9 March 2018

EUROCELL PLC (Symbol: ECEL)

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

Good progress with strategic priorities and robust financial results

Eurocell plc is a market leading, vertically integrated UK manufacturer, distributor and recycler of innovative window, door and roofline PVC products

	2017	2016	Change
Key financial performance measures			
Revenue (£ million)	224.9	204.8	10%
Gross margin %	51.0%	52.0%	(1.0%)
Adjusted profit before tax (£ million) (1) (4)	24.5	24.3	1%
Adjusted basic earnings per share (pence) (2)	20.4	20.0	2%
Total dividends per share (pence)	9.0	8.5	6%
Net debt (£ million) (3)	14.5	20.3	(£5.8m)
Other statutory accounting measures			
Profit before tax (£ million)	23.7	23.8	(1%)
Basic earnings per share (pence)	19.6	19.6	Flat

Financial Highlights

- Good sales growth of 10% (8% excluding acquisitions)
- Gross margin reduction reflects the impact of raw material price inflation
  - Implementing selling price increases to mitigate where possible, but the market does lag supplier price rises, so there is a delay in capturing the benefit
- Robust cash flow conversion and further reduction in net debt

Operational Highlights

- Initiatives driving strong growth in private new build sector
- Significant investments in business expansion
  - 31 new branches in 2017, up from 18 in 2016, with total estate now at 190 sites
  - Increased use of recycled material in manufactured products to 17% (2016: 14%)

Mark Kelly, Chief Executive of Eurocell plc said:

“I am pleased to report a strong performance for Eurocell in 2017. We have made excellent progress with our strategic priorities, continued to invest significantly in the growth of our business and made further gains in market share.

“Profit was impacted by raw material cost inflation and a subdued RMI market, especially in the second half. However, the benefits of our differentiated business model are becoming increasingly evident. I expect the investments we are making to deliver further gains in market share and allow Eurocell to take more control of material costs in the future.

“Looking ahead, our focus for 2018 will be on optimising our existing branch network and expanding further our recycling capability. Whilst our markets remain challenging and raw material price inflation continues, we are in a strong financial position and sales for the first two months of the year have been in line with our expectations.”

NOTES FOR ANALYSTS AND EDITORS

Financial Review

- Revenue growth of 8% (excluding acquisitions) includes:
  - Like-for-like[5] sales growth of 4%
    - Profiles division like-for-like growth of 6%
    - Building Plastics division like-for-like sales growth of 3%
  - Sales from branches opened in 2016 and 2017 of £7.0 million
- Gross margin 51.0% (2016: 52.0%)
  - Raw material price pressure, including resin prices up 13% in 2017
- Operating costs include the impact of acquisitions and investment in new branches
  - Like-for-like[5] operating cost increase of 2%
- Tax rate on adjusted profit before tax of 16.7% includes the benefit of Patent Box[6] relief
- Capital investment of £7.5 million (2016: £7.2 million)
- Final dividend of 6.0 pence per share (2016: 5.7 pence per share)

Business Review

- Private new build up more than 15% in 2017
  - Dedicated specification and business development teams, comprehensive product range and successful fabricator forums
- More than 20 new medium-to-large Profiles accounts won in 2017
  - Sales started to come through in Q4, with more new accounts already contracted for 2018
- Increased sales of doors / windows through branches, Skypod and Equinox to £22.2 million (up 18%)
  - Implementing configuration software across the branch network, with common pricing and specifications
- Warehouse operations back in-house from February 2017 to enhance customer service
  - Improved on-time in-full deliveries to 96% (2016: 91%)
- Security Hardware acquired in February 2017 for total net consideration of £1.6 million
  - Supplier of locks, hardware and spares to the RMI market, with annual sales of c.£3 million
  - Integration and roll-out of spares proposition for branches substantially complete and gaining traction

Notes:

(1) Adjusted profit before tax represents profit before tax and non-underlying costs.

(2) Adjusted basic earnings per share excludes non-underlying costs and the related tax effect.

(3) Net debt is cash and cash equivalents less borrowings.

(4) Non-underlying costs for 2017 of £0.8 million include professional fees and earn out costs related to the acquisition of Security Hardware (£0.4 million), as well as the redundancy and settlement costs of a staff reorganisation (£0.4 million). Non-underlying costs for 2016 of £0.5 million comprise duplicated costs relating to the handover period during which the Company employed two CEO's, as well as professional fees related to the acquisition of Vista.

(5) Like-for-like sales and operating costs exclude acquisitions and branches opened in 2016 and 2017.

(6) An HMRC approved scheme, allowing a 10% tax rate on profits derived from products that incorporate patents.

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CHAIRMAN'S STATEMENT

Against a more challenging economic backdrop, we have reported robust financial results and delivered another consistent operational performance.

Financial and Operating Performance

Our sales growth was good at +10% (+8% excluding acquisitions), with market share gains across the business. Profitability was solid, having been impacted by a subdued Repair, Maintenance and Improvement ('RMI') market, especially in the second half, and higher raw material cost inflation.

As a result, we reported adjusted profit before tax of £24.5 million, up 1% on last year. Reported profit before tax of £23.7 million is down 0.7% on last year.

Cash conversion remains solid, with underlying operating cash flow of £28.8 million (2016: £32.2 million) driving a reduction in net debt to £14.5 million (31 December 2016: £20.3 million). We have a strong balance sheet which provides flexibility and options for the future.

In February 2017, we completed the acquisition of Security Hardware Limited, a supplier of locks and hardware primarily to the RMI market, with annual sales of approximately £3 million. The integration is now substantially complete.

Strategy

In January 2018, building on the work done in 2017, we conducted a review of the Company's strategy and the fundamental elements of our markets and activities. At the conclusion of this process, we reaffirmed that our overall objective remains to deliver sustainable growth in shareholder value by increasing sales and profits at above our market level growth rates.

We have five clear strategic priorities to help us achieve our overall objective:

- Target growth in market share
- Expand our branch network
- Increase the use of recycled materials
- Develop innovative new products
- Explore potential bolt-on acquisitions

We made good progress with each of these priorities during 2017, with the key aspects of our performance described in the Chief Executive's Review.

