

# Norcros plc

## Preliminary Results

### Year ended 31<sup>st</sup> March 2014



# Introduction

Martin Towers  
*Chairman*



JOHNSON·TILES®



norcros™  
SA (PTY) LTD

JOHNSON·TILES®



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# Financial Review

**Martin Payne**  
***Group Finance Director***



# Income Statement – continuing operations

	March 2014 £m	March 2013 <sup>3</sup> £m	+/- Reported	+/- Constant Currency
Revenue	218.7	200.4	+9.2%	+16.6%
Underlying <sup>1</sup> operating profit	16.1	12.8	+25.5%	
<i>Margin</i>	7.3%	6.4%		
Finance charges – cash	(1.5)	(1.3)	+14.8%	
Underlying <sup>1</sup> PBT	14.6	11.5	+26.7%	
Exceptional operating items	(1.5)	(4.4)		
Non underlying operating items <sup>2</sup>	(1.8)	(1.5)		
Finance charges – non cash <sup>4</sup>	(5.5)	(0.4)		
PBT as reported	5.8	5.2		

1 Underlying means before exceptional operating items, non underlying operating items and where relevant, non cash finance costs

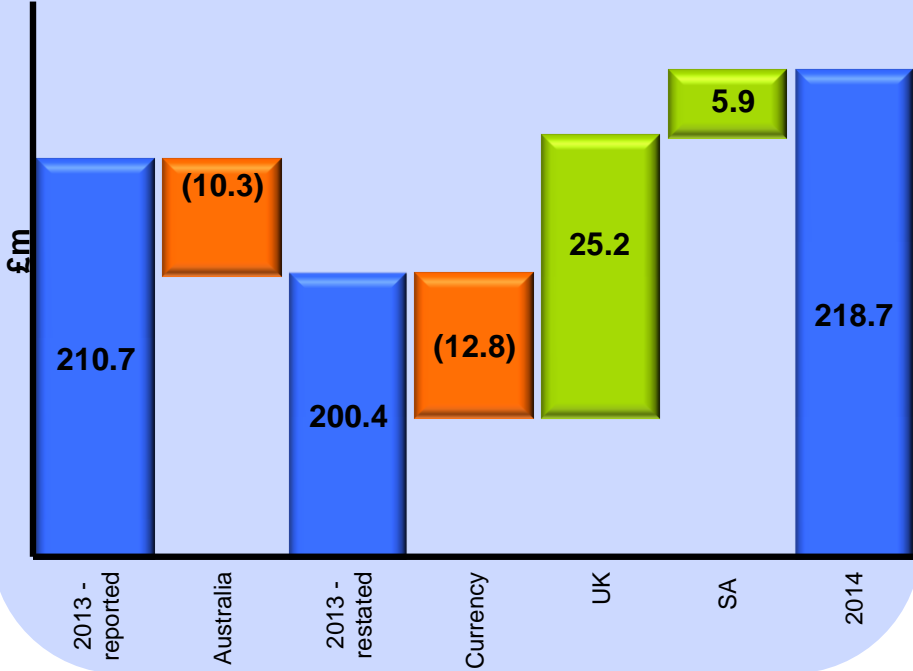
2 Non underlying charges include IAS19R pension administration costs and intangible amortisation

3 Restated for continuing operations and IAS19R

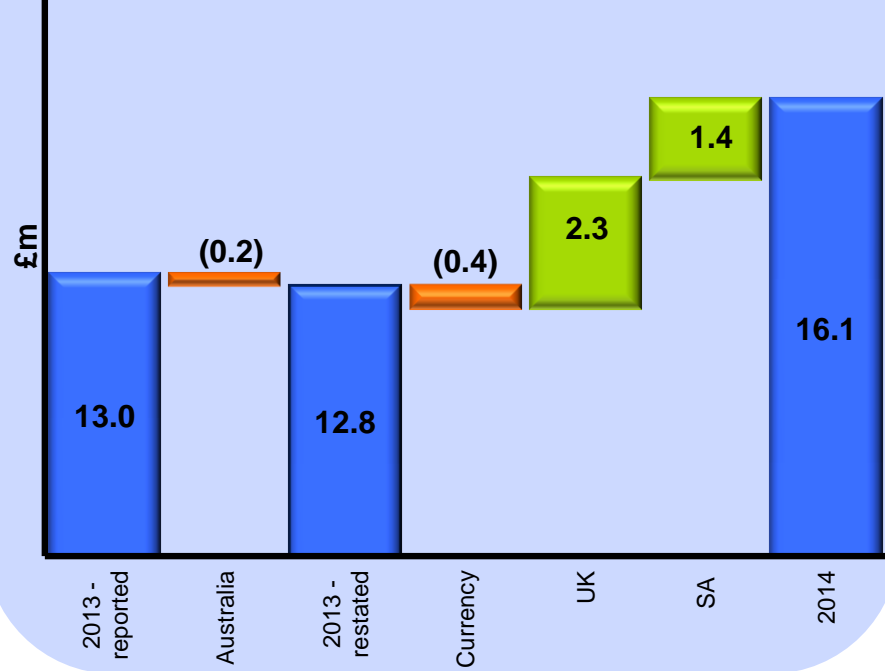
4 £4.6m higher charge for "mark to market" on FX forward contracts

