norcros

14 November 2019

Norcros plc

Results for the six months ended 30 September 2019

'Winning share despite challenging market conditions.'

Norcros, a market leading supplier of high quality and innovative bathroom and kitchen products, today announces its results for the six months ended 30 September 2019.

Financial Summary

	Six months ended 30 September 2019 27 Weeks		Six months ended 30 September 2018 26 weeks	% change[2] as reported	% change Constant Currency LFL[4]
	Reported[3]	**Pre - IFRS16**			
Revenue	£181.2m	**£181.2m**	£162.6m	+11.4%	+0.9%
Underlying operating profit[1]	£17.4m	**£17.1m**	£15.2m	+12.5%	
Underlying profit before taxation[1]	£15.6m	**£16.2m**	£14.2m	+14.1%	
Diluted Underlying EPS[1]	15.1p	**15.7p**	13.9p	+12.9%	
Underlying operating cash flow[1]	£20.0m	**£17.5m**	£11.4m	+53.5%	
Operating profit	£14.3m	**£14.0m**	£12.6m	+11.1%	
Net debt[1]	£41.1m	**£41.1m**	£53.5m		
Interim dividend per share	3.1p	**3.1p**	2.8p	+10.7%	

[1] Definitions and reconciliations of alternative performance measures are provided in note 3

[2] Change % relates to the six months ended 30 September 2019 (pre – IFRS16 adjustment) versus 30 September 2018

[3] See note 16 for more information on IFRS 16 impact

[4] LFL (like for like) at constant currency and adjusts 2019 revenue for House of Plumbing (acquired 1 April 2019) and 27 to 26-week period pro-rating

Highlights

- Revenue increased by 11.4% on a reported basis, 12.8% on a constant currency basis, and 0.9% on a like for like[4] basis
- Underlying operating profit increased by 12.5% to £17.1m on a pre-IFRS16 basis
- Strong UK domestic organic revenue growth in trade and retail sectors
- House of Plumbing integrated and performing to expectations
- Good cash generation - reduction in net debt
- Interim dividend increased by 10.7% to 3.1p per share

Martin Towers, Chairman, commented:

"I am pleased to announce a robust set of results for the six months ended 30 September 2019 reflecting the Group's resilience and continuing success in winning share despite the challenging market conditions. These results continue to demonstrate the benefits of the Group's leading market positions, portfolio of strong brands and financial strength. The Board remains confident these attributes will enable further progress in line with its expectations for the year to 31 March 2020."

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:

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Nick Lyon	
Toby Andrews	

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

I am pleased to announce a robust set of results for the six months ended 30 September 2019 reflecting the Group's resilience and continuing success in winning share despite the challenging market conditions. These results continue to demonstrate the Group's leading market positions, portfolio of strong brands and financial strength. The Group has delivered a robust performance in line with the Board's expectations.

UK revenue grew by 5.2% on a reported basis and 1.3% on a like for like[4] basis in the first half, despite challenging market conditions, reflecting organic growth in both the trade and retail channels in the majority of our brands. In South Africa, like for like[4] revenue was in line with the prior year reflecting the difficult economic environment and lower levels of activity. Reported revenue growth of 24.5% and 29.4% on a constant currency basis reflected the additional revenue from our new acquisition, House of Plumbing, which performed in line with expectations.

Underlying operating profit on a pre-IFRS 16 basis increased by £1.9m to £17.1m (2018: £15.2m). In the UK, pre-IFRS 16 underlying operating profit increased to £12.4m (2018: £11.4m), reflecting organic revenue growth across most of our businesses. Our South African business delivered an increase in pre-IFRS 16 underlying operating profit to £4.7m (2018: £3.8m), principally reflecting the first time contribution of House of Plumbing.

Results

Group revenue for the 27-week first half was £181.2m (2018: £162.6m), 11.4% higher than the prior year 26-week period on a reported basis, 12.8% higher on a constant currency basis, and 0.9% higher on a like for like[4] basis. This performance reflected strong organic domestic revenue growth in the UK in addition to the revenue from our new South African acquisition, House of Plumbing.

Underlying operating profit increased by 12.5% and 13.2% on a pre-IFRS 16 reported and constant currency basis respectively, to £17.1m (2018: £15.2m). The pre-IFRS 16 return on sales was 9.4% (2018: 9.3%).

Pre-IFRS 16 Operating profit increased to £14.0m (2018: £12.6m) resulting from the improvement in underlying operating profit offset partly by higher acquisition related costs of £2.2m (2018: £1.9m) reflecting the deferred consideration and intangible amortisation relating to the House of Plumbing acquisition and higher IFRS 19R admin expenses of £0.9m (2018: £0.7m) in the period.

