

# Norcros plc - Interim Results

## Six months to 30<sup>th</sup> September, 2010

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# Introduction

John Brown  
Chairman

- Revenue growth +6.8% (LFL<sup>1</sup> at constant currency)
- Trading profit of £6.4m (2009: £3.5m)
- Resilient performance from UK operations and SA Adhesive business
- Significant turnaround in SA tile manufacturing and retail
- Benchmark PBT<sup>2</sup> of £5.6m (2009: £1.2m)
- Disposal of Beaumont investment realising c. £4.4m net, completed June 10
- Net debt (before prepaid finance costs) of £13.0m (2009: £48.9m)
- Return to dividends; Interim dividend 0.12p / share payable Jan 11

<sup>1</sup> Adjusted for the current interim period of 27 weeks compared to 26 weeks last year

<sup>2</sup> Benchmark PBT is before exceptional items, non cash finance charges and share of results from associates



# Financial Review

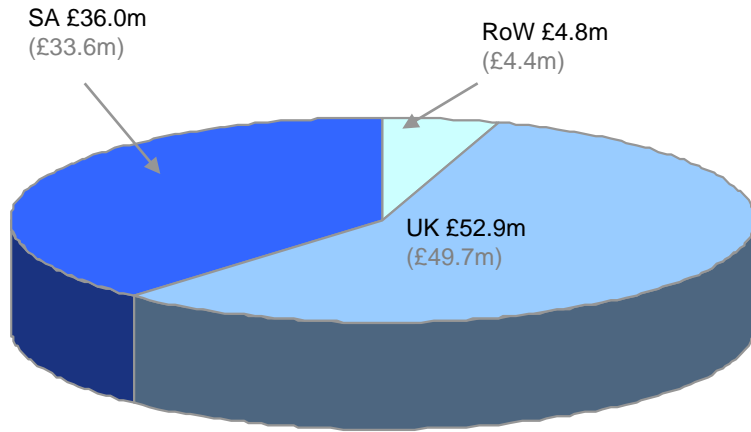
Nick Kelsall  
Group Chief Executive-  
Designate

- Revenue and profit
  - Revenue of £97.3m, +17.2% (2009: £83.0m) – as reported
  - Revenue of £93.7m, +6.8% (2009: £87.7m) – LFL at constant currency
  - Trading profit of £6.4m, +82.9% (2009: £3.5m)
  - Benchmark PBT of £5.6m, +366.7% (2009: £1.2m)
  
- Cash
  - Cash generated from operations £3.8m (2009: £4.8m) - effect of higher revenues on working capital
  - H1 capex c. 63% of depreciation; H2 capex in UK Tiles capacity & Adhesives
  - Proceeds from Beaumont disposal £4.4m realised June 2010
  
- Net debt and covenant compliance
  - Net debt (before prepaid finance costs) of £13.0m at 30 Sept 10 (2009: £48.9m)
  - Net debt / Ebitda of 0.8x (covenant < 4.2x)
  - Interest cover of 7.7x (covenant > 2.2x)

# Summary Income Statement

	6 months September 2010 £m	6 months September 2009 £m	Change %	6 months March 2010 £m	Change %
Revenue	97.3	83.0	+17.2	86.6	+12.4
<b>Group trading profit</b>	<b>6.4</b>	<b>3.5</b>	<b>+82.9</b>	<b>3.8</b>	<b>+68.4</b>
Other operating income / costs	-	0.1		-	
Group operating profit	6.4	3.6	+77.8	3.8	+68.4
Finance charges – cash	(0.8)	(2.4)		(1.6)	
<b>Benchmark PBT</b>	<b>5.6</b>	<b>1.2</b>	<b>+366.7</b>	<b>2.2</b>	<b>+154.5</b>
Exceptional operating items	2.7	(2.5)		(5.7)	
Finance charges – non cash	(1.5)	(1.7)		(0.7)	
Share of results from associates	-	(1.2)		(1.6)	
<b>Profit / ( loss) before tax – statutory</b>	<b>6.8</b>	<b>(4.2)</b>	<b>+261.9</b>	<b>(5.8)</b>	<b>+217.2</b>