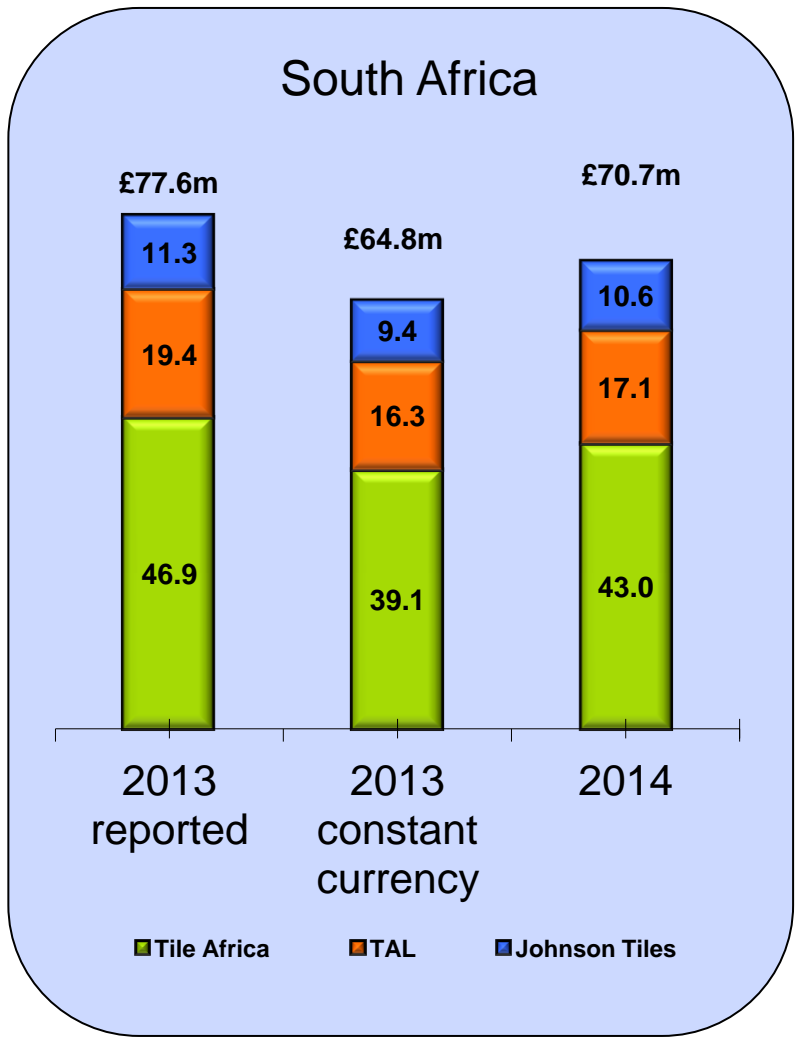
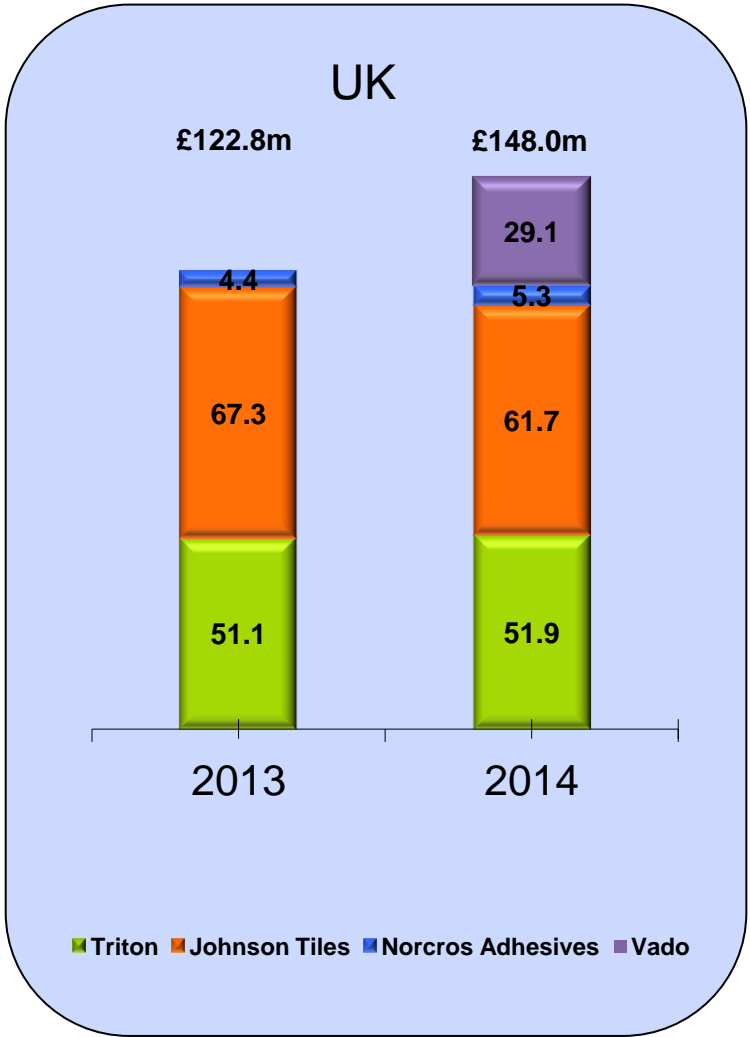
# Income Statement – key bridges

### Revenue



### Underlying operating profit

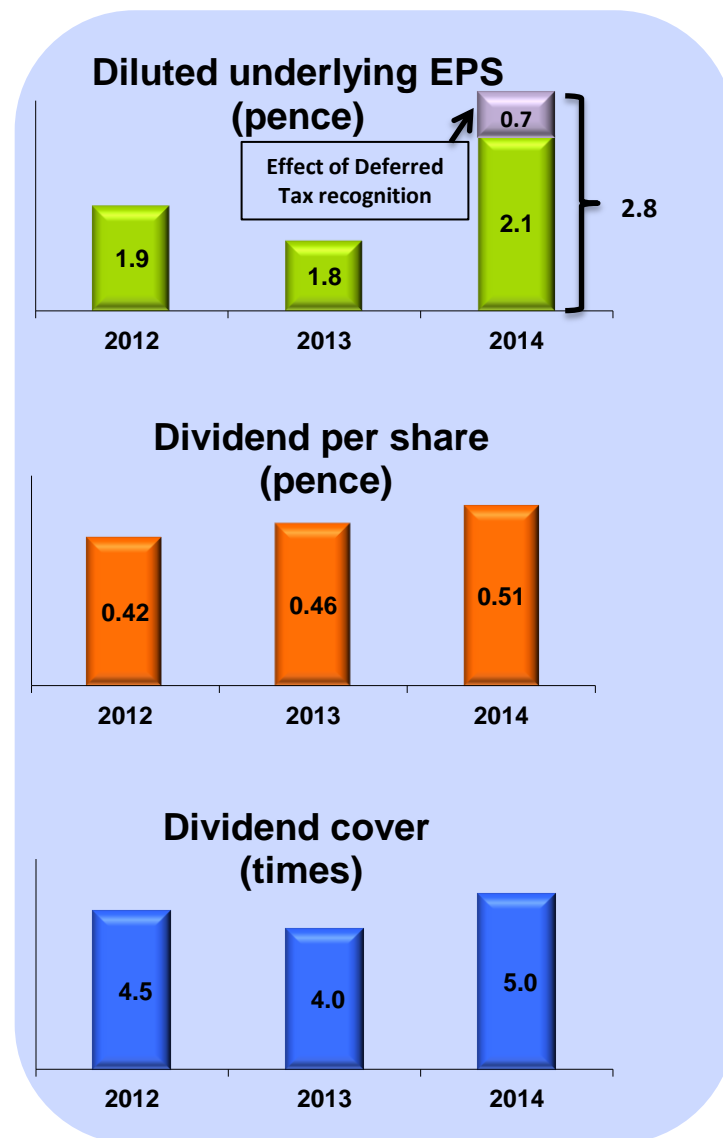




# Tax, Earnings and Dividends

	Underlying <sup>1</sup>		Reported	
	2014 £m	2013 £m	2014 £m	2013 £m
Profit before Tax	14.6	11.5	5.8	5.2
Tax (charge)/credit	2.4	(0.7)	4.3	0.2
Earnings	17.0	10.8	10.1	5.4
Effective Tax rate	n/a	6%	n/a	n/a