Pre-IFRS 16 underlying profit before taxation increased by 14.1% to £16.2m (2018: £14.2m) reflecting the improvement in underlying operating profit.

Pre-IFRS 16 profit before taxation was £13.9m (2018: £15.2m). The non-cash movement in the fair value of derivatives, mainly due to the weakening of Sterling against the US dollar, was lower in the current year at £1.3m (2018: £4.3m).

Pre-IFRS 16 diluted underlying earnings per share was 12.9% higher at 15.7p (2018: 13.9p), principally reflecting the increase in underlying profit before taxation.

The Group generated a pre-IFRS 16 underlying operating cash flow of £17.5m (2018: £11.4m). This improved performance reflected lower working capital investment in the current period compared to last year. Capital expenditure was £3.1m in the period (2018: £3.6m). Net debt of £41.1m at 30 September 2019 was £12.4m lower than at 30 September 2018 (£53.5m), representing pro-forma leverage of 0.9 times underlying EBITDA.

Acquisition of House of Plumbing

The Group's acquisition of the House of Plumbing business which completed on 1 April 2019 for an initial consideration of ZAR 172m (£9.1m) on a debt and cash free and normalised working capital basis, further reinforces the Group's strong positions in the commercial and specification segments of the South African market. A further ZAR 43m (£2.3m) earn-out may be payable in the year ending 31 March 2022 on achievement of EBITDA and cash targets. This acquisition is a further step in the Group's strategy to expand its bathroom product portfolio and follows on from a number of successful acquisitions in the last few years. During the period the business has been successfully integrated and has performed in line with our expectations. It is expected that the business will benefit from the additional distribution channels, procurement expertise and strong financial position of the enlarged Group.

Pension scheme

The gross deficit relating to our UK defined benefit pension scheme as calculated under IAS 19R has reduced from £31.6m at 31 March 2019 to £29.0m at 30 September 2019, primarily due to a strong investment performance which compensated for the increased pension liabilities resulting from a 0.6% decrease in the discount rate to 1.90% (31 March 2019: 2.50%), the result of a significant decrease in bond yields. We remain confident that our pension obligations continue to be appropriately funded and well managed, with the Company due to pay £3.25m this year into the scheme in accordance with the agreement made with the Trustee in June 2019 based on the triennial valuation dated 1 April 2018. The 2018 triennial valuation and agreement was subsequently submitted to the Pensions Regulator and is now finalised. The Company and the Trustee continue to work together and consider further de-risking measures.

Dividend

The Board is declaring an interim dividend of 3.1p per share reflecting the strong first half performance and its confidence in the Group's prospects. This represents an increase of 10.7% over the interim dividend from the previous year of 2.8p per ordinary share. The dividend is payable on 10 January 2020 to shareholders on the register on 29 November 2019. The shares will be quoted ex-dividend on 28 November 2019.

IFRS 16 Implementation

On 1 April 2019 Norcros implemented IFRS 16 Leases which replaces IAS 17 Leases. As permitted by the standard comparatives for 2018 have not been restated.

IFRS 16 has resulted in an asset (right of use asset) of £26.6m and financial liability to pay lease rentals of £29.6m being recognised on the balance sheet as at 1 April 2019. Instead of recognising a rental expense of £2.5m in the period a depreciation charge of £2.2m has been recognised on the right of use asset and a £0.9m interest charge on the lease liability. This has increased operating profit by £0.3m and decreased profit before tax by £0.6m. The overall impact of the implementation of IFRS 16 on the income statement over the life of the lease is neutral but will result in a higher charge in the earlier years following implementation and a lower charge in later years. The cash flows associated with the lease payments which were previously classified as operating cashflows are now classified as interest costs and financing cash flows and have increased net cash generated from operations by £2.9m, increased net cash used in financing activities by £2.0m and increased interest costs by £0.9m. Underlying operating cashflow has increased by £2.5m with £0.4m of the increased financing activities cashflow attributable to an onerous lease payment, hence deemed as non-underlying, and excluded from underlying operating cashflow. There is no impact on Norcros's existing banking covenants as a result of the implementation.

Please refer to note 16 for more details.

Operating review

UK

Our UK businesses achieved revenue of £115.6m (2018: £109.9m) in the period, representing growth of 5.2% on a reported basis and 1.3% on a like for like[4] basis on the prior year. Domestic revenue grew 3.4% on a like for like[4] basis reflecting market share gains across the majority of divisions and our performance in our export markets improved in the second quarter.

