

Levolux - Topping Rose House, Bridgehampton, New York – Timber Fins

The Alumasc Group plc
Interim Results to 31 December 2018



Contents

01

Overview

02

Strategic Development

03

Financial Review

04

Business Review

05

Order Books & Outlook

06

Appendices

Paul Hooper
Chief Executive

Andrew Magson
Finance Director



Gatic Slotdrain – Tesco Head Office, Welwyn Garden City

01
Overview



Continued strategic development:

1. Increasing specification cross-selling (“external building envelope”)
2. Improving quality of earnings through proactive portfolio management
3. Developing a more cost efficient operating structure
4. Prioritising & focusing investment to drive both organic & acquisition growth

Trading continues to reflect challenging market conditions...

1. Revenues up 4% to £44.3m (2017/18 H1: £42.6m)
2. Underlying profit before tax: £2.3m (2017/18: £3.5m)
3. Order book at 31 December 2018 of £27.5m up 17% on a year ago
4. Basic EPS: 8.4p (2017/18: 6.9p)
5. Reduction in net debt to £0.3m (30 June 2018: £4.8m)
6. Unchanged interim dividend: 2.95p

...but H2 should benefit from better order books and management actions taken to accelerate profit growth



Alumasc Roofing – R1 Building, Kings Cross
Hydrotech MM6125 Structural Waterproofing System



Strategic development



1. Increasing specification cross-selling (“external building envelope”):

- Increasingly successful across Roofing, Water Management & Levolux balconies businesses
- Alumasc Roofing is now integrated into the Water Management Division



Levolux – Bream Street balconies - £2m cross-sell from Alumasc Roofing

Strategic development



1. Increasing specification cross-selling (“external building envelope”):

- Increasingly successful across Roofing, Water Management & Levolux balconies businesses
- Alumasc Roofing is now integrated into the Water Management Division

2. Improving quality of earnings through pro-active portfolio management:

- Pro-forma pre-tax ROI of 28% from purchase of Wade and disposals of Alumasc Facades and SCP in the last 18 months



Levolux – Bream Street balconies - £2m cross-sell from Alumasc Roofing

Strategic development



3. Developing a more cost-efficient operating structure:

- Plan to reduce operating sites from 10 to 6 over next 3 years
- Sharing common overhead structures where synergies exist
- Actions taken to save a net £1m in overhead in FY 2019/20 (mainly Roofing & Water Management division)
- Alumasc intends to re-list on AIM later this financial year



American Embassy, London – Roofing & Water Management

3. Developing a more cost-efficient operating structure:

- Plan to reduce operating sites from 10 to 6 over next 3 years
- Sharing common overhead structures where synergies exist
- Actions taken to save a net £1m in overhead in FY 2019/20 (mainly Roofing & Water Management division)
- Alumasc intends to re-list on AIM later this financial year

4. Prioritisation of investment to drive both organic and acquisition growth:

- More modest factory investment in AWMS focused on driving ROI where there is growth potential (expected low / mid £m capital cost next FY, not £8-9m previously envisaged)
- Greater funding capacity preserved for potential acquisitions

1. Increasing specification cross-selling (“external building envelope”):

- Increasingly successful across Roofing, Water Management & Levolux balconies businesses
- Alumasc Roofing is now integrated into the Water Management Division

2. Improving quality of earnings through pro-active portfolio management:

- Pro-forma pre-tax ROI of 28% from purchase of Wade and disposals of Alumasc Facades and SCP in the last 18 months

3. Developing a more cost-efficient operating structure:

- Plan to reduce operating sites from 10 to 6 over next 3 years
- Sharing common overhead structures where synergies exist
- Actions taken to save a net £1m in overhead in FY 2019/20 (mainly Roofing & Water Management division)
- Alumasc intends to re-list on AIM later this financial year

4. Prioritisation of investment to drive both organic and acquisition growth:

- More modest factory investment in AWMS focused on driving ROI where there is growth potential (expected low / mid £m capital cost next FY, not £8-9m previously envisaged)
- Greater funding capacity preserved for potential acquisitions



Income statement summary (£m)