- Full recognition of deferred tax, trading losses and capital allowances accounting for £4.4m
- Future effective tax rate c25%
- Diluted underlying<sup>1</sup> EPS at 2.8p (2013: 1.8p)
- Diluted underlying<sup>1</sup> EPS excluding deferred tax recognition at 2.1p
- Full year dividend up 10.9%



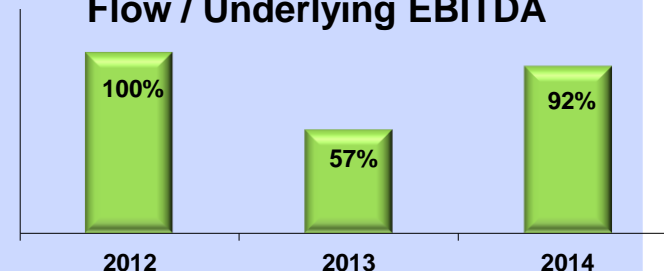
<sup>1</sup> Underlying means before exceptional operating items, non underlying operating items, non cash finance costs, and where relevant after attributable tax



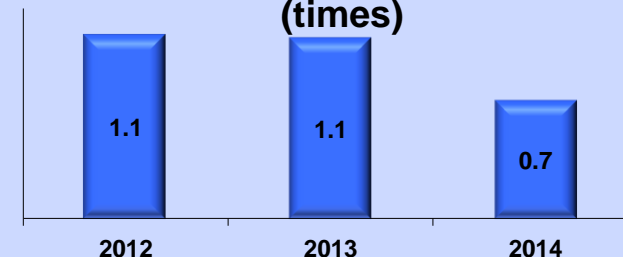
# Cash Flow

	2014 £m	2013 £m
<b>Underlying EBITDA</b>	<b>22.0</b>	<b>18.9</b>
Working Capital	(2.6)	(7.4)
Other	0.9	(0.7)
<b>Underlying operating cash</b>	<b>20.3</b>	<b>10.8</b>
Capital Expenditure - continuing	(4.2)	(6.5)
Proceeds from property disposal	1.4	2.5
Pension deficit recovery	(2.0)	(2.0)
Tax	(1.7)	(1.0)
<b>Underlying free cash flow pre financing and dividends</b>	<b>13.8</b>	<b>3.8</b>
Exceptional costs	(4.4)	(2.2)
Interest	(1.6)	(1.3)
Dividends	(2.8)	(2.5)
Cash costs of acquisition	0.1	(10.6)
Discontinued operations	(0.3)	(0.2)
Other	0.2	0.2
<b>Net Cash Flow</b>	<b>5.0</b>	<b>(12.8)</b>

## Underlying Operating Cash Flow / Underlying EBITDA

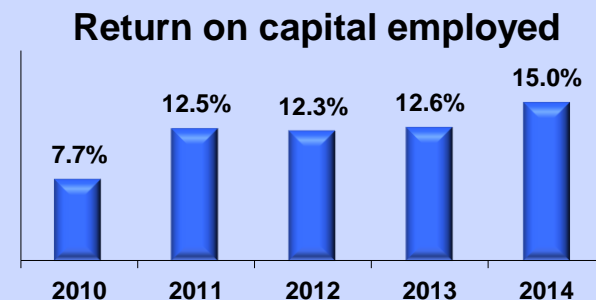
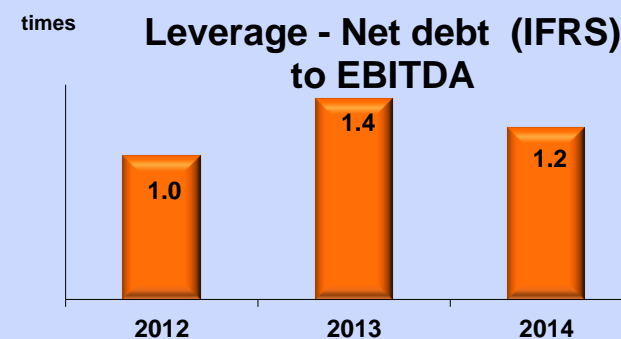
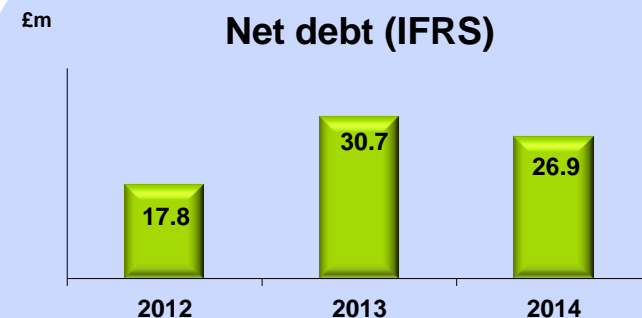


## Capex / Depreciation (times)



# Balance Sheet

- Lower debt; leverage 1.2x underlying EBITDA
- ROCE significantly higher at 15%
- IAS19R pension deficit decreased to £21.8m
  - Recovery plan payments of £2.0m
  - 4.3% discount rate
  - 3.2% RPI / 2.2% CPI
- WM Morrison / Highgate Park development
  - Planning consent obtained
  - Sale not proceeded as expected
- Swindon / Groundwell lease
  - Sublet to 31 Dec 2018
  - Reduction in net cash outflow on legacy leases by c. £4.0m p.a. over the 5 year period from 1 April 2014

