norcros

12 June 2019

Norcros plc

Results for the year ended 31 March 2019

'The Group's tenth consecutive year of revenue and underlying operating profit growth'

Norcros, a market leading supplier of high quality and innovative bathroom and kitchen products, today announces its results for the year ended 31 March 2019.

Financial Summary

	2019	2018	% change as reported	% change at constant currency
Revenue	£331.0m	£300.1m	+10.3%	+11.6%
Underlying operating profit*	£34.4m	£27.4m	+25.5%	+27.4%
Underlying profit before taxation*	£32.6m	£26.3m	+24.0%	
Underlying diluted EPS*	31.7p	29.5p	+7.5%	
Underlying operating cash flow*	£39.8m	£31.0m	+28.4%	
Operating profit	£25.1m	£19.6m	+28.1%	
Net debt	£35.0m	£47.1m		
Dividend per share	8.4p	7.8p	+7.7%	

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

Highlights

- Tenth consecutive year of growth
- Underlying operating profit up 25.5% at £34.4m (2018: £27.4m)
- Group operating profit was £25.1m (2018: £19.6m)
- Underlying ROCE at 18.2% (2018: 18.0%)
- Full year dividend increased by 7.7% to 8.4p
- Strong cash generation – net debt reduced by £12.1m to £35.0m
- Acquisition of House of Plumbing completed on 1 April 2019
- Group strategy – strong progress

Martin Towers, Chairman, commented:

"I am delighted to announce that Norcros has recorded another year of growth despite the uncertain economic and political backdrop in our two main markets. This reflects the resilience of the Group's business model and the success of our acquisition strategy. It also represents the Group's tenth consecutive year of revenue and underlying operating profit growth, which is a testament to the management team, the strategy and its highly successful execution. Whilst market conditions are likely to remain challenging, the Board is confident that these attributes will continue to drive market outperformance leading to further progress in the current year consistent with our 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 Nick Kelsall, Group Chief Executive Shaun Smith, Group Finance Director	Tel: 01625 547700
Hudson Sandler Nick Lyon Nelly Akpaka	Tel: 0207 796 4133

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 - The 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 four 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
  - House of Plumbing - Market leading supplier of specialist plumbing materials

- Norcros is headquartered in Wilmslow, Cheshire and employs around 2,200 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 another year of growth despite the uncertain economic and political backdrop in our two main markets. This reflects the resilience of the Group's business model and the success of our acquisition strategy. It also represents the Group's tenth consecutive year of revenue and underlying operating profit growth, which is a testament to the management team, the strategy and its highly successful execution.

Group revenue for the year was £331.0m, 10.3% higher than the prior year on a reported basis, 11.6% higher on a constant currency basis and 2.3% higher on a like for like constant currency basis. Underlying operating profit at £34.4m was 25.5% higher than the prior year, mainly reflecting the full-year contribution from Merlyn, the return to profitability of Johnson Tiles UK after the restructuring implemented in April 2018 and the strong performance at Triton. This has resulted in a 7.5% increase in underlying diluted earnings per share to 31.7p (2018: 29.5p).

Acquisition of House of Plumbing

The Group announced on 16 January 2019 its acquisition in South Africa of the House of Plumbing business which completed on 1 April 2019 for a total consideration of up to ZAR 215m (approximately £12.1m). The acquisition, funded entirely from local cash resources and existing facilities, is a further step in the Group's strategy to expand its bathroom product portfolio and follows on from a number of successful acquisitions, most recently that of Merlyn, which performed strongly in the year. House of Plumbing offers a range of complementary products and further reinforces the Group's strong positions in the commercial and specification segments of the market and will benefit from the additional distribution channels, procurement experience and strong financial position of the enlarged Group.

Brexit

The impact of Brexit on the Group remains an important short-term consideration for our businesses with potential consequences ranging from increases in cost prices, additional tariffs, lower consumer confidence levels and supply chain disruption. We have identified specific risks relevant to our business and prepared mitigation plans which are well developed. However, at this stage, whilst we are prepared, the high level of uncertainty of both the financial and political implications of Brexit make the success of mitigation activities difficult to predict.

Dividend

The Board is recommending a final dividend for the year of 5.6p (2018: 5.2p) per share. When combined with the interim dividend of 2.8p (2018: 2.6p) per share, which was paid on 11 January 2019, this will make a total dividend for the year of 8.4p (2018: 7.8p) per share, a 7.7% 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 £31.6m at 31 March 2019 from £48.0m at 31 March 2018, primarily due to the impact of the actual mortality rates experienced in the scheme.

We have reached agreement with the pension scheme Trustee on the 2018 actuarial valuation and on a new recovery plan. The actuarial deficit at 1 April 2018 was £49.3m (2015: £73.5m) and contributions of £3.25m per annum plus CPI will be payable for the 6.5 years to 30 September 2025. The Company and the Trustee regard this as an appropriate outcome. We remain confident that our pension obligations continue to be appropriately funded and well managed.

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 the Report and Accounts 2019.

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 the House of Plumbing business to the Group.

Strategy
The Group refreshed its "strategy for growth" at its successful Analyst and Investor Day in April 2018 and launched the next phase of its development, targeting further growth as part of its 2023 vision. This included an update of our strategic targets which are set out in the Group Chief Executive's statement. I am pleased to report that we have made good progress against these targets in the year.

The Board believes that our focus on our 2023 vision of 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 continue to deliver improved and sustainable returns for our shareholders.

Summary
The Group has delivered another robust performance in 2018/19 despite challenging market conditions. This demonstrates the resilience of our Group with its market leading positions, well-established brands, superior product and service offer and strong financial position. In addition, through the acquisition of the House of Plumbing business at the year-end the Group has taken a further step in its growth strategy by expanding its bathroom product portfolio and commercial and specification offer in South Africa on the back of strong organic revenue growth in that market. It is also particularly pleasing to note the strong performances of both Merlyn, in its first full year since its acquisition in November 2017, and Triton as well as the return to profitability of Johnson Tiles UK following the restructuring of the business, as announced in April 2018.

Whilst market conditions are likely to remain challenging, the Board is confident that these attributes will continue to drive market outperformance leading to further progress in the current year consistent with our strategic objectives.

Group Chief Executive's Statement

Overview
The Group has achieved an important milestone in the year recording an uninterrupted decade of year on year revenue and underlying operating profit growth. Group revenue for the year increased by 10.3% to £331.0m (2018: £300.1m) on a reported basis, 11.6% on a constant currency basis, and 2.3% on a like-for-like constant currency basis. Group underlying operating profit was £34.4m, 25.5% higher than the £27.4m recorded in the prior year. Group revenue and Group underlying operating profit were £154.2m and £7.0m respectively in the year ended 31 March 2009.

Revenue in the UK was £228.1m for the year (2018: £200.6m) up 13.7% on prior year principally reflecting the full year contribution from Merlyn which has continued to perform strongly since acquisition. On a like for like basis UK revenue was broadly flat across the year having been 4.1% lower in the first half, recovering strongly with a 3.8% increase in the second half. The weaker first-half was largely due to significantly lower retail revenue at Johnson Tiles UK, which was anticipated and mainly due to the Kingfisher unified programme. Johnson Tiles apart, second half UK like for like revenue increased by 5.0% compared to an increase of 2.5% in the first half on the same basis. The strong second half growth was driven by market share gains as new range listings were secured benefiting from access to the Group's extensive customer base and its strong financial position.

