norcros

13 June 2018

**Norcros plc**

**Results for the year ended 31 March 2018**

***'Excellent progress towards our strategic objectives.'***

Norcros, a market leading supplier of high quality and innovative bathroom and kitchen products, today announces its results for the year ended 31 March 2018.

**Financial Summary**

| | 2018 | 2017 | % change as reported | % change at constant currency |
|---|---|---|---|---|
| Revenue | £300.1m | £271.2m | +10.7% | +8.6% |
| Underlying operating profit* | £27.4m | £23.8m | +15.1% | |
| Underlying profit before taxation* | £26.3m | £22.9m | +14.8% | |
| Underlying diluted EPS* | 29.5p | 27.8p | +6.1% | |
| Underlying operating cash flow* | £31.0m | £29.8m | +4.0% | |
| Operating profit | £19.6m | £16.8m | +16.7% | |
| Net debt | £47.1m | £23.2m | | |
| Dividend per share | 7.8p | 7.2p | +8.3% | |

* Definitions of alternative performance measures are provided in note 5.

**Highlights**

- Ninth consecutive year of growth
- Revenue up 10.7% at £300.1m (2017: £271.2m)
- Underlying operating profit up 15.1% at £27.4m (2017: £23.8m)
- Group operating profit was £19.6m (2017: £16.8m)
- Acquisition of Merlyn trading strongly, in line with expectations and fully integrated
- Further progress towards new strategic growth target
- Strong cash conversion
- Underlying ROCE at 18.0% (2017: 18.4%) – ahead of strategic target
- Full year dividend increased by 8.3% to 7.8p

**Martin Towers, Chairman, commented:**

"I am delighted to announce that Norcros has recorded its ninth consecutive year of revenue and underlying operating profit growth and has also continued to make excellent progress towards its strategic objectives with the acquisition of the Merlyn business in the year. The Group has delivered another strong performance despite challenging market conditions, reflecting the successful acquisition strategy and the sustained focus on driving organic growth through market share gain. The resilience of the Group's business portfolio including the recent acquisitions, together with our well developed acquisition pipeline, gives me confidence that we can continue to make strong progress in the current year towards our new medium-term strategic objectives."

There will be a presentation today at 9.30 am for analysts at the offices of Hudson Sandler, 25 Charterhouse Square, London, EC1M 6AE. The supporting slides will be available on the Norcros website at http://www.norcros.com later in the day.

## Enquiries


**Norcros plc** Tel: 01625 547700
Nick Kelsall, Group Chief Executive
Shaun Smith, Group Finance Director

**Hudson Sandler** Tel: 0207 796 4133
Nick Lyon


## Notes to Editors

Norcros is a market leading supplier of high quality and innovative bathroom and kitchen products with operations primarily in the UK and South Africa.

- Based in the UK, Norcros operates under seven brands:
  - Triton - Market leader in the manufacture and marketing of showers in the UK
  - Merlyn - The UK and Ireland's No.1 supplier of shower enclosures and trays to the residential, commercial and hospitality sectors
  - Vado - A leading manufacturer and supplier of taps, mixer showers, bathroom accessories and valves
  - Croydex - A market-leading, innovative designer, manufacturer and distributor of high quality bathroom furnishings and accessories
  - Abode - A leading niche designer and distributor of high quality kitchen taps, bathroom taps, and kitchen sinks
  - Johnson Tiles - A leading manufacturer and supplier of ceramic tiles in the UK
  - Norcros Adhesives - Manufacturer of tile & stone adhesives, grouts and related products

- Based in South Africa, Norcros operates under three brands:
  - Tile Africa - Chain of retail stores focused on ceramic and porcelain tiles, and associated products such as sanitaryware, showers and adhesives
  - Johnson Tiles South Africa - Manufacturer of ceramic and porcelain tiles
  - TAL - The leading manufacturer of ceramic and building adhesives

- Norcros is headquartered in Wilmslow, Cheshire and employs around 2,100 people. The Company is listed on the London Stock Exchange. For further information please visit the Company website: http://www.norcros.com

## Chairman's Statement

### Overview

I am delighted to announce that Norcros has recorded its ninth consecutive year of revenue and underlying operating profit growth, with results in line with market expectations. The Group has also continued to make excellent progress towards its strategic objectives with the acquisition of the Merlyn business in the year.

Group revenue for the year was £300.1m, 10.7% higher than the prior year on a reported basis, 8.6% higher on a constant currency basis and 4.4% higher on a like for like constant currency basis. Underlying operating profit at £27.4m was 15.1% higher than the prior year, mainly reflecting the continued improvement in performance in our South African business, a first-time contribution from Merlyn, which was acquired in November 2017 and the improvement in performance at Triton partly offset by a lower contribution from Johnson Tiles. This has resulted in a 6.1% increase in underlying diluted earnings per share to 29.5p (2017: 27.8p).

### Acquisition of Merlyn

The £59.1m acquisition of the Merlyn business, the UK and Ireland's No. 1 supplier of shower enclosures and trays to the residential, commercial and hospitality sectors, was the Group's largest acquisition and a further key step towards achieving our strategic goals. I have been encouraged by the seamless integration into the Norcros Group and the strong trading performance since being acquired.

The support for the Group's strategy from existing and new shareholders was evident in the year as the Group successfully raised £31.4m of new equity through an open offer and firm placing and increased its banking facilities to £120m to provide the appropriate funding structure for the Merlyn acquisition. The Group remains in a strong financial position, with a continued focus on cash generation in the year. Year end net debt at £47.1m (2017: £23.2m) represents pro-forma leverage of 1.2 times underlying EBITDA.

### Dividend

The Board is recommending a final dividend for the year of 5.2p (2017: 4.8p) per share. When combined with the interim dividend of 2.6p (2017: 2.4p) per share, which was paid on 12 January 2018, this will make a total dividend for the year of 7.8p (2017: 7.2p) per share, an 8.3% increase on the previous year.

### Pension scheme

The net deficit relating to our UK defined benefit pension scheme as calculated under IAS 19R has reduced to £48.0m at 31 March 2018 from £62.7m at 31 March 2017, primarily due to an increase in the discount rate to 2.65% and lower inflation expectations. We remain confident that our pension obligations continue to be appropriately funded and well managed, with the Company having paid £2.5m this year into the scheme in accordance with the agreement made with the Trustee in March 2016. A new triennial valuation dated 1 April 2018 and updated deficit recovery plan will need to be agreed between the Trustee and Company in due course and discussions are now underway.

### Governance

As Chairman, one of my primary responsibilities is to ensure that the Group operates to the highest standards in all aspects of governance and risk management. Our aim at Norcros is to manage a growing business effectively, while ensuring that proper operating procedures and internal controls are maintained at all times. Transparency is central to this objective and you will find more detail about our approach and progress over the last year in the Corporate Governance section of our Annual Report and Accounts.

### People

We regard our employees as our most valuable asset and in recognition of this the Group aims to create an environment in which they can see their careers develop. On behalf of the Board I would like to once more thank the Group's employees who have helped to deliver upon the Group's strategic objectives and in particular for their dedication and contribution over the last twelve months. I would also like to welcome the management team and employees of Merlyn to the Group.

### Strategy update

The Group implemented its strategy for growth in 2013, accompanied by a number of strategic targets. As detailed later, the execution of the 2013 strategy has been highly successful delivering improved returns for shareholders over the five-year period. During the year the Board reviewed its strategy and concluded that, whilst the current strategy has been successful, a new "2023 Vision" for the Group and a refreshed set of strategic targets to 2023 was appropriate which combined would provide the strategic framework for the next phase of development of the Group. In summary, the objectives of the 2018 strategy are to continue to scale up the business through acquisitions and organically, focussing on complementary markets with attractive returns on capital and leveraging Group synergy opportunities.

The strategy has strong momentum, and this is reflected in the challenging new strategic targets as follows:

- We aim to grow revenue to £600m by 2023 (previously £420m by 2018);
- Maintain approximately 50% of Group revenue derived outside the UK (no change); and
- Deliver an improved and sustainable ROCE of over 15% (previously a 12-15% range) through the economic cycle.