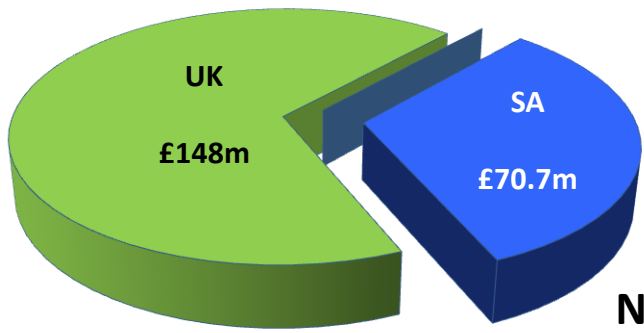


# Operating Review

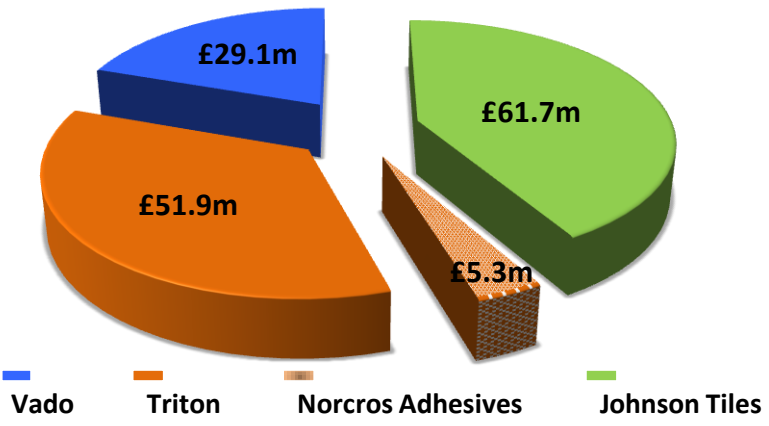
Nick Kelsall  
Group Chief Executive



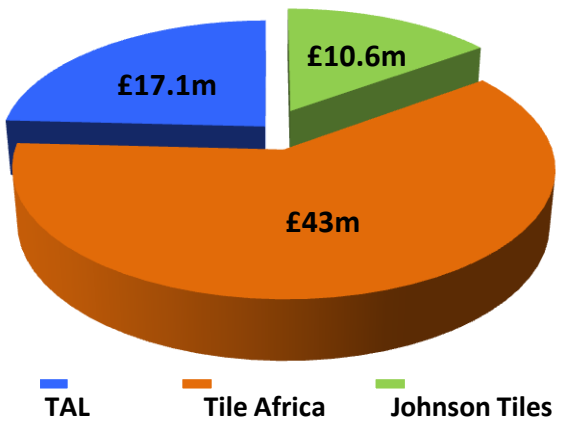
**Group Revenue from Continuing Operations : £218.7m**



**Norcros UK Sales**



**Norcros SA Sales**



**Revenue Growth @ Constant Currency:**

<b>Group</b>	<b>+16.6%</b>
<b>UK</b>	<b>+20.6%</b>
<b>SA</b>	<b>+9.1%</b>

# Triton – Outperformance in flat markets



- Overall Revenue +1.6%
  - UK +2.4%
  - Exports -3.4%
  
- Outperformance in trade and retail; share gain
- T80Z fast fit – substantial growth in the Merchants
- Good performance of thermostatic electric showers for care market
- Launch of “Inclusive Showering” product offer
- Margins and profits higher; strongly cash generative
- Positioned to benefit from improving consumer confidence and RMI spend



# Vado – Outperformance in flat markets

VADO

- Overall Revenue +16.5%
  - UK +22.6%
  - Exports + 9.1%
  
- Very strong performance in UK retail and trade:
  - Retail partnership programme
  - Stronger relationship with Merchant buying groups
  - Account wins in specification (eg St George & Redrow)
  
- Business successfully integrated
  
- Launch of Hydrologics Studio in January 14
  
- Launch of 2 new tap ranges in H2; new high end tap range and mixers for 2014
  
- Profits ahead of last year
  
- Revenue synergies being realised; positioned to maintain strong growth



## JOHNSON TILES

- Overall Revenue - 8.4%
  - UK -12.6%
  - Exports +32.7%
  
- UK market flat; trade outperforming retail
  
- UK retail revenue decline – B&Q range review prior year and de-stocking
  
- UK trade business +3.4%; H2 +6.7%
  
- Increased activity from house builders
  
- Export growth very strong; new products in France and contract wins in Middle East
  
- Operating loss in H1; restructuring programme implemented
  
- Business back into profit; H2 substantially improved





- Overall Revenue +21.1%
- Continued progress in distribution and retail
- Further 3 years exclusive agreement with Barratt Homes
- Building presence in DIY via B&Q/Tradepoint
- Successful launch of new ready mix adhesive
- Success of new wet room system – “one-stop shop” approach
- Benefits of increased scale driving higher profitability
- Further plant investment in H2 14/15 to increase capacity

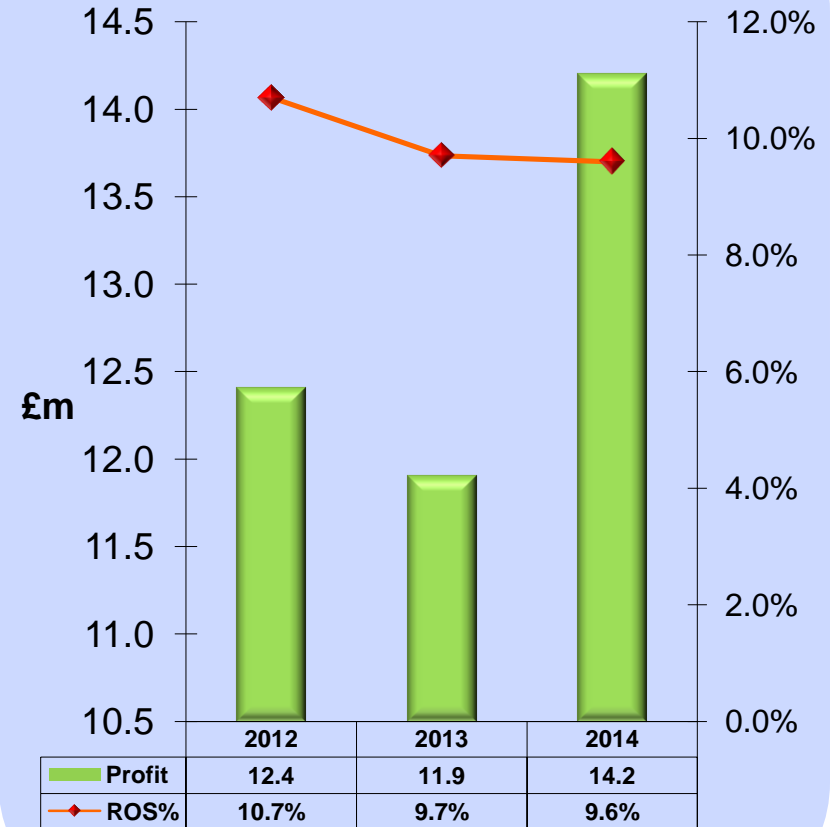




## Revenue



## Underlying operating profit



## JOHNSON • TILES®

- Overall Revenue +12.3% at cc
- Gains in the DIY sector; strategy of creating “one-stop shop”
- Manufacturing performance significantly improved
- Energy and raw material costs impacted by weak rand
- Significantly reduced operating loss
- Focus on Phase 2 of turnaround plan
  - New inkjet installed in Q4 13/14
  - Successful introduction of 500 x 500 product
  - Second inkjet in H2 14/15



# TAL – Strong progress in flat markets



- Overall Revenue
  - Like for like + 5.2% at cc
  - Export +16.7% (Exc Nortec disposal)
  - Export +60.7%
- Tile Adhesive sales driven by share gains in major accounts
- Building and Construction products performed well
  - Waterproofing
  - Flooring
- Export growth - strong performance in Zimbabwe and Namibia
- Product quality and technical support – key differentiator
- Underlying profit higher and excellent cash generation
- Investment in new plant - Q1 14/15
- Trading depot in East Africa - 14/15 WIP