Looking forward, we will continue to develop each of these areas. We expect the significant investments now made in our specifications teams and in expanding the branch network will deliver further gains in market share. In addition, in response to continued raw material cost inflation, we intend to place more emphasis on increasing the use of recycled materials in our manufacturing processes.

Governance

As a Board, we are committed to promoting the highest standards of corporate governance and ensuring effective communication with shareholders. We continue to comply with the UK Corporate Governance Code.

Dividends

We paid an interim dividend of 3.0 pence per share. The Board proposes a final dividend of 6.0 pence per share, resulting in total dividends for the year of 9.0 pence, representing growth of 6%.

People

The good progress and robust financial results we reported in 2017 are a direct result of the hard work and dedication of our teams in every part of our business. On your behalf and on behalf of the Board, I offer our sincere thanks.

Bob Lawson
Chairman

CHIEF EXECUTIVE'S REVIEW

MARKET CONTEXT

I am pleased to report a strong performance for the Group. The RMI market has been subdued during 2017, particularly during the second half, reflecting low consumer confidence. We have experienced an almost perfect storm of macro factors, including increasing political and economic risk, the first interest rate rise in ten years, worsening house price data, low real wage growth and a weak Pound driving material cost inflation.

Against this more challenging backdrop, we have made excellent progress with our strategic priorities, continued to invest significantly in the growth of our business and made further gains in market share.

FINANCIAL PERFORMANCE

We have reported robust financial results for 2017 and delivered higher revenues and profits.

Overall, sales growth was good at 8% (excluding acquisitions). Growth was driven by our specifications teams, which have continued to be successful in generating demand for our products with architects and planning authorities in the private new build sector, and by the continued expansion of our branch network.

Profitability was solid, having been impacted by the weaker second-half markets and increasing cost inflation we have seen for resin, other raw materials and traded goods. We are implementing selling price increases to mitigate pricing pressure where possible, but the market does lag supplier price increases, so there is a delay in capturing the benefit. We continue to manage our underlying operating costs tightly, whilst progressing further our strategic priorities and investing in business expansion.

As a result, adjusted profit before tax was £24.5 million (2016: £24.3 million) and reported profit before tax was £23.7 million (2016: £23.8 million). Further information on financial performance is provided in the Divisional and Group Financial Reviews.

OPERATIONAL PERFORMANCE

Health and safety

The safety and well-being of our employees and contractors is our first operational priority. We continue to maintain good health and safety performance. We recorded one major injury in 2017 (cut to an employee's hand) under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 ('RIDDOR').

We noted in our 2017 Half-Year Report that the Health and Safety Executive ('HSE') intended to take action against the Company, following a minor accident to an employee in August 2016. The matter has now been concluded, resulting in a fine of £68,000 under the Health and Safety at Work Act.

Production

We delivered another consistent production performance in 2017. We manufactured approximately 44.4k tonnes of rigid and foam PVC profiles at our primary extrusion facilities, up from 40.9k tonnes in 2016, an increase of 9%.

Planned initiatives aimed at mitigating raw material cost inflation led to increased scrap and lower Overall Equipment Effectiveness levels. These include increased trials of alternative materials, including resin from potential new suppliers and other materials used in the extrusion process (e.g. compound stabilisers), as well as tests of new technologies (e.g. tooling) to support increasing the use of recycled material in the extrusion process.

Recycling

In 2017 we used 8.3k tonnes of recycled compound alongside virgin resin in the manufacture of many of our rigid PVC products in our primary extrusion processes. This represents 17% of material consumption, up from 14% in 2016, an increase of approximately 2k tonnes.

Our efforts to secure increased supplies of in-feed stock for the recycling plant are proving successful, with collections up 15% in 2017. Initiatives include back-hauling material from our fabricator, installer and branch networks.

Information on our recent investments in recycling and objective to increase further the use of recycled materials is described in Strategic Priorities below.

Warehouse logistics

We reported last year that, following a period of outsourcing, the operation of our main warehouse facility was brought back in-house with effect from February 2017.

We have worked to understand how the arrangements could be better structured to deliver a more efficient operation and improved customer service levels. We have made good progress, with on-time in-full deliveries increasing to 96%, compared to 91% in 2016. Initiatives include shorter production run times and revised warehouse shift patterns, with picking and relationship teams assigned to specific key accounts.

Whilst we have incurred some incremental cost as a result of these changes, we believe that the primary benefit of improved customer service has been a critical factor in maintaining the loyalty of our existing customer base and in supporting the winning of new accounts.

STRATEGIC PRIORITIES

Our overall objective is to deliver sustainable growth in shareholder value by increasing sales and profits at above our market level growth rates.

We have five clear strategic priorities to help us achieve our overall objective. We are making good progress with all of our strategic priorities, with the key aspects detailed below.

Target growth in market share

Our aim is to increase our share of the PVC profiles market to utilise the spare manufacturing capacity in our extrusion facilities. The effect of this is such that, whilst new volume could be dilutive to gross margin in the short term, the net margin on these sales should be attractive.

In order to deliver the incremental volume, we have been targeting the new build, commercial and public sectors, as well as a number of larger trade fabricators. In doing so, we emphasise why Eurocell is different: we have a strong single brand, good customer service and a leading recycling capability, all of which are attractive to customers. In addition, expanding the branch network pulls through demand for our manufactured products, thereby exploiting the spare capacity.

After a slow start in the first half of 2017, we have made good progress winning accounts since the summer. Sales have started to come through from customers who have recently moved onto our product systems, with more new accounts contracted for 2018.

Expand our branch network

Expanding the branch network secures sales growth and delivers good returns in the medium term, as new branches begin to mature. It also provides an increasing opportunity for sales of windows and other high-value products through the branch network, and (as noted above) pulls through demand for our manufactured products.

I am very pleased to report that we opened 31 branches in 2017, which is a record number of new sites introduced by Eurocell in a 12-month period (2016: 18 new branches). This represents a significant investment in the expansion of our business, taking the total estate to 190 branches at the year end. We also launched a new and improved branch format with more products on display, and added new product lines to the range, to help meet our objective of becoming a one-stop shop for customers.