The Board believes that our focus on being a leading supplier of bathroom and kitchen products in selected geographies, offering strong brands, contemporary designs with a reputation for quality, outstanding service and innovation will deliver improved and sustainable returns for shareholders.

### Summary

The Group has delivered another strong performance in 2017/18 despite challenging market conditions and a weaker pound, reflecting the successful acquisition strategy and the sustained focus on driving organic growth through market share gain, investment in new products, operational efficiency programmes and geographic expansion. In addition, we have taken further steps towards achieving our vision and strategic goals with the acquisition of the Merlyn business during the year, which will extend our product offering and provide opportunities to drive additional revenue for the Group within our chosen sectors and geographies. The resilience of the Group's business portfolio including the recent acquisitions, together with our well developed acquisition pipeline, give me confidence that we can continue to make strong progress in the current year towards our new medium-term strategic objectives.

## Group Chief Executive's Statement

### Overview

Building on our record of sustained progress over recent years, Group revenue for the year increased by 10.7% to £300.1m (2017: £271.2m), by 8.6% on a constant currency basis, and by 4.4% on a like-for-like constant currency basis. Group underlying operating profit was £27.4m compared to £23.8m in the prior year.

The execution of our growth strategy continued apace and in the period we successfully completed our most significant acquisition to date. Merlyn, the UK and Ireland's No. 1 supplier of shower enclosures and trays to the residential, commercial and hospitality sectors has immediately made a strong contribution to the group. Additionally, Merlyn offers good synergistic opportunities for cross selling and further channel development across our Group businesses.

UK revenue for the year at £200.6m (2017: £182.3m) was 10.0% ahead of the prior year and 3.6% higher on a like for like basis. The like for like increase reflected the combination of strong revenue growth in the UK portfolio excluding Johnson Tiles of 9.8% and a decline in revenue of 11.5% in Johnson Tiles. UK underlying operating profit for the year was £1.2m higher than the prior year at £18.6m (2017: £17.4m) with an underlying operating margin of 9.3% (2017: 9.5%). The improvement in profit in the year mainly reflected the first time contribution from our newly acquired Merlyn business, the improvement in performance at Triton, partly offset by the decline in profitability in Johnson Tiles.

Whilst the actions to restructure the Johnson Tiles business in 2017 were completed successfully, market conditions in the second half of the year proved more challenging than expected. As a result, a further restructuring programme has commenced which will involve the loss of up to 50 jobs. This has resulted in an exceptional charge of £2.1m. Annualised savings are expected to be at least £2.0m and we remain confident that this decisive action will return the tile business back into profitability in the current year.

Our South African business continued the sustained progress of recent years with another year of strong growth. The combination of market share gain and the appreciation of the Rand against Sterling during the year resulted in reported revenue 11.9% ahead of the prior year at £99.5m (2017: £88.9m). On a constant currency basis revenue was 5.9% higher than last year. Underlying operating profit for the year increased by 38% to £8.8m (2017: £6.4m), including a £0.3m benefit from the stronger Rand. This reflected market share gains, further supply chain improvements and timely cost management. The return on sales was 8.8% (2017:

7.2%), a considerable increase on last year. In Johnson Tiles SA, the new product development programme and ongoing plant improvements contributed to another year of operating profit growth. In TAL, operational improvements in all three plants, together with market share gains, delivered underlying operating profit growth in the year. In Tile Africa, the expanded CX store programme and improvements in sourcing and price management contributed towards profit growth.

Group underlying operating profit at £27.4m (2017: £23.8m) was 15.1% higher than the prior year, with Group underlying operating margins increasing to 9.1% (2017: 8.8%). Underlying operating cash flow improved to £31.0m (2017: £29.8m) reflecting the improved underlying operating profit, a successful inventory reduction programme at Johnson Tiles and growth related working capital investment.

During the year the Group agreed a new £120m (plus a £30m accordion) unsecured debt facility to support the acquisition of Merlyn and provide the funding capacity for further acquisitions and organic growth opportunities. This new facility will run for four years to 2021 with the option to extend for an additional year. Furthermore, to finance the Merlyn acquisition, the Group successfully raised £31.4m of equity through the admission of 18,254,161 new ordinary shares.

The Group has a strong balance sheet with net debt of £47.1m (2017: £23.2m), and pro forma leverage of 1.2 times underlying EBITDA (2017: 0.8 times).

**Strategy**

In April 2018 we announced a refreshed strategy for growth, the strategy builds on the 2013-2018 strategic initiatives and defines a 2023 vision for the Group. The future performance of the group will be measured against the key strategic targets set out in this refreshed strategy.

The current year’s performance is benchmarked against the following three strategic targets established in 2013: to double Group revenue to £420m by 2018; to maintain revenue derived outside of the UK at approximately 50% of Group revenue; and to sustain a pre-tax return on underlying capital employed of 12% to 15% over the economic cycle.

We have again made solid progress in the current year against all three of these objectives. Group revenue in the current year has increased by 10.7% to £300.1m with our progress against the strategic target held back by the significant depreciation of the Rand/Sterling exchange rate since the objective was established in 2013. In constant currency terms, Group revenue would have been nearer to £330m.

On a Sterling reported basis, Group revenue derived outside of the UK was 44.3% (2017: 42.8%). In constant currency terms, we are in line with our target this year at 49.3% and remain focussed on growing our current overseas markets and developing new ones to support this important strategic intent.

Along with our existing business portfolio all the recently acquired businesses have strongly contributed towards the Group achieving an underlying return on capital employed of 18.0% (2017:18.4%), which is ahead of our 2013 strategic target.

Our track record in acquiring quality businesses in our targeted sectors and geographies, and our skill in seamlessly integrating them into the Group and further developing them, together with our growing pipeline of acquisition opportunities gives me confidence that we will successfully deliver on our new 2023 vision and strategic targets and continue to create value for our shareholders. I am also encouraged by the growing number of synergies and organic growth opportunities being progressed throughout the expanded Group.

**Summary and outlook**

The Group has announced its 2023 vision and refreshed its strategic targets to 2023. This provides an important framework for all stakeholders as we continue to successfully grow and develop the Group. Whilst the drivers of demand in our industry in the medium term remain strong, the UK market in the short term remains challenging. With the continued investment in our sales and marketing initiatives and the decisive actions taken to realign our operating costs and the further opportunities that the acquisition of the Merlyn business brings, I am confident that our UK business is well placed to grow further. Our South African business has continued to deliver sustainable growth, and, notwithstanding the political unrest prior to the election of the new President, the medium-term outlook in South Africa remains positive, providing opportunities for the Group to continue to grow its market share. With our leading market positions, portfolio of strong brands, continued new product investment, strong financial position and self-help initiatives focused on market share gain and operational improvement, the Board remains confident that the Group should continue to make further progress for the year ending 31 March 2019.

**Business performance**

| | 2018 £m | 2017 £m |
|---|---|---|
| **Revenue** | **300.1** | **271.2** |
| **Operating profit** | **19.6** | **16.8** |
| IAS 19R administrative expenses | **1.4** | **2.0** |
| Acquisition related costs | **4.3** | **2.7** |
| Exceptional operating items | **2.1** | **2.3** |
| **Underlying operating profit** | **27.4** | **23.8** |

| | 2018 £m | 2017 £m |
|---|---|---|
| Revenue – UK | **200.6** | **182.3** |
| Revenue – South Africa | **99.5** | **88.9** |
| **Revenue – Group** | **300.1** | **271.2** |
| Underlying operating profit – UK | **18.6** | **17.4** |
| Underlying operating profit – South Africa | **8.8** | **6.4** |
| **Underlying operating profit – Group** | **27.4** | **23.8** |
| Underlying operating profit margin – UK | **9.3%** | **9.5%** |
| Underlying operating profit margin – South Africa | **8.8%** | **7.2%** |
| **Underlying operating profit margin – Group** | **9.1%** | **8.8%** |

| | 2018 £m | 2017 £m |
|---|---|---|
| **Underlying operating profit** | 27.4 | 23.8 |
| Depreciation | 6.4 | 6.4 |
| **Underlying EBITDA** | 33.8 | 30.2 |
| Net working capital movement | (2.8) | (1.8) |
| Share-based payments | 0.9 | 1.4 |
| Cash settlement of share options | (0.9) | - |
| **Underlying operating cash flow** | 31.0 | 29.8 |

**Business review – UK**

In the UK, revenue increased in the year by 10.0% to £200.6m (2017: £182.3m). This includes a first time contribution of £11.7m from our newly acquired Merlyn business (acquired November 2017). On a like for like basis (excluding revenues from Merlyn), total revenue was 3.6% higher than the prior year. Second half UK like for like revenue declined by 0.8% compared to the 8.5% growth seen in the first half. This was largely due to significantly lower retail revenues at Johnson Tiles and a tough comparative period last year. Johnson Tiles apart, second half UK like for like revenue was 8.4% higher (H1 +11.4%). On a full year like for like basis the UK businesses, excluding Johnson Tiles, grew total revenues by 9.8% with strong growth in the trade and export sectors.