# Tile Africa – Strong progress in flat markets



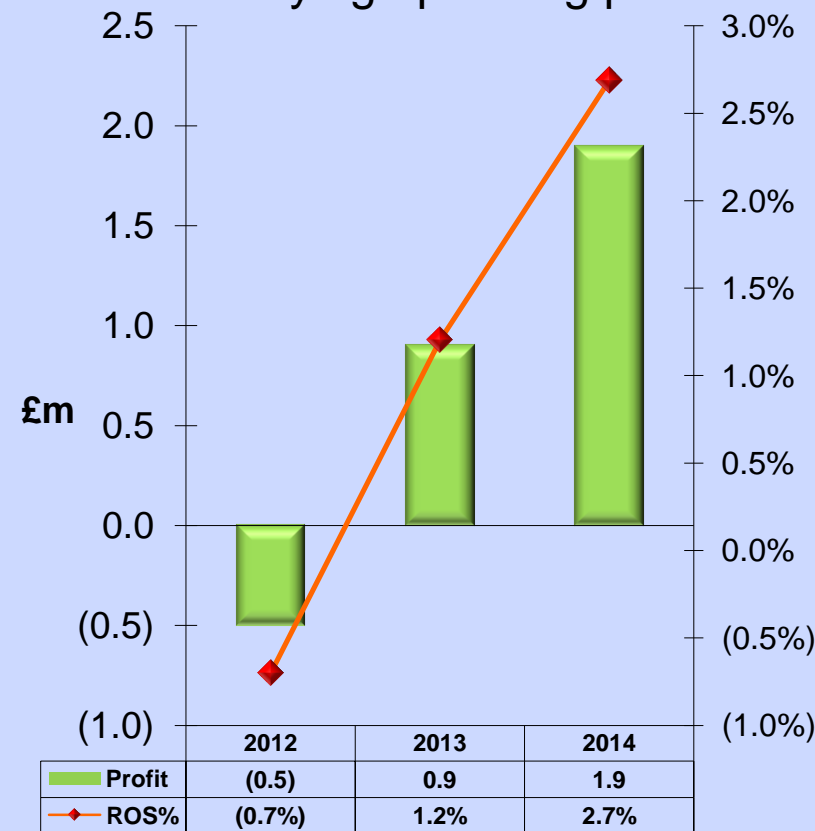
- Overall Revenue +9.9% at cc
- Impacted by shipping delays from China in Q3
- Benefits of improved in-stock levels in store
- Gross margin and underlying operating profits higher
- New store model delivering higher sales productivity
- 23 of 29 stores now upgraded
- 2 new stores secured for 14/15
- Significant growth opportunity
  - South Africa contracts segment
  - Plan for contract office in East Africa