Pre-IFRS 16 underlying operating profit grew by 8.8% and £1.0m to £12.4m (2018: £11.4m) with an operating margin of 10.7% (2018: 10.4%) largely reflecting the reported revenue growth in the period and a strong performance from Merlyn.

Triton

Revenue at Triton, the UK's market leader in showers, was £24.5m (2018: £26.9m), 8.9% lower than the previous year on a reported basis and 12.3% lower on a like for like[4] basis, with major customer destocking and restructuring programmes significantly impacting revenues in the period. Despite this, Triton maintained its market share performance and leadership position in the UK market.

Retail revenue in the UK on a reported and like for like[4] basis was 8.0% and 11.6% lower respectively on prior year mainly due to the impact of customer destocking in the first quarter with second quarter revenue 10.6% and 4.5% higher on a reported and like for like[4] basis respectively on prior year. Trade revenue in the UK was 13.3% and 16.7% lower on a reported and like for like[4] basis respectively on prior year reflecting the impact of key customer destocking and restructuring programmes albeit with some stabilisation in the second quarter.

Export revenue was 5.8% below last year on a reported basis and 9.6% lower on a like for like[4] basis, reflecting a softer second quarter in Eire, Triton's main international market. We remain confident that Triton's brand strength and product offering will deliver an improved performance in the second half.

During the period, Triton targeted its marketing activity on the specification sector and exhibited at Europe's largest housing show "CIH Housing" and sponsored the 'Affordable Housing Scheme of the Year' category at the 24 Housing Awards.

Triton's commitment to embracing low-noise technology and providing quieter pumped showering solutions for consumers was rewarded during the period though the accreditation of two new Silent Running power showers with the prestigious "Quiet Mark" by the UK Noise Abatement Society.

Underlying operating profit was lower than last year in line with the reduced revenue albeit returns and cash generation remained strong.

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 £21.9m (2018: £19.5m), 12.3% higher than the prior year on a reported basis and 8.2% higher than the prior year on a like for like[4] basis as the business continued to grow its market leading position in the UK through increasing its share of customer spend and new business wins.

UK retail revenue grew 23.7% on the prior year on a reported basis and 19.4% on a like for like[4] basis. This very strong growth reflected the benefits of the new product programme including the recent rollout of the Arysto 6 and 8 and Merlyn Black product ranges and further share gains in the independent retailer and buying group sectors. The business also benefitted from the continuing investment in the sales team and customer and staff training programmes.

Trade sector revenue grew 2.6% on a reported basis albeit 1.3% lower on a like for like[4] basis against the prior year. Growth was held back by the numerous restructurings and re-organisations within the major national merchant accounts in the period. However new contract wins at Avant Homes, Mount Anvil, and London & Quadrant and the award of the Travis Perkins own brand business are all expected to generate growth in the second half.

Building on several new product rollouts in the prior year, Merlyn continued its strong new product development programme with the launch of the IQ (Easy Fit) shower enclosure in the period alongside further development work on a number of exciting early stage initiatives. Merlyn's quality credentials were maintained in the period though the retention of a number of key quality certifications including ISO 9001 quality management systems and ISO 14001 environmental management systems.

Merlyn delivered strong underlying operating profit growth and excellent cash generation in the period.

Vado

Vado, our leading manufacturer of taps, mixer showers, bathroom accessories and valves, recorded revenue of £21.1m for the period (2018: £19.7m), 7.1% higher than the prior year on a reported basis and 3.0% higher on a like for like[4] basis.

Domestic revenue grew by 8.7% on a reported basis and 5.0% on a like for like[4] basis with particularly strong progress in the retail sector where investments in sales and marketing initiatives delivered 15.5% reported and 11.3% like for like[4] revenue growth on prior year. Trade specification sector revenue grew 4.5% on the prior year on a reported basis and 1.1% on a like for like[4] basis. New business wins in the period included a significant new sole supply contract with London & Quadrant, the benefits of which are expected to be realised in the final quarter of the year.

Export revenue was in line with the prior year on a reported basis albeit 5.4% lower on a like for like[4] basis. This reflected softer trading conditions in some of our markets including the Middle East which was partially offset by an improved liquidity and credit situation with a number of our major African customers.