6 months to 31 December



	2018 £m	2017 £m	Change %
Continuing operations:			
Revenue	44.3	42.6	+4
Gross profit	12.7	13.3	-4
Gross margin %	28.7%	31.1%	
Sales, general & administration overheads	(10.3)	(9.7)	
Underlying operating profit *	2.4	3.6	-33
Underlying operating margin %	5.4%	8.4%	
Interest on borrowings	(0.1)	(0.1)	-
Underlying PBT*	2.3	3.5	-36
Discontinued operation: Alumasc Facades ⁽¹⁾	2.8	-	
IAS19 past service pension cost – GMP equalisation	(1.1)	-	
Other non-underlying items (net)*	(0.6)	(0.5)	
PBT*	3.4	3.0	+13
Underlying EPS (p)	5.0	7.8	-36
Basic EPS (p)	8.4	6.9	+22
Dividends per share (p)	2.95	2.95	-

• A reconciliation of underlying to reported profits is at Appendix 1

⁽¹⁾ Comprises gain on sale of business of £2.6m and trading profit prior to sale on 31 October 2018 of £0.2m

Revenue analysis – continuing operations (£m)



	H1 2018/19	H1 2017/18	% Change
Headline revenues	44.3	42.6	+4%
Like-for-like revenues	41.8	42.6	-2%
UK like-for-like revenues	37.8	36.7	+3%
Export revenues (mainly larger projects)	4.0	5.9	-33%

Underlying PBT reconciliation – continuing operations



	£m	Comment
Underlying PBT H1 2017/18	3.5	
Marginal profit effect of reduced like-for-like sales volumes	(0.6)	Market conditions, project timing
Contribution margin & mix	(0.6)	Mainly Levolut and Gatic. Actions being taken to improve
Investment in growth / operational cost increases	(0.4)	Annualised incremental costs of new Timloc factory Investment in project support resources at Levolut
Net Wade acquisition benefit	0.4	In line with expectations
Underlying PBT H1 2018/19	2.3	

Cash flow summary (£m)

6 months to 31 December



	2018 £m	2017 £m	Change £m
Underlying EBITDA	3.2	4.3	(1.1)
Change in working capital	1.6	(3.2)	4.8
Operating cash flow	4.8	1.1	3.7
Capital expenditure	(0.9)	(1.9)	1.0
Pension funding	(1.6)	(1.6)	-
Interest	(0.1)	(0.1)	-
Tax	(0.3)	(0.4)	0.1
Dividends	(1.6)	(1.5)	(0.1)
Alumasc Facades (net disposal proceeds & operating cash flows)	4.4	(0.1)	4.5
(Restructuring) / net sale proceeds from SCP	(0.2)	0.8	(1.0)
Change in net cash flow	4.5	(3.7)	8.2
Net (debt) / cash on balance sheet at 31 December	(0.3)	2.4	
Average trade working capital % sales	14.8%	12.3%	

Balance sheet summary (£m)



	31 Dec 2018 £m	30 June 2018 £m	31 Dec 2017 £m
Property, plant & equipment	10.8	10.7	6.7
Intangible assets	22.3	22.6	18.8
Working capital	7.9	11.3	10.8
Other net liabilities	(2.5)	(2.8)	(1.4)
Capital invested	38.5	41.8	34.9
Net (debt) / cash	(0.3)	(4.8)	2.4
Pension obligations ⁽¹⁾	(12.4)	(12.6)	(17.1)
Net assets	25.8	24.4	20.2
ROI (post tax) ⁽²⁾	11.8%	14.5%	21.0%

(1) IAS19 valuation, stated net of related deferred tax asset

(2) Rolling twelve month post-tax underlying operating profit divided by average capital invested