UK underlying operating profit for the year was 42.5% higher than the prior year at £26.5m (2018: £18.6m) with an underlying operating margin of 11.6% (2018: 9.3%). The improvement in profit and margin in the year mainly reflected the full year contribution from Merlyn, the return to profitability of Johnson Tiles after the successful execution of the restructuring programme and the strong performance at Triton.

Our South African business again delivered strong revenue growth despite a challenging market and an uncertain political environment. Revenue in South Africa of £102.9m (2018: £99.5m) was 7.2% higher than the prior year on a constant currency basis and 3.4% higher on a reported basis, continuing the strong outperformance of recent years. In Johnson Tiles SA revenue growth was driven by the focus on the independent customer base and the strong new product programme supported by the increase in manufacturing capacity. In TAL, developments in our flooring ranges and preferred partner status in construction projects led to growth ahead of the market. In Tile Africa, revenue growth benefitted from the excellent progress made in the bathroom and tap category, driven in part by access to the wider-group supply chain, and also growth in the specification channel due to the "one-stop-shop" business model that has been implemented.

South African underlying operating profit for the year was, however, 10.2% lower at £7.9m (2018: £8.8m) including a £0.4m adverse impact from a weaker Rand. Underlying profitability and return on sales at 7.7%

(2018: 8.8%) were lower than prior year reflecting the impact of a planned and non-comparable plant shutdown at Johnson Tiles South Africa to effect the plant capacity increase in the first half of the year, competitive pricing pressures on some volume lines and power rationing that impacted production and revenue in the final quarter of the year.

Group underlying operating profit at £34.4m (2018: £27.4m) was 25.5% higher than the prior year, with Group underlying operating margins increasing to 10.4% (2018: 9.1%). Underlying operating cash flow improved by 28.4% to £39.8m (2018: £31.0m) reflecting the improved underlying operating profit and continued focus on working capital management.

The Group has a strong balance sheet with net debt of £35.0m (2018: £47.1m), and leverage of 0.8 times underlying EBITDA (2018: pro forma 1.2 times).

On 16 January 2019 the Group announced the acquisition of House of Plumbing, a market leading supplier of specialist plumbing materials to the specification and commercial segment of the market for a total consideration of up to ZAR 215m (approximately £12.1m). The transaction completed on 1 April 2019 following clearance from the South African Competition Authority. The business operates from three branches in South Africa located in Johannesburg (which is also where the head office is based), Pretoria and Lephalale and employs 102 people, being led by an experienced management team who are staying with the business. For the year ended 30 April 2018, House of Plumbing's audited financial statements showed revenue of ZAR 392m (approximately £22.1m), EBITDA of ZAR 33m (approximately £1.9m) and profit before tax of ZAR 34m (approximately £1.9m).

Strategy

In April 2018 we launched a refreshed strategy for growth and a 2023 vision for the Group, including an updated set of strategic targets. During the year we have made good progress against the strategic targets which were: to increase Group revenue to £600m by 2023; 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 more than 15% over the economic cycle.

Group revenue in the current year has increased by 10.3% to £331.0m with our progress against the strategic targets reflecting the combination of acquisition driven growth of 9.2%, underlying organic growth of 2.3% and currency headwinds of -1.2%. A key factor in our strategy for revenue growth is the continued innovation of our product offer, reflected in 34% of the year’s revenue (2018: 34%) being generated from products launched in the previous 3 years.

On a Sterling reported basis, Group revenue derived outside of the UK was 41.7% (2018: 44.3%), reflecting a full year of Merlyn’s sales which are mainly in the UK. On a pro-forma basis including the House of Plumbing business and in constant currency terms, we are much more closely in line with our target at 46.4%.

Along with our existing business portfolio all the recently acquired businesses have made a significant contribution towards the Group’s underlying return on capital employed of 18.2% (2018: 18.0%), which is ahead of our strategic target.

The performance of the Merlyn business in its first full year under Norcros ownership has been particularly pleasing. The business has already benefited from being part of the wider Norcros Group with further penetration of the specification channel being a direct result. There are also several potential new business opportunities being pursued in areas where Merlyn isn’t currently represented utilising the strong positions and customer relationships enjoyed by other Group brands.

I am confident that we remain on track against our ambitious 2023 strategic targets. Looking forward, the combination of our successful record of targeting, acquiring, integrating and subsequently growing quality businesses within the Group, together with our leading customer service, best in class quality and innovative product development, gives me confidence that we will continue to make progress against our strategic targets and create value for our shareholders.

Summary and outlook

The Group has made good progress against its refreshed strategic targets during the year.

Whilst the UK market remains challenging with the Brexit outcome and the fragile political situation impeding activity levels, the strong performance of Triton and Merlyn in combination with a return to profitability of Johnson Tiles UK, together with the further development and progress in our other UK brands provides confidence that the business is well placed to capture further growth opportunities as they arise.

Our South African business has continued to deliver revenue growth, notwithstanding the political uncertainty and a challenging economic environment. Whilst there have been some short-term challenges which have impacted this year’s profits the medium-term outlook in South Africa remains positive.

The markets in which we operate in the UK and South Africa remain highly fragmented and continue to provide excellent organic and acquisitive growth opportunities. Our most recent acquisition of the House of Plumbing business in South Africa is a good example of the Group capitalising on growth opportunities, as we have expanded our product offering to the important commercial and specification segments as well as providing further opportunities to drive growth through geographical expansion of this business and also through our existing distribution channels.

With our leading market positions, portfolio of strong brands, continued new product investment, experienced management team and strong financial position, the Board remains confident that the Group will continue to make further progress for the year ending 31 March 2020.

Business performance

	2019 £m	2018 £m
Revenue	**331.0**	300.1
Operating profit	**25.1**	19.6
IAS 19R administrative expenses	**1.5**	1.4
Acquisition related costs	**3.8**	4.3
Exceptional operating items	**4.0**	2.1
Underlying operating profit	**34.4**	27.4

	2019 £m	2018 £m
Revenue – UK	**228.1**	200.6
Revenue – South Africa	**102.9**	99.5
Revenue – Group	**331.0**	300.1
Underlying operating profit – UK	**26.5**	18.6
Underlying operating profit – South Africa	**7.9**	8.8
Underlying operating profit – Group	**34.4**	27.4
Underlying operating profit margin – UK	**11.6%**	9.3%
Underlying operating profit margin – South Africa	**7.7%**	8.8%
Underlying operating profit margin – Group	**10.4%**	9.1%

	2019 £m	2018 £m
Underlying operating profit	**34.4**	27.4
Depreciation and underlying amortisation	**6.9**	6.4
Underlying EBITDA	**41.3**	33.8
Net working capital movement	**(2.1)**	(2.8)
Share-based payments	**1.2**	0.9
Cash settlement of share options	**(0.6)**	(0.9)
Underlying operating cash flow	**39.8**	31.0

Business review – UK

In the UK revenue was 13.7% higher than the prior year at £228.1m (2018: £200.6m), principally reflecting the full year contribution from Merlyn which has continued to perform strongly since acquisition. The full year like for like revenue (excluding revenues from Merlyn) was broadly the same as the prior year largely due to significantly lower retail revenues at Johnson Tiles, which was anticipated and mainly due to the Kingfisher unified programme. This mainly impacted the first half of the year which saw like for like revenue decrease by 4.1%. The second half performance was much improved reflecting revenue growth on a like for like basis of 3.8% driven by market share gains as new range listings were secured benefiting from access to the Group's extensive customer base and its strong financial position.