Investment in new product development was maintained with Vado launching two major new collections in the period, "Individual" which capitalises on the significant demand for bathroom products in coloured finishes and "Booth and Co." a new sub-brand aimed at the growing trend in "traditionally styled" brassware. These will be joined by the launch of the "Axces" collection in the second half of the year, which contains five new ranges aimed at the higher-volume mid-market sector.

Underlying operating profit was lower than the prior year reflecting customer mix and some gross margin investment. A number of supply chain initiatives have been actioned which are geared to improving performance in the second half. Notwithstanding, Vado delivered strong cash generation in the period.

Croydex

Croydex, our market leading, innovative designer, manufacturer and distributor of high-quality bathroom furnishings and accessories, recorded revenue of £11.7m (2018: £10.8m) for the period, 8.3% higher than the prior year on a reported basis and 4.6% higher on a like for like[4] basis.

UK revenue was 13.8% higher than the prior year on a reported basis and 9.2% higher on a like for like[4] basis reflecting increased revenue in both the trade and retail sectors. Trade revenue increased on the prior year by 17.9% and 12.8% on a reported and like for like[4] basis respectively as new product listings were secured with Screwfix and Toolstation. Retail revenue grew 13.0% and 8.7% on the prior year on a reported and like for like[4] basis respectively as new ranges and promotions were gained with a number of key customers including Tesco, John Lewis and Homebase combined with growth through e-commerce channels.

Export revenue declined by 14.3% and 19.0% on a reported and like for like[4] basis respectively reflecting destocking by some US customers and increased tariffs impacting customer demand in the US.

Croydex continues to focus on developing and sourcing customer and market specific products that include IP protection as part of their added value and during the period significant progress was made in the development of the Metlex branded new heavy-duty stainless-steel toilet seats, “Stick N Lock” shower rod technology and “Hang N Lock” designs.

Underlying operating profit and cash generation were both ahead of last year.

Abode

Abode, our leading designer and distributor of high-quality hot water taps, bathroom brassware, kitchen taps and sinks, recorded revenue of £8.6m for the period (2018: £7.3m), 17.8% higher than the prior year on a reported basis and 13.7% higher than the prior year on a like for like[4] basis.

The growth in revenue reflected a combination of continued strong trading patterns across new and existing customers and the benefits of prior year investment in product development initiatives and large display and sales initiatives at Wickes, Benchmarx, John Lewis and Howdens Joinery that are now maturing and generating ongoing sales of our new products from over 1200 retail stores.

Abode continued to invest in design and new product development and won the prestigious Designer Magazine Award for Best Kitchen Innovation for the Hex range of kitchen taps.

Underlying operating profit was ahead of last year reflecting the strong revenue growth.

Johnson Tiles

Johnson Tiles, our UK market leading ceramic tile manufacturer and market leading supplier of both own manufactured and imported tiles recorded revenue 6.4% higher than prior year at £21.5m (2018 £20.2m) on a reported basis and 2.5% higher on a like for like[4] basis.

UK retail revenue was 15.3% and 11.1% higher than the previous year on a reported and like for like[4] basis respectively, reflecting the full year impact of a new range of Rigid Luxury Vinyl tiles introduced into Wickes alongside further new manufactured product introductions into B&Q, the combination of which more than offset the impact of the Kingfisher product unification programme.

UK trade sector revenue was 6.5% and 2.8% higher than the prior year on a reported and like for like[4] basis respectively despite the difficult market conditions and the subdued social housing refurbishment market. The Johnson Tiles’ customer focused service model coupled with our market leading specification expertise has resulted in share gains in both the housebuilder and specifications markets and also ensured that Johnsons were best positioned to win the profitable elements of the British Ceramic Tile business following its demise. A large number of projects were completed in the period including Hilton Garden Inn in Hanley, UPS East Midlands Airport Hub, Quest Hotel in Liverpool, The Rox in Brighton, Balfron Tower in London, South Thames College and Extracare Trust in Solihull. In addition, the business continued to supply a number of major housebuilders including Barratt David Wilson, Persimmon Charles Church, Redrow, St. Modwen, Croudace, CALA and Berkeley Homes.

Export revenue, which accounts for approximately 10% of overall revenue, was 21.7% below prior year on a reported basis and 26.1% lower on a like for like[4] basis, largely reflecting weak trading conditions in France and the Middle East.

Operating profits were in line with the prior year as the business continued to benefit from its lower cost base following the prior year restructuring.

Norcros Adhesives

Norcros Adhesives, our UK manufacturer and supplier of tile and stone adhesives and ancillary products, recorded revenue of £6.3m (2018: £5.5m), 14.5% higher than the prior year on a reported basis and 9.1% higher on a like for like[4] basis.