Underlying operating profit grew by £1.2m to £18.6m (2017: £17.4m) with an operating margin of 9.3% (2017: 9.5%). This mainly reflected a first time contribution from Merlyn combined with a strong performance from Triton which was partly offset by a lower contribution from Johnson Tiles.

**Triton**

Revenue at Triton, our market leading UK domestic shower business, was 8.4% higher at £52.8m (2017: £48.7m). Successful brand investment and new product range launches resulted in revenue growth in both the UK and Export markets, maintaining Triton's brand and market leadership positions across its extensive customer base.

UK revenue was 7.0% higher than the prior year overall, with growth in the trade and retail sectors of 8.1% and 6.4% respectively. This performance was achieved following significant investment in a national TV, press, point of sale, online and social media marketing campaign (# See you first thing Britain). The campaign was a great success, with improved brand recognition and growth from digital channels as consumers and the trade increasingly moved to buying showers online.

Export revenue, which represents approximately 19% of overall revenue, was 15.3% higher compared to the prior year. Export growth was driven by the success of the T90SR silent pump electric shower which has firmly established itself and is proving to be Ireland's favourite shower.

Triton has continued to invest significantly in new product ranges. Launches in the year include the new Omnicare product designed for the care market, the new digital mixer family $H_2$OST, new shower accessories and an expanded mixer shower range with accompanying bathroom mixer taps.

Triton was awarded two prestigious Home & Living awards by the Daily and Sunday Express, Best Bathroom Supplier and Best of British, new national awards celebrating the brightest and best brands making a difference in the nation's homes. In the first award the judges recognised Triton's design strength, service and superb delivery capabilities, all great facets of the Brand. The second award was in recognition of Triton's long standing and ongoing support of British design and innovation and in particular for the new $H_2$OST digital mixer shower, which was recognised and celebrated for its ground-breaking style, design and superb features.

Pleasingly, Triton has cemented its position as a world class manufacturer, achieving the ISO9001 (2015) standard, updated from ISO9001 (2008) as well as continuing to meet ISO14001 and the highest factory and product approvals and accreditations from BSI and BEAB.

Triton again delivered strong underlying operating profits higher than the previous year and excellent cash conversion.

**Merlyn**

Merlyn, the UK and Ireland's No. 1 supplier of shower enclosures and trays to the residential, commercial and hospitality sectors recorded revenue of £11.7m for the period since acquisition on 23 November 2017, in line with the Board's expectations. For the twelve-month period ended 31 March 2018, including the relevant period prior to Norcros ownership, Merlyn grew revenue by 13.0% compared to the prior year.

UK retail grew by 18.5% and instrumental to this growth has been new product introductions including Mbox and Series 6 Frameless. Merlyn has recently been awarded the prestigious Red Dot 2018 design award for its Arysto Eight infold shower door enclosure.

Additionally, Merlyn has increased sales with independent retailers and buying groups, leading to it winning the Fortis Buying Group Supplier of the Year award.

On a year on year basis, including pre-acquisition revenues, the UK trade sector grew by 10.3% driven by further expansion in the specification channel with major account wins including McCarthy & Stone, Inhabit, Countryside Properties and Travis Perkins.

Consistent with our other recent acquisitions, it is pleasing to report that Merlyn has been integrated seamlessly into the Group. The performance of Merlyn since acquisition has been very encouraging, with the business generating an underlying operating profit and cash performance in line with the Board's expectations. We are also progressing potential Group synergies with new business wins being the initial area of focus.

**Vado**

Vado, our leading manufacturer of taps, mixer showers, bathroom accessories and valves, recorded revenue of £42.9m for the period (2017: £37.2m), 15.3% higher than the prior year. Vado delivered impressive growth in the UK, particularly in the specification segment, as well as growth in export markets resulting from the first full year of improved distribution arrangements in the Middle East.

UK revenue was 14.1% higher than the prior year with continued growth in both the trade and retail segments. UK trade sector revenue grew by 16.8% against the prior year, which followed 28.0% growth in the prior year, as Vado gained further share in the specification segment. Contracts with several of its existing major housebuilder clients were renewed and Vado products have been specified for home developments with new clients such as Renaker, Greystar and Springfield Homes. Vado was also awarded supplier of the year to the Fortis merchants buying group again, further recognising the continued investment in new product and customer service initiatives.

UK retail revenue was 2.3% ahead of last year as Vado continued to focus on increasing market share throughout its existing network. Investment in an expanded sales team and the launch of more consumer orientated marketing materials continues to facilitate growth.

Export revenue was 18.4% higher than last year, with significant growth achieved following changes made to Vado's distribution strategy in the Middle East as highlighted last year. Significant progress was also achieved in Africa, the Caribbean, New Zealand and Hong Kong where our distributor has opened a dedicated Vado showroom for architects and interior designers.

New product introductions continue to strengthen the Vado portfolio with the launch of Omika, a premium collection of taps, showers and accessories, designed by interior and product designer, Jo Love. Significant upgrades were also made to Vado's bestselling thermostatic shower valve to further develop sales of this key product.

The Group has recently re-furbished its London showroom, Material Lab, which now showcases Vado and Johnson Tiles products to the architect and design community and has directly led to multiple specification wins. Increased synergies between Vado and Johnson Tiles sales teams are also being realised as a result of the collaboration in this shared facility.

Underlying operating profit was lower than last year as the business continued to invest in additional sales and marketing initiatives and local warehousing infrastructure to maintain the excellent revenue growth and market share gain momentum.

**Croydex**

Croydex, our market leading, innovative designer, manufacturer and distributor of high quality bathroom furnishings and accessories, recorded revenue of £24.2m for the period (2017: £24.7m) 2.0% lower than the prior year.

UK revenue was 9.9% lower than last year, with retail sector revenue 15.9% lower and trade sector revenue 1.4% higher. The retail revenue decline principally reflected reduced demand from a major customer in the DIY sector, though there was promising growth in a number of other retail and department stores for Croydex, having rolled out a significant new branded offering across the Tesco estate (approx. 600 stores) and an expanded product range in John Lewis.

Trade revenue experienced modest growth as we commenced implementation of a focussed specification sales strategy, winning a number of national commercial specifications. A new relationship with the major international sanitaryware brand ROCA also delivered OEM cabinet sales in the UK with further opportunities to expand internationally.

Export revenue, which accounts for approximately 17% (2017: 10.1%) of revenue, increased by 68% in the year, mainly from continued growth in Germany and the USA. Additionally, Croydex have penetrated the Italian market, with new ranges being rolled out into the Italian DIY market, offering further opportunity for geographic expansion.

Customer and market specific new products were rolled out through the year, many incorporating Croydex IP and innovation, which continues to attract customers offering them novel problem-solving solutions to installation and useful functional user benefits. Amongst these were new FlexiFix bathroom accessories for the German and South African markets, HangNLock cabinets into Germany and the USA, rust free metal bathroom storage products in Italy and a range of new shower accessories and cabinets for the Irish market. Domestic product development included new cabinets, toilet seats and bathroom storage products many developed for both the Croydex brand and for own label OEM customers.