The cost of investing in new branches does create downward pressure on profitability in the near term as the new sites work towards a break-even position. Historically it has taken more than two years for a new branch to reach a break-even run-rate. We have been running trials to reduce start-up costs and shorten the time to break-even for the branches opened in 2017, with initiatives based on more focused direct marketing campaigns and sharing resources with established sites in the same region. The trials have gone well and there have been some key learnings. There is more work to do in this area, particularly with respect to the branches opened in 2016, but we are confident that, in future, new branches should reach a break-even run-rate before their two-year anniversary.

Our intention remains to develop an estate of approximately 250 branches in the medium term. Subject to the success of the current programme, consideration of the sites available, potential branch maturity and sales saturation rates, we continue to believe that an estate of around 350 sites is a realistic long-term aspiration for Eurocell.

However, in order to allow the team to consolidate the existing estate, complete the work on reducing break-even times and maximise the sales of high value items through the whole branch network, we have revised down our short term target for new sites and plan to open up to 15 branches in 2018.

Increase the use of recycled materials

The work to increase the use of recycled materials in our primary extrusion manufacturing processes is becoming even more important in the face of continued raw material cost inflation, particularly for PVC resin.

Average resin prices increased by 13% in 2017 and by approximately £150 per tonne over the last two years, driven by a combination of currency movements (largely weak Sterling) and underlying commodity price changes (rising oil and ethylene). This has resulted in a widening gap between the cost of virgin PVC compound and our recycled compound, making the case for further investment in recycling more compelling.

During the course of 2016 and 2017 we invested approximately £1.8 million in a project to increase our recycling capacity, which has boosted usage in primary extrusion from 9% (4.1k tonnes) of material consumption in 2015 to 17% (8.3k tonnes) in 2017.

Looking forward, we intend to invest to expand again our recycling capacity. As a result, we expect usage in primary extrusion to increase to around 20% in 2018 (approximately 10k tonnes), driving a substantial saving compared to the cost of using virgin material.

Beyond that we will continue to evaluate opportunities to increase further our recycling capacity in the years ahead.

Develop innovative new products

We are committed to maintaining market leadership by offering the very latest in product improvement, both through development of existing products and the introduction of new ones. Some of the products launched during 2017 include:

- ***InSite construction hinge*** - special hinge for off-site construction applications, which allows timber frame and modular home manufacturers to install fully glazed windows into wall panels in the factory production process.
- ***StudioGlide bi-fold*** **door** - a new aluminium bi-fold door with improved opening and closing mechanism which complements our existing product designs and is now in production with several of our trade frame fabricators.
- ***SlateSkin*** - a new sheet tile roof system designed to save installation time when fitted in conjunction with our Equinox products.
- ***Modus and Skypod continued improvement*** - range extension for these excellent products.

Explore potential bolt-on acquisitions

In February 2017, we completed the acquisition of Security Hardware, a supplier of locks and hardware primarily to the RMI market. Annual sales at acquisition were approximately £3 million.

The integration of Security Hardware is now substantially complete. The extensive product range (over 3,000 stock keeping units ('SKUs'), covering the major hardware brands and an own label offering, Schlosser Technik) is now available through our branch network, supporting our objective to be a one-stop-shop for anything window related for our customers. This also allows us to better engage with facilities management companies and other large maintenance contractors.

We are developing a range of hardware to complement our window profile. This will enable our fabricator customers to offer a fully certified common specification of window (including hardware), enabling Eurocell to target a greater share of the new build market and grow sales of windows through branches. We expect the hardware range to be available later in 2018.

We will continue to assess and consider bolt-on acquisition opportunities in the markets in which we operate. Our focus is principally on businesses that add value through range extension, operational efficiencies or added value products, or to satisfy a make-or-buy decision.

OUTLOOK

We have made excellent progress with our strategic priorities in 2017, continued to invest significantly in the growth of our business and made further gains in market share.

Profit was impacted by raw material cost inflation and a subdued RMI market, especially in the second half. However, the benefits of our differentiated business model are becoming increasingly evident. I expect the significant investments we are making in the Group to deliver further gains in market share and allow Eurocell to take more control of material costs in the future.

Looking ahead, our focus for 2018 will be on optimising our existing branch network and expanding further our recycling capability. Whilst our markets remain challenging and raw material price inflation continues, we are in a strong financial position and sales in the first two months are in line with our expectations.

In summary, we believe that our proven strategy and capabilities will enable Eurocell to deliver value to our customers and shareholders throughout 2018 and beyond.

Mark Kelly
Chief Executive Officer

DIVISIONAL REVIEWS

PROFILES

The Profiles division manufactures extruded rigid and foam PVC profiles. We make rigid and foam products using virgin PVC compound, the largest component of which is resin. Our rigid products also include recycled PVC compound, produced at our market leading recycling facility.

Rigid PVC profiles are sold to third-party fabricators, who produce windows, trims, cavity closer systems, patio doors and conservatories for installers, retail outlets and house builders. Foam products are used for roofline and are supplied to customers through our nationwide branch network in the Building Plastics division.

As such, all of our manufacturing margin is recorded within the Profiles division, which therefore also benefits from expansion of the branch network.

The Profiles division also includes Vista Panels and S&S Plastics.

	2017 £m	2016 £m	Change %
Third-party Revenue	**94.2**	**87.4**	**8%**
Like-for-like / Organic	84.5	80.0	6%
Vista Panels[1]	9.7	7.4	31%
Inter-segmental Revenue	**45.4**	**39.8**	**14%**
Total Revenue	**139.6**	**127.2**	**10%**
Adjusted EBITDA	**23.1**	**22.7**	**2%**

(1) Acquired March 2016

Revenue

Profiles third-party revenue was up 8% in 2017 to £94.2 million (2016: £87.4 million), which includes a like-for-like sales increase of 6%. The remaining growth was driven by the acquisition of Vista Panels in March 2016.

We have continued to gain share, despite the RMI market (the most significant external driver of our performance) remaining subdued in 2017, particularly during the second half.

We have been pleased to see continued good growth in the private new build sector, where sales were up more than 15% in 2017. We believe we are now the largest supplier of window profile to this market. Our dedicated specifications teams have been successful in generating demand, well supported by our ability to supply a comprehensive product range through the new build fabricator network. As well as windows, this includes composite doors, PVC and aluminium bi-fold doors and the only sixty-minute fire rated cavity closure system. Further, our InSite construction hinge allows timber frame and modular home manufacturers to install fully glazed windows into wall panels in the factory for off-site construction.