## Revenue<sup>1</sup>



## Underlying operating profit

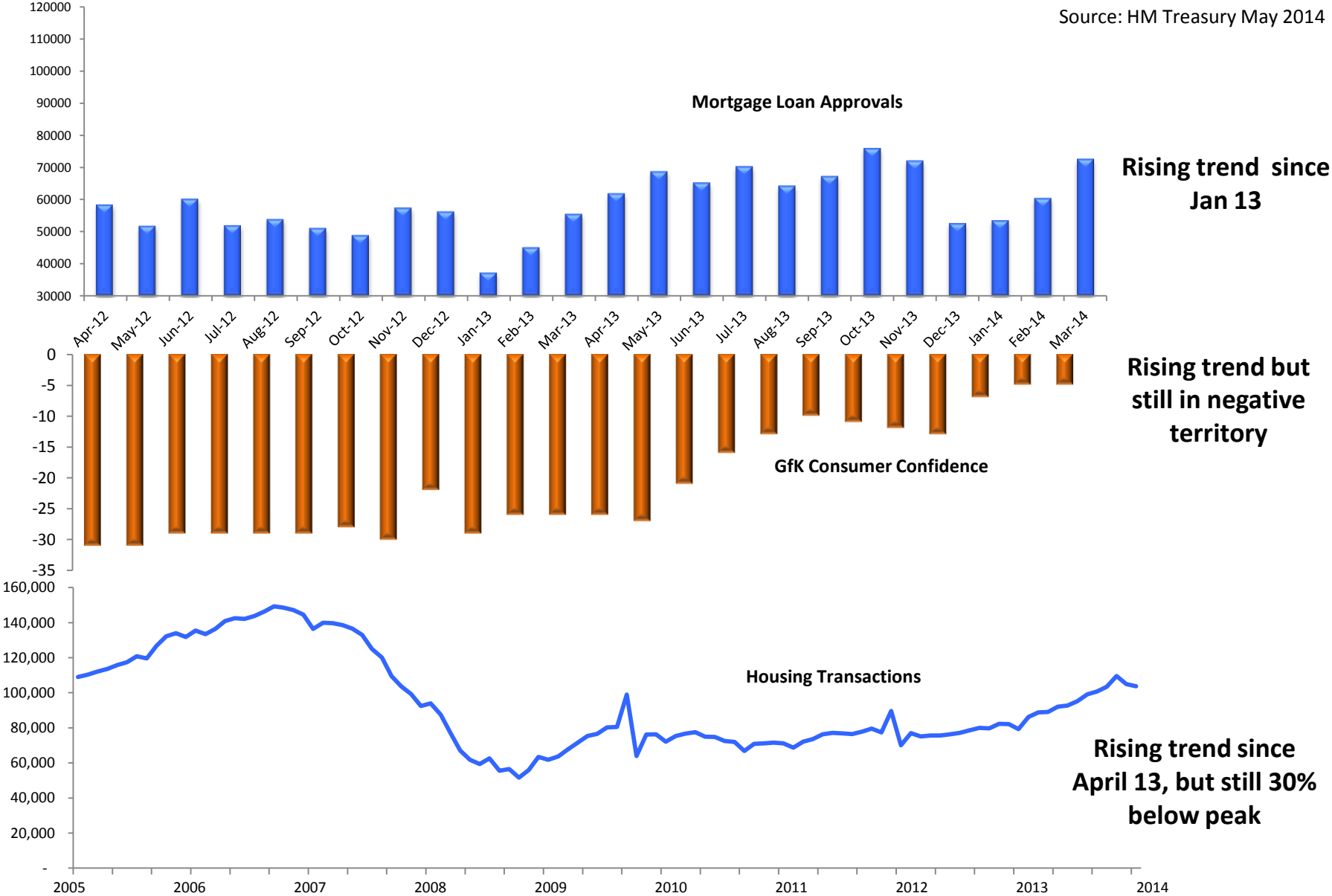


# Group Outlook and Strategy

**Nick Kelsall**  
**Group Chief Executive**

# Key indicators in UK show good recovery

Source: HM Treasury May 2014



Rising trend since Jan 13

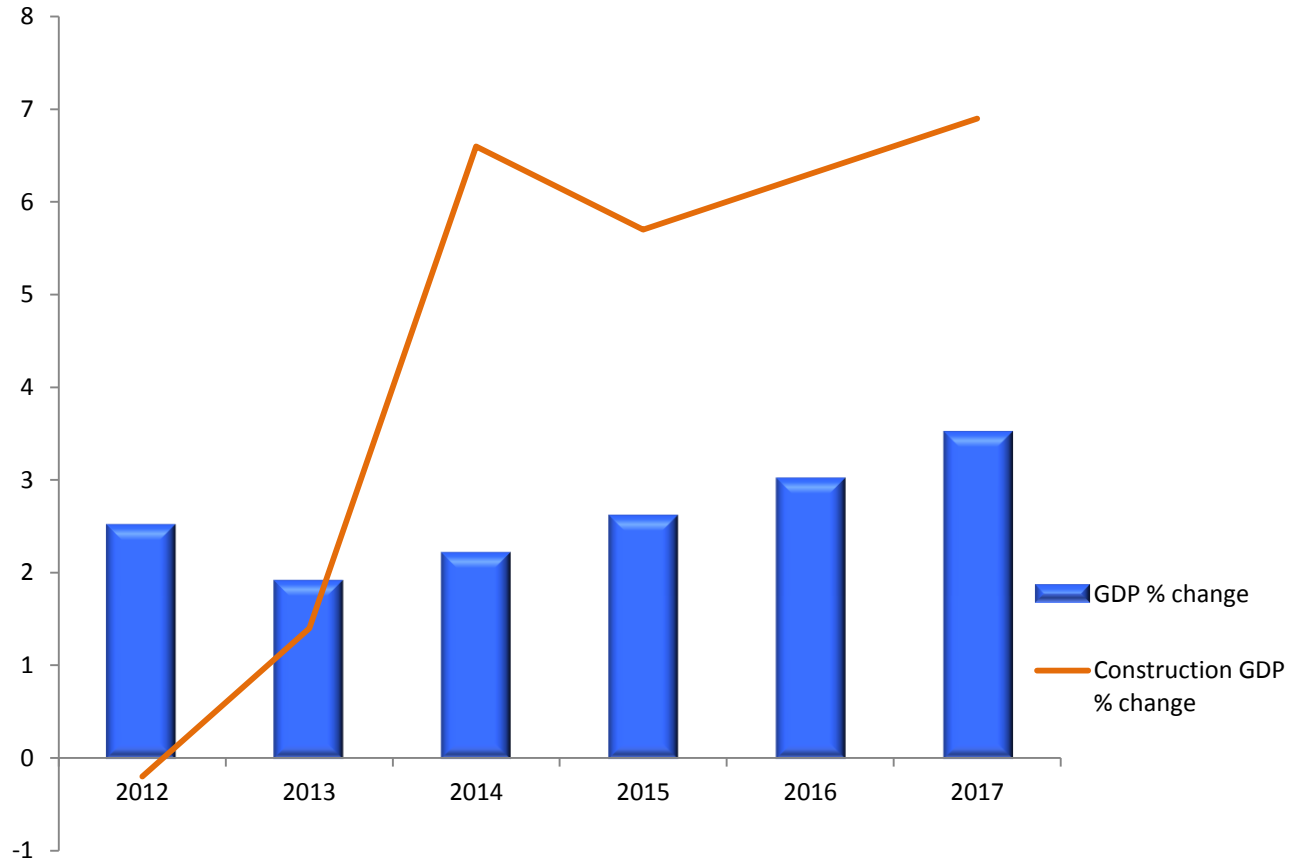
Rising trend but still in negative territory

Housing Transactions

Rising trend since April 13, but still 30% below peak

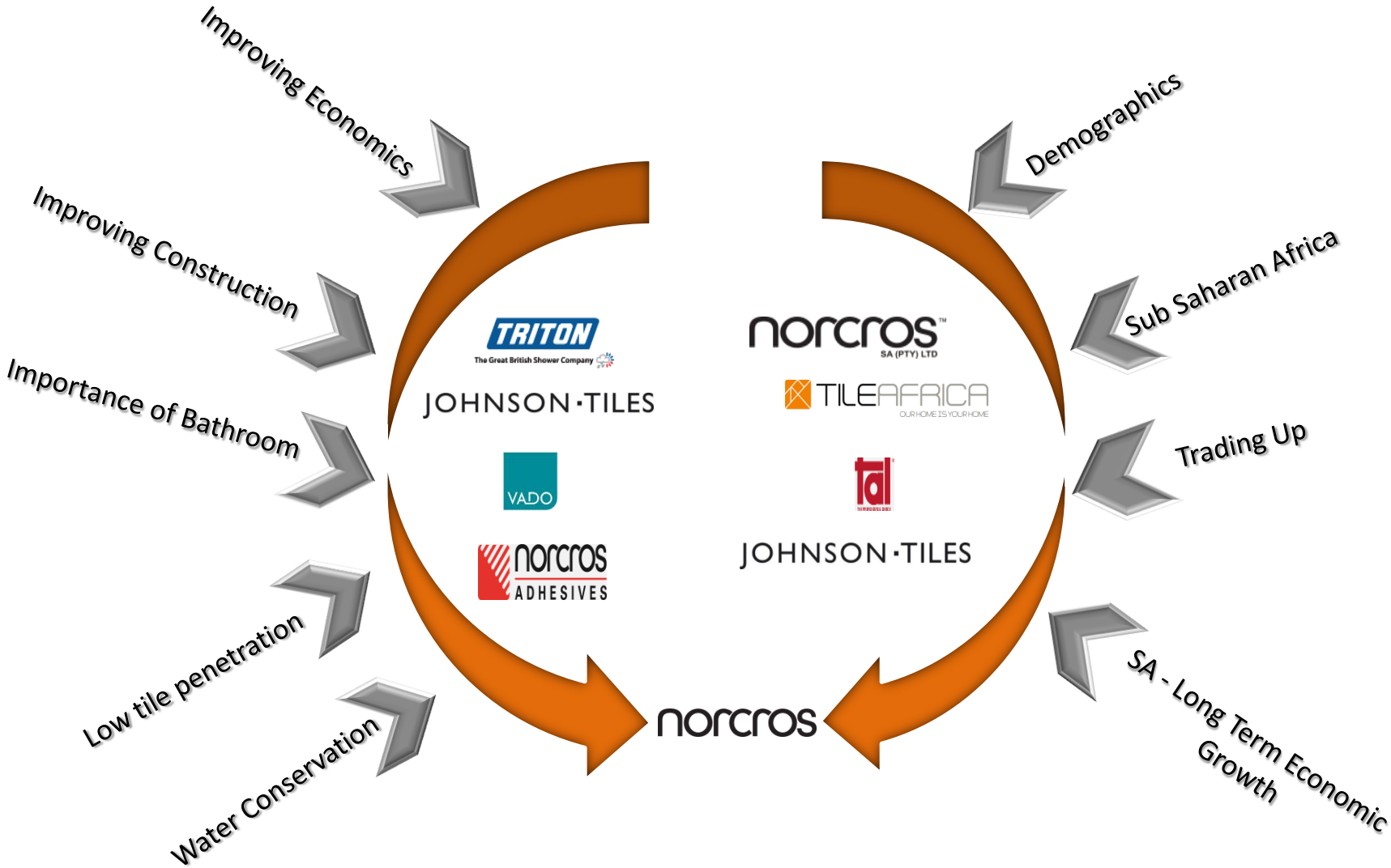
# South Africa indicators are also on an improving trend