Underlying operating profit performance was below last year reflecting the overall decline in revenues, and further investment in sales, marketing and development expenditure in the UK and overseas markets. The business remained strongly cash generative.

**Abode**

Abode, our leading niche designer and distributor of high quality kitchen taps, bathroom taps and kitchen sinks, recorded revenue of £12.8m for the period (2017: £10.6m), 20.8% higher than the prior year.

The business grew revenue equally across branded retail, contract and private label sectors as a result of new product introductions and range enhancements. In particular, sales of the patented Pronteau hot water taps have grown across all sectors. Abode launched over 50 new branded products that were well received by its trade customers, with the focus being on its growing kitchen sink business. Amongst these new products were new Abode and Pronteau branded products developed for launch into Wickes and Benchmarx stores.

Underlying operating profit performance was ahead of last year, with strong cash conversion.

**Johnson Tiles**

Johnson Tiles, the UK market leading ceramic tile manufacturer and a market leader in the supply of both own manufactured and imported tiles, recorded total revenue 11.5% lower at £47.1m (2017: £53.2m). Revenue in the first half of the year was 1.6% higher than the comparative period, but revenue in the second half declined sharply (23.4%) reflecting much softer market conditions. UK revenue was 10.0% lower than last year.

UK trade sector revenue was 4.5% lower than the prior year with first half revenues down 0.8% and second half revenues down 8.3%. The social housing market remains challenging as expenditure has been diverted away from bathroom refurbishments, albeit we continued to benefit from further growth with national and regional house developers and bespoke specifications.

UK retail revenue was 15.7% lower than the previous year with the decline in revenue of -36.2% in the second half much greater than expected and in stark comparison to the growth experienced in the first half of +9.8%. This decline reflected the expected loss in revenue following the Kingfisher unified programme but the slower than expected growth in new business secured with other major DIY accounts reflecting the more challenging market conditions in this sector.

Export revenue was 23.3% lower than the prior year mainly as low margin business in the Middle East was exited.

Whilst the actions to restructure the tile business in 2017 were completed successfully, including a significant reduction in stock levels, market conditions in the second half of the year proved more challenging than expected and the business remained loss making. As a result, we have implemented a further restructuring programme which will involve the loss of up to 50 jobs. This has resulted in an exceptional charge of £2.1m. Annualised savings are expected to be at least £2.0m and we remain confident that this decisive action will return the tile business back into profitability in the current year.

Johnson Tiles also continued to invest significantly in developing the market for Cristal Grip during the course of the year. The product is on display across all Leroy Merlin outlets in France, on trial in Leroy Merlin stores in Italy and Spain and it is expected that trials with another retailer in Germany will start in the first half of this year.

**Norcros Adhesives**

Revenue at Norcros Adhesives, our UK manufacturer and supplier of tile and stone adhesives and ancillary products, was 15.2% higher at £9.1m (2017: £7.9m).

Domestic revenue was 11.0% above last year, reflecting increased activity across existing trade and retail accounts, including growth in Wickes following the contract win highlighted last year. The manufacturing capacity upgrade was successfully completed in the period to meet increased demand.

Our small Middle East operation continues to gain traction with sales 67% ahead of last year. Brand development and market credibility continues to build, and our business is aligned with a number of stone fixers in the region. Recently, the business has won the contract to supply materials to the prestigious Bahrain Airport project, which commenced in the first quarter of this financial year.

In relation to new product development, we successfully launched the Pro Gyp-base product, which is unique in the market and exploits a requirement for a fast-track method to allow tiling onto gypsum-based screeds within seven days, and a new range of efflorescence resistant grout. The Pro Gyp-base product is an important step in our development of the resilient channel and has enabled strategic partnerships to be formed with Barratt, Unilin and Gypsol to provide a fixing system for soft flooring finishes.

Underlying operating profit performance was marginally below last year, reflecting the continued investment in the development of the Middle East market and increasing sales and marketing resource and initiatives in the UK.

**Business review - South Africa**

Our South African business continued the sustained progress of recent years with another year of strong constant currency growth with revenue 5.9% higher than last year. The Rand appreciated against Sterling during the year with the average exchange rate 5.4% stronger at ZAR 17.32 (2017: ZAR 18.31), resulting in full year reported revenue 11.9% ahead of prior year at £99.5m (2017: £88.9m).

Underlying operating profit for the year improved by 38% to £8.8m (2017: £6.4m) including a £0.3m benefit from the stronger Rand. This reflected the market share gains, further supply chain improvements and the strong management of costs. The return on sales was 8.8% (2017: 7.2%), a considerable increase on last year.

**Johnson Tiles South Africa**

Johnson Tiles South Africa, our tile manufacturing business in South Africa, recorded external revenues of £12.6m, 9.6% higher than last year on a constant currency basis. On a reported basis revenue was 16.7% ahead of the £10.8m achieved in the prior year.

The business has again made good progress in both manufacturing and sales and is in the process of increasing plant capacity by 10% to support increased market demand.

A strong new product development programme has driven increased demand from our independent customer base. This demand has been met through increased plant throughput and lower demand from our export market and Zimbabwe in particular.

The new product development programme and ongoing plant improvements have helped deliver another year of operating profit growth.

**TAL**

TAL, our market leading adhesives business in South Africa, delivered strong growth with constant currency independent sector revenue increasing 8.5% compared to prior year or 14.7% on a reported Sterling basis to £24.2m (2017: £21.1m). This reflected local market share gains which have been achieved through targeted product introductions and broadening of the customer base.

Operational improvements in all three plants, focussed training programmes and procurement management have delivered a tangible and sustained improvement in our manufacturing performance.

These improvements together with the market share gains delivered underlying operating profit growth in the year. The business also maintained its record of strong cash conversion.

**Tile Africa**

Tile Africa, our leading retailer of wall and floor tiles, adhesives, showers, sanitaryware and bathroom fittings, delivered strong constant currency growth with revenue 4.2% higher on a constant currency basis, being 10.0% higher on a Sterling reported basis, at £62.7m (2017: £57.0m).

Progress has been made in sourcing and pricing management which drove improved margins. These benefits were particularly evident in the taps and bathroom segments as the business continues to benefit from the international sourcing infrastructure of Vado and Croydex. These group synergies have been important in driving bathroom store-within-a-store revenues and the business will continue to invest in growing this segment in the year ahead.

Tile Africa now has 32 owned stores and two franchise stores. Two new stores were successfully opened in the period, at Southgate and Clearwater, both in the CX format. There are plans to open a further two CX format stores in the next twelve to eighteen months.

Underlying operating profit for the year was ahead of last year and the business delivered strong cash conversion.

**Financial overview**

| | 2018<br>£m | 2017<br>£m |
|---|---|---|
| **Revenue** | **300.1** | 271.2 |
| **Underlying operating profit** | **27.4** | 23.8 |
| IAS 19R administrative costs | **(1.4)** | (2.0) |
| Acquisition related costs | **(4.3)** | (2.7) |
| Exceptional operating items | **(2.1)** | (2.3) |
| **Operating profit** | **19.6** | 16.8 |
| Net finance costs | **(6.1)** | (5.3) |
| **Profit before taxation** | **13.5** | 11.5 |
| Taxation | **(3.6)** | (3.0) |
| **Profit for the year** | **9.9** | 8.5 |

**Revenue**

Group revenue at £300.1m (2017: £271.2m) increased by 10.7% on a reported basis, 8.6% on a constant currency basis, and 4.4% on a constant currency like for like basis.

**Underlying operating profit**

Underlying operating profit increased by 15.1% to £27.4m (2017: £23.8m). Our UK businesses delivered underlying operating profit of £18.6m (2017: £17.4m), and our South African businesses generated an underlying operating profit of £8.8m (2017: £6.4m). On a constant currency basis, the improvement in underlying operating profit in the South African businesses was £2.1m. Group underlying operating profit margin was 9.1% (2017: 8.8%).