Our new build forums have been successful, bringing fabricators together with Eurocell and the house builders. The objective is to agree consistent specifications, quality and prices across the fabricator network. This allows new build buyers to source consistent products from a wide supplier base, mitigating their delivery risk.

Our larger trade fabricators also performed well in 2017, taking a greater share of the available volume mix, albeit with lower growth rates in the second half. Generally, the larger trade fabricators have been increasing their capacity, by extending or adding factory units and investing in new plant and machinery. As such, they are benefiting from economies of scale and automation, which is allowing them to grow share at the expense of smaller fabricators.

Importantly, we also continue to build our prospect pipeline. In the fourth quarter, sales started to come through from customers who have recently moved on to our product systems, with more new accounts contracted for 2018.

Finally, Vista Panels continues to perform very well, with 39% of doors sales now channelled through our branch network.

Adjusted EBITDA

Adjusted EBITDA was £23.1 million (2016: £22.7 million), an increase of 2%.

Gross margin and return on sales in the Profiles division are lower in 2017, largely as a result of increasing raw material price pressure, particularly for resin. We have been implementing selling price increases to mitigate this where possible, but the market does lag supplier price rises. Further information in relation to the impact of increasing raw material prices is included in the Group Financial Review.

In addition, margins have been impacted by a shift in sales mix towards larger fabricators at the expense of smaller customers as described above.

The increase in adjusted EBITDA is therefore primarily a function of sales growth.

BUILDING PLASTICS

Building Plastics distributes a range of Eurocell manufactured and branded PVC foam roofline products and Vista doors, as well as third-party manufactured ancillary products. These include windows made by our fabricator customers using products manufactured by Profiles, sealants, tools and rainwater products.

Distribution is through our national network of 190 branches to installers, small and independent builders, house builders and nationwide maintenance companies. The branches also sell roofline products to independent wholesalers.

The Building Plastics division includes Security Hardware, acquired in February 2017. Security Hardware is a supplier of locks and hardware, primarily to the RMI market.

	2017 £m	2016 £m	Change %
Third-party Revenue	130.7	117.5	11%
Organic	128.2	117.5	9%
Security Hardware[(1)]	2.5	–	n/a
Inter-segmental Revenue	**1.1**	**0.7**	**56%**
Total Revenue	**131.8**	**118.2**	**12%**
Adjusted EBITDA	**8.6**	**8.8**	**(3%)**

(1) Acquired February 2017

Revenue

Building Plastics revenue was up 11% to £130.7m (2016: £117.5m), which includes an increase in like-for-like sales of 3%, as well as the impact of branch openings and the acquisition of Security Hardware.

Like-for-like sales includes growth from branches opened in 2015 and prior, as the more recent sites from that vintage begin to mature. Growth was bolstered by increased sales of windows, Skypod and Equinox through the branch network, which were £15.6 million in 2017, compared to £13.3 million last year. We have implemented window configuration software across the network, using common pricing and specifications for windows supplied to all Eurocell branches. This is proving successful and we will develop the software to incorporate products such as Skypod and doors.

Like-for-like growth also includes some benefit from an initiative to improve our proposition as a one-stop shop for customers, via the roll-out of an additional 500 product lines in 2016. In addition, the acquisition of Vista Panels has supported growth in the sales of doors through the branches, which reached £6.6 million in 2017 (2016: £5.5 million).

In terms of new branches, we opened 31 in 2017, compared to 18 in 2016. We now have a total of 190 branches providing national coverage across the UK, which offers a significant competitive advantage. Branches opened in 2016/17 added £7.0 million to sales in 2017.

Security Hardware was acquired in February 2017 for total consideration (net of cash acquired) of £1.6 million. Sales for the period of £2.5 million were in line with our expectations. As described in the Chief Executive's Review, the integration is now substantially complete and we look forward to the introduction of our own range of hardware later in 2018.

Adjusted EBITDA

Adjusted EBITDA for 2017 was £8.6 million (2016: £8.8 million), a decrease of 3%.

We maintained our gross margin in 2017. Although we continue to experience cost inflation, a good proportion of this has been mitigated with selling price increases implemented through the year.

Higher overheads in Building Plastics includes significant investment to accelerate the pace of expansion of our branch network described above. New branches are a key driver of future sales and profit growth, but they do create downward pressure on profitability in the short term due to investment in central infrastructure and in our teams at new sites. We estimate that investment in 18 new branches in 2016 and 31 in 2017 has together created a drag on EBITDA of approximately £2 million in 2017, compared to a drag of approximately £1 million in 2016.

Further information in relation to the impact of cost inflation and new branches is included in the Group Financial Review.

The reduction in adjusted EBITDA and return on sales is therefore a function of the significant investments made in accelerating the branch roll-out in 2017.

We are making progress with initiatives to support new branches reaching profitability sooner, which now include a more comprehensive and sustained marketing campaign and sharing resources with established sites in the same region. Whilst there is more work to do in this area, we are confident that, in future, new branches should reach a break-even run-rate before their two-year anniversary and be mature in 4-5 years.

When the 49 branches opened in 2016/17 are mature, we expect a substantial improvement in performance for the division.

As described in the Chief Executive's review, we expect to open up to 15 branches in 2018. This will allow the team to consolidate the existing estate, complete the work on reducing break-even times and ensure the sales of windows and other high-value products are maximised.

GROUP FINANCIAL REVIEW

We have made good progress with our strategic priorities and other self-help initiatives and delivered robust financial results in the process.