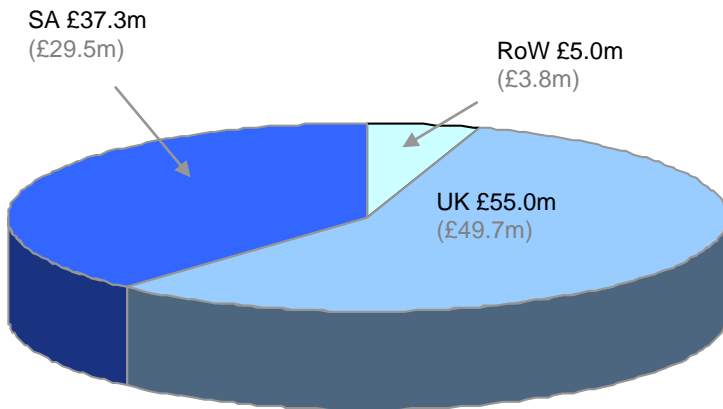
At constant currency, like for like basis<sup>1</sup> +6.8%



➤ LFL revenue growth in constant currency in all segments

- *Group* +£6.0m; +6.8%
- *UK* +£3.2m; +6.4%
- *SA* +£2.4m; +7.1%
- *RoW* +£0.4m; +9.1%

As reported + 17.2%



➤ Reconciliation to reported growth

	£m
<b>H1 09/10 – as reported</b>	<b>83.0</b>
FX effect	4.7
<b>H1 09/10 – at constant currency</b>	<b>87.7</b>
Underlying growth	6.0
Extra week effect	3.6
<b>H1 10/11</b>	<b>97.3</b>

# Summary Cash Flow

	6 months September 2010 £m	6 months September 2009 £m	6 months March 2010 £m	12 months March 2010 £m
<b>Cash generated from operations</b>	<b>3.8</b>	<b>4.8</b>	<b>5.8</b>	<b>10.6</b>
Capex	(2.0)	(2.1)	(1.8)	(3.9)
Disposal of businesses	4.4	-	-	-
Dividends received	-	0.1	-	0.1
<b>Free cash flow, pre financing</b>	<b>6.2</b>	<b>2.8</b>	<b>4.0</b>	<b>6.8</b>
Interest and tax	(0.3)	(1.8)	(1.2)	(3.0)
Net proceeds from capital raising	-	-	27.7	27.7
Payment of rolled up interest	-	-	(0.5)	(0.5)
Bank refinancing costs	-	(3.5)	-	(3.5)
Net cash flow	5.9	(2.5)	30.0	27.5
Exchange	-	(0.3)	-	(0.3)
Decrease / (increase) in net debt	5.9	(2.8)	30.0	27.2



	6 months September 2010	6 months September 2009	6 months March 2010	12 months March 2010
Capex (£m)	2.0	2.1	1.8	3.9
Depreciation (£m)	3.2	3.3	3.4	6.7
Capex / Depreciation	0.6x	0.6x	0.5x	0.6x
Net bank debt - before prepaid finance costs (£m)	13.0	48.9	18.9	18.9
Net bank debt/ Ebitda* <small>* covenant basis</small>	0.8x	3.8x		1.3x

- Mature and well funded UK pension scheme – further details in Appendix
  - *March 09 triennial actuarial valuation agreed - c. £36m deficit*
  - *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.*
  - *March 10 trustee valuation update - £15.1m deficit*
  - *IAS 19 position at 30 Sept 10 – £25.3m deficit driven by discount rate of 5.1%*