**IAS 19R administrative costs**

These costs represent the costs incurred by the Trustee of administering the UK pension schemes and are reflected in the Income Statement under IAS 19R. Costs of £1.4m (2017: £2.0m) have decreased on prior year due to restructuring costs incurred in 2017 and the lower year-on-year running costs resulting from this restructuring.

**Acquisition related costs**

A cost of £4.3m (2017: £2.7m) has been recognised in the year and is analysed as follows:

| | 2018 £m | 2017 £m |
|---|---|---|
| Deferred remuneration | **(0.3)** | 0.4 |
| Intangible asset amortisation | **2.2** | 1.2 |
| Staff costs and advisory fees | **2.4** | 1.1 |
| | **4.3** | 2.7 |

In accordance with IFRS 3R, a proportion of the deferred consideration payable to the former shareholders of certain acquired businesses is required to be treated as remuneration, and, accordingly, is expensed to the Income Statement as incurred. There is a net credit of £0.3m in the year due to the release of overprovisions in earlier years.

**Exceptional operating items**

A net exceptional operating charge of £2.1m (2017: £2.3m) was recorded relating entirely to restructuring costs.

| | 2018 £m | 2017 £m |
|---|---|---|
| Restructuring costs | **2.1** | **2.3** |

In 2017 we implemented a restructuring programme at Johnson Tiles UK designed to improve its operating performance and increase manufacturing flexibility which resulted in a £2.3m exceptional charge. Notwithstanding the benefits of this restructuring the business remained loss making as market conditions proved more challenging than expected. As a result, the Board has implemented a further restructuring programme which will involve the loss of up to 50 jobs and has resulted in a 2018 exceptional charge of £2.1m.

**Net finance costs**

Net finance costs for the year of £6.1m (2017: £5.3m) increased mainly due to the £0.9m non-cash charge increase relating to the movement in the fair value of foreign exchange contracts of £3.1m (2017: £2.2m). Bank interest payable of £1.1m (2017: £0.9m) was higher than the previous year due to an increased level of debt following the Merlyn acquisition.

In addition, the Group has recognised a £1.6m interest cost in respect of the pension scheme liability (2017: £2.0m) which reduced by £0.4m principally reflecting the lower interest rate applied in the year.

**Profit before tax**
Underlying profit before tax was £26.3m (2017: £22.9m), reflecting the increased underlying operating profit of £3.6m noted above. Underlying profit before tax is reconciled as shown below:

| | **2018 £m** | 2017 £m |
|---|---|---|
| Profit before taxation from continuing operations | **13.5** | 11.5 |
| Adjusted for: | | |
| – IAS 19R administrative expenses | **1.4** | 2.0 |
| – acquisition related costs (see Note 5) | **4.3** | 2.7 |
| – exceptional operating items (see Note 5) | **2.1** | 2.3 |
| – amortisation of costs of raising finance | **0.3** | 0.2 |
| – net movement on fair value of derivative financial instruments | **3.1** | 2.2 |
| – IAS 19R finance cost | **1.6** | 2.0 |
| **Underlying profit before taxation** | **26.3** | 22.9 |

**Taxation**
The tax charge for the year of £3.6m (2017: £3.0m) represents an effective tax rate for the year of 26.7% (2017: 26.1%).

This increase in effective tax rate is mainly due to a higher proportion of the Group's taxable profits being generated in South Africa.

The standard rates of corporation tax in the UK and South Africa were 19% (2017: 20%) and 28% (2017: 28%) respectively.

**Dividends**

As previously announced, it is the Board's intention to continue a progressive yet prudent dividend policy subject to the Group's earnings, cash flow and balance sheet position. As such the Board is recommending a final dividend of 5.2p (2017: 4.8p) per share, which, if approved, together with the interim dividend of 2.6p (2017: 2.4p), makes a total dividend of 7.8p (2017: 7.2p) in respect of the year ended 31 March 2018.

This final dividend, if approved at the Annual General Meeting, will be payable on 2 August 2018 to shareholders on the register on 22 June 2018. The shares will be quoted ex-dividend on 21 June 2018.

Norcros plc operates a Dividend Reinvestment Plan (DRIP). If a shareholder wishes to use the DRIP the latest date to elect for this in respect of this final dividend is 6 July 2018.

**Balance Sheet**
The Group's balance sheet is summarised below.

| | **2018 £m** | **2017 £m** |
|---|---|---|
| Property, plant and equipment | 45.0 | 43.0 |
| Goodwill and intangible assets | 98.9 | 44.8 |
| Deferred tax | 4.0 | 11.0 |
| Net current assets excluding cash and borrowings | 58.0 | 53.0 |
| Pension scheme liability | (48.0) | (62.7) |
| Other non-current assets and liabilities | (6.2) | (9.3) |
| Cash and borrowings | (47.1) | (23.2) |
| **Net assets** | **104.6** | **56.6** |

Total net assets increased by £48.0m to £104.6m (2017:£56.6m). The acquisition of the Merlyn business resulted in an increase in goodwill and intangible assets of £56.2m and other assets of £12.6m on acquisition.

Property, plant and equipment increased by £2.0m overall, and included additions of £7.5m (2017: £7.9m) and acquisitions (the Merlyn business) of £0.8m (2017: £nil). The depreciation charge was £6.4m (2017: £6.4m) and exchange differences were £0.1m (2017: £3.3m). The disposals in the year had no impact on net book value which was the same in the prior year.

The deferred tax asset reduced by £7.0m to £4.0m (2017: £11.0m). The decrease relates to a £4.3m deferred tax liability recognised on the acquisition of Merlyn and a reduction in the deferred tax asset of £2.5m reflecting the current year actuarial gains in the pension plan.

**Pension schemes**

The gross defined benefit pension scheme valuation of the UK scheme showed a deficit of £48.0m compared to a deficit of £62.7m last year. Whilst the value of scheme assets reduced by £4.8m in the year, the value of the liabilities fell by £19.5m, which was due to the combination of a higher discount rate of 2.65% (2017: 2.60%), lower inflation expectations and the latest mortality improvement assumption.

The most recent triennial actuarial valuation for the Group's UK defined benefit pension scheme was completed in March 2015 and showed a deficit of £73.5m (2012: £61.9m) representing an 84% funding level (2012: 85%). The increased deficit was driven predominantly by historically low gilt yields. The current deficit recovery plan was agreed with the Scheme Trustee, with a cash contribution of £2.5m per annum starting in April 2016, and increasing with CPI, for a period of ten years. A new triennial valuation dated 1 April 2018 and updated deficit recovery plan will need to be agreed between the Trustee and Company in due course and discussions are now underway.

In line with the above agreement the Group made deficit recovery contributions of £2.5m (2017: £2.5m) into its UK defined benefit pension scheme during the year.

The Group's contributions to its defined contribution pension schemes were £3.5m (2017: £3.1m).

**Cash flow and net debt**

Net debt increased by £23.9m in the year to £47.1m (2017: £23.2m) primarily reflecting the acquisition of Merlyn (which was partly debt funded). A summary of the movement in net debt is shown below.

Underlying operating cash flow was £1.2m higher than in the prior year at £31.0m (2017: £29.8m). Overall underlying cash conversion in the year was 91.7% of underlying EBITDA (2017: 98.7%).

Cash generated from operating activities was £2.0m lower than the previous year at £23.5m, largely due to the £3.2m increase in outflows from exceptional items and acquisition related costs partly offset by the £1.2m improvement in underlying operating cash flows. Cash flows from exceptional items and acquisition related costs primarily relates to costs related to the acquisition of Merlyn and the restructuring costs at Johnson Tiles.

| | 2018 £m | 2017 £m |
|---|---|---|
| **Underlying operating cash flow** | **31.0** | 29.8 |
| Cash flows from exceptional items and acquisition related costs | **(5.0)** | (1.8) |
| Pension fund deficit recovery contributions | **(2.5)** | (2.5) |
| **Cash flow generated from operations** | **23.5** | 25.5 |
| Net interest paid | **(1.1)** | (0.9) |
| Taxation | **(4.9)** | (1.9) |
| **Net cash generated from operating activities** | **17.5** | 22.7 |
| Capital expenditure | **(7.7)** | (8.0) |
| Acquisitions | **(59.1)** | (2.7) |
| Dividends | **(5.0)** | (4.2) |
| Issue of share capital | **30.1** | — |
| Other items | **0.3** | 1.5 |
| **Movement in net debt** | **(23.9)** | 9.3 |
| Opening net debt | **(23.2)** | (32.5) |
| **Closing net debt** | **(47.1)** | (23.2) |

Acquisition expenditure of £59.1m relates entirely to the acquisition of Merlyn. In the previous year, outflows relating to acquisitions included the final deferred consideration payment of £2.5m to the former shareholders of Vado and £0.2m paid in respect of the acquisition of Abode.

