

# Norcros plc

## Interim Results

### Six Months to 30 September 2014



**TRITON** JOHNSON-TILES®



**norcros**  
ADHESIVES

**norcros**  
SA (PTY) LTD

JOHNSON-TILES®



TILEAFRICA



# Introduction

**Martin Towers**  
*Chairman*



JOHNSON·TILES®



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# Financial Review

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



JOHNSON-TILES



JOHNSON-TILES



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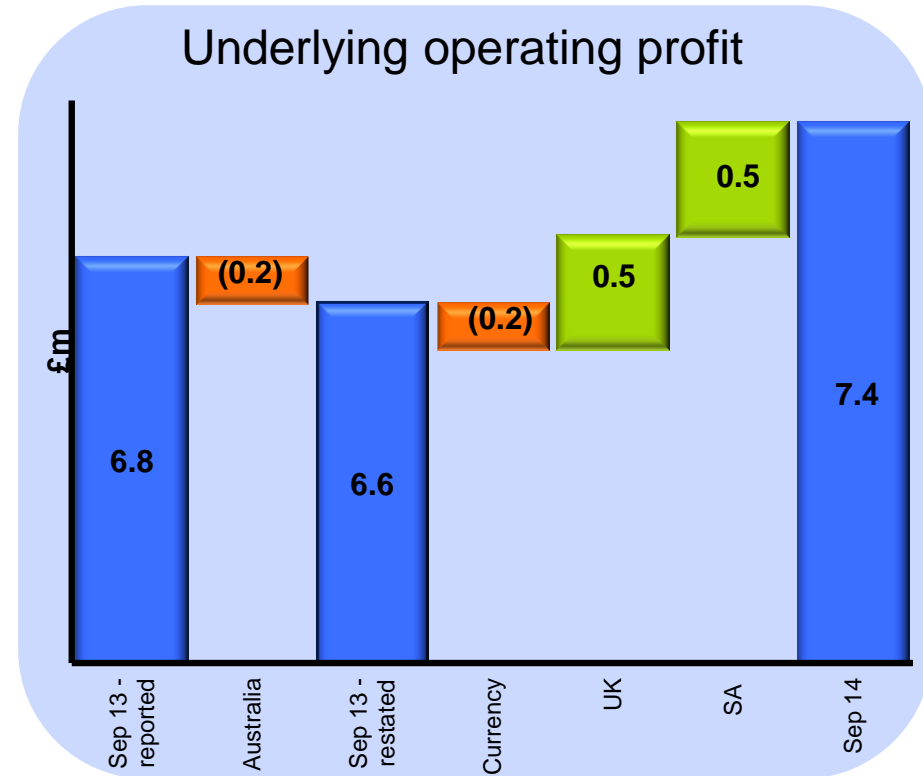
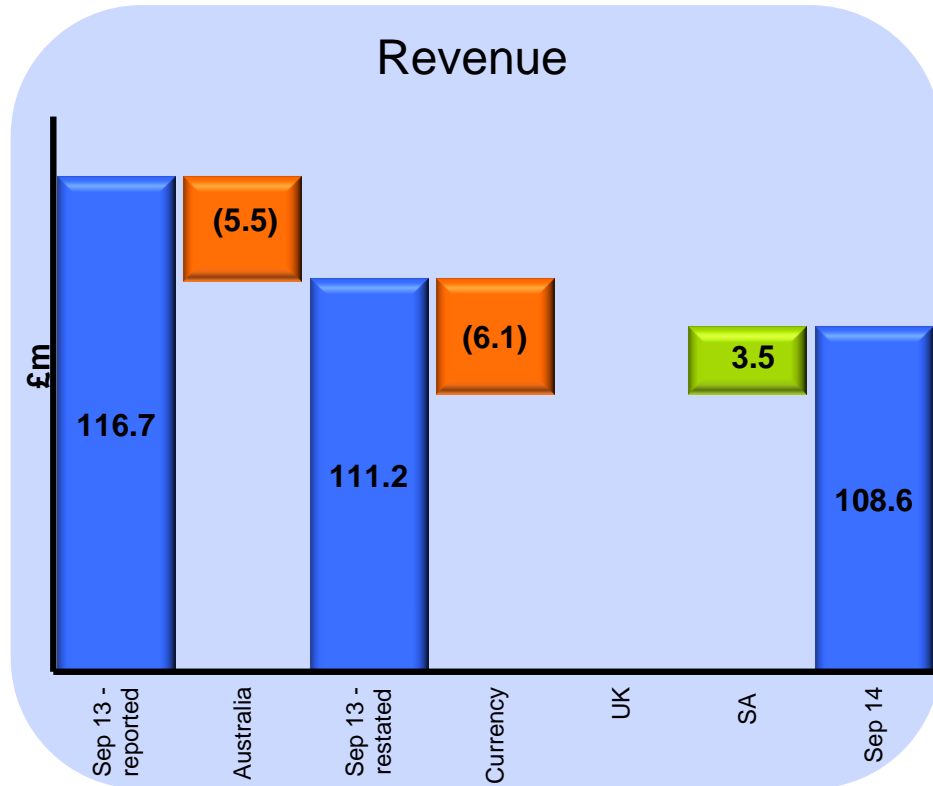
# Income Statement – continuing operations

	26 weeks Sept 2014 £m	26 weeks Sept 2013 <sup>3</sup> £m	+/- Reported	+/- Constant Currency	52 weeks Mar 2014 £m
Revenue	108.6	111.2	-2.3%	+3.3%	218.7
Underlying <sup>1</sup> operating profit	7.4	6.6	+10.8%	+13.7%	16.1
<i>Margin</i>	6.8%	6.0%			7.3%
Finance charges – cash	(0.7)	(0.7)			(1.5)
Underlying <sup>1</sup> PBT	<u>6.7</u>	<u>5.9</u>	<u>+12.9%</u>	<u>+15.6%</u>	<u>14.6</u>
Exceptional operating items	-	(1.2)			(1.5)
Exceptional finance charges	(0.4)	-			-
Non underlying operating items <sup>2</sup>	(1.0)	(1.0)			(1.8)
Finance charges – non cash	1.0	(3.4)			(5.5)
PBT as reported	<u>6.3</u>	<u>0.3</u>			<u>5.8</u>

£4.1m favourable variance on FX forward contracts "mark to market"

1 Underlying means before exceptional operating items, non underlying operating items and where relevant, non cash finance costs  
 2 Non underlying operating items include IAS19R pension administration costs and intangible amortisation  
 3 Restated for continuing operations

# Income Statement – key bridges

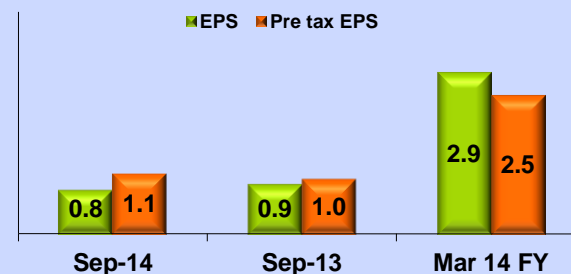


# Tax, Earnings and Dividends

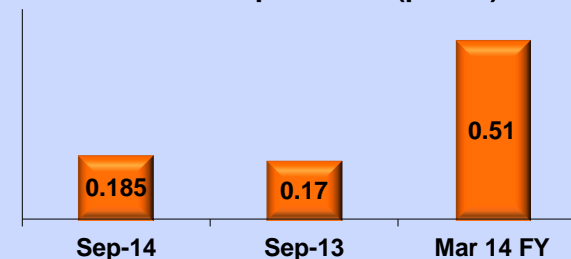
	Underlying <sup>1</sup>			Reported		
	Sept 2014 £m	Sept 2013 £m	Mar 2014 £m	Sept 2014 £m	Sept 2013 £m	Mar 2014 £m
Profit before Tax	6.7	5.9	14.6	6.3	0.3	5.8
Tax (charge)/credit	(1.7)	(0.8)	2.4	(1.6)	-	4.3
Earnings	5.0	5.1	17.0	4.7	0.3	10.1
Effective Tax rate	25.5%	14.1%	n/a	25.1%	9.9%	n/a