	2017 £000	2016 £000
Revenue	**224,906**	**204,816**
Gross Profit	114,624	106,565
Gross Margin %	51.0%	52.0%
Overheads	(82,890)	(75,236)
Adjusted[1] EBITDA	**31,734**	**31,329**
Depreciation and Amortisation	(6,677)	(6,377)
Adjusted[1] Operating Profit	**25,057**	**24,952**
Finance Costs	(553)	(677)
Adjusted[1] Profit Before Tax	**24,504**	**24,275**
Tax	(4,089)	(4,299)
Adjusted[1] Profit After Tax	**20,415**	**19,976**
Adjusted[1] Basic EPS (pence per share)	**20.4**	**20.0**
Non-underlying Costs After Tax	(773)	(374)
Reported Profit After Tax	**19,642**	**19,602**
Reported Basic EPS (pence per share)	**19.6**	**19.6**

1) See Adjusted Profit measures

Revenue

Revenue for 2017 was £224.9 million (2016: £204.8 million), which represents growth of 10%, or 8% excluding acquisitions. Like-for-like sales growth (i.e. excluding the impact of acquisitions and branches opened in 2016/17) was 4%.

As described in the Divisional Reviews, sales have been driven by good like-for-like growth in Profiles (£4.5 million, or 6% for the division), particularly in private new build, solid like-for-like growth in the branch network (£3.8 million, or 3% for the division) and the positive impact from branches opened in 2016/17 (£7.0 million, or 6% for the division). Together, the acquisitions of Vista Panels and Security Hardware added £4.8 million to sales in 2017.

Gross Margin

We have experienced higher price pressure for raw materials and traded goods. Resin was up 13% in 2017, representing an additional cost to the business of approximately £2.6 million. Inflation for other raw materials and traded goods increased costs by a further £1.7 million. In addition, margins have been impacted by the sales mix, with stronger growth in sales to larger fabricators relative to smaller customers.

As described in the Divisional Reviews, we continue to mitigate cost inflation via the implementation of selling price increases where possible. We recovered approximately £3.3 million of the £4.3 million cost inflation in 2017, which reflects the time lag in capturing the benefit.

We further offset the impact of cost inflation by increasing the use of recycled materials in our primary extrusion operations to 17% (2016: 14%). This resulted in a benefit of £1.1 million to gross margin.

Overall, these factors drove a reduction in gross margin from 52.0% in 2016 to 51.0% in 2017.

Distribution Costs and Administrative Expenses (Overheads)

Overheads for the year were £82.9 million (2016: £75.2 million), representing a similar percentage of sales for both periods. The increase includes £3.8 million as a result of new branches opened in 2016/17 and £2.3 million from acquisitions. The balance of £1.6 million relates to an increase of 2% in the like-for-like organic business, where sales growth was 4% as described above. We continue to focus on the tight control of underlying overheads, with the increase driven largely by the impact of the Minimum Wage legislation and higher volume related distribution costs.

Depreciation and Amortisation

Depreciation and amortisation for 2017 was £6.7 million (2016: £6.4 million), with the increase due to amortisation of acquired intangibles relating to the acquisitions of Vista Panels and Security Hardware, as well as recent capital investment.

Finance Costs

Finance costs for the year were £0.6 million (2016: £0.7 million), reflecting lower average net debt in 2017.

Adjusted Profit Measures

Adjusted EBITDA, adjusted operating profit and adjusted profit before tax all exclude non-underlying costs. Adjusted profit after tax and adjusted earnings per share exclude non-underlying costs and the related tax effect.

Adjusted profit measures are used by management to assess business performance and are provided here in addition to statutory measures to help describe the underlying results of the Group.

Non-underlying Costs

Non-underlying costs for 2017 of £0.8 million include professional fees and earn-out costs related to the acquisition of Security Hardware, as well as the redundancy and settlement costs of a staff reorganisation. Non-underlying costs for 2016 of £0.5 million comprise duplicated costs relating to the handover period during which the Company employed two CEO's, as well as professional fees related to the acquisition of Vista Panels.

Tax

The effective tax rate on adjusted profit before tax for 2017 of 16.7% was lower than the standard corporation tax rate for the year due to the benefit of Patent Box relief. The effective rate on adjusted profit before tax for 2016 of 17.7% reflected the beneficial impact on deferred tax of reductions in the corporation tax rate enacted in the period, as well as adjustments to prior year taxes. The effective tax rate on reported profit before tax was 17.0% (2016: 17.7%).

Earnings Per Share

Taking into account all of the factors described above, adjusted basic earnings per share for 2017 was 20.4 pence per share (2016: 20.0 pence per share).

Reported basic earnings per share for 2017 was 19.6 pence per share (2016: 19.6 pence per share).

	2017 pence	**2016 pence**
Basic earnings per share	19.6	19.6
Adjusted basic earnings per share	20.4	20.0
Diluted earnings per share	19.6	19.6
Adjusted diluted earnings per share	20.4	19.9

Acquisitions

As previously described, we acquired Security Hardware in February 2017 for an initial consideration of £1.3 million (net of cash acquired). The impact of Security Hardware on Group earnings for 2017 was not material.

Dividends

We paid an interim dividend of 3.0 pence per share in October 2017. The Board proposes a final dividend of 6.0 pence per share, resulting in total dividends for the year of 9.0 pence (2016: 8.5 pence). This represents an increase of 6%.

The dividend will be paid on 23 May 2018 to Shareholders registered at the close of business on 27 April 2018. The ex-dividend date will be 26 April 2018.

Retained earnings as at 31 December 2017 were £46.7 million (2016: £35.8 million). The Company takes steps to ensure distributable reserves are maintained at an appropriate level through intra-group dividend flows.

Capital Expenditure

Capital expenditure for 2017 was £7.5 million (2016: £7.2 million).

Capital expenditure includes investment to increase our recycling capacity of £0.9 million and in new branches opened in 2017 of £1.9 million. Investment of £3.1 million in Operations includes new tooling costs and general maintenance capex. Other capital expenditure of £1.6 million includes branch refurbishments and various IT-related costs.

Cash Flow

Net cash generated from operating activities was £23.7 million, compared to £28.4 million in 2016.

This includes a net outflow from working capital for 2017 of £2.6 million, comprised of an increase in stocks (£2.8 million), trade and other receivables (£3.0 million) and in trade and other payables (£3.2 million). This compares to a net inflow from working capital of £0.8 million in 2016, which included a reduction in inventory of £1.6 million.

The increase in stocks has been driven largely by the 31 new branches, as well as the introduction of new product lines to the branch network. We have also built a higher level of safety stocks to ensure consistent on-time deliveries, particularly for our new build customers. Stock days were 55 at 31 December 2017, compared to 58 at 31 December 2016.