Capital expenditure at £7.7m (2017: £8.0m) included investment in a kiln conversion at Johnson Tiles and a plant upgrade for Norcros Adhesives. In South Africa, major items of investment included the new store at Clearwater and other store upgrades, mainly at Woodmead and Germiston together with investment in new inspection machinery at JTSA.

**Bank funding**

In November 2017 the Group agreed an unsecured £120m revolving credit facility plus a £30m accordion facility with Lloyds Bank plc, HSBC Bank plc and Barclays Bank plc. The banking facility matures in November 2021 with an option (subject to bank approval) to extend for a further year.

**Responsibility Statement**
Each of the directors, whose names and functions are listed below, confirms that, to the best of their knowledge:
The consolidated financial statements, prepared in accordance with the applicable United Kingdom law and in conformity with IFRS, as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and
The business review includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole.

**Directors:** Martin Towers (Chairman), Nick Kelsall (Group Chief Executive), Shaun Smith (Group Finance Director), David McKeith (Non-Executive Director) and Jo Hallas (Non-Executive Director).

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

**Shaun Smith**
***Group Finance Director***

# Consolidated income statement

Year ended 31 March 2018

| | Notes | 2018 £m | 2017 £m |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 2 | **300.1** | 271.2 |
| Underlying operating profit | | **27.4** | 23.8 |
| IAS 19R administrative expenses | | **(1.4)** | (2.0) |
| Acquisition related costs | 3 | **(4.3)** | (2.7) |
| Exceptional operating items | 3 | **(2.1)** | (2.3) |
| **Operating profit** | | **19.6** | 16.8 |
| Finance costs | 4 | **(4.5)** | (3.3) |
| IAS 19R finance cost | | **(1.6)** | (2.0) |
| **Profit before taxation** | | **13.5** | 11.5 |
| Taxation | | **(3.6)** | (3.0) |
| **Profit for the year from continuing operations** | | **9.9** | 8.5 |
| **Earnings per share attributable to equity holders of the Company** | | | |
| Basic earnings per share: | | | |
| From profit for the year | 6 | **14.5p** | 13.9p |
| Diluted earnings per share: | | | |
| From profit for the year | 6 | **14.1p** | 13.4p |
| Weighted average number of shares for basic earnings per share (millions) | | **68.0** | 61.1 |
| **Alternative performance measures** | | | |
| Underlying profit before taxation (£m) | 5 | **26.3** | 22.9 |
| Underlying earnings (£m) | 5 | **20.6** | 17.6 |
| Basic underlying earnings per share | 6 | **30.3p** | 28.8p |
| Diluted underlying earnings per share | 6 | **29.5p** | 27.8p |

# Consolidated statement of comprehensive income

Year ended 31 March 2018

| | **2018** **£m** | 2017 £m |
|---|---|---|
| Profit for the year | **9.9** | 8.5 |
| Other comprehensive income and expense: | | |
| Items that will not subsequently be reclassified to the Income Statement | | |
| Actuarial gains/(losses) on retirement benefit obligations | **12.6** | (5.2) |
| Items that may be subsequently reclassified to the Income Statement | | |
| Foreign currency translation adjustments | **0.4** | 8.5 |
| Other comprehensive income for the year | **13.0** | 3.3 |
| **Total comprehensive income for the year** | **22.9** | 11.8 |

Items in the statement are disclosed net of tax.

# Consolidated balance sheet

At 31 March 2018

| | 2018 £m | 2017 £m |
|---|---|---|
| **Non-current assets** | | |
| Goodwill | **56.6** | 31.1 |
| Intangible assets | **42.3** | 13.7 |
| Property, plant and equipment | **45.0** | 43.0 |
| Deferred tax assets | **4.0** | 11.0 |
| | **147.9** | 98.8 |
| **Current assets** | | |
| Inventories | **74.9** | 70.3 |
| Trade and other receivables | **64.4** | 56.8 |
| Derivative financial instruments | — | 0.7 |
| Cash and cash equivalents | **25.8** | 37.5 |
| | **165.1** | 165.3 |
| **Current liabilities** | | |
| Trade and other payables | **(77.0)** | (72.0) |
| Derivative financial instruments | **(3.3)** | (0.8) |
| Current tax liabilities | **(1.0)** | (2.0) |
| Financial liabilities – borrowings | **(8.5)** | (30.9) |
| | **(89.8)** | (105.7) |
| **Net current assets** | **75.3** | 59.6 |
| **Total assets less current liabilities** | **223.2** | 158.4 |
| **Non-current liabilities** | | |
| Financial liabilities – borrowings | **(64.4)** | (29.8) |
| Pension scheme liability | **(48.0)** | (62.7) |
| Other non-current liabilities | **(1.3)** | (3.6) |
| Provisions | **(4.9)** | (5.7) |
| | **(118.6)** | (101.8) |
| **Net assets** | **104.6** | 56.6 |
| **Financed by:** | | |
| Share capital | **8.0** | 6.1 |
| Share premium | **29.7** | 1.1 |
| Retained earnings and other reserves | **66.9** | 49.4 |
| **Total equity** | **104.6** | 56.6 |

# Consolidated cash flow statement

Year ended 31 March 2018

| | Notes | 2018 £m | 2017 £m |
|---|---|---|---|
| **Cash generated from operations** | 7 | **23.5** | 25.5 |
| Income taxes paid | | **(4.9)** | (1.9) |
| Interest paid | | **(1.1)** | (0.9) |
| **Net cash generated from operating activities** | | **17.5** | 22.7 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment and intangible assets | | **(7.7)** | (8.0) |
| Acquisition of subsidiary undertakings (including payment of deferred consideration) net of cash acquired | | **(59.1)** | (2.7) |
| **Net cash used in investing activities** | | **(66.8)** | (10.7) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of ordinary share capital | | **32.1** | — |
| Costs of equity issue | | **(1.6)** | — |
| Purchase of treasury shares | | **(0.4)** | — |
| Costs of raising debt finance | | **(0.6)** | — |
| Drawdown/(repayment) of borrowings | | **35.0** | (6.0) |
| Dividends paid to the Company's shareholders | | **(5.0)** | (4.2) |
| **Net cash generated from/(used in) financing activities** | | **59.5** | (10.2) |
| **Net increase in cash at bank and in hand and bank overdrafts** | | **10.2** | 1.8 |
| Cash at bank and in hand and bank overdrafts at the beginning of the year | | **6.6** | 3.1 |
| Exchange movements on cash and bank overdrafts | | **0.5** | 1.7 |
| **Cash at bank and in hand and bank overdrafts at the end of the year** | | **17.3** | 6.6 |