04
Business Review

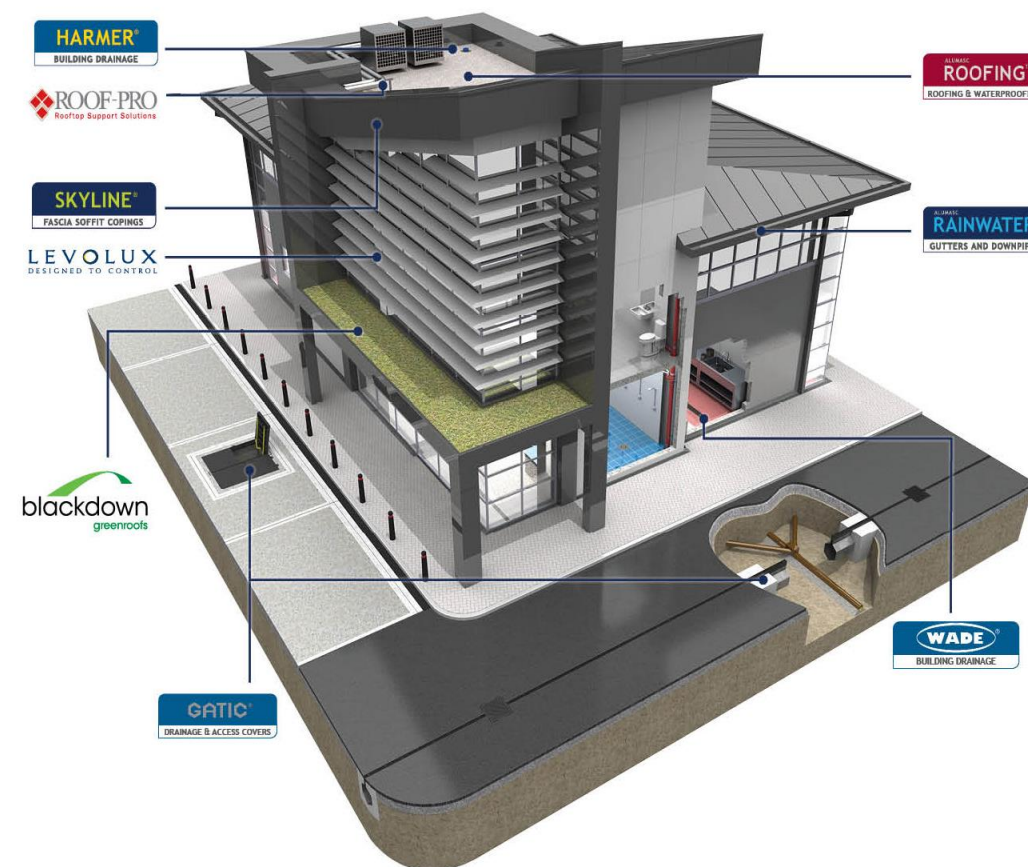
Levolux – St Catherine’s Health Centre, Birkenhead – Aerofoil Fins



Roofing & Water Management

	2018/19 H1	2017/18 H1
Revenue (£m)	28.6	26.0
Underlying operating profit (£m)	2.3	2.3
Underlying operating margin (%)	8.1%	8.8%

- This division now comprises Alumasc Roofing, Alumasc Water Management Solutions (AWMS), Wade, Gatic & Rainclear – all under common management to drive our “Rain to Drain” strategy
- Revenue growth driven by acquisition of Wade on 31 January 2018. Like-for-like revenues were similar
- Divisional management and operating structures being simplified to give better focus and reduce duplication / cost, including transfer of Gatic Slotdrain production to Wade at property lease expiry in May
- Gatic's performance was below expectation due to export project delays & margin pressure in the UK.
- Gatic's management strengthened, sales team restructured and selling prices increased in range 5-10% from November 2018



Architectural Screening, Solar Shading & Balconies

	2018/19 H1	2017/18 H1
Revenue (£m)	10.2	11.3
Underlying operating profit (£m)	(0.4)	0.7
Underlying operating margin (%)	(4.2)%	6.5%

- Challenging H1: reduction in commercial new build activity in the UK and project delays in the UK & USA
- IFRS15 implementation benefit (input cost rather than QS survey / output methodology for revenue and profit recognition) of £1.5m revenue and £0.4m profit mainly relating to goods in transit to USA at 31 December
- A review of the American market confirmed significant demand exists. We are increasing local sales representation to accelerate export growth
- Balconies business growing faster than anticipated, but expected margins not being realised at this stage – experience curve effect in newer line of business – focus to resolve this pre FY 2019/20
- As Levolut continues to develop, a number of management changes were made in the period and a profit improvement plan is in place
- An initial success was a record H1 order intake of £13.8m (almost double prior H1).



Levolut – AIRC, Cranfield University

Housebuilding Products & Ancillaries

	2018/19 H1	2017/18 H1
Revenue (£m)	5.6	5.0
Underlying operating profit (£m)	0.9	0.9
Underlying operating margin (%)	15.8%	17.4%

- Timloc continues to outperform growth in the UK new housing sector with revenues up 11%
- Next day service model is enabling Timloc to further grow its merchant and distributor customer base
- Profit benefit of sales volume growth offset by additional annualised property costs following successful commissioning of new factory in December 2017
- Profit nonetheless matched the prior H1's record level
- Future profitable growth being driven by utilisation of additional capacity and operational flexibility / efficiency enabled by the new factory together with further investments in plant and machinery