Underlying operating profit grew by £7.9m to £26.5m (2018: £18.6m) with an operating margin of 11.6% (2018: 9.3%). This mainly reflected a full year contribution from Merlyn combined with the return to profitability of Johnson Tiles UK following the successful restructuring of the business during the year and a strong performance from Triton.

Triton

Revenue at Triton, the UK's market leader in showers, was 7.2% higher than the previous year at £56.6m (2018: £52.8m) reflecting growth in our UK and export markets. The strength and awareness of the Triton brand alongside a multi-channel distribution approach ensured its strong and sustained leadership position was maintained.

In the UK, revenue was 7.7% higher than the prior year, with retail sector customers growing strongly despite challenging market conditions with continued structural changes affecting many major customers. From a product perspective, Triton achieved an all-time company record market share for electric showers; as well as achieving market share growth in mixer and pumped showers. In addition to revenue growth Triton has been shortlisted in the 'Best Bathroom Product' category of the annual BMJ (Builders Merchants Journal) Awards, as voted for by its trade customers.

Export revenue growth continued, finishing 5.1% higher than the previous year reflecting the success of the product offer and the strength of the brand in Ireland, Triton's main international market.

New product innovation remains key to Triton's ongoing market leadership strategy and sales of products launched in the last 3 years contributed 39.3% of current year revenue (2018: 29.4%). During the year Triton introduced a number of innovative new mixer showers and accessories, building on leading positions and growing share in both categories. The H_2OST digital mixer shower was shortlisted for the EKBB Business, Best Bathroom Innovation. A further example of innovation was the recent award of the prestigious Quiet Mark approval, an international award associated with the UK Noise Abatement Society, for several of Triton's new innovative showers. Noise reduction is a growing trend across appliance sectors and Triton will continue to push the boundaries of noise reduction across its next generation of products.

During the year, Triton continued to innovate in its marketing activity, building on the '# See you first thing Britain' campaign. Activity included marketing to consumers and Triton's wide trade installer base using a variety of media through national radio, social media, viral video and blogging, press and PR activity in Home Interest and Trade magazines and targeted installer / trade exhibitions. At the same time Triton is targeting its future installer base through Triton engineers visiting a number of further education colleges and conducting training sessions with trade apprentices.

Underlying operating profit was higher than last year reflecting the higher revenue combined with the continued focus on cost and efficiency offsetting increased commodity prices and adverse currency fluctuations. The business was again highly cash generative in the year.

Merlyn

Merlyn, the UK and Ireland's No. 1 supplier of shower enclosures and trays to the residential, commercial and hospitality sectors performed strongly and recorded revenue of £39.5m (2018: £11.7m), growth of 13.8% on the previous year including the period prior to Norcros ownership. The business provides a quality product offering and customer centric service with the brand well placed to benefit from the growing emphasis on bathrooms and the premiumisation trend within the home.

Trade sector revenue grew by 18.7% with the specification channel being the main driver. The business won two major supplier awards from Barratt plc and Neville Lumb in addition to securing solus supply agreements with Bloor Homes and Jones Homes. Outside of specification, new business was gained with Travis Perkins on their own brand iflo range, which offset destocking by Wolseley.

UK retail revenue grew 6.7% from the full prior year, driven by the rollout of new product ranges, in addition to strong revenue growth with independent retailers and buying groups. Merlyn's customer credentials were further enhanced by the winning of five best supplier awards from the independent retail sector.

Export revenue grew by 32% on the full prior year with Ireland representing the majority of revenue. The Irish market continued to recover mainly in the Dublin region whilst the French market also recorded good growth.

New product development remains a core component of the Merlyn growth strategy and this has continued in the current year. Eight new products were successfully launched including: Arysto Quad, Series 6 Frameless, Arysto 6, Arysto 8, Series 8 Shower Wall, Series 8 Frameless Pivot and Merlyn Black. There are also several products in the pipeline and future development, which includes the next generation of shower trays, that are being further influenced by insights gained from customer surveys to ensure customer needs are being met.

Merlyn has continued to invest in its workforce in the current year, with additional sales resource to target the specification and housebuilder segments, and in customer service and training. Merlyn achieved ISO14001:2015, ISO9001: 2015 and ISO45001: 2018 in the period, further enhancing its quality credentials.

As a relatively new acquisition considerable work has been undertaken on pursuing synergies from wider Norcros Group relationships, with several initiatives including new accounts and procurement savings in progress. We expect to secure meaningful benefits from some of these initiatives as they are progressed.

Merlyn contributed an underlying operating profit and cash generation in line with the Board's expectations.

Vado

Vado, our leading manufacturer of taps, mixer showers, bathroom accessories and valves, recorded revenue of £41.4m for the year (2018: £42.9m), 3.5% lower than the prior year with growth in the UK being more than offset by lower revenues in export markets. Despite this, the continued focus and investment in new product development and recovery in its export markets are expected to drive growth this year.

UK revenue grew by 5.5% with growth on the prior year being achieved in both retail and trade channels. Vado continued to enjoy success in the trade channel, growing revenue with major housebuilder clients. The growth rate also increased in the retail sector with strong performances in the existing client base being augmented with some new customer wins. The successful roll out of market leading point of sale material also continues to yield positive results whilst the award of an OEM supply contract from the Fortis Buying Group is expected to further accelerate this growth in the coming financial year.

Export revenue declined by 26.2% on the prior year with several un-connected specific country issues impacting revenue in the year. Softer market conditions in East Africa, changes to product certification standards in Saudi Arabia, customer liquidity issues in major West African distributors, and unrepeated prior year project work in New Zealand and Sri Lanka all impacted performance.

Following the launch of the Sensori range in July 2018, growth continued in the digital showering category with revenue significantly up on prior year. Vado continues to drive new product development with two further major product launches planned for the first half of this year which will re-enforce Vado's position at the forefront of market trends.

A supplier partnership quality improvement project was piloted in two of Vado's largest suppliers and yielded significant results in production efficiency and reduction of waste. This programme will be rolled out across the entire supply base throughout the coming financial year. Optical Character Recognition software implemented in the business this year also continued to drive operational efficiencies.

Notwithstanding the implementation of a number of cost reduction initiatives, the decline in overall revenue resulted in operating profits being lower than the previous year. Cash generation remained strong in the year.

Croydex
Croydex a market leading innovator, designer and manufacturer of high-quality bathroom accessories, furnishings and shower products recorded revenues of £21.7m for the year (2018: £24.2m) 10.3% lower than achieved in the prior year. This was principally due to the challenging UK retail environment and specifically the disruption following the change of ownership of one of its main customers. The business continues to develop its innovative product range and diversify its geographies and customer base further to ensure it is well positioned to grow this year.