Source: Investec May 2014



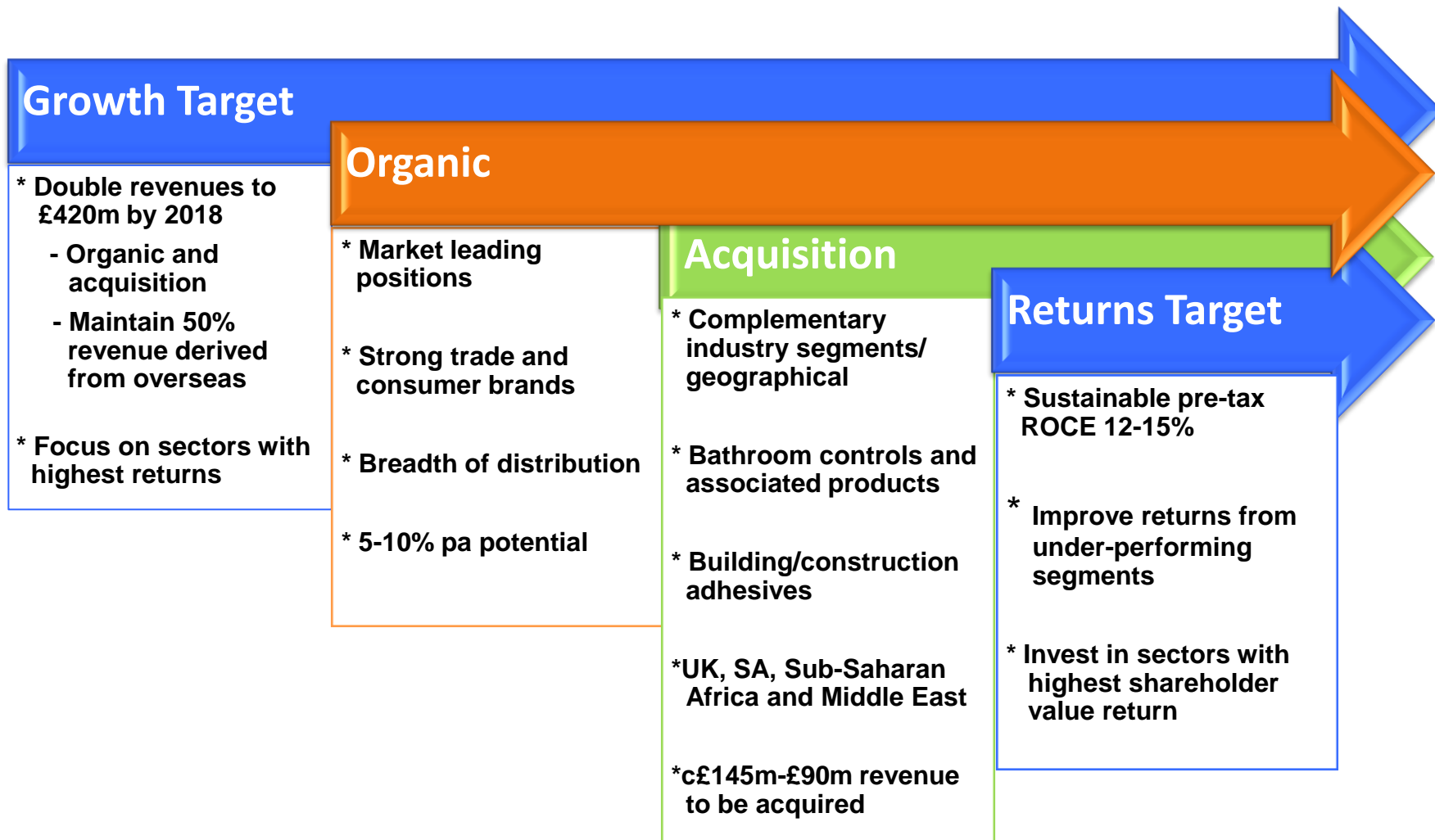


# Key growth drivers for Norcros markets



**Positioned for Growth**

# Group Strategy – Key Targets



# Group Strategy - Update

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- Vado integration complete and performance on track
  
- Johnson Australia non-core asset disposed of, as planned
  
- Growth criteria
  - Build scaleable presence in “sweetspot” areas via product line and focussed geographic extension
  
- Pipeline of acquisition targets identified and being evaluated
  
- Range of organic growth initiatives progressing
  
- Solid progress on non-trading legacy matters



**Clear Growth Strategy – On Track**

# Appendices



**TRITON**  
The Great British Shower Company

**JOHNSON-TILES**

**VADO**

**norcros**  
ADHESIVES

**norcros**  
SA (PTY) LTD

**JOHNSON-TILES**

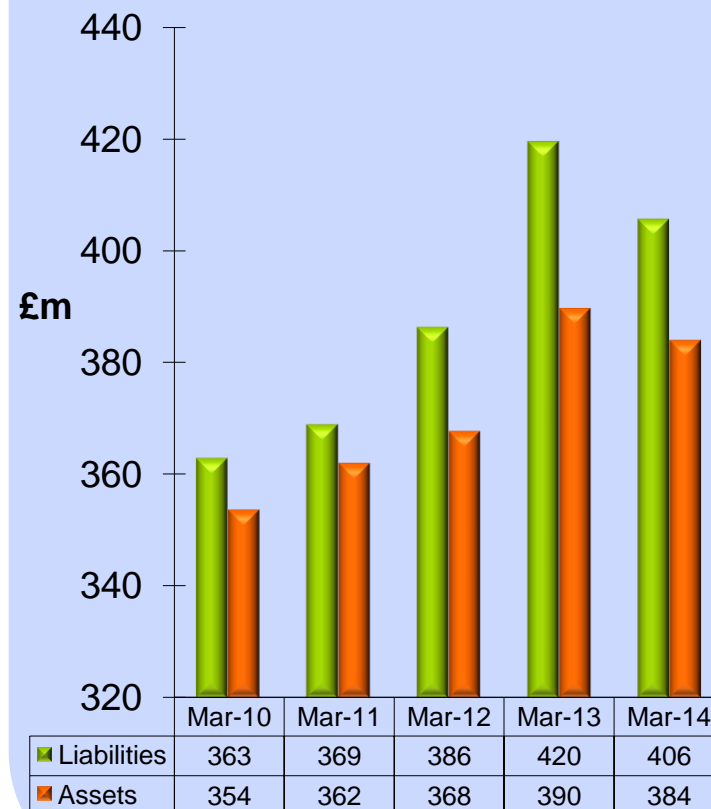
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**TILEAFRICA**