The changes to trade receivables and payables reflect normal business seasonality, alongside increased activity and growth in 2017. Debtor days were 37 at year end, compared to 36 at the end of 2016.

Net cash generated from operating activities also include tax paid in the year of £4.6 million (2016: £3.5 million).

Other payments include acquisitions of £1.3 million (2016: £6.3 million) and capital investment of £7.5 million (2016: £7.2 million).

Dividends paid represent the final dividend for 2016 of 5.7 pence per share (or £5.7 million) and the interim dividend for 2017 of 3.0 pence per share (or £3.0 million).

Taking all of these factors into account, net debt fell by £5.8 million during the year to £14.5 million at 31 December 2017 (31 December 2016: £20.3 million).

Net Debt (£000)

	2017	**2016**	**Change**
Cash	11,361	5,559	5,802
Borrowings	(25,851)	(25,827)	(24)
Net Debt	**(14,490)**	**(20,268)**	**5,778**

Bank Facilities

We have an unsecured, multi-currency, revolving credit facility of £45 million, provided by Barclays and Santander. The Group operates comfortably within the terms of the facility and related financial covenants. The facility matures in 2020.

Michael Scott
Chief Financial Officer

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	Year ended 31 December 2017 Underlying £000	Non-underlying* £000	Total £000	Year ended 31 December 2016 Underlying £000	Non-underlying* £000	Total £000
Revenue	3	**224,906**	**–**	**224,906**	**204,816**	**–**	**204,816**
Cost of sales		(110,282)	–	(110,282)	(98,251)	–	(98,251)
Gross profit		**114,624**	**–**	**114,624**	**106,565**	**–**	**106,565**
Distribution costs		(17,254)	–	(17,254)	(15,517)	–	(15,517)
Administrative expenses		(72,313)	(843)	(73,156)	(66,096)	(455)	(66,551)
Operating profit		**25,057**	**(843)**	**24,214**	**24,952**	**(455)**	**24,497**
Finance expense		(553)	–	(553)	(677)	–	(677)
Profit before tax	3	**24,504**	**(843)**	**23,661**	**24,275**	**(455)**	**23,820**
Taxation	4	(4,089)	70	(4,019)	(4,299)	81	(4,218)
Profit for the year		**20,415**	**(773)**	**19,642**	**19,976**	**(374)**	**19,602**
Basic earnings per share	5	**20.4**		**19.6**	**20.0**		**19.6**

* Non-underlying items are detailed in Note 2.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

	2017 £000	2016 £000
Assets		
Property, plant and equipment	31,167	29,294
Intangible assets	19,431	19,713
Total non-current assets	**50,598**	**49,007**
Current assets		
Inventories	21,094	17,404
Trade and other receivables	31,578	28,123
Cash and cash equivalents	11,361	5,559
Total current assets	**64,033**	**51,086**
Total assets	**114,631**	**100,093**
Liabilities		
Current liabilities		
Borrowings	–	(42)
Trade and other payables	(33,011)	(29,042)
Provisions	(405)	(48)
Corporation tax	(2,448)	(2,873)
Total current liabilities	**(35,864)**	**(32,005)**
Non-current liabilities		
Borrowings	(25,851)	(25,785)
Trade and other payables	(718)	(520)
Provisions	(654)	(1,463)
Deferred tax	(2,170)	(2,194)
Total non-current liabilities	**(29,393)**	**(29,962)**
Total liabilities	**(65,257)**	**(61,967)**
Net assets	**49,374**	**38,126**
Equity attributable to equity holders of the Parent		
Share capital	100	100
Share premium account	2,104	1,926
Share-based payment reserve	480	348
Retained earnings	46,690	35,752
Total equity	**49,374**	**38,126**

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2017

	Note	**Year ended 31 December 2017 £000**	Year ended 31 December 2016 £000
Cash generated from operations	7	**27,926**	**31,782**
Non-underlying costs	2	843	455
Cash generated from underlying operations		**28,769**	**32,237**
Income taxes paid		(4,557)	(3,537)
Non-underlying costs paid		(489)	(273)
Net cash generated from operating activities		**23,723**	**28,427**
Investing activities			
Acquisition of subsidiaries	8	(1,260)	(6,332)
Purchase of property, plant and equipment		(7,068)	(6,342)
Sale of property, plant and equipment		15	–
Purchase of intangible assets		(413)	(877)
Net cash used in investing activities		**(8,726)**	**(13,551)**
Financing activities			
Proceeds from bank borrowings		–	8,000
Repayment of bank and other borrowings		(42)	(8,523)
Finance expense paid		(449)	(643)
Dividends paid to equity shareholders	6	(8,704)	(8,000)
Net cash used in financing activities		**(9,195)**	**(9,166)**
Net increase in cash and cash equivalents		**5,802**	**5,710**
Cash and cash equivalents at beginning of year		5,559	(151)
Cash and cash equivalents at end of year		**11,361**	**5,559**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017

	Share capital £000	Share premium account £000	Share-based payment reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2017	**100**	**1,926**	**348**	**35,752**	**38,126**
Comprehensive income for the year					
Profit for the year	–	–	–	19,642	19,642
Total comprehensive income for the year	**–**	**–**	**–**	**19,642**	**19,642**
Contributions by and distributions to owners					
Exercise of share options	–	178	(178)	–	–
Share-based payments	–	–	260	–	260
Deferred tax on share-based payments	–	–	50	–	50
Dividends paid	–	–	–	(8,704)	(8,704)
Total transactions with owners recognised directly in equity	**–**	**178**	**132**	**(8,704)**	**(8,394)**
Balance at 31 December 2017	**100**	**2,104**	**480**	**46,690**	**49,374**

	Share capital £000	Share premium account £000	Share-based payment reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2016	**100**	**1,926**	**380**	**24,150**	**26,556**
Comprehensive income for the year					
Profit for the year	–	–	–	19,602	19,602
Total comprehensive income for the year	**–**	**–**	**–**	**19,602**	**19,602**
Contributions by and distributions to owners					
Share-based payments	–	–	18	–	18
Deferred tax on share-based payments	–	–	(50)	–	(50)
Dividends paid	–	–	–	(8,000)	(8,000)
Total transactions with owners recognised directly in equity	**–**	**–**	**(32)**	**(8,000)**	**(8,032)**
Balance at 31 December 2016	**100**	**1,926**	**348**	**35,752**	**38,126**

1 BASIS OF PREPARATION

The financial information for the year ended 31 December 2017 was approved by the Board on 8 March 2018. This financial information does not constitute the statutory accounts of the Company within the meaning of Section 435 of the Companies Act 2006, but is derived from those accounts, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed and adopted for use by the European Union.