- Pre tax basic underlying EPS +11.7% at 1.1p
- Full effective underlying tax rate of 25.5%
- Full tax rate leaves basic underlying EPS at 0.8p
- Interim dividend up 8.8% to 0.185 pence

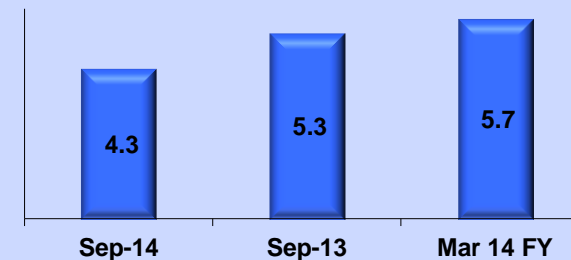
Basic underlying EPS (pence)



Dividend per share (pence)



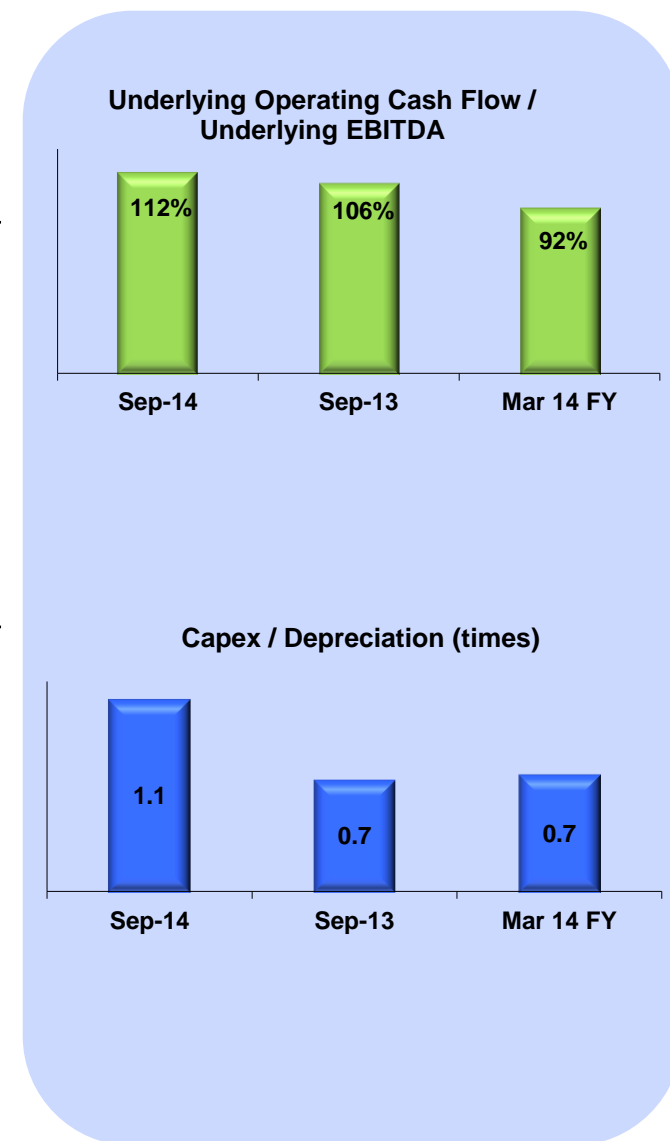
Dividend cover (times)



<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

	26 weeks Sept 2014 £m	26 weeks Sept 2013 £m	52 weeks Sept 2014 £m
<b>Underlying EBITDA</b>	<b>10.4</b>	<b>9.6</b>	<b>22.0</b>
Working Capital	0.6	0.2	(2.6)
Other	0.6	0.4	0.9
<b>Underlying operating cash</b>	<b>11.6</b>	<b>10.2</b>	<b>20.3</b>
Capital Expenditure	(3.4)	(2.1)	(4.2)
Proceeds from property disposal	0.4	1.4	1.4
Pension deficit recovery	(1.0)	(1.0)	(2.0)
Tax	(0.2)	(0.4)	(1.7)
<b>Underlying free cash flow pre financing and dividends</b>	<b>7.4</b>	<b>8.1</b>	<b>13.8</b>
Exceptional costs	(0.7)	(2.6)	(4.4)
Interest	(0.7)	(0.8)	(1.6)
Dividends	(2.0)	(1.8)	(2.8)
Cash costs of acquisition	(0.3)	0.1	0.1
Disposal of subsidiary	3.8	-	-
Discontinued operations	0.1	(0.1)	(0.3)
Other	(0.7)	(0.3)	0.2
<b>Net Cash Flow</b>	<b>6.9</b>	<b>2.6</b>	<b>5.0</b>





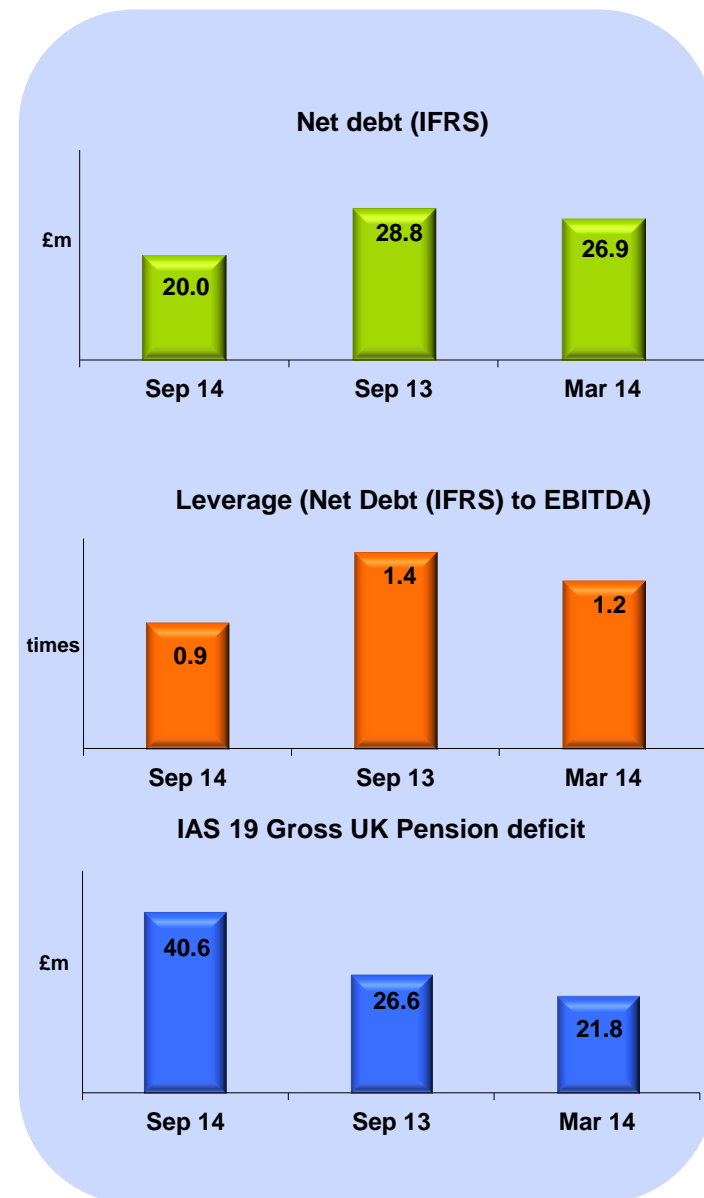
# Balance Sheet and Surplus Property

## Balance Sheet

- Strong cash generation leaves debt at £20.0m
- Leverage 0.9x underlying EBITDA
- Refinanced July 2014
  - £70m RCF plus £30m accordion
  - 5 years to July 2019
  - Improved terms
- IAS19R pension deficit increased to £40.6m
  - Recovery plan payments of £1.0m in H1
  - 3.90% discount rate
  - 3.05% RPI / 2.05% CPI