UK revenue fell 8.5% on prior year, primarily driven by the retail sector and the performance and subsequent change in ownership of the Homebase Bunnings business, a major customer of Croydex. The withdrawal of trade credit insurance meant that trading was negligible in the second quarter as the Group actively reduced its exposure. Trading recommenced on a significantly reduced credit limit in the second half, albeit at lower levels than the comparable period.

Revenue in the UK Trade sector however grew strongly by 8.1% driven by outperformance in the National Merchants and growth from Screwfix, which along with confirmed future listings and category rollouts in both Screwfix and Toolstation should drive increased revenue in this channel going forward.

Export revenue declined by 19% in the year due to a decline in European revenue based on significant prior year rollouts into the German DIY market not being repeated. The export business has however continued to evolve with the further development of our online export presence and digital content in our e-commerce export channels with Croydex branded listings going live during the year in Amazon and Wayfair across the US.

New product development, positively influenced by the many IP protected products, continues to drive growth with revenue from products launched in the last three years contributing 41.4% of revenue (2018: 48.1%). Customer bespoke and market specific products are a significant contributor to new product launches. During the year Croydex launched the Metlex commercial product range comprising 140 new products together with bespoke products to meet the McCarthy & Stone and Churchill Retirement specifications and demand from the private house builder sector. Specific promotional products were also created for key retailers including B&Q, Wickes, and Toom Baumarkt in Germany and Home Depot in the US.

Underlying operating profit was below last year due to the reduction in UK and export revenue. Cash generation remained strong in the year.

Abode
Abode, a leading designer and distributor of high-quality hot water taps, bathroom brassware, kitchen taps and sinks, recorded revenue of £16.2m for the period (2018: £12.8m), 26.6% higher than the prior year. The business has successfully positioned itself in the market after prior year investment in new product introductions and sales resource resulting in a number of significant new account wins reflected in the current year growth.

The business grew revenues across trade, retail and export sectors, with the branded kitchen sink and taps business continuing to expand rapidly into the UK retail and trade channels. Following substantial investment in new product introductions in 2018, the retail footprint for the brand has been expanded greatly, with over 900 showroom displays across the UK & Ireland, including John Lewis stores. The Pronteau hot water tap, first introduced in 2016, continues to grow in scale and has benefitted from range extensions and enhancements made during the year.

The private label operations serviced by Abode also performed well during the year as a result of capturing range expansion opportunities along with the ongoing success of new product designs and finishes.

Underlying operating profit and cash performance was significantly ahead of last year, reflecting the strong revenue growth.

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 revenue of £41.4m (2018: £47.1m), 12.1% lower than prior year.

UK retail revenue was 20.7% lower than the previous year. First half revenues declined 35.7%, driven by the impact of the Kingfisher unification programme, whilst second half revenues were in line with last year, with further reductions at Kingfisher being offset by growth in Wickes largely reflecting the introduction of Rigid Luxury Vinyl Tile, a new and exciting product opportunity for the company.

UK trade sector revenue was 7.3% lower than the prior year, with first half revenues down 11.6% driven by the withdrawal from the supply of marginal cheap white tiles and the continued soft social housing market as expenditure continued to be diverted away from bathroom refurbishments. Second half revenues recovered to be 2.7% lower and encouragingly ahead of the first half due to growth in the commercial specification channel and a slowing in the rate of decline in social housing activity levels.

The Johnson Tiles customer focused service model, coupled with market leading specification expertise has led to good progress in the house builder and specification market. This has resulted in gaining specifications to supply a number of major contracts including: Royal Wharf in London, Trinity Way in Manchester, Tottenham Hotspur’s new stadium, Hilton Garden Inn in Stoke, Albert’s restaurant in Manchester, Shell Petroleum petrol stations nationwide, Costa Coffee nationwide, Asda and Yo Sushi. In addition, the business continued to supply a number of national house builders including Barratt David Wilson, Persimmon Charles Church, Redrow and St Modwen.

Export revenues were in line with last year. First half revenues were down 8%, largely a result of slower sales into Leroy Merlin in France whilst second half sales were up 9.5% driven by growth in the Middle East and the launch of new product ranges into Bauhaus in Germany.

As previously reported, a major restructuring programme was implemented at the start of the period. Through exiting low margin business and cutting overhead costs, margins have improved and the business has returned to profitability from loss-making in the previous year resulting in a significant turnaround in performance in the year.

The benefits of the restructuring combined with improvements in customer service levels, improved focus with investment in new product programmes and the winning of new business following the administration of the British Ceramic Tile business should ensure that this level of operating performance is sustained.

Norcros Adhesives

Revenue at Norcros Adhesives, our UK manufacturer and supplier of tile and stone adhesives and ancillary products, was 24.2% higher at £11.3m (2018: £9.1m) continuing the significant growth from the prior year.

UK revenue was 11.1% higher than last year, reflecting growth in Wickes, Travis Perkins and Screwfix, the latter reflecting the launch of the new ‘No Nonsense’ grouts and adhesives range. Growth in fixer sales and in the new “Resilient” channel which continues to gain traction, was offset by a softer performance in distribution accounts. Revenues to B&Q Tradepoint were marginally above last year, and are expected to see further growth this year as several new lines have been secured.

Our Middle East operation continues to gain momentum with revenue more than doubling in the period as we secured some major projects in the region including the Bahrain International Airport, Mansion Villas, Meydan Hotel and Viceroy Dubai. During the final quarter the business won the contract to supply the prestigious Mall of Oman project which will be an important element of the 2019/20 growth plan.

Norcros Adhesives has reinforced its environmental credentials through successfully renewing both its ISO9001 and ISO14001 accreditations to the latest standards, maintaining the Gold Standard from the Supply Chain Sustainability School (partnered with Barratts) and winning an industry award from The Tile Association relating to the best environmental initiative for the third successive year.

The business made a small operating loss in the period reflecting additional operating costs associated with the significant revenue growth, including increased investment in sales and marketing resource, new business and product development and new business systems. This business is expected to return to profitability in the 2019/2020 financial year.

Business review - South Africa

Our South African business delivered a resilient performance in a challenging trading environment. Following a period of political and policy uncertainty, both in South Africa and internationally, South Africa has experienced lower levels of public and private sector investment which contributed to the country slipping into a technical recession in the first half of the year. Despite this, revenue for the year grew 7.2% on a constant currency basis continuing the outperformance of recent years. The Rand depreciated against Sterling during the year with the average exchange rate 3.6% weaker at ZAR 17.95 (2018: ZAR 17.32), resulting in full year reported revenue 3.4% ahead of prior year at £102.9m (2018: £99.5m). Revenue growth slowed in the fourth quarter as the country experienced a rolling programme of power rationing that impacted our production and revenues across the business.

Underlying operating profit for the year was 10.2% lower at £7.9m (2018: £8.8m) including a £0.4m adverse impact from the weaker Rand. The underlying reduction in profitability of £0.5m principally reflected the impact of a planned and non-comparable plant shutdown at Johnson Tiles South Africa in the first half of the year which enabled a necessary expansion of capacity and plant upgrade programme and the impact of the fourth quarter power rationing. The return on sales of 7.7% was 1.1% lower than the previous year.