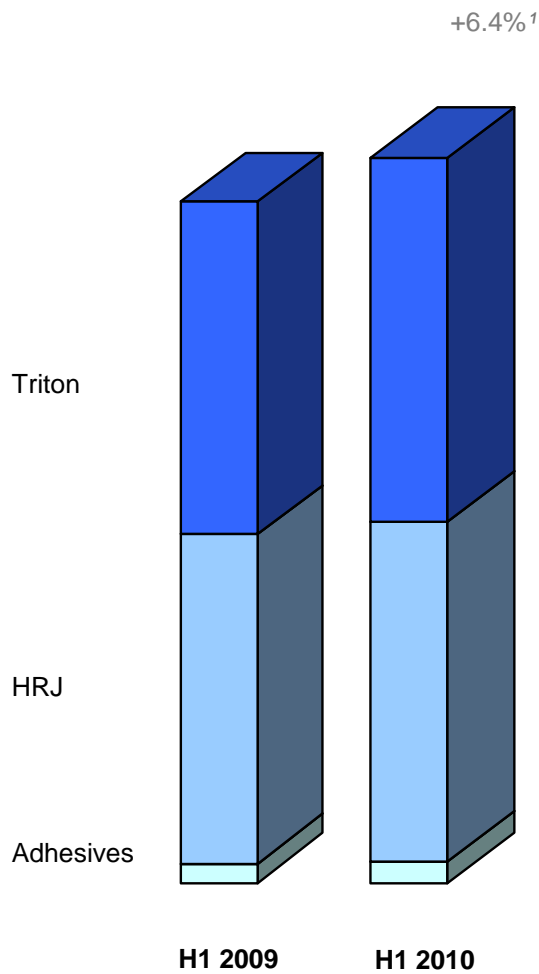


# Operating Review

Joe Matthews

Group Chief Executive

- UK Shower Market
  - *Slow recovery*
  - *YoY overall market +3.9%*
  - *Market still c. -20% from peak*
  - *Electric showers +5%; Mixers +2%*
  - *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*
  - *Private Sector Contracts continuing to decline*
  - *Public Sector held up well but expected to decline due to Government action*
  
- South Africa
  - *New residential building completions c. -20%*
  - *Non-residential building completions c. -22%*
  - *Improving trend in residential approvals but non-residential weaker*
  - *Tile market c. -20% from peak*



## ➤ Triton

- Overall revenues +9.1%<sup>1</sup>
  - UK +9.8%<sup>1</sup>; Exports +5.3%<sup>1</sup>
- Strong growth in retail; share gains in key accounts
- Solid performance in UK Trade (National and Independent Merchants)
- Safeguard thermostatic electric – good growth
- Export growth from replacement activity despite weak Irish market

## ➤ Johnson Tiles

- Overall tile revenues +3.3%<sup>1</sup>
  - UK +2.9%<sup>1</sup>; Exports +5.9%<sup>1</sup>
- DIY/Export gains – successful ink jet products
- Trade sector growth through private specifications – Absolute range

## ➤ Norcros Adhesives

- Overall revenue +14.3%<sup>1</sup>
- New accounts, new products & increased contract activity

	6m Sept 2009	6m March 2010	6m Sept 2010
Trading Profit (£m)	5.9	5.7	5.9
ROS %	11.9	10.8	10.7

## ➤ Triton

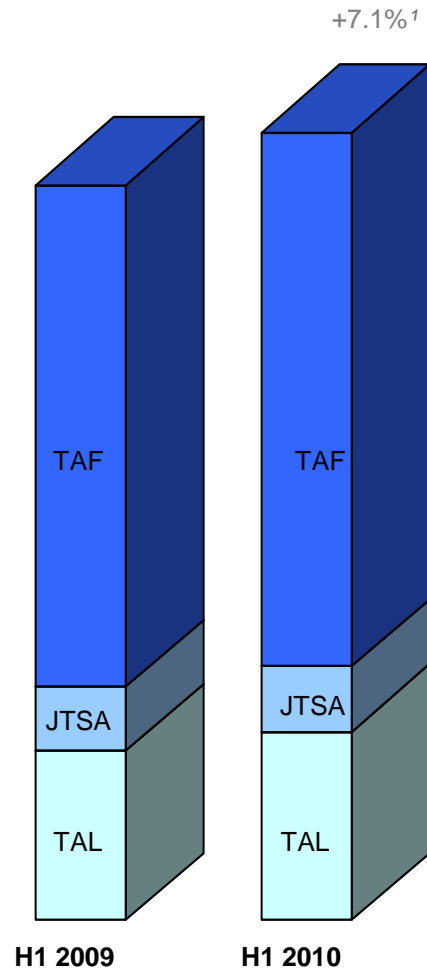
- *Revenue growth in challenging markets*
- *Resilient profits and margins despite*
  - *Customer & product mix changes*
  - *Higher input & freight costs*
  - *Increased investment in marketing*
- *Significant cash generation*