## Surplus Property

- All three sites in Tunstall, Stoke on Trent, now marketed
- No significant development on ongoing litigation with WM Morrison relating to contractual dispute over sale of Highgate, Tunstall.



➤ Sheffield - Warehousing / Distribution Units

- Lease exit and freehold purchased in November 2014 for £3.4m
- Original lease expiry in 2082 with outstanding rentals amounting to £14m
- Aim to sell freehold in short term
- Reduces ongoing cash outflow by £0.4m per annum
- Estimated £2.5m exceptional charge in H2



➤ 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

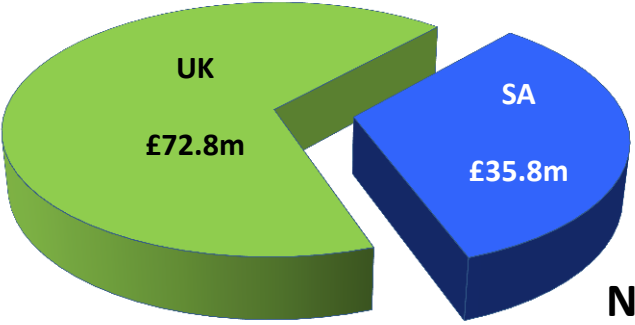
- Lease expiry 2022
- Sublet from September 2013 to 31 Dec 2018 (Network Rail Infrastructure Ltd)
- Current cash shortfall c. £0.2m p.a

# Operating Review

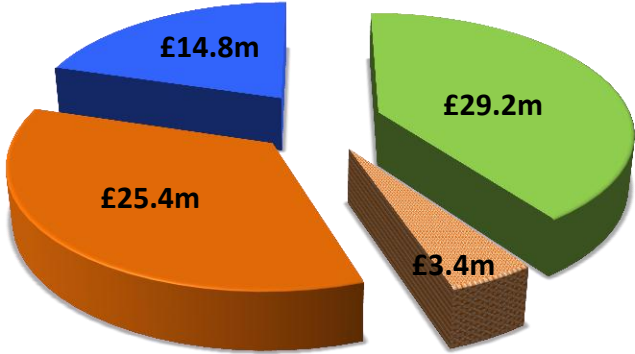
Nick Kelsall  
Group Chief Executive



**Group revenue from continuing operations : £108.6m**

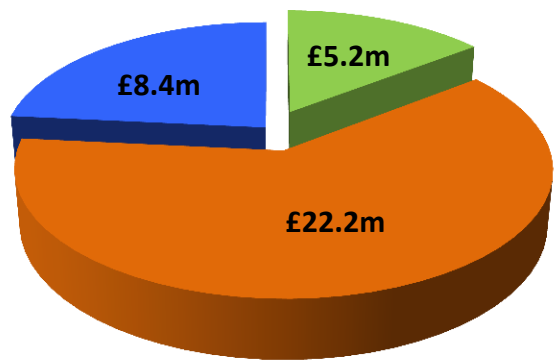


**Norcros UK revenue**



■ Vado    
 ■ Triton    
 ■ Norcros Adhesives    
 ■ Johnson Tiles

**Norcros SA revenue**



■ TAL    
 ■ Tile Africa    
 ■ Johnson Tiles

**Revenue growth @ constant currency:**

<b>Group</b>	<b>+ 3.3%</b>
<b>UK</b>	<b>-</b>
<b>SA</b>	<b>+11.0%</b>



The Great British Shower Company 

- Overall revenue +1.2%
  - UK -1.0%
  - Exports +14.9%
  
- Flat market, momentum building in Q2
  
- Maintained high share
  
- Strong recovery in Ireland
  
- Share gain in growing thermostatic electric shower market
  
- New Safeguard+ range well received - gaining traction in care sector
  
- Benefits of input cost savings and operating efficiencies
  
- Profits and margins higher; strong cash generation



VADO

- Overall revenue + 0.3%
  - UK +17.9%
  - Exports -21.7%
  
- Continued strong performance in UK trade and retail
  - Account wins in specification
  - Sales momentum with merchant buying groups
  
- Export impacted by timing of commercial contracts and distributor destocking
  - Improving trend in Q2
  
- Good progress with demand synergies
  
- Excellent reaction to Hydrologics Studio – innovative training facility
  
- Profits ahead of prior year



## JOHNSON · TILES

- Overall revenue -3.7%
  - UK -1.8%
  - Exports -16.1%
  
- UK trade business growing strongly (+8.3%)
  - Benefit of housebuilder specifications
  
- UK retail revenue impacted by market performance of key accounts
  
- Export revenue lower – phasing of projects in Middle East and US
  
- Manufacturing challenges in Q2 impacted profitability
  
- Prestigious ceramic poppies contract for the Tower of London
  
- Minton Hollins launched in Topps
  
- Modest operating loss in H1, albeit lower than H1 prior year



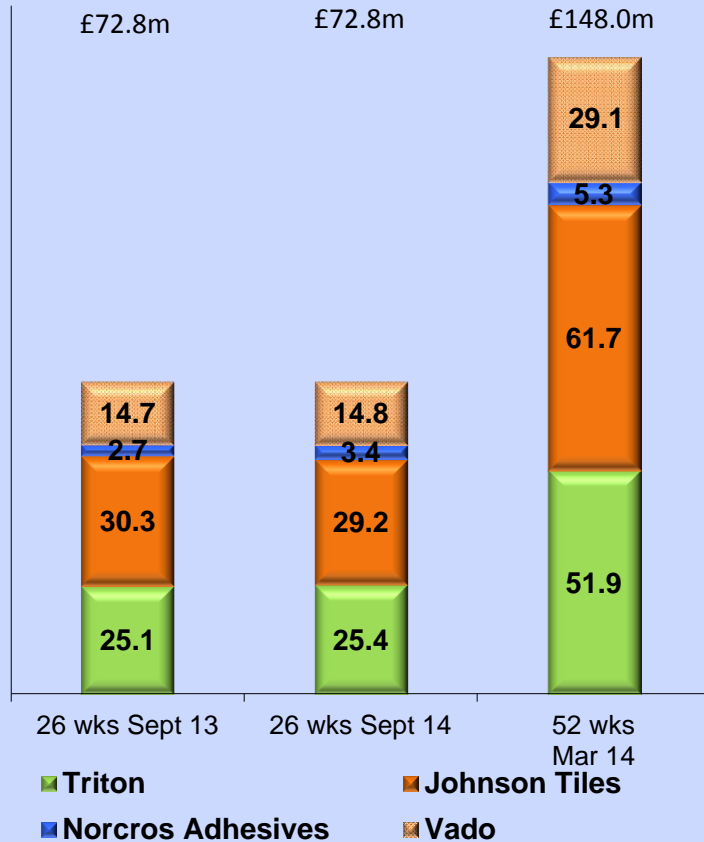


- Overall revenue +27.5%
- Share gains in trade and retail
- Benefits of national housebuilder specifications
- Further penetration of DIY multiples
- Investment made in additional powder capacity
- Realising benefits of increasing scale
- Profits and operating margins ahead of prior year