This information has been prepared under the historical cost method, using all standards and interpretations required for financial periods beginning 1 January 2017. No standards or interpretations have been adopted before the required implementation date.

Statutory accounts for the year ended 31 December 2016 have been delivered to the Registrar of Companies. Statutory accounts for the year ended 31 December 2017 will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

The auditors have reported on those accounts. Their reports were not qualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

2 NON-UNDERLYING COSTS

Amounts included in the Consolidated Statement of Comprehensive Income are as follows:

	2017 £000	2016 £000
Acquisition related costs	**414**	112
Redundancy and settlement costs	**361**	–
HSE penalty	**68**	–
Duplicated costs related to CEO handover period	**–**	343
	843	455

Any expenses arising from the acquisition of subsidiary undertakings are classified as non-underlying due to the fact that they relate solely to the transfer of ownership rather than ongoing operations. Of the £414,000 (2016: £112,000) acquisition costs, £322,000 (2016: £nil) relates to contingent consideration which is dependent upon continued employment and £92,000 (2016: £112,000) relates to professional fees and transaction costs incurred in respect of completed acquisitions.

The redundancy and settlement costs of £361,000 (2016: £nil) relate to a reorganisation of the production function in the Profiles division and have been classified as non-underlying because they relate to termination costs for positions that no longer exist.

The penalty of £68,000 (2016: £nil) relates to a fine imposed by the HSE following their prosecution of the Company in respect of an accident incurred in August 2016. The penalty has been classified as non-underlying because such costs are not in the normal course of business and are not expected to recur in the foreseeable future.

In the prior year, the Group recognised the duplicated salary costs relating the handover period between its current and previous Chief Executive Officer as non-underlying.

3 SEGMENTAL INFORMATION

The Group organises itself into a number of operating segments that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

Internal reporting provided to the chief operating decision maker, which has been identified as the executive management team including the Chief Executive Officer and the Chief Financial Officer, reflects this structure.

The Group has aggregated its operations into two reported segments, as these business units have similar products, production processes, types of customer, methods of distribution, regulatory environments and economic characteristics:

- Profiles – extrusion and sale of UPVC window and building products to the new and replacement window market across the UK.
- Building Plastics – sale of building plastic materials across the UK.

The Corporate segment includes amortisation in respect of acquired intangible assets.

3 SEGMENTAL INFORMATION (continued)

	Profiles 2017 £000	Building Plastics 2017 £000	Corporate 2017 £000	Total 2017 £000
Revenue				
Total revenue	139,553	131,877	–	271,430
Inter-segmental revenue	(45,377)	(1,147)	–	(46,524)
Total revenue from external customers	**94,176**	**130,730**	**–**	**224,906**
Adjusted EBITDA	**23,166**	**8,568**	**–**	**31,734**
Amortisation	(159)	(112)	(1,287)	(1,558)
Depreciation	(3,859)	(795)	(465)	(5,119)
Operating profit before non-underlying costs	**19,148**	**7,661**	**(1,752)**	**25,057**
Non-underlying costs				(843)
Finance expense				(553)
Profit before tax				**23,661**

	Profiles 2016 £000	Building Plastics 2016 £000	Corporate 2016 £000	Total 2016 £000
Revenue				
Total revenue	127,171	118,148	–	245,319
Inter-segmental revenue	(39,817)	(686)	–	(40,503)
Total revenue from external customers	**87,354**	**117,462**	**–**	**204,816**
Adjusted EBITDA	**22,657**	**8,832**	**(160)**	**31,329**
Amortisation	(158)	(123)	(1,091)	(1,372)
Depreciation	(3,969)	(609)	(427)	(5,005)
Operating profit before non-underlying costs	**18,530**	**8,100**	**(1,678)**	**24,952**
Non-underlying costs				(455)
Finance expense				(677)
Profit before tax				**23,820**

3 SEGMENTAL INFORMATION (continued)

	Profiles 2017 £000	Building Plastics 2017 £000	Corporate 2017 £000	Total 2017 £000
Additions to plant, property, equipment and intangible assets	**4,044**	**2,423**	**1,116**	**7,583**
Segment assets	**58,861**	**39,965**	**15,805**	**114,631**
Segment liabilities	(19,274)	(13,974)	(1,540)	(34,788)
Borrowings				(25,851)
Corporation tax payable				(2,448)
Deferred tax liability				(2,170)
Total liabilities				**(65,257)**
Total net assets				**49,374**

	Profiles 2016 £000	Building Plastics 2016 £000	Corporate 2016 £000	Total 2016 £000
Additions to plant, property, equipment and intangible assets	**5,498**	**1,105**	**616**	**7,219**
Segment assets	**53,524**	**27,575**	**18,994**	**100,093**
Segment liabilities	(17,391)	(12,402)	(1,280)	(31,073)
Borrowings				(25,827)
Corporation tax payable				(2,873)
Deferred tax liability				(2,194)
Total liabilities				**(61,967)**
Total net assets				**38,126**

4 TAXATION

	2017 £000	2016 £000
Current tax expense		
Current tax on profits for the year	4,253	5,025
Adjustment in respect of prior years	(170)	75
Total current tax	**4,083**	**5,100**
Deferred tax expense		
Origination and reversal of temporary differences	53	(174)
Adjustment in respect of change in rates	(15)	(385)
Adjustment in respect of prior years	(102)	(323)
Total deferred tax	**(64)**	**(882)**
Total tax expense	**4,019**	**4,218**

4 TAXATION (continued)

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to profits for the year are as follows:

	2017 £000	2016 £000
Profit before tax	**23,661**	**23,820**
Expected tax charge based on the standard rate of corporation tax in the UK of 19.25% (2016: 20%)	4,555	4,764
Taxation effect of:		
Expenses not deductible for tax purposes	439	87
Patent Box claim in respect of prior years	(738)	(451)
Adjustments to tax charge in respect of prior years	(272)	253
Tax on share-based payments recognised in equity	50	(50)
Adjustment in respect of change in rates	(15)	(385)
Total tax expense	**4,019**	**4,218**

Changes in tax rates and factors affecting the future tax charge

The mainstream rate of UK corporation tax changed in April 2017 from 20% to 19%. This gives rise to an effective rate of 19.25% (2016: 20%) for the year. A further reduction to 17% from 1 April 2020 has been substantively enacted. Deferred taxes at the year end date have been measured using these enacted tax rates and reflected in the financial statements.