On 1 April 2019, Norcros South Africa completed the acquisition of House of Plumbing. House of Plumbing is a market leading supplier of specialist plumbing materials focused on the specification and commercial segments of the market. This acquisition complements the Group's strong positions and enhances our product offer to the important commercial and specification segments, where we have been successfully building our business.

Johnson Tiles South Africa

Johnson Tiles South Africa, our tile manufacturing business, recorded revenue of £15.0m (2018: £12.6m), 19.0% higher on a reported basis and 23.0% higher on a constant currency basis. This growth reflected the successful investment in additional capacity and plant improvements in the first half of the year and also the strong new product programme that drove revenue growth from the independent customer base, through both retail and commercial channels, with good growth into the private housebuilder segment. Operating profit in the year was lower than the prior year mainly due to the impact of power rationing, the planned factory shutdown and pricing pressure in the private housing segment.

Tile Africa

Tile Africa, our leading retailer of wall and floor tiles, adhesives, showers, sanitaryware and bathroom fittings, recorded revenue of £63.9m (2018: £62.7m) 1.9% higher on a reported basis and 5.6% higher on a constant currency basis. The business continued to benefit from excellent growth in the bathroom and tap categories, driven in part by access to the wider-group supply chain.

Tile Africa supplied a number of prestigious projects during the year including The Houghton Hotel, Vincent Park Shopping Centre and Steyn City Aquatics Centre, further consolidating its strong position in the commercial and specification market. Tile Africa is starting to secure both the tile and bathroom specifications on projects with this ability to offer a full basket of alternative wall and floor coverings, including luxury vinyl and laminates, and bathroom products helping to drive ongoing and sustainable market share growth.

Tile Africa opened a new store in Polokwane North, upgraded the Pietermaritzburg and Polokwane South stores during the period and closed the Pinetown store which had reached the end of its lease. Tile Africa currently has 32 owned stores and two franchise stores and is planning to open one new store in this current financial year.

Good management of the cost base saw the business grow operating profit on the prior year.

TAL

Our market leading adhesive business in South Africa, TAL, recorded revenue of £24.0m (2018: £24.2m), 0.8% lower on a reported basis, 3.0% higher on a constant currency basis. TAL made robust progress in driving ahead-of-market growth through further developing its flooring range which helped to lessen the impact of lower sales in neighbouring countries, particularly in Zimbabwe.

TAL was the preferred partner in a number of major construction projects during the year, including the 3,500m^2 Deloitte Head Office in Johannesburg, the 45,000m^2 Pearls Luxury Apartment Complex in Durban, and the 28,000m^2 FNB Office Block in Johannesburg. TAL has a market leading position in the tile adhesive market reflecting its product quality and technical expertise and is driving further growth this year by widening the offering to cover the fixing of alternative floor and wall coverings.

Our TAL business experienced above-inflation increases in the cost of a number of key raw materials that impacted margins. Good management and directed investment in our manufacturing facilities and related overheads saw the business grow operating profit in the year with cash conversion remaining strong.

Financial overview

	2019 £m	2018 £m
Revenue	**331.0**	300.1
Underlying operating profit	**34.4**	27.4
IAS 19R administrative expenses	**(1.5)**	(1.4)
Acquisition related costs	**(3.8)**	(4.3)
Exceptional operating items	**(4.0)**	(2.1)
Operating profit	**25.1**	19.6
Net finance income/(costs)	**0.3**	(6.1)
Profit before taxation	**25.4**	13.5
Taxation	**(6.0)**	(3.6)
Profit for the year	**19.4**	9.9

Revenue

Group revenue at £331.0m (2018: £300.1m) increased by 10.3% on a reported basis, 11.6% on a constant currency basis, and 2.3% on a constant currency like for like[1] basis.

Underlying operating profit

Underlying operating profit increased by 25.5% to £34.4m (2018: £27.4m). Our UK businesses delivered underlying operating profit of £26.5m (2018: £18.6m), and our South African businesses generated an underlying operating profit of £7.9m (2018: £8.8m). On a constant currency basis, the reduction in underlying operating profit in the South African businesses was £0.5m. Group underlying operating profit margin was 10.4% (2018: 9.1%).

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 £1.5m have increased by £0.1m on prior year (2018: £1.4m).

Acquisition related costs

A cost of £3.8m (2018: £4.3m) has been recognised in the year and is analysed as follows:

	2019 £m	2018 £m
Deferred remuneration	**0.2**	(0.3)
Intangible asset amortisation	**3.5**	2.2
Staff costs and advisory fees[2]	**0.1**	2.4
	3.8	4.3

1. Like for like is defined as constant currency (2018 at 2019 monthly average rates) impact being £3.5m and excluding Merlyn revenue of £39.5m in 2019 (2018: £11.7m).
2. Professional and advisory fees incurred in connection with the Group's business combination activities and the costs of maintaining the in-house acquisitions department. During the year to 31 March 2019 the costs of the in-house acquisitions department of £0.4m have been recognised in underlying operating profit. Previously they were excluded from underlying operating profit.

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 charge of £0.2m in the year, compared to a net £0.3m income in the prior year, due to the release of an overprovision.

Exceptional operating items
A net exceptional operating charge of £4.0m (2018: £2.1m) has been recognised this year.

	2019 £m	2018 £m
Onerous property lease provision costs	**3.0**	-
GMP equalisation costs	**1.0**	-
Restructuring costs	**-**	2.1
	4.0	2.1

Exceptional costs of £3.0m were incurred in the year to increase the provision in relation to an onerous and surplus legacy property lease following the reappraisal of the likely future cash flows. The property is the only remaining legacy lease the company has which will expire in June 2022.

Exceptional past service costs of £1.0m were estimated in relation to a recent UK High Court ruling that trustees of UK defined benefit pension schemes must equalise guaranteed minimum pensions. The past service cost increases the pension liability.

The prior year exceptional restructuring charge of £2.1m related to a restructuring programme at Johnson Tiles UK announced in April 2018.

Net finance costs
Net finance income for the year of £0.3m compare to a £6.1m cost in 2018, the improvement mainly due to the movement in the fair value of foreign exchange contracts reflecting income in the year of £3.6m (2018: £3.1m cost). Bank interest payable of £1.8m (2018: £1.1m) was higher than the previous year due to an increased level of debt following the Merlyn acquisition.

In addition, the Group has recognised a £1.3m interest cost in respect of the pension scheme liability (2018: £1.6m) which reduced by £0.3m principally reflecting the lower deficit at the start of the year.

Profit before tax
Underlying profit before tax was £32.6m (2018: £26.3m), reflecting the increased underlying operating profit of £7.0m noted above. Underlying profit before tax is reconciled as shown below:

	2019 £m	2018 £m
Profit before taxation from continuing operations	**25.4**	13.5
Adjusted for:		
– IAS 19R administrative expenses	**1.5**	1.4
– acquisition related costs (see note 3)	**3.8**	4.3
– exceptional operating items (see note 3)	**4.0**	2.1
– amortisation of costs of raising finance	**0.2**	0.3
– net movement on fair value of derivative financial instruments	**(3.6)**	3.1
– IAS 19R finance cost	**1.3**	1.6
Underlying profit before taxation	**32.6**	26.3

Taxation
The tax charge for the year of £6.0m (2018: £3.6m) represents an effective tax rate for the year of 23.6% (2018: 26.7%). This reduction in effective tax rate is mainly due to a lower proportion of the Group's taxable profits being generated in South Africa and the lower non-deductible acquisition related costs incurred in the current year.