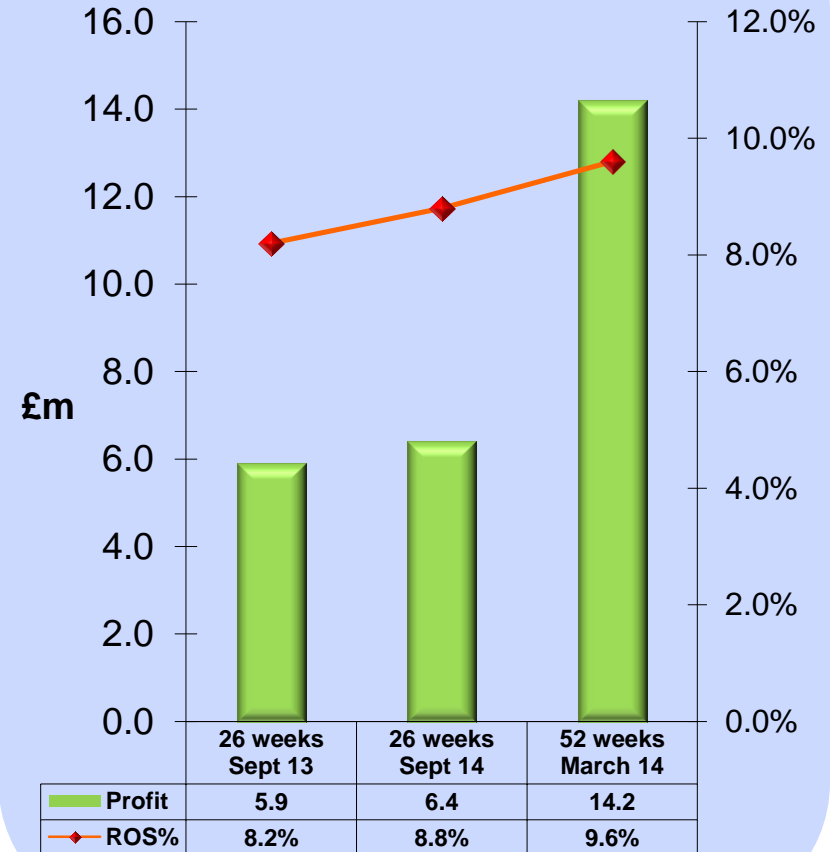




## Revenue

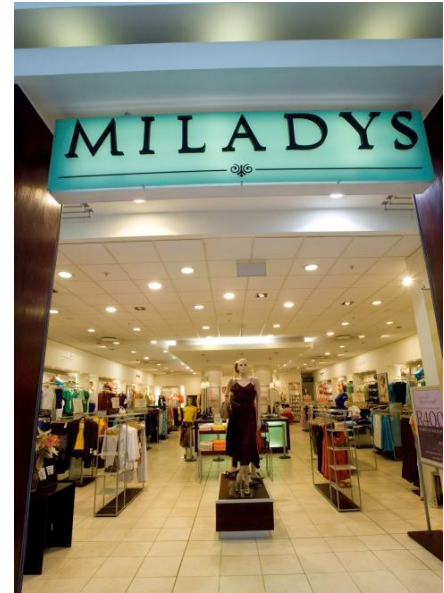


## Underlying operating profit



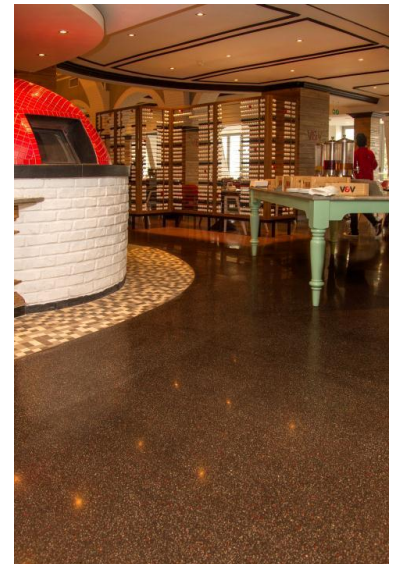
## JOHNSON • TILES®

- Overall revenue flat – focus on Tile Africa
- Successful launch of Inkjet ranges ahead of schedule
- Revenue growth accelerating in Q2
- Continued focus on new product development – rectangular formats H2
- Second inkjet facility to be commissioned in Q4
- Manufacturing performance significantly improved
- Turnaround plan progressing well - operating loss significantly reduced.





- Overall revenue +8.7% at cc
- Tile Adhesive growth driven by rapid set segment
- Growth in most key accounts
- Building product revenue +19.3%
  - Benefit of focusing on waterproofing and flooring
- Capex investment in H1 – improvements in quality and product offer
- Substantial increase in capacity driving production efficiencies
- H1 underlying operating profit ahead of prior year