There are no material uncertain tax provisions.

Tax on non-underlying items

The tax credit arising on non-underlying items within the Comprehensive Income Statement is £70,000 (2016: £81,000).

Tax included in Other Comprehensive Income

The tax credit arising on share-based payments within Other Comprehensive Income is £50,000 (2016: charge of £50,000).

Based on the current investment plans of the Group, and assuming the rates of capital allowances on capital expenditure continue into the future, there is little prospect of any significant part of the deferred tax liability becoming payable over the next three years.

5 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is calculated by adjusting the earnings and number of shares for the effects of dilutive options. Adjusted earnings per share excludes the impact of non-underlying costs.

	2017 £000	2016 £000
Profit attributable to ordinary shareholders	19,642	19,602
Profit attributable to ordinary shareholders excluding non-underlying costs	20,415	19,976
	Number	**Number**
Weighted average number of shares – basic	100,040,383	100,000,000
Weighted average number of shares – diluted	100,301,071	100,227,068
	Pence	**Pence**
Basic earnings per share	19.6	19.6
Adjusted basic earnings per share	20.4	20.0
Diluted earnings per share	19.6	19.6
Adjusted diluted earnings per share	20.4	19.9

6 DIVIDENDS

	2017 £000	2016 £000
Dividends paid during the year		
Interim dividend for 2017 of 3.0p per share (2016: 2.8p per share)	3,004	2,800
Final dividend for 2016 of 5.7p per share (2015: 5.2p per share)	5,700	5,200
	8,704	**8,000**
Dividends proposed		
Final dividend for 2017 of 6.0p per share (2016: 5.7p per share)	6,008	5,700

The parent Company and its subsidiaries have combined distributable reserves of £61,349,000 (2016: £48,259,000) from which to make future dividend payments.

7 RECONCILIATION OF PROFIT AFTER TAX TO CASH GENERATED FROM OPERATIONS

	2017 £000	2016 £000
Profit after tax	**19,642**	**19,602**
Taxation	4,019	4,218
Finance expense	553	677
Operating profit	**24,214**	**24,497**
Adjustments for:		
Depreciation of tangible fixed assets	5,119	5,005
Amortisation of intangible fixed assets	1,558	1,372
(Profit)/loss on sale of property, plant and equipment and intangible fixed assets	(51)	86
Share-based payments	260	18
(Increase)/decrease in inventories	(2,789)	1,635
(Increase) in trade and other receivables	(3,057)	(616)
Increase/(decrease) in trade and other payables	3,221	(184)
(Decrease) in provisions	(549)	(31)
Cash generated from operations	**27,926**	**31,782**

8 ACQUISITION OF SUBSIDIARIES

On 24 February 2017, the Group acquired 100% of the ordinary share capital of Security Hardware Limited, a supplier of locks and hardware primarily to the RMI market, with annual sales of approximately £3 million. Initial consideration paid was £1.5 million (or £1.3 million net of cash acquired).

Goodwill represents potential synergies arising from the enlarged group. The amount of goodwill deductible for tax purposes is £nil. Goodwill has been calculated as follows:

	Book values on acquisition £000	Fair value adjustment £000	Recognised values on acquisition £000
Intangible assets	20	466	486
Property, plant and equipment	43	-	43
Inventories	748	153	901
Trade and other receivables	297	-	297
Cash and cash equivalents	226	-	226
Trade and other payables	(453)	-	(453)
Provisions	-	(97)	(97)
Corporation tax	(49)	-	(49)
Deferred tax	(7)	(83)	(90)
Identifiable assets and liabilities	**825**	**439**	**1,264**
Cash consideration paid			1,486
Goodwill on acquisition			**222**

Cash flows arising on the acquisition were £1,260,000 comprising the consideration paid less cash acquired.

Fair value adjustments

- The adjustment to intangible assets is to recognise intangible assets in respect of customer relationships, and has been valued using discounted cash flows.
- The adjustment to inventories is to reflect the fair value of finished goods acquired.
- Trade receivables include a bad debt provision of £nil which has not been adjusted in the fair value exercise.
- The adjustment to trade and other payables is to recognise a dilapidation provision in respect of the leased premises occupied by Security Hardware.
- The adjustment to deferred taxation is to recognise the associated deferred tax liability arising on the intangible assets.

Subsequent payments

Under the terms of the acquisition agreement, the former shareholders of Security Hardware are entitled to further cash consideration based on financial performance for the year ended 31 December 2017 (the 'earn out'), provided they remain employed by the Group. The Directors estimate the total earn out payable will be £322,000, which has been recognised as a non-underlying expense in the 2017 Consolidated Statement of Comprehensive Income. The earn out is payable in equal instalments over a three-year period.

Acquisition related costs

The Group incurred acquisition related costs of £92,000 in relation to professional fees and transaction costs arising upon acquisition. These costs have been expensed to the Consolidated Statement of Comprehensive Income, also as a non-underlying item. The total charge for acquisition related costs in the year is £414,000 (2016: £112,000).

Included within the Consolidated Statement of Comprehensive Income is revenue of £2,500,000 and profit before tax of £130,000 relating to Security Hardware Limited. Had the acquisition occurred on 1 January 2017, revenue of £3,200,000 and profit before tax of £180,000 would have been recognised by the Group.

9 EVENTS AFTER THE BALANCE SHEET DATE

The Directors are not aware of any material events that have occurred after the 31 December 2017 which would require disclosure under IAS 10.