## ➤ Johnson Tiles

- *Revenue growth despite market decline*
- *Trading profits ahead of LY*
  - *Higher value added product mix*
  - *Manufacturing efficiency*

## ➤ Norcros Adhesives

- *Revenue & profit ahead of LY*
- *Margin benefits from new product introductions*
- *Tight control of overheads*



- TAF revenues +6.1%<sup>1</sup>
  - LFL retail sales +15.0%
  - Increased 'supply & fit' projects
  - 18 stores now upgraded to Lifestyle format; closure of one underperforming store in H1
- JTSA revenue +3.4%<sup>1</sup>
  - Improved product offering
  - Increased sales to the independent merchant market
  - Strong export growth in contiguous markets
- TAL revenue +11.7%<sup>1</sup>
  - New rapid set products; strong growth in Tile Adhesives and Building Products
  - Good growth into Namibia + other Sub-Saharan Africa
  - Hot melt Industrial Adhesives; increase in market share

	6m Sept 2009	6m March 2010	6m Sept 2010
Trading Profit (£m)	(2.4)	(1.3)	0.5
ROS %	-8.1	-4.4	1.3

## ➤ TAF

- *Small trading loss v substantial loss LY*
  - *Benefit of operational leverage from higher revenues*
  - *Unprofitable store closures – 4 LY, 1 H1*
  - *Tight overhead control*

## ➤ JTSA

- *Trading loss substantially reduced*
  - *Higher revenues*
  - *Increased manufacturing throughput*
  - *Savings in input costs*

## ➤ TAL

- *Trading profits significantly higher*
  - *Strong volume gains in Building Products and General Adhesives*
  - *Higher value added product mix in Tile Adhesives*
  - *Improved procurement*
  - *Lower cost formulations*

## Triton

- *Continue to drive share gains across all product segments + customer channels*
- *Comprehensive new product programme in Trade + Retail*
- *Deliver benefits of new Customer Service IT system*
- *Continue to drive benefit from value analysis + engineering programme*

## Johnson Tiles

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

## Norcros Adhesives

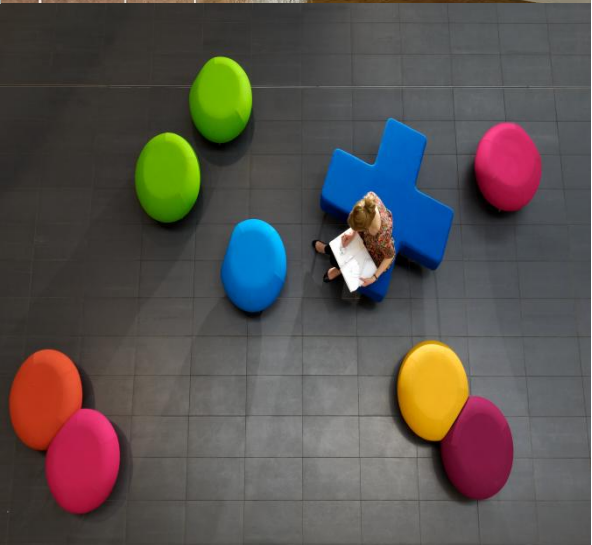
- *Commission new ready-mix facility on plan*
- *Expand product offer into related areas; one stop shop*
- *Increase sales + marketing investment to drive market share + faster revenue growth*