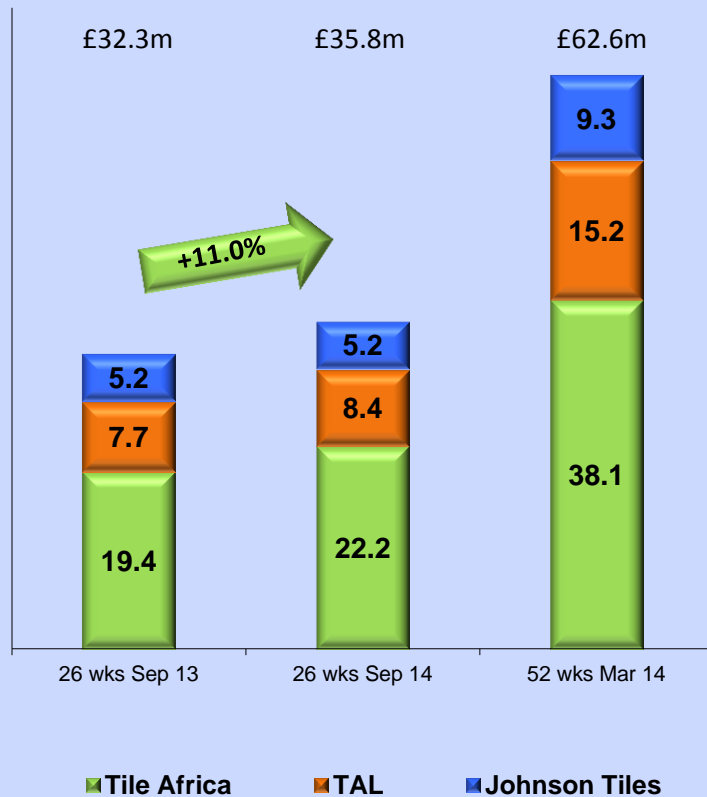




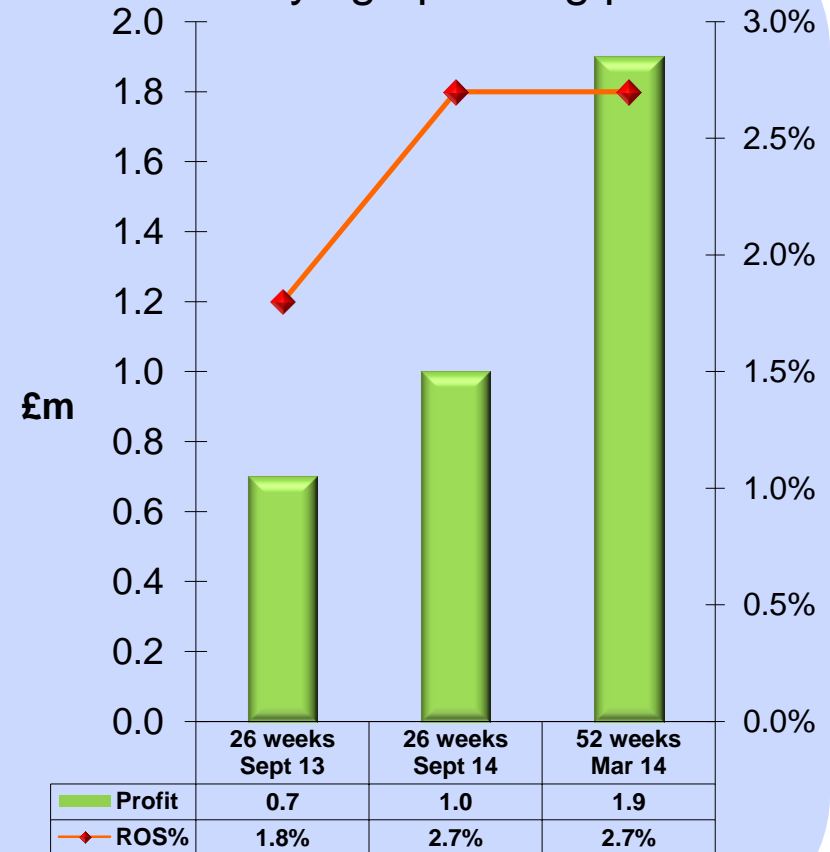
- Overall revenue +14.9% at cc
- Strong performance in retail revenues
  - Improved stock availability
  - Product range editing and competitiveness
  - Upgraded visual merchandising
- Increased focus to grow commercial segment
- Purchase of Port Elizabeth franchise store – 1<sup>st</sup> November
- 23 of 29 stores now upgraded. Two new stores to be opened in Q1 2015-2016
- New concept store launched in Q3
- First factory shop opened – positive results
- Underlying operating profit marginally ahead



## Revenue<sup>1</sup>



## Underlying operating profit



1. On a constant currency basis

# Group Outlook & Strategy

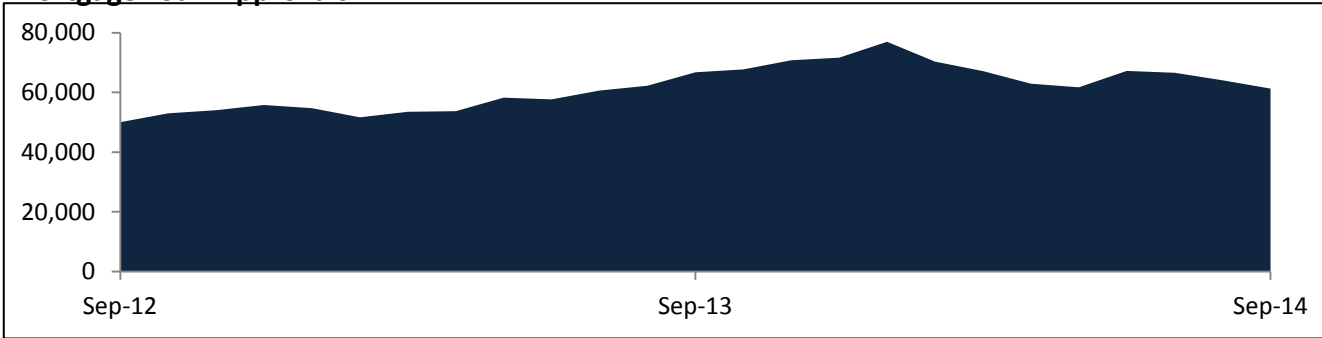
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Group Chief Executive



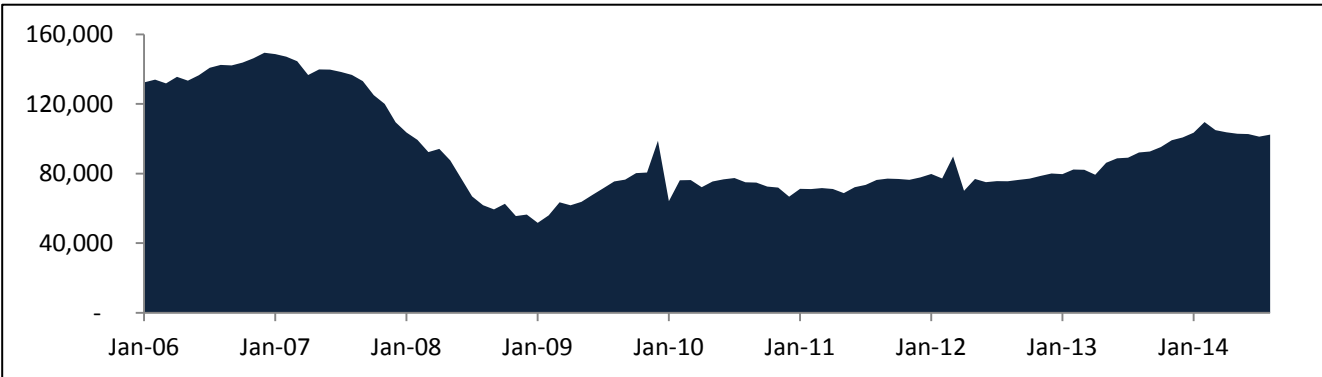
# Lead UK indicators have improved

**Mortgage Loan Approvals**



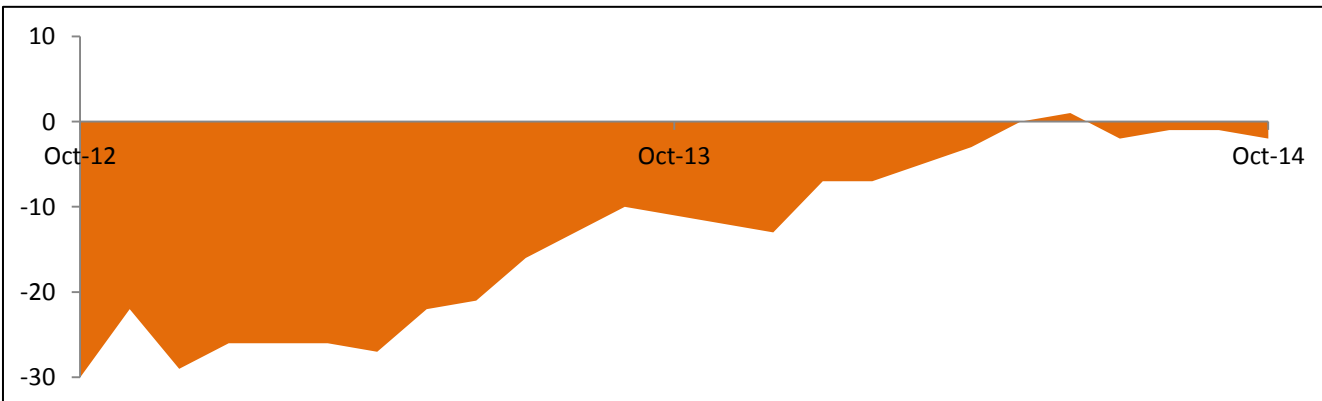
Dip in recent months – new lending regime