# UK Pension Scheme

- Assets under management - £384m
- Scheme closed to new entrants and future accrual from April 13 - stops future build up of liabilities
- Mature Scheme; 9,485 members
  - Pensioners (61%), Deferred (39%)
  - Average age of pensioners is 76
- Actuarial valuation as at March 31 2012 c£61m deficit, but since then
  - Improvements in equity markets
  - Small improvement in real gilt yield
- Recovery Plan
  - 15 years at £2.0m per annum + CPI, from March13
  - £4.0m payment made to date
- March 14 IAS19R deficit of £21.8m based on:-
  - 4.3% discount rate (2013: 4.2%)
  - 3.2% RPI / 2.2% CPI (2013 RPI 3.2%, CPI 2.2%)
- Liability management exercises underway
  - recent Budget announcement helpful in this respect

UK Pension IAS 19R Assets & Liabilities



	2014 £m	2013 <sup>1</sup> £m
<b>Exceptional operating items</b>		
Increase in legacy leasehold provision	-	(3.0)
Business unit restructuring	(1.5)	(0.2)
Disposal of Nortec in TAL business	0.5	(0.3)
Acquisition related deferred remuneration (Earn out)	(0.3)	-
Vado acquisition costs	-	(0.9)
Highgate Park – Legal costs	(0.2)	-
	<b>(1.5)</b>	<b>(4.4)</b>
<b>Non underlying operating items</b>		
IAS19 R pension administration charges	(1.4)	(1.5)
Intangible amortisation (Vado)	(0.4)	-
	<b>(1.8)</b>	<b>(1.5)</b>

# Legacy leasehold obligations

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- Swindon - Light Industrial Units
  - Lease expiry December 2014
  - Occupied to lease expiry : No dilapidations
  - FY 2015 cash shortfall against rental income c. £0.5m p.a.
  
- Swindon - Warehousing / Distribution Unit
  - Lease expiry 2022
  - Sublet from September 2013 to 31 Dec 2018 (Network Rail Infrastructure Ltd)
  - Current cash shortfall c. £0.2m p.a. from April 2014
  
- Sheffield - Warehousing / Distribution Units
  - Lease expiry 2082
  - Vacant
  - Current cash shortfall c. £0.4m p.a.



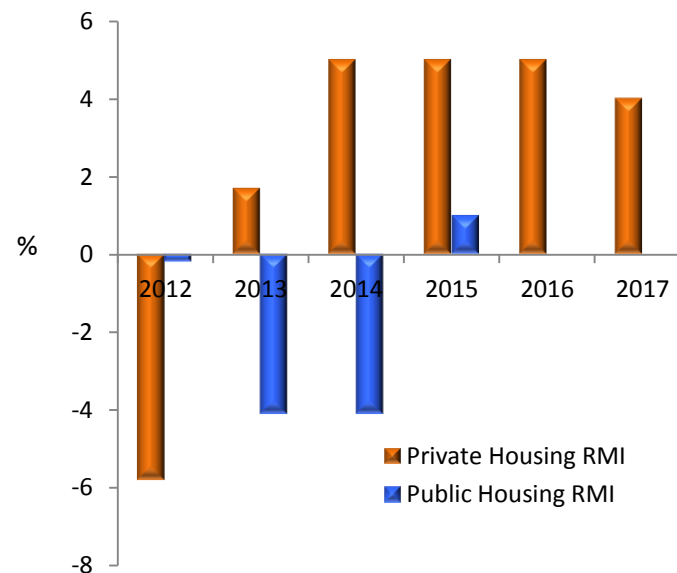
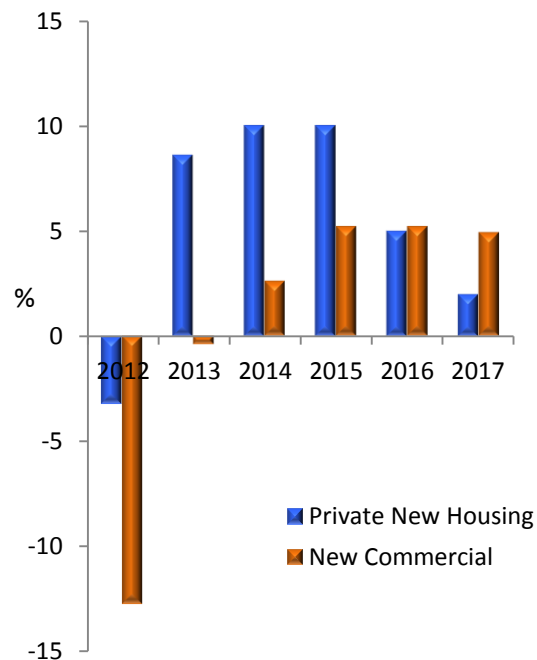
# Net debt reconciliation

	2014 £m	2013 £m
Net debt (IFRS) – opening	(30.7)	(17.8)
Net cash flow	5.0	(12.8)
Other non cash movements	(0.4)	-
Foreign exchange	(0.8)	(0.1)
Net debt (IFRS) - closing	<b>(26.9)</b>	<b>(30.7)</b>

	March 2013 - reported £m	IAS 19R  £m	Discontinued Operations £m	March 2013 - restated £m
Revenue	210.7	-	(10.3)	<b>200.4</b>
Underlying <sup>1</sup> operating profit	13.0	-	(0.2)	<b>12.8</b>
<i>Margin</i>	6.2%		0.2%	<b>6.4%</b>
Finance charges – cash	(1.3)	-	-	<b>(1.3)</b>
Underlying <sup>1</sup> PBT	11.7	-	(0.2)	<b>11.5</b>
Exceptional operating Items	(4.4)	-	-	<b>(4.4)</b>
Non underlying operating items <sup>2</sup>	-	(1.5)	-	<b>(1.5)</b>
Finance charges – non cash	2.7	(3.1)	-	<b>(0.4)</b>
PBT as reported	10.0	(4.6)	(0.2)	<b>5.2</b>

1 Underlying means before exceptional operating items, non underlying operating items and where relevant, non cash finance costs

2 Non underlying charges include IAS19R pension administration costs and intangible amortisation



- Recovery seen across most sectors but led by private sector housing
- Private Housing RMI is the biggest driver and is turning strongly positive
- Time lag of 9 months circa for Norcross markets