet capability*
- *Maximise additional revenues following demise of UK competitor*
- *Drive further growth of Absolute product range in Specification market*

**Norcros Adhesives**

- *Deliver benefits of new ready-mix adhesive manufacturing facility*
- *Expand product offer into related areas; one stop shop*
- *Increased investment in sales, marketing and technical support to drive market share and faster revenue growth*

**South Africa**

- *Business being refocused and strengthened under new management team*
- *Improve retail product offer and continue store upgrade programme*
- *Drive further plant efficiencies, unit cost savings and higher added-value product*
- *Broaden building adhesives offer and grow industrial adhesives through wider application*
- *Build on export growth and seize opportunities in Sub Saharan Africa*

# Summary & Outlook



- Significant improvement in trading performance
- Strong financial position
- Dividends restored
- Significant increase in free cash flow following legacy lease exit
- Focus on
  - Market share gains in UK businesses
  - Driving opportunities for Triton and UK tiles in Specification sector
  - Improving profitability in UK tiles and increasing scale in UK adhesives
  - Further operational improvements in SA retail and tile operations
  - Growth opportunities in SA adhesives and Sub Saharan Africa
- Group well placed to make further progress

# Appendices





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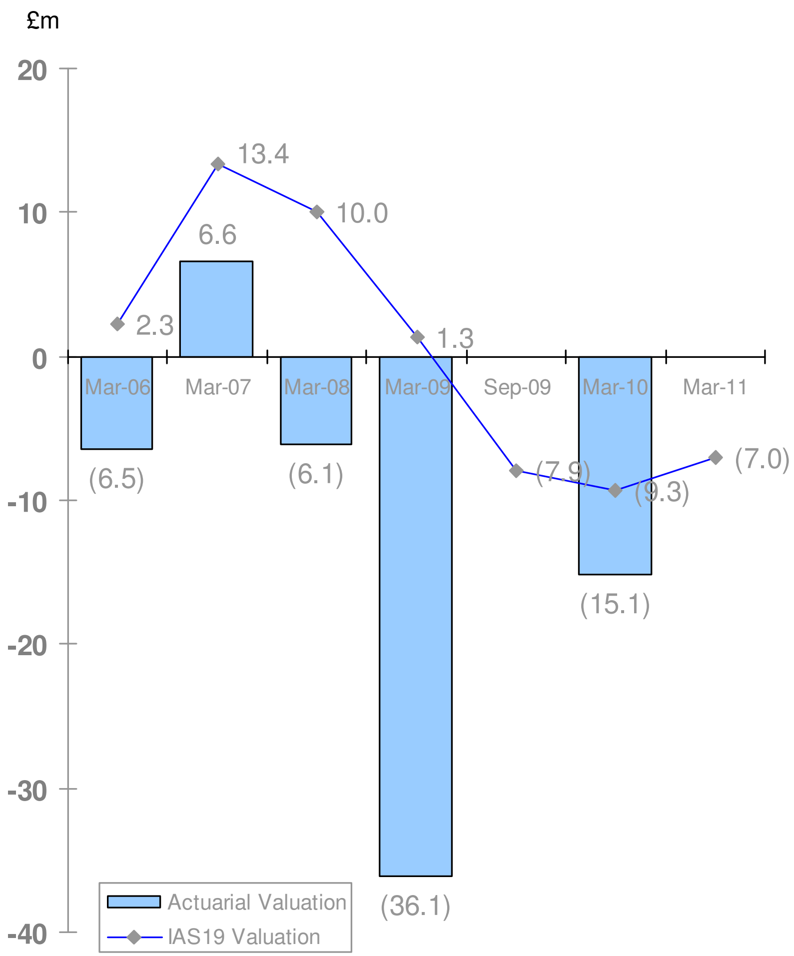
# UK Pension Scheme



- Assets under management - £362m
- Mature Scheme; 10,600 members
  - *Pensioners (62%), Deferred (34%), Actives (4%)*
  - *Average age of pensioners is 75*
- Investment Strategy
  - *Conservative asset allocation; 37% absolute return funds, 23% equities, 20% gilts, 20% corporate bonds*
- Valuations
  - *March 09 actuarial valuation - extreme market conditions*
  - *March 11 IAS 19 valuation reflects 5.5% discount rate, CPI on automatic changes, RPI on remainder*
  - *CPI discount to RPI 0.7%*
  - *March 11 IAS 19 valuation – 98% funded*
- 2009 Recovery Plan
  - *£9.7m injection agreed; spread over 12 years*
    - *FY11 and FY12 : £1m p.a.*
    - *FY16 – FY22 : £1.1m p.a.*

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# Analysis of Exceptional Operating Items



| | 2011 £m | 2010 £m |
|---|---|---|
| Profit on disposal of investment (Beaumont Tiles) | 2.7 | - |
| IAS 19 past service credit (UK Pension Scheme) | 0.4 | - |
| Increase in legacy leasehold provision – Springwood Drive | (2.0) | - |
| Increase in legacy leasehold provision – Other | (2.2) | - |
| Impairment of investment in Greek Associate | - | (5.7) |
| Business unit restructuring | - | (2.5) |
| **Exceptional operating items** | **(1.1)** | **(8.2)** |

# Legacy Leasehold Obligations



- Braintree – Springwood Drive
  - *Original lease expiry 2017*
  - *Lease surrender May 2011; cash cost £7.8m*
  - *Annualised cash savings c. £3.3m*
- Swindon – Light Industrial Units
  - *Lease expiry 2014*
  - *Occupied to lease expiry*
  - *Current cash shortfall against rental income c. £0.6m p.a.*
- Swindon – Warehousing / Distribution Unit
  - *Lease expiry 2022*
  - *Existing tenant vacating end July 2011*
  - *Cash shortfall c. £0.6m p.a.*
- Sheffield - Warehousing / Distribution Units
  - *Lease expiry 2082*
  - *Vacant*
  - *Current cash shortfall c. £0.4m p.a.*

# Net Debt Reconciliation



| | 2011 £m | 2010 £m |
|---|---|---|
| Net debt – statutory | (10.6) | (15.9) |
| Prepaid finance costs | (1.8) | (3.0) |
| Net debt before prepaid finance costs | (12.4) | (18.9) |