**Housing Transactions**



Transactions still 30% below peak

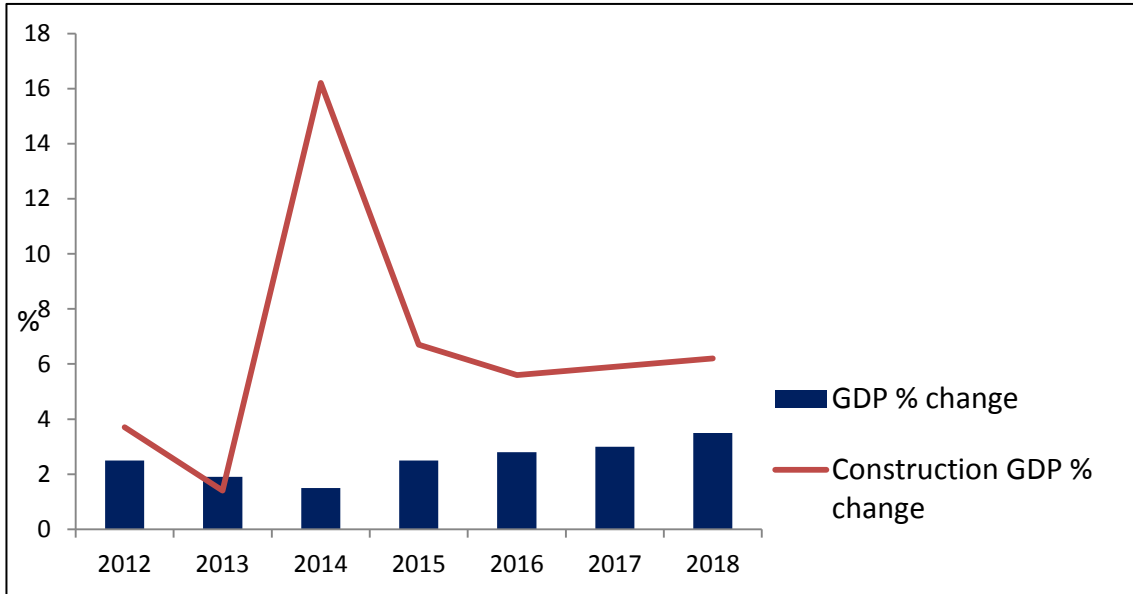
**GfK Consumer Confidence**



Index improved substantially

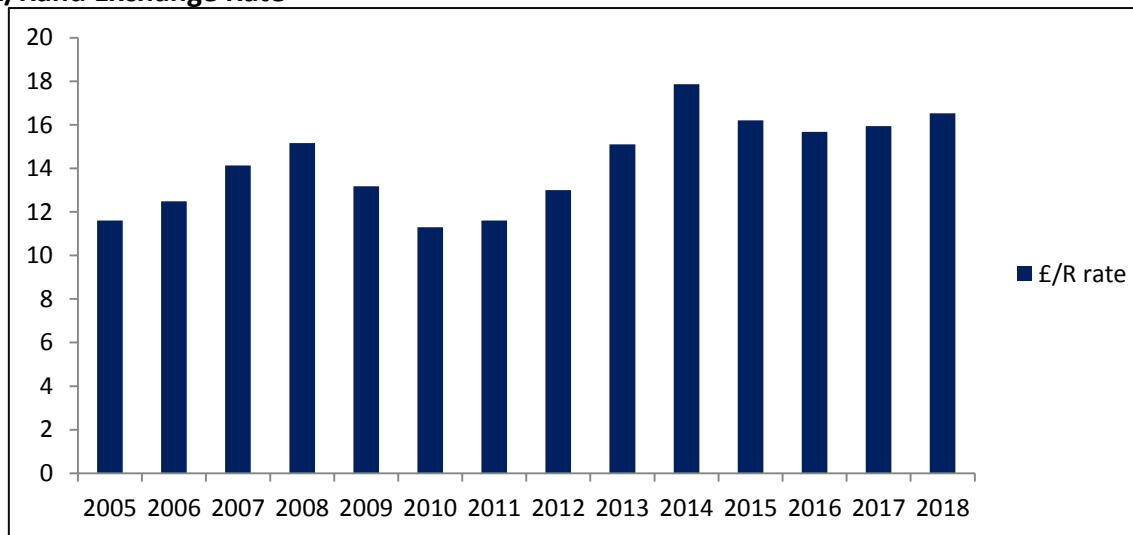
# SA indicators show growth in the medium term & stabilising Rand

GDP and Construction GDP change



2014 represents low point in GDP growth. Forecasts show improving trend.