The standard rates of corporation tax in the UK and South Africa were 19% (2018: 19%) and 28% (2018: 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 5.6p (2018: 5.2p) per share, which, if approved, together with the interim dividend of 2.8p (2018: 2.6p), makes a total dividend of 8.4p (2018: 7.8p) in respect of the year ended 31 March 2019.

This final dividend, if approved at the Annual General Meeting, will be payable on 2 August 2019 to shareholders on the register on 21 June 2019. The shares will be quoted ex-dividend on 20 June 2019.

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 2019.

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

	2019 £m	**2018 £m**
Property, plant and equipment	**42.3**	45.0
Goodwill and intangible assets	**94.9**	98.9
Deferred tax	**0.8**	4.0
Net current assets excluding cash and borrowings	**61.0**	58.0
Pension scheme liability	**(31.6)**	(48.0)
Other non-current assets and liabilities	**(6.7)**	(6.2)
Cash and borrowings	**(35.0)**	(47.1)
Net assets	**125.7**	104.6

Total net assets increased by £21.1m to £125.7m (2018: £104.6m).

Property, plant and equipment reduced by £2.7m overall, and included additions of £5.8m (2018: £7.5m). The depreciation and underlying amortisation charge was £6.9m (2018: £6.4m) and exchange differences were £2.4m (2018: £0.1m). 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 £3.2m to £0.8m (2018: £4.0m). The decrease mainly relates to a reduction in the deferred tax asset of £2.8m reflecting the current year actuarial gains in the pension plan.

Pension schemes
On an IAS 19R accounting basis the gross defined benefit pension scheme valuation of the UK scheme showed a deficit of £31.6m compared to a deficit of £48.0m last year. Whilst the value of scheme assets reduced by £3.2m in the year, the value of the liabilities fell by £19.6m, which was primarily due to the impact of experience adjustments on the actual mortality rates experienced in the scheme.

The triennial actuarial valuation for the Group's UK defined benefit pension scheme completed in March 2015 showed a deficit of £73.5m (2012: £61.9m) representing an 84% funding level (2012: 85%). The deficit recovery plan for that valuation 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.

In line with the above agreement the Group made deficit recovery contributions of £2.6m (2018: £2.5m) into its UK defined benefit pension scheme during the year.

We have reached agreement with the pension scheme Trustee on the 2018 actuarial valuation and on a new deficit recovery plan. The actuarial deficit at 1 April 2018 was £49.3m (2015: £73.5m) representing an 89% funding level and contributions of £3.25m per annum plus CPI will be payable for the 6.5 years to 30 September 2025. The Company and the Trustee regard this as an appropriate outcome. The 2018 valuation has been recently submitted to the Pensions Regulator.

The Group's contributions to its defined contribution pension schemes were £3.6m (2018: £3.5m).

Cash flow and net debt
Net debt reduced by £12.1m in the year to £35.0m (2018: £47.1m). A summary of the movement in net debt is shown below.

Underlying operating cash flow was £8.8m higher than in the prior year at £39.8m (2018: £31.0m). Overall underlying cash conversion in the year was 96.4% of underlying EBITDA (2018: 91.7%).

Cash generated from operating activities was £11.8m higher than the previous year at £35.3m, largely due to the £8.8m improvement in underlying operating cash flows and the £3.1m reduction in outflows from exceptional items and acquisition related costs. Cash flows from exceptional items and acquisition related costs in the current year primarily relate to costs of the restructuring at Johnson Tiles, whilst in the prior year they mainly relate to the Merlyn acquisition in addition to Johnson Tiles restructuring costs.

	2019 **£m**	2018 £m
Underlying operating cash flow	**39.8**	31.0
Cash flows from exceptional items and acquisition related costs	**(1.9)**	(5.0)
Pension fund deficit recovery contributions	**(2.6)**	(2.5)
Cash flow generated from operations	**35.3**	23.5
Net interest paid	**(1.8)**	(1.1)
Taxation	**(4.6)**	(4.9)
Net cash generated from operating activities	**28.9**	17.5
Capital expenditure	**(5.6)**	(7.7)
Proceeds on disposal of property, plant and equipment	**0.1**	-
Acquisitions	**(2.1)**	(59.1)
Dividends	**(6.4)**	(5.0)
Share transactions	**(0.9)**	30.1
Other items	**(1.9)**	0.3
Movement in net debt	**12.1**	(23.9)
Opening net debt	**(47.1)**	(23.2)
Closing net debt	**(35.0)**	(47.1)

Acquisition expenditure of £2.1m mainly relates to the payment of deferred consideration. In the previous year, the expenditure of £59.1m relates primarily to the acquisition of Merlyn.

Capital expenditure at £5.6m (2018: £7.7m) included a plant upgrade and capacity expansion programme for Johnson Tiles SA. We further invested in the retail portfolio in Tile Africa, major items included the new store at Polokwane North and other store upgrades, mainly at Pietermaritzburg and Polokwane South. In the UK, we continued to invest in operational improvements, new product programmes and development, including an upgrade of our digital printing capability at Johnson Tiles.

Bank funding
The Group increased the amount of its committed banking facilities to £120m (plus a £30m accordion) at the time of the Merlyn acquisition in November 2017. The maturity date was originally November 2021 with an option to extend for a further year. The Group exercised this option in the current year and has extended the maturity date of the facility to November 2022.

New Accounting Standards
IFRS 16, the new accounting standard for leases replacing IAS 17, will have a material impact on Norcros's accounts in the year to March 2020. While it does not change the underlying nature of our business, from an accounting perspective, it recognises leased assets as 'right of use' assets held on the balance sheet and classifies future lease liabilities as a financial liability. An assessment of the impact on the 2019/20 opening balance sheet has been performed which estimates the financial lease liability and corresponding right of use asset at £27m. Based on this assessment the differential between the lease cost under IAS 17 and depreciation under IFRS 16 will give rise to an estimated increase in underlying operating profit of £0.3m and an estimated decrease in underlying profit before tax of £1.5m in the year to 31 March 2020. The impact assessment does not take into account any leases acquired or entered into after the 31 March 2019. The interim accounts for the period ending 30 September 2019 will be prepared on an IFRS 16 basis.

During 2018, IFRS 9 (Financial instruments) and IFRS 15 (Revenue from contracts with customers) were adopted, with an immaterial impact on the Group's accounts.

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), Jo Hallas (Non-Executive Director) and Alison Littley (Non-Executive Director).