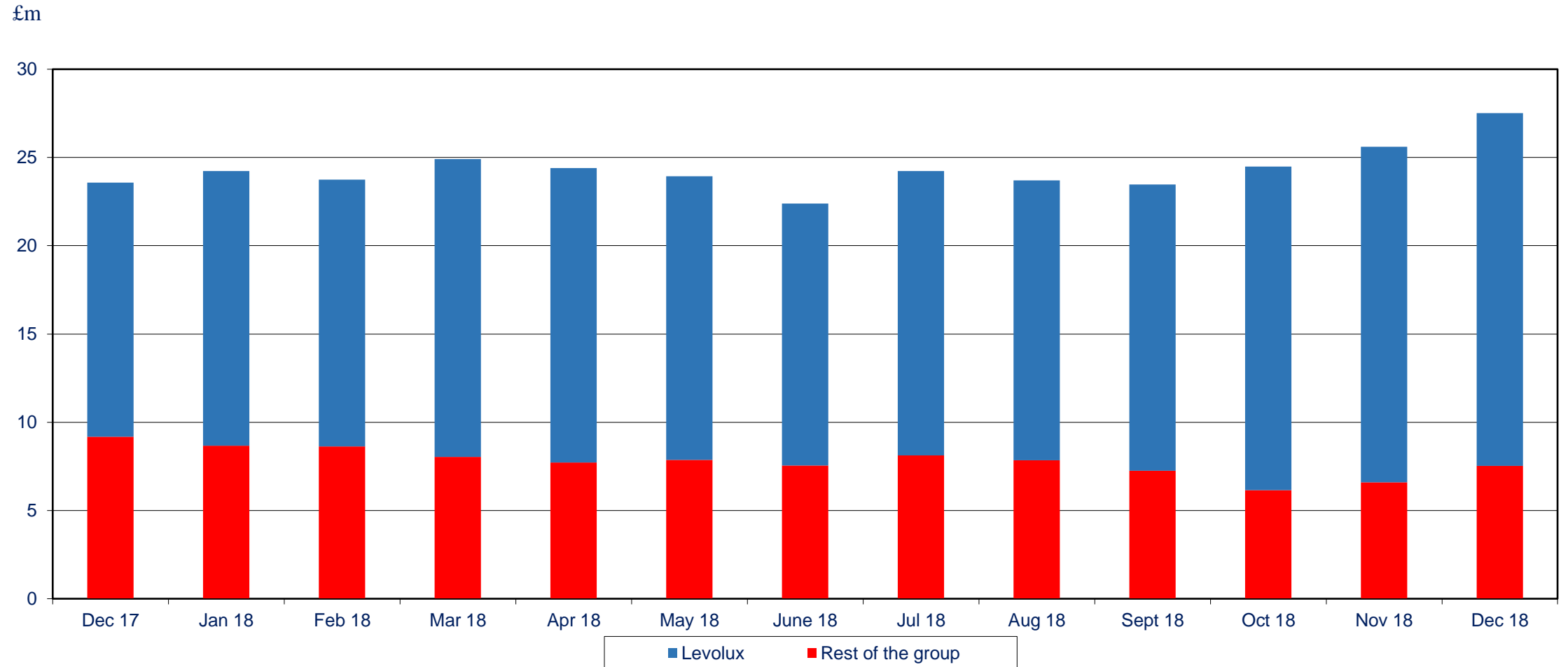
Timloc Building Products



Alumasc Roofing – Edinburgh Council HQ – Blackdown Intensive Green Roof and Derbigum

05
Order Books and Outlook

Order book evolution



- H1 order intake up over 20% on prior H1, driven by Levolut
- December 2018 order book up 17% on a year ago
- Gatic won a further £0.8m export order in January 2019

- Despite the challenging market conditions, the Board is encouraged by order intake levels and expects a much stronger second half performance
- The Board remains mindful of the risks posed by the current economic uncertainty to the UK construction sector as well as further delays in project pipeline conversion
- Following management action taken to better leverage the group's strong strategic positioning and to increase profit, we remain confident in the future



Thank You

www.alumasc.co.uk

Alumasc Roofing - Tabard Square Development, London – Hydrotech

Alumasc Water Management Solutions – Living Legend, Jersey – Cast iron Gutters & Downpipes, Flushjoint Downpipes & Skyline Fascia & Soffit