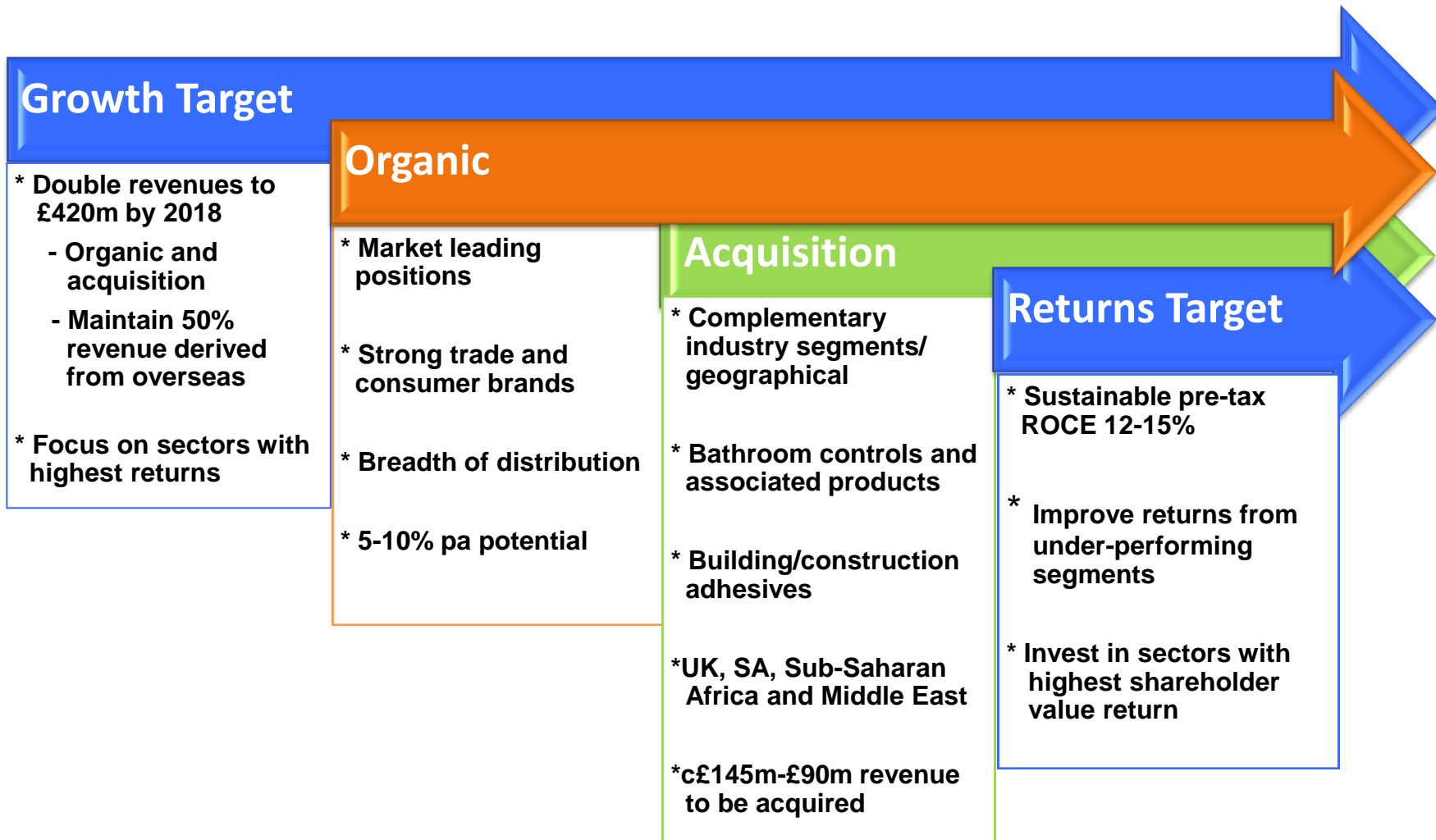
£/Rand Exchange Rate



Forecasts show stabilising currency in South Africa

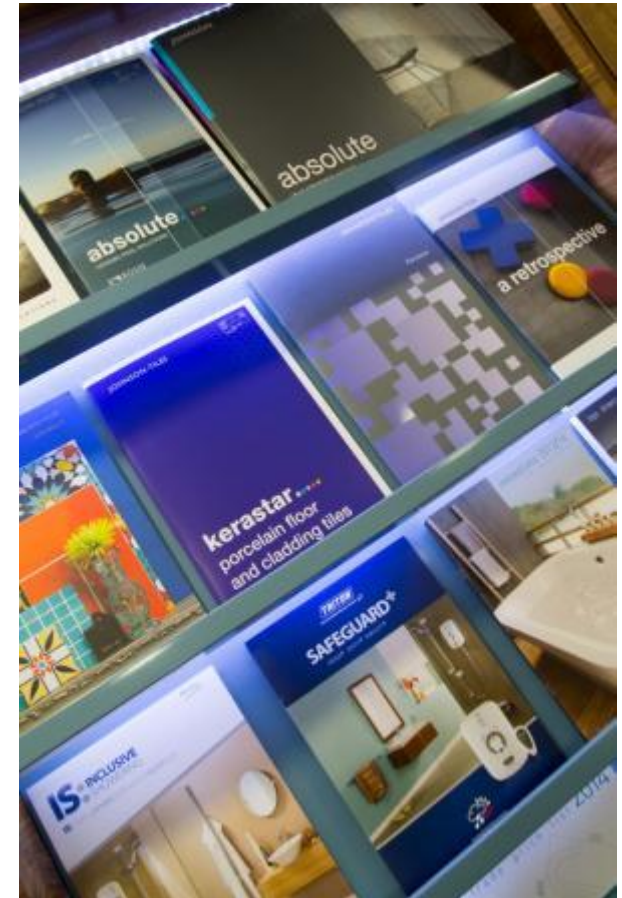


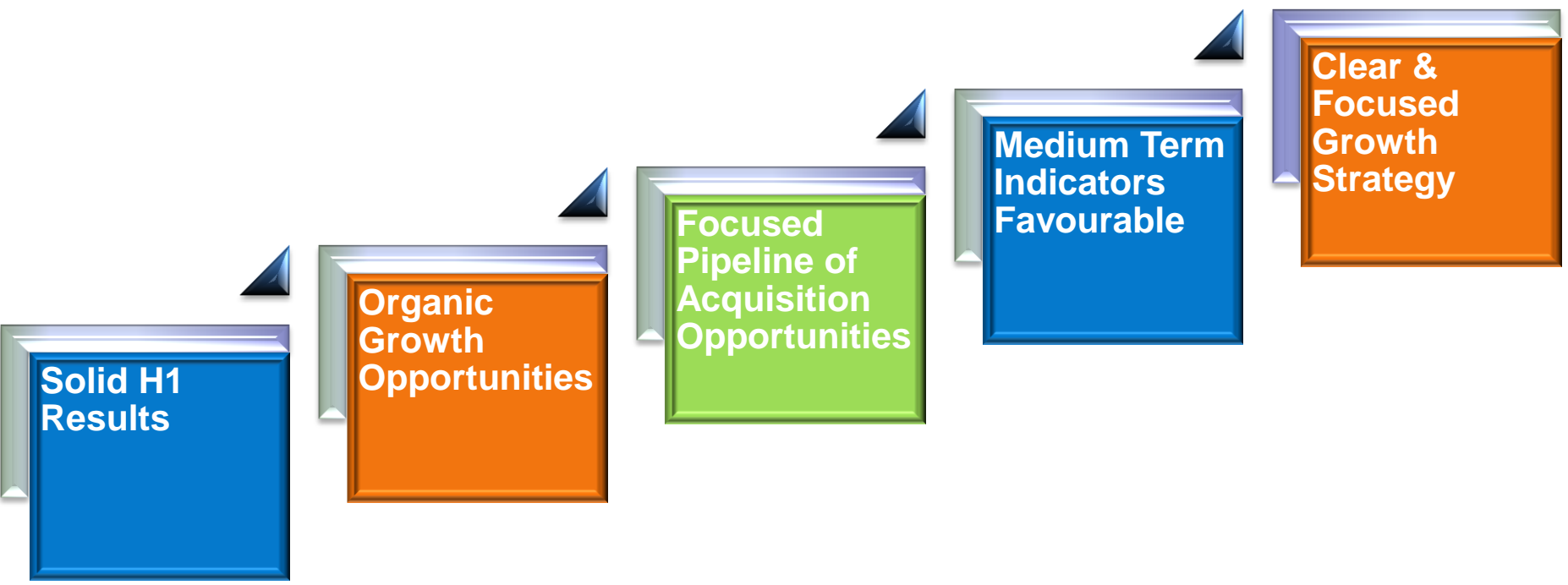
# Group Strategy – Key Targets



# Group Strategy - Update

- Clear and focused growth strategy
- Pipeline of acquisition targets progressing
- Organic growth initiatives being vigorously pursued
- Specification segment remains a key focus
- Vado revenue synergies being realised and gaining momentum
- Business development resource increased
- Significant progress on non-trading legacy matters