Nick Kelsall
Group Chief Executive

Shaun Smith
Group Finance Director

Consolidated income statement

Year ended 31 March 2019

	Notes	**2019 £m**	2018 £m
Continuing operations			
Revenue	2	**331.0**	300.1
Underlying operating profit		**34.4**	27.4
IAS 19R administrative expenses		**(1.5)**	(1.4)
Acquisition related costs	3	**(3.8)**	(4.3)
Exceptional operating items	3	**(4.0)**	(2.1)
Operating profit		**25.1**	19.6
Finance costs	4	**(2.0)**	(4.5)
Finance income	4	**3.6**	-
IAS 19R finance cost		**(1.3)**	(1.6)
Profit before taxation		**25.4**	13.5
Taxation		**(6.0)**	(3.6)
Profit for the year from continuing operations		**19.4**	9.9
Earnings per share attributable to equity holders of the Company			
Basic earnings per share:			
From profit for the year	6	**24.2p**	14.5p
Diluted earnings per share:			
From profit for the year	6	**23.9p**	14.1p
Weighted average number of shares for basic earnings per share (millions)		**80.2**	68.0
Alternative performance measures			
Underlying profit before taxation (£m)	5	**32.6**	26.3
Underlying earnings (£m)	5	**25.7**	20.6
Basic underlying earnings per share	6	**32.1p**	30.3p
Diluted underlying earnings per share	6	**31.7p**	29.5p

Consolidated statement of comprehensive income

Year ended 31 March 2019

	2019 £m	2018 £m
Profit for the year	**19.4**	9.9
Other comprehensive income and expense:		
Items that will not subsequently be reclassified to the Income Statement		
Actuarial gains on retirement benefit obligations	**14.6**	12.6
Items that may be subsequently reclassified to the Income Statement		
Foreign currency translation adjustments	**(6.2)**	0.4
Other comprehensive income for the year	**8.4**	13.0
Total comprehensive income for the year	**27.8**	22.9

Items in the statement are disclosed net of tax.

Consolidated balance sheet

At 31 March 2019

	2019 £m	2018 £m
Non-current assets		
Goodwill	**56.3**	56.6
Intangible assets	**38.6**	42.3
Property, plant and equipment	**42.3**	45.0
Deferred tax assets	**0.8**	4.0
	138.0	147.9
Current assets		
Inventories	**79.5**	74.9
Trade and other receivables	**62.5**	64.4
Derivative financial instruments	**0.3**	-
Cash and cash equivalents	**27.2**	25.8
	169.5	165.1
Current liabilities		
Trade and other payables	**(79.6)**	(77.0)
Derivative financial instruments	**-**	(3.3)
Current tax liabilities	**(1.7)**	(1.0)
Financial liabilities – borrowings	**(3.8)**	(8.5)
	(85.1)	(89.8)
Net current assets	**84.4**	75.3
Total assets less current liabilities	**222.4**	223.2
Non-current liabilities		
Financial liabilities – borrowings	**(58.4)**	(64.4)
Pension scheme liability	**(31.6)**	(48.0)
Other non-current liabilities	**(0.9)**	(1.3)
Provisions	**(5.8)**	(4.9)
	(96.7)	(118.6)
Net assets	**125.7**	104.6
Financed by:		
Share capital	**8.0**	8.0
Share premium	**29.9**	29.7
Retained earnings and other reserves	**87.8**	66.9
Total equity	**125.7**	104.6

Consolidated cash flow statement

Year ended 31 March 2019

	Notes	**2019 £m**	2018 £m
Cash generated from operations	7	**35.3**	23.5
Income taxes paid		**(4.6)**	(4.9)
Interest paid		**(1.8)**	(1.1)
Net cash generated from operating activities		**28.9**	17.5
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		**(5.6)**	(7.7)
Proceeds on disposal of property, plant and equipment		**0.1**	-
Acquisition of subsidiary undertakings (including payment of deferred consideration) net of cash acquired		**(2.1)**	(59.1)
Net cash used in investing activities		**(7.6)**	(66.8)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital		**0.2**	32.1
Costs of equity issue		**-**	(1.6)
Purchase of treasury shares		**(1.1)**	(0.4)
Costs of raising debt finance		**(0.2)**	(0.6)
(Repayment)/drawdown of borrowings		**(6.0)**	35.0
Dividends paid to the Company's shareholders		**(6.4)**	(5.0)
Net cash (used in)/generated from financing activities		**(13.5)**	59.5
Net increase in cash at bank and in hand and bank overdrafts		**7.8**	10.2
Cash at bank and in hand and bank overdrafts at the beginning of the year		**17.3**	6.6
Exchange movements on cash and bank overdrafts		**(1.7)**	0.5
Cash at bank and in hand and bank overdrafts at the end of the year		**23.4**	17.3

Consolidated statement of changes in equity

Year ended 31 March 2019

	Ordinary share capital £m	Share premium £m	Treasury reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
At 1 April 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
Comprehensive income:						
Profit for the year	—	—	—	—	19.4	19.4
Other comprehensive income/(expense):						
Actuarial gain on retirement benefit obligations	—	—	—	—	14.6	14.6
Foreign currency translation adjustments	—	—	—	(6.2)	—	(6.2)
Total other comprehensive income	—	—	—	(6.2)	14.6	8.4
Transactions with owners:						
Shares issued	—	0.2	—	—	—	0.2
Dividends paid	—	—	—	—	(6.4)	(6.4)
Purchase of treasury shares	—	—	(1.1)	—	—	(1.1)
Settlement of share option schemes	—	—	0.8	—	(1.4)	(0.6)
Value of employee services	—	—	—	—	1.2	1.2
At 31 March 2019	**8.0**	**29.9**	**(0.3)**	**(12.5)**	**100.6**	**125.7**

Notes to the preliminary statement

Year ended 31 March 2019

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 2019. The financial information set out above does not constitute the Company's statutory financial statements for the periods ended 31 March 2019 or 31 March 2018 but is derived from those financial statements. Statutory financial statements for 2019 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

Continuing operations — year ended 31 March 2019

	UK £m	South Africa £m	Group £m
Revenue	**228.1**	**102.9**	**331.0**
Underlying operating profit	**26.5**	**7.9**	**34.4**
IAS 19R administrative expenses	**(1.5)**	**-**	**(1.5)**
Acquisition related costs	**(3.8)**	**-**	**(3.8)**
Exceptional operating items	**(4.0)**	**-**	**(4.0)**
Operating profit	**17.2**	**7.9**	**25.1**
Finance income (net)			**0.3**
Profit before taxation			**25.4**
Taxation			**(6.0)**
Profit for the year from continuing operations			**19.4**
Net debt			**(35.0)**
Segmental assets	**236.9**	**70.6**	**307.5**
Segmental liabilities	**(166.0)**	**(15.8)**	**(181.8)**
Additions to property, plant and equipment	**2.9**	**2.9**	**5.8**
Depreciation	**4.4**	**2.2**	**6.6**

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

The split of revenue by geographical destination of the customer is below:

	2019 £m	2018 £m
UK	**198.2**	171.8
Africa	**104.9**	102.2
Rest of World	**27.9**	26.1

	2019	2018
	331.0	300.1

No one customer had revenue over 10% of total Group revenue.

3. Acquisition related costs and exceptional operating items

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

Acquisition related costs	**2019 £m**	2018 £m
Deferred remuneration[1]	**0.2**	(0.3)
Intangible asset amortisation[2]	**3.5**	2.2
Advisory fees and staff costs[3]	**0.1**	2.4
	3.8	4.3

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.

2 Non-cash amortisation charges in respect of acquired intangible assets.

3 Professional and advisory fees incurred in connection with the Group's business combination activities and the costs of maintaining the in-house acquisitions department. During the year to 31 March 2019 the costs of the in-house acquisitions department of £0.4m have been recognised in underlying operating profit. Previously they were excluded from underlying operating profit.