Appendix 1

- Segmental Analysis of Results, Continuing Operations - Summary

6 months to 31 December



	Revenue ⁽²⁾ 2018 £m	Underlying Operating Profit ⁽¹⁾ 2018 £m	Revenue ⁽²⁾ 2017 £m	Underlying Operating Profit ⁽¹⁾ 2017 £m	Underlying Operating Margin 2018 %	2017 %
Roofing & Water Management	28.6	2.3	26.0	2.3	8.1	8.8
Solar Shading, Architectural Screening & Balconies	10.2	(0.4)	11.3	0.7	(4.2)	6.5
Housebuilding Products & Ancillaries	5.6	0.9	5.0	0.9	15.8	17.4
Sub-total	44.3	2.8	42.3	3.9	6.3	9.2
Unallocated Costs	-	(0.4)	-	(0.3)		
Total⁽¹⁾	44.3	2.4	42.3	3.6	5.4	8.4

(1) Underlying results are stated prior to deducting brand amortisation, IAS19 pension costs and the non-recurring items of income and cost set out in Appendix 2

(2) Revenues from divested businesses, Alumasc Facades and SCP are excluded from the above

(3) Comparatives in the Water Management division have been restated to reflect a change in the internal reporting structure for Alumasc Roofing, now part of the Water Management division rather than part of a separate segment, following the disposal of Alumasc Facades

Appendix 2 : Underlying To Statutory Profit Reconciliation (£m)

Half year to 31 December



	2018		2017	
	Operating Profit £'000	Profit Before Tax £'000	Operating Profit £'000	Profit Before Tax £'000
Underlying profit	2.4	2.3	3.6	3.5
Brand amortisation	(0.1)	(0.1)	(0.1)	(0.1)
IAS 19 net pension scheme finance costs	-	(0.2)	-	(0.3)
Operating profit of Alumasc Facades	0.2	0.2	-	-
Gain on disposal of Alumasc Facades	-	2.6	-	-
Guaranteed minimum pension equalisation – past service cost	(1.1)	(1.1)	-	-
Restructuring & relocation costs	(0.3)	(0.3)	(0.3)	(0.3)
Loss on disposal of SCP assets	-	-	(0.2)	(0.2)
Profit on disposal of Amorim trade investment	-	-	0.4	0.4
Statutory profit (including discontinued operations)	1.1	3.4	3.4	3.0

Appendix 3 : Summary of Brexit risk issues and mitigation



- Alumasc does not have European operations or international “just in time” supply chains
- Only c.5% of sales are exported to EU countries, mostly Republic of Ireland
- Over 10% of sales value is materials imported from Eurozone

Communication

- Regular dialogue with customers, suppliers (incl. hauliers) and employees (especially EU nationals)

Sales

- Accelerate Alumasc’s export sales strategy (outside EU)

Supply chain

- Increase inventories
- Alternative contingency supply options developed
- Contingency plans to use ports other than Dover

Cost inflation

- Flexibility in contracts on pricing and shorter quote validity periods
- Retain pricing flexibility

Treasury, capital market & pension scheme risk

- Increased percentage coverage and duration of forward FX hedging
- LDI hedging (interest rate and inflation risk) in pension schemes
- Pension scheme investment portfolio already well diversified across global asset classes

Forecasting risk

- Potential for further project delays & revenue slippage – some allowance made in financial forecasts

Appendix 4 : Legacy pensions deficit management



- **IAS19 deficit 31 December 2018 £15.0m (30 June 2018: £15.1m), despite past service cost increase of £1.1m relating to GMP equalisation following a High Court ruling in October**
 - Some previous actuarial prudence in mortality assumptions not borne out by experience
- **The group's two legacy defined benefit pension schemes are to be merged in the Spring**
 - Saving a six figure sum in administrative costs each year – present value of future benefit £1m+
 - Enables a significant simplification in the group's legal structure facilitating cross-group synergies
- **Gross pension liability reduction initiatives**
 - Small pots
 - Winding up lump sums
 - New pension freedoms (with IFA advice)
- **Improving asset management and efficiency**
 - 50% of c.£30m equity allocation being moved from active to passive management, saving £150k in fees pa - present value of future benefit c.£1.5m
 - Increased weighting to global return seeking assets rather than traditional bias to UK return seeking assets
- **Management of potential volatility of scheme valuation and impact on balance sheet:**
 - Liability driven investment (interest rate and inflation hedging)
 - Planned executive top-slice insurance buy-in