# Consolidated statement of changes in equity

Year ended 31 March 2018

| | Ordinary share capital £m | Share premium £m | Treasury reserve £m | Translation reserve £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|---|
| At 1 April 2016 | 6.1 | 1.1 | — | (15.2) | 55.6 | 47.6 |
| Comprehensive income: | | | | | | |
| Profit for the year | — | — | — | — | 8.5 | 8.5 |
| Other comprehensive income/(expense): | | | | | | |
| Actuarial loss on retirement benefit obligations | — | — | — | — | (5.2) | (5.2) |
| Foreign currency translation adjustments | — | — | — | 8.5 | — | 8.5 |
| Total other comprehensive income/(expense) | — | — | — | 8.5 | (5.2) | 3.3 |
| Transactions with owners: | | | | | | |
| Shares issued | — | — | — | — | — | — |
| Dividends paid | — | — | — | — | (4.2) | (4.2) |
| Value of employee services | — | — | — | — | 1.4 | 1.4 |
| At 31 March 2017 | 6.1 | 1.1 | — | (6.7) | 56.1 | 56.6 |
| Comprehensive income: | | | | | | |
| Profit for the year | — | — | — | — | 9.9 | 9.9 |
| Other comprehensive income: | | | | | | |
| Actuarial gain on retirement benefit obligations | — | — | — | — | 12.6 | 12.6 |
| Foreign currency translation adjustments | — | — | — | 0.4 | — | 0.4 |
| Total other comprehensive income | — | — | — | 0.4 | 12.6 | 13.0 |
| Transactions with owners: | | | | | | |
| Shares issued | 1.9 | 28.6 | — | — | — | 30.5 |
| Dividends paid | — | — | — | — | (5.0) | (5.0) |
| Purchase of treasury shares | — | — | (0.4) | — | — | (0.4) |
| Cash-settled share options | — | — | — | — | (0.9) | (0.9) |
| Equity-settled share options | — | — | 0.4 | — | (0.4) | — |
| Value of employee services | — | — | — | — | 0.9 | 0.9 |
| **At 31 March 2018** | **8.0** | **29.7** | — | **(6.3)** | **73.2** | **104.6** |

## Notes to the preliminary statement

*Year ended 31 March 2018*

## 1. Basis of preparation

The principal activities of Norcros plc (“the Company”) and its subsidiaries (together “the Group”) are the design, manufacture and distribution of a range of high quality and innovative bathroom and kitchen products mainly in the UK and South Africa. The Company is a public limited company which is listed on the London Stock Exchange market of listed securities and is incorporated and domiciled in the UK. The address of its registered office is Ladyfield House, Station Road, Wilmslow, SK9 1BU.

The financial information presented in this preliminary announcement is extracted from, and is consistent with, the Group’s audited financial statements for the year ended 31 March 2018. The financial information set out above does not constitute the Company’s statutory financial statements for the periods ended 31 March 2018 or 31 March 2017 but is derived from those financial statements. Statutory financial statements for 2018 will be delivered following the Company’s annual general meeting. The auditors have reported on those financial statements; their report was unqualified and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The Group’s results have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

## 2. Segmental reporting

The Group operates in two main geographical areas: the UK and South Africa. All inter-segment transactions are made on an arm’s length basis. The chief operating decision maker (being the Board) assesses performance and allocates resources based on geography and accordingly segments have been determined on this basis. Corporate costs are allocated to segments on the basis of external turnover.

***Continuing operations — year ended 31 March 2018***

| | UK £m | South Africa £m | Group £m |
|---|---|---|---|
| **Revenue** | **200.6** | **99.5** | **300.1** |
| Underlying operating profit | **18.6** | **8.8** | **27.4** |
| IAS 19R administrative expenses | **(1.4)** | — | **(1.4)** |
| Acquisition related costs | **(4.3)** | — | **(4.3)** |
| Exceptional operating items | **(2.1)** | — | **(2.1)** |
| Operating profit | **10.8** | **8.8** | **19.6** |
| Finance costs (net) | | | **(6.1)** |
| Profit before taxation | | | **13.5** |
| Taxation | | | **(3.6)** |
| Profit for the year from continuing operations | | | **9.9** |
| Net debt | | | **(47.1)** |
| Segmental assets | **239.4** | **73.6** | **313.0** |
| Segmental liabilities | **(189.0)** | **(19.4)** | **(208.4)** |
| Additions to property, plant and equipment | **4.9** | **2.6** | **7.5** |
| Depreciation | **4.2** | **2.2** | **6.4** |

For the year ended 31 March 2018 no single customer accounted for more than 10% of Group revenue.  In the previous year revenue of £31.9m was derived from a single customer which was attributable to the UK segment.

***Continuing operations — year ended 31 March 2017***

| | UK £m | South Africa £m | Group £m |
|---|---|---|---|
| **Revenue** | 182.3 | 88.9 | 271.2 |
| Underlying operating profit | 17.4 | 6.4 | 23.8 |
| IAS 19R administrative expenses | (2.0) | — | (2.0) |
| Acquisition related costs | (2.7) | — | (2.7) |
| Exceptional operating items | (2.3) | — | (2.3) |
| Operating profit | 10.4 | 6.4 | 16.8 |
| Finance costs (net) | | | (5.3) |
| Profit before taxation | | | 11.5 |
| Taxation | | | (3.0) |
| Profit for the year from continuing operations | | | 8.5 |
| Net debt | | | (23.2) |
| Segmental assets | 197.2 | 66.9 | 264.1 |
| Segmental liabilities | (188.2) | (19.3) | (207.5) |
| Additions to property, plant and equipment | 4.6 | 3.3 | 7.9 |
| Depreciation | 4.3 | 2.1 | 6.4 |

## 3. Acquisition related costs and exceptional operating items

An analysis of acquisition related costs and exceptional operating items is shown below:

| Acquisition related costs | **2018 £m** | 2017 £m |
|---|---|---|
| Deferred remuneration[1] | **(0.3)** | 0.4 |
| Intangible asset amortisation[2] | **2.2** | 1.2 |
| Advisory fees and staff costs[3] | **2.4** | 1.1 |
| | **4.3** | 2.7 |

1. In accordance with IFRS 3R, a proportion of the deferred consideration payable to the former shareholders of certain acquired businesses is required to be treated as remuneration, and, accordingly, is expensed to the Income Statement as incurred. There is a net credit of £0.3m in the year due to the release of overprovisions in earlier years.
2. Non-cash amortisation charges in respect of intangible assets recognised following certain recent acquisitions.
3. Costs of professional advisory fees and maintaining an in-house acquisitions department incurred in connection with the Group's business combination activities.

| Exceptional operating items | **2018 £m** | 2017 £m |
|---|---|---|
| Restructuring costs[1] | **2.1** | 2.3 |

1. As recently announced, the Group commenced a further restructuring of its UK tiles business in March 2018 at a cost of £2.1m in order to reduce its cost base. In the previous year a charge of £2.3m was made in relation to an earlier restructuring of the UK tiles business.

## 4. Finance income and costs

| | **2018 £m** | 2017 £m |
|---|---|---|
| Interest payable on bank borrowings | **1.1** | 0.9 |
| Amortisation of costs of raising debt finance[1] | **0.3** | 0.2 |
| Movement on fair value of derivative financial instruments | **3.1** | 2.2 |
| **Finance costs** | **4.5** | 3.3 |

1. Included within the charge for the year is £0.1m for the write-off of the unamortised costs relating to the old banking facility which was replaced in November 2017.

## 5. Alternative performance measures

The Group makes use of a number of alternative performance measures to assess business performance and provide additional useful information to shareholders. Such alternative performance measures should not be viewed as a replacement of, or superior to, those defined by Generally Accepted Accounting Principles (GAAP). Definitions of alternative performance measures used by the Group and, where relevant, reconciliations from GAAP-defined reporting measures to the Group's alternative performance measures are provided below.