Exceptional operating items	**2019 £m**	2018 £m
Onerous property lease provision costs[1]	**3.0**	-
GMP equalisation costs[2]	**1.0**	-
Restructuring costs[3]	**-**	2.1
	4.0	2.1

1. Exceptional costs of £3.0m were incurred in the year to increase the provision in relation to an onerous and surplus legacy property lease following the reappraisal of the likely future cash flows. The property is the only remaining legacy lease the company has which will expire in June 2022.
2. Exceptional past service costs of £1.0m were estimated in relation to a recent UK High Court ruling that trustees of UK defined benefit pension schemes must equalise guaranteed minimum pensions. The past service cost increases the pension liability.
3. The prior year exceptional restructuring charge of £2.1m related to a restructuring programme at Johnson Tiles UK announced in April 2018.

4. Finance costs and income

	2019 £m	2018 £m
Interest payable on bank borrowings	**(1.8)**	(1.1)
Amortisation of costs of raising debt finance	**(0.2)**	(0.3)
Movement on fair value of derivative financial instruments	**-**	(3.1)
Finance costs	**(2.0)**	(4.5)
Movement on fair value of derivative financial instruments	**3.6**	-
Net Finance income/(costs)	**1.6**	(4.5)

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 on underlying profit before tax
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
Underlying EBITDA	Underlying EBITDA is derived from underlying operating profit before depreciation and amortisation.
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 underlying EBITDA	An annualised underlying EBITDA figure used for the purpose of calculating banking covenant ratios
Pro-forma leverage	Net debt expressed as a ratio of pro-forma underlying 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

	2019 £m	2018 £m
Profit before taxation from continuing operations	**25.4**	13.5
Adjusted for:		
– IAS 19R administrative expenses	**1.5**	1.4
– acquisition related costs (see note 3)	**3.8**	4.3
– exceptional operating items (see note 3)	**4.0**	2.1
– amortisation of costs of raising finance	**0.2**	0.3
– net movement on fair value of derivative financial instruments	**(3.6)**	3.1
– IAS 19R finance cost	**1.3**	1.6

Underlying profit before taxation	**32.6**	26.3
Taxation attributable to underlying profit before taxation	**(6.9)**	(5.7)
Underlying earnings	**25.7**	20.6

(b) Underlying EBITDA

	2019 £m	2018 £m
Operating profit from continuing operations	**25.1**	19.6
Adjusted for:		
– depreciation and amortisation	**6.9**	6.4
– IAS 19R administrative expenses	**1.5**	1.4
– acquisition related costs (see note 3)	**3.8**	4.3
– exceptional operating items (see note 3)	**4.0**	2.1
Underlying EBITDA	**41.3**	33.8

Consolidated Cash Flow Statement

(a) Underlying operating cash flow

	2019 £m	2018 £m
Cash generated from operations (see note 7)	**35.3**	23.5
Adjusted for:		
– cash flows from exceptional items and acquisition related costs (see note 7)	**1.9**	5.0
– pension fund deficit recovery contributions (see note 7)	**2.6**	2.5
Underlying operating cash flow	**39.8**	31.0

Consolidated Balance Sheet

(a) Underlying capital employed and underlying return on capital employed

	2019 £m	2018 £m
Net assets	**125.7**	104.6
Adjusted for:		
– pension scheme liability (net of associated tax)	**26.3**	39.9
– cash and cash equivalents	**(27.2)**	(25.8)
– financial liabilities – borrowings	**62.2**	72.9
Capital employed	**187.0**	191.6
Foreign exchange adjustment	**1.8**	(1.7)
Adjustment for acquisitions	**-**	(16.9)
Underlying capital employed	**188.8**	173.0
Average underlying capital employed	**188.7**	151.8
Underlying return on capital employed	**18.2%**	18.0%

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 2019 the potential dilutive ordinary shares amounted to 985,038 (2018: 1,778,436) as calculated in accordance with IAS 33.

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

	2019 £m	2018 £m
Profit for the year	**19.4**	9.9

	2019 Number	2018 Number
Weighted average number of shares for basic earnings per share	**80,154,891**	68,043,628
Share options	**985,038**	1,778,436
Weighted average number of shares for diluted earnings per share	**81,139,929**	69,822,064

	2019	2018
Basic earnings per share:		
From profit for the year	**24.2p**	14.5p
Diluted earnings per share:		
From profit for the year	**23.9p**	14.1p

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.

	2019 £m	2018 £m
Underlying earnings (see note 5)	**25.7**	20.6

	2019	2018
Basic underlying earnings per share	**32.1p**	30.3p
Diluted underlying earnings per share	**31.7p**	29.5p

7. Consolidated cash flow statement

(a) Cash generated from operations

The analysis of cash generated from operations is given below:

Continuing operations

	2019 £m	2018 £m
Profit before taxation	**25.4**	13.5
Adjustments for:		
– IAS 19R administrative expenses included in the Income Statement	**1.5**	1.4
– acquisition related costs included in the Income Statement	**3.8**	4.3
– exceptional items included in the Income Statement	**4.0**	2.1
– finance costs included in the Income Statement	**(1.6)**	4.5
– IAS 19R finance cost included in the Income Statement	**1.3**	1.6
– cash flows from exceptional items and acquisition related costs	**(1.9)**	(5.0)
– settlement of share options	**(0.6)**	(0.9)
– depreciation and underlying amortisation	**6.9**	6.4
– pension fund deficit recovery contributions	**(2.6)**	(2.5)
– share-based payments	**1.2**	0.9
Operating cash flows before movement in working capital	**37.4**	26.3
Changes in working capital:		
– increase in inventories	**(7.6)**	(0.5)
– decrease in trade and other receivables	**0.1**	4.8
– increase/(decrease) in trade and other payables	**5.4**	(7.1)
Cash generated from operations	**35.3**	23.5

(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 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)
Cash flow	7.8	6.2	14.0
Other non-cash movements	-	(0.2)	(0.2)
Exchange movement	(1.7)	-	(1.7)
At 31 March 2019	**23.4**	**(58.4)**	**(35.0)**

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

8. Post balance sheet event

On 1 April 2019, Norcros South Africa (Proprietary) Limited acquired the entire issued share capital of RAP Plumbing Supplies (Proprietary) Limited, trading as House of Plumbing ("House of Plumbing"), a private company owned by the directors and a number of other employees and private investors that is a market leading supplier of specialist plumbing materials. The initial consideration will be ZAR 172m (approximately £9.7m*) on a debt and cash free and normalised working capital basis. A further ZAR 43m (approximately £2.4m*) earn-out may be payable in the year ending 31 March 2022 on achievement of EBITDA and cash targets.

For the year ended 30 April 2018, House of Plumbing's audited financial statements showed revenue of ZAR 392m (approximately £22.1m*), EBITDA of ZAR 33m (approximately £1.9m*) and profit before tax of ZAR 34m (approximately £1.9m*). As at 30 April 2018 the business had gross assets of ZAR 112m (approximately £6.3m*). It is anticipated that there will be Goodwill arising on the acquisition.

*Exchange rate of 17.7 ZAR/GBP