# Appendices



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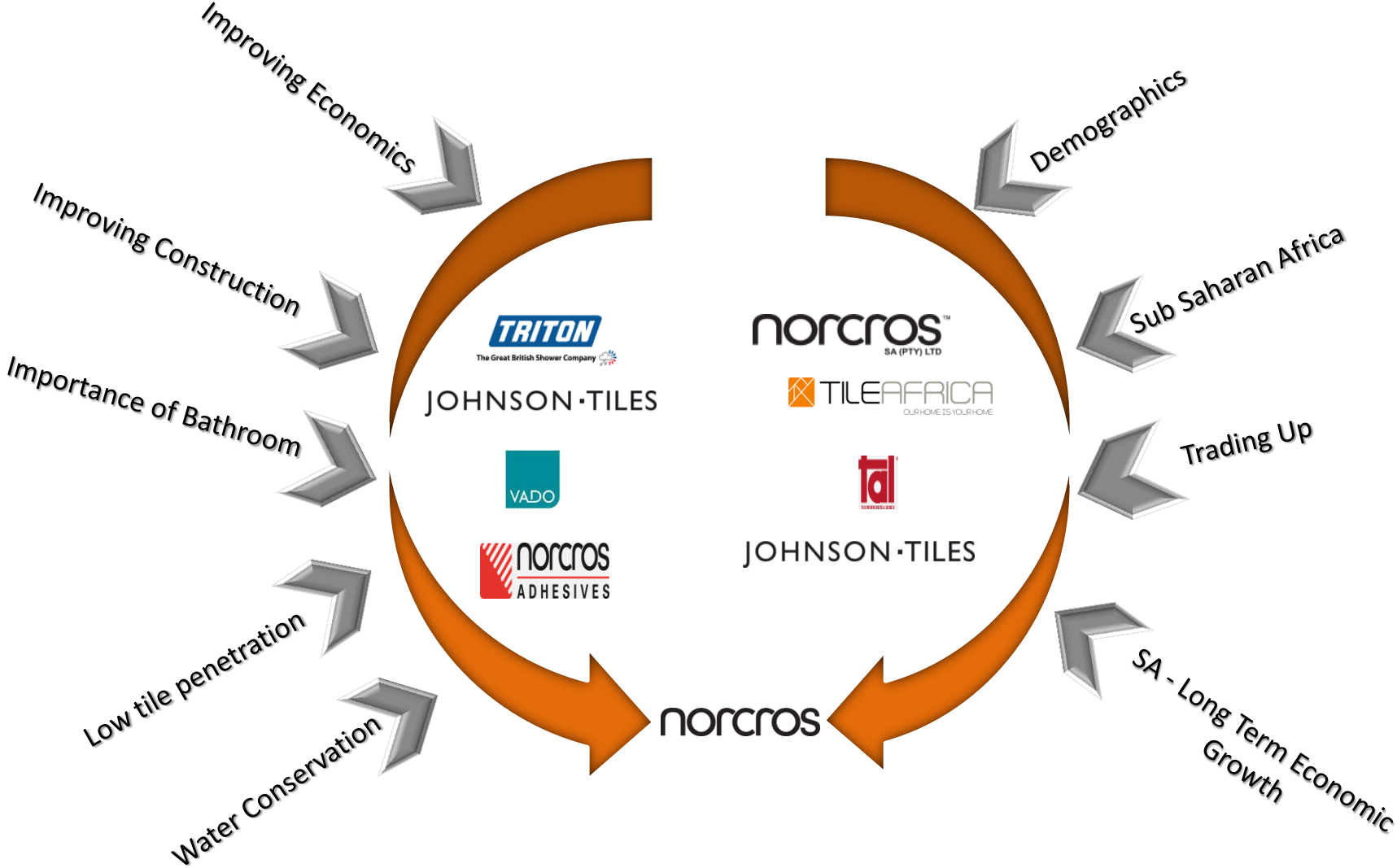
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# Key growth drivers for Norcros markets

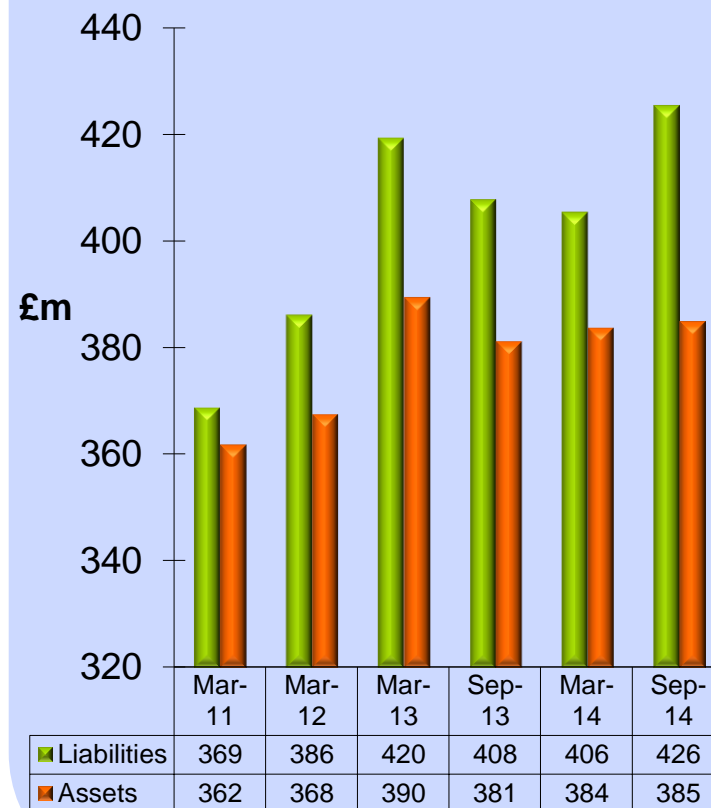


**Positioned for Growth**

# UK Pension Scheme

- Assets under management - £385m
- Scheme closed to new entrants and future accrual from April 13 - stops future build up of liabilities
- Mature Scheme; 9,344 members
  - Pensioners (65%), Deferred (35%)
  - Average age of pensioners is 76
- Recovery Plan
  - 15 years at £2.0m per annum + CPI, from March13
  - £5.0m contributions made to date
- Sept 14 IAS19R deficit of £40.6m based on:-
  - 3.90% discount rate
  - 3.05% RPI / 2.05% CPI
- Liability management exercises underway
  - recent Budget announcement helpful in this respect

UK Pension IAS 19R Assets & Liabilities



	Sept 2014 £m	Sept 2013 £m	March 2014 £m
<b>Exceptional operating items</b>			
Profit on sale of land in Braintree, UK	0.4	-	-
Business unit restructuring	-	(1.5)	(1.5)
Disposal of Nortec in TAL business	-	0.5	0.5
Acquisition related deferred remuneration (Earn out)	(0.3)	(0.2)	(0.3)
Highgate Park – Legal costs	(0.1)	-	(0.2)
	-	(1.2)	(1.5)
<b>Non underlying operating items</b>			
IAS 19R pension administration charges	(0.8)	(0.8)	(1.4)
Intangible amortisation (Vado)	(0.2)	(0.2)	(0.4)
	(1.0)	(1.0)	(1.8)

	Sept 2014 £m	Sept 2013 £m	March 2014 £m
Net debt (IFRS) – opening	(26.9)	(30.7)	(30.7)
Net cash flow	6.9	2.6	5.0
Other non cash movements	0.1	(0.2)	(0.4)
Foreign exchange	(0.1)	(0.5)	(0.8)
Net debt (IFRS) - closing	<u>(20.0)</u>	<u>(28.8)</u>	<u>(26.9)</u>



	Sept 2013 - reported £m	Discontinued Operations £m	Sept 2013 - restated £m
Revenue	116.7	(5.5)	<b>111.2</b>
Underlying <sup>1</sup> operating profit	6.8	(0.2)	<b>6.6</b>
<i>Margin</i>	5.8%	1.2%	<b>6.0%</b>
Finance charges – cash	(0.7)	-	<b>(0.7)</b>
Underlying <sup>1</sup> PBT	<u>6.1</u>	<u>(0.2)</u>	<u><b>5.9</b></u>
Exceptional operating Items	(1.2)	-	<b>(1.2)</b>
Non underlying operating items <sup>2</sup>	(1.0)	-	<b>(1.0)</b>
Finance charges – non cash	(3.4)	-	<b>(3.4)</b>
PBT as reported	<u>0.5</u>	<u>(0.2)</u>	<u><b>0.3</b></u>

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

<sup>2</sup> Non underlying charges include IAS19R pension administration costs and intangible amortisation