The alternative performance measures used by the Group are:

| Measure | Definition |
|---|---|
| Underlying operating profit | Operating profit before IAS 19R administrative expenses, acquisition related costs and exceptional operating items |
| Underlying profit before taxation | Profit before taxation before IAS 19R administrative expenses, acquisition related costs, exceptional operating items, amortisation of costs of raising finance, net movement on fair value of derivative financial instruments, discounting of property lease provisions and finance costs relating to pension schemes |
| Underlying taxation | Taxation before tax associated with those items listed as being excluded from underlying profit before taxation |
| Underlying earnings | Underlying profit before tax less underlying taxation |
| Underlying capital employed | Capital employed adjusted for business combinations where relevant and the average impact of exchange rate movements |
| Underlying operating margin | Underlying operating profit expressed as a percentage of revenue |
| Underlying return on capital employed (ROCE) | Underlying operating profit expressed as a percentage of the average of opening and closing underlying capital employed |
| Basic underlying earnings per share | Underlying earnings divided by the weighted average number of shares for basic earnings per share |
| Diluted underlying earnings per share | Underlying earnings divided by the weighted average number of shares for diluted earnings per share |
| EBITDA | EBITDA is a measure commonly used by investors and financiers to assess business performance and is derived from operating profit before depreciation and amortisation |
| Underlying EBITDA | Underlying EBITDA reflects EBITDA as adjusted for IAS 19R administrative expenses, acquisition related costs and exceptional operating items |
| Underlying operating cash flow | Cash generated from continuing operations before cash outflows from exceptional items and acquisition related costs and pension fund deficit recovery contributions |
| Pro-forma EBITDA | An annualised EBITDA figure used for the purpose of calculating banking covenant ratios |
| Pro-forma leverage | Net debt expressed as a ratio of pro-forma EBITDA |

Underlying profit and underlying earnings per share measures provide shareholders with additional useful information on the underlying performance of the Group. This is because these measures are those principally used by the Directors to assess the performance of the Group and are used as the basis for calculating the level of the annual bonus and long-term incentives earned by the Directors. Underlying ROCE is one of the Group's strategic key performance indicators and is therefore provided so that shareholders can assess the Group's performance in relation to its strategic targets. Underlying EBITDA and underlying operating cash flow are also used internally by the Directors in order to assess the Group's cash generation. The term 'underlying' is not recognised under IFRS and consequently the Group's definition of underlying may differ from that used by other companies.

***Reconciliations from GAAP-defined reporting measures to the Group's alternative performance measures***

*Consolidated Income Statement*

**(a) Underlying profit before taxation and underlying earnings**

| | 2018 £m | 2017 £m |
|---|---|---|
| Profit before taxation from continuing operations | **13.5** | 11.5 |
| Adjusted for: | | |
| – IAS 19R administrative expenses | **1.4** | 2.0 |
| – acquisition related costs (see Note 3) | **4.3** | 2.7 |
| – exceptional operating items (see Note 3) | **2.1** | 2.3 |
| – amortisation of costs of raising finance | **0.3** | 0.2 |
| – net movement on fair value of derivative financial instruments | **3.1** | 2.2 |
| – IAS 19R finance cost | **1.6** | 2.0 |
| **Underlying profit before taxation** | **26.3** | 22.9 |
| Taxation attributable to underlying profit before taxation | **(5.7)** | (5.3) |
| **Underlying earnings** | **20.6** | 17.6 |

**(b) Underlying EBITDA**

| | 2018 £m | 2017 £m |
|---|---|---|
| Operating profit from continuing operations | **19.6** | 16.8 |
| Adjusted for: | | |
| – depreciation | **6.4** | 6.4 |
| – IAS 19R administrative expenses | **1.4** | 2.0 |
| – acquisition related costs (see Note 3) | **4.3** | 2.7 |
| – exceptional operating items (see Note 3) | **2.1** | 2.3 |
| **Underlying EBITDA** | **33.8** | 30.2 |

*Consolidated Cash Flow Statement*

**(a) Underlying operating cash flow**

| | 2018 £m | 2017 £m |
|---|---|---|
| Cash generated from operations (see Note 7) | **23.5** | 25.5 |
| Adjusted for: | | |
| – cash flows from exceptional items and acquisition related costs (see Note 7) | **5.0** | 1.8 |
| – pension fund deficit recovery contributions (see Note 7) | **2.5** | 2.5 |
| **Underlying operating cash flow** | **31.0** | 29.8 |

*Consolidated Balance Sheet*

**(a) Underlying capital employed**

| | 2018 £m | 2017 £m |
|---|---|---|
| Net assets | **104.6** | 56.6 |
| Adjusted for: | | |
| – pension scheme liability (net of associated tax) | **39.9** | 52.0 |
| – cash and cash equivalents | **(25.8)** | (37.5) |
| – financial liabilities – borrowings | **72.9** | 60.7 |
| **Capital employed** | **191.6** | 131.8 |
| Foreign exchange adjustment | **(1.7)** | (3.5) |
| Adjustment for acquisitions | **(16.9)** | — |
| **Underlying capital employed** | **173.0** | 128.3 |

## 6. Earnings per share

***Basic and diluted earnings per share***

Basic EPS is calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held in the Norcros Employee Benefit Trust.

For diluted EPS, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potential dilutive ordinary shares. At 31 March 2018 the potential dilutive ordinary shares amounted to 1,778,436 (2017: 2,042,900) as calculated in accordance with IAS 33.

The calculation of EPS is based on the following profits and numbers of shares:

| | **2018 £m** | 2017 £m |
|---|---|---|
| **Profit for the year** | **9.9** | 8.5 |

| | **2018 Number** | 2017 Number |
|---|---|---|
| Weighted average number of shares for basic earnings per share | **68,043,628** | 61,098,476 |
| Share options and warrants | **1,778,436** | 2,042,900 |
| Weighted average number of shares for diluted earnings per share | **69,822,064** | 63,141,376 |

| | **2018** | 2017 |
|---|---|---|
| Basic earnings per share: | | |
| From profit for the year | **14.5p** | 13.9p |
| Diluted earnings per share: | | |
| From profit for the year | **14.1p** | 13.4p |

***Basic and diluted underlying earnings per share***

Basic and diluted underlying earnings per share has also been provided which reflects underlying earnings from continuing operations divided by the weighted average number of shares set out above.

| | **2018 £m** | 2017 £m |
|---|---|---|
| **Underlying earnings** (see Note 5) | **20.6** | 17.6 |

| | **2018** | 2017 |
|---|---|---|
| Basic underlying earnings per share | **30.3p** | 28.8p |
| Diluted underlying earnings per share | **29.5p** | 27.8p |

## 7. Consolidated cash flow statement

***(a) Cash generated from operations***

The analysis of cash generated from operations is given below:

*Continuing operations*

| | **2018 £m** | 2017 £m |
|---|---|---|
| Profit before taxation | **13.5** | 11.5 |
| Adjustments for: | | |
| – IAS 19R administrative expenses included in the Income Statement | **1.4** | 2.0 |
| – acquisition related costs included in the Income Statement | **4.3** | 2.7 |
| – exceptional items included in the Income Statement | **2.1** | 2.3 |
| – finance costs included in the Income Statement | **4.5** | 3.3 |
| – IAS 19R finance cost included in the Income Statement | **1.6** | 2.0 |
| – cash flows from exceptional items and acquisition related costs | **(5.0)** | (1.8) |
| – cash settlement of share options | **(0.9)** | - |
| – depreciation | **6.4** | 6.4 |
| – pension fund deficit recovery contributions | **(2.5)** | (2.5) |
| – share-based payments | **0.9** | 1.4 |
| **Operating cash flows before movement in working capital** | **26.3** | 27.3 |
| Changes in working capital: | | |
| – increase in inventories | **(0.5)** | (5.1) |
| – decrease/(increase) in trade and other receivables | **4.8** | (3.7) |
| – (decrease)/increase in trade and other payables | **(7.1)** | 7.0 |
| **Cash generated from operations** | **23.5** | 25.5 |

***(b) Outflow related to exceptional items and acquisition related costs***

This includes expenditure charged to exceptional provisions relating to onerous lease costs, acquisition related costs (excluding deferred remuneration) and other business rationalisation and restructuring costs.

***(c) Analysis of net debt***

| | Net cash and current borrowings £m | Non-current borrowings £m | Net debt £m |
|---|---|---|---|
| At 1 April 2016 | 3.1 | (35.6) | (32.5) |
| Cash flow | 1.8 | 6.0 | 7.8 |
| Other non-cash movements | — | (0.2) | (0.2) |
| Exchange movement | 1.7 | — | 1.7 |
| At 31 March 2017 | 6.6 | (29.8) | (23.2) |
| Cash flow | 10.2 | (34.4) | (24.2) |
| Other non-cash movements | — | (0.2) | (0.2) |
| Exchange movement | 0.5 | — | 0.5 |
| **At 31 March 2018** | **17.3** | **(64.4)** | **(47.1)** |

Other non-cash movements principally relate to the movement in the costs of raising debt finance in the year.