## South Africa

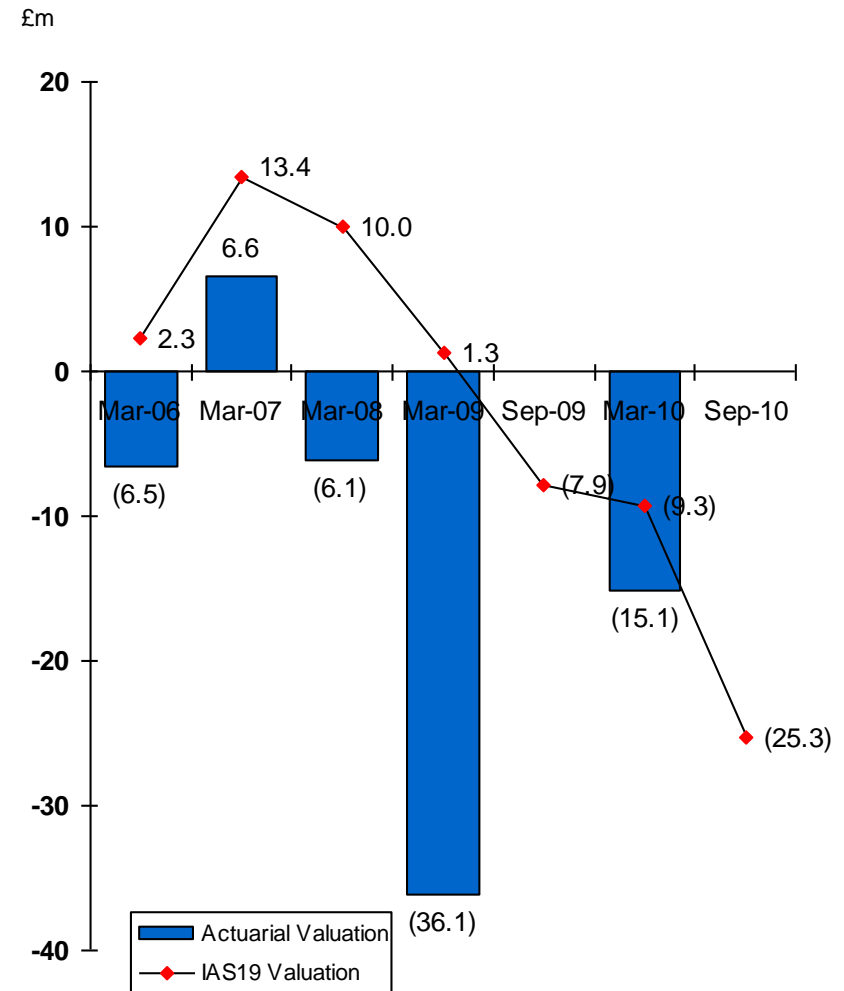
- *Business being refocused + strengthened under new management team*
- *Improve retail product offer + continue store upgrade programme*
- *Drive plant efficiencies + higher value product*
- *Broaden building adhesives offer + grow hot melt revenues through wider industrial application*
- *Build on H1 export growth + seize opportunities in Sub Saharan Africa*



- Significant improvement in trading performance
- Strong financial position
- Return to dividends
- Focus on
  - Market share gains in UK businesses
  - Realising opportunities for Triton + UK tiles in Specification sector
  - Improving profitability in UK tiles and UK adhesives
  - Further operational improvements in SA retail + tile operations
  - Growth opportunities in SA adhesives
- Group well placed to make further progress



- Mature and well funded scheme; 11,000 members
  - Pensioners (61%), Deferred (35%), Actives (4%)
  - Average age of pensioners is 75
- Investment Strategy
  - Low risk asset allocation; 35% equities, 32.5% gilts, 32.5% corporate bonds
  - Pensioner liability matched
- Valuations
  - March 09 triennial actuarial valuation driven by extreme market conditions
  - March 10 actuarial valuation estimate – 96% funding level
  - Sept 10 IAS 19 valuation reflects 5.1% discount rate and £7m increase in assets from March 10
- 2009 Recovery Plan
  - £9.7m injection agreed; spread over 12 years
    - FY11 and FY12 : £1m p.a.
    - FY16 – FY22 : £1.1m p.a.



	September 2010 £m	September 2009 £m	March 2010 £m
Net debt – statutory	(10.6)	(45.3)	(15.9)
Prepaid finance costs	(2.4)	(3.6)	(3.0)
Net debt before prepaid finance costs	<u>(13.0)</u>	<u>(48.9)</u>	<u>(18.9)</u>