Revenue in the trade sector grew by 14.3% on a reported basis and 9.5% on a like for like[4] basis reflecting the strategy to drive growth through established Distribution and Fixer accounts combined with increased sales from the Resilient channel. Revenue in the retail sector grew by 25.0% on a reported basis and 16.7% on a like for like[4] basis, largely reflecting higher sales of new lines introduced in the second half of last year.

Middle East revenues were lower in the period with a number of customer and general market liquidity issues holding back further revenue growth. During the period the business supplied a number of major regional projects including the prestigious Mall of Oman and Bahrain Airport developments.

We have continued to invest in improving operational efficiencies in the period including the commissioning of a new fill, form and seal machine in our UK manufacturing facility. The business has also continued to maintain its high quality and environmental credentials in the period through successfully renewing both its ISO 9001 and ISO 14001 accreditations and maintaining Gold Standard from the Supply Chain Sustainability School.

Underlying operating profit was lower than the prior year due to the customer mix in the UK and lower Middle East revenues. We expect an improvement in profitability in the second half of the year as the benefits of the operational improvements are realised.

South Africa

Revenue grew by 29.4% in constant currency and by 24.5% on a Sterling reported basis to £65.6m (2018: £52.7m) after the acquisition and integration of the House of Plumbing business at the start of the year. Like for like[4] revenue was in line with the previous year reflecting the difficult economic environment and lower levels of activity.

Pre-IFRS 16 underlying operating profit grew by £0.9m to £4.7m (2018: £3.8m) with an operating margin of 7.2% (2018: 7.2%) largely reflecting the first-time profit contribution of House of Plumbing partially offset by lower profits from Tile Africa in the period.

Johnson Tiles South Africa

Johnson Tiles South Africa, our tile manufacturing business, has grown market share in South Africa following the successful investment in additional capacity and plant improvements in the first half of last year. The investment has allowed the business to improve the product offering and grow the customer base, delivering revenue of £8.3m (2018: £7.9m) reflecting constant currency and like for like[4] growth of 9.2% and 5.3% respectively against prior year. The strong performance in the local market included supply into a number of large commercial housing projects such as the Ballito Hills development in Kwa-Zulu Natal and Etude in Gauteng.

The business has a robust new product development pipeline including the planned introduction of new decorative wall cladding ranges in the second half of the year.

Underlying operating profit in the period was above prior year.

TAL

TAL, our market leading adhesive business recorded revenue of £12.6m (2018: £12.6m) delivering constant currency revenue growth of 4.1% in the period and an in line like for like[4] performance. A robust performance in South Africa was offset by lower exports mainly due to the economic downturn in Zimbabwe. TAL continues to focus on market opportunities and was the preferred partner in several major construction projects during the period, including the landmark Leonardo Towers (40,000m^2) in Sandton, Dr Pixley Hospital (40,000m^2) in Kwa-Zulu Natal, and The Blyde residential development (650,000m^2) in Pretoria.

Higher raw material costs and increased competition from new market entrants last year saw operating profit in the period decline marginally on prior year. Cash generation remained strong.

Tile Africa

Tile Africa, our leading retailer of wall and floor tiles, adhesives, showers, sanitaryware and bathroom fittings, recorded revenue of £31.7m (2018: £32.2m) in the period, 2.3% higher on a constant currency basis and 1.3% lower on a like for like[4] basis. While the challenging market and economic conditions were a significant factor impacting growth in the retail and commercial sectors, the business was also impacted by a weaker in-stock performance in the period.

Notwithstanding, Tile Africa supplied a number of prestigious projects during the year including Cordoba Wines, Sammy Marks Shopping Centre, Cape Town Sky Hotel and the Florida Park Clinic as our strong position in the commercial and specification market benefited from our expanded range of alternative wall and floor coverings, including luxury vinyl tiles, laminates and bathroom products.

The retail store portfolio of 32 owned stores and 2 franchise stores continues to be improved, with the upgrade and relocation of the Port Elizabeth store, upgrade of the Pietermaritzburg and Polokwane South stores and closure of the Pinetown store in the period.

Underlying operating profit was lower than the prior year due to the lower retail revenue and a marked slowdown in commercial activity in the market.

House of Plumbing

House of Plumbing was acquired on the 1 April 2019. The business has been successfully integrated into our existing operations during the period and recorded revenue of £13m, 1% up on the prior year on a constant currency basis when it was not under Norcros ownership. The business, which focuses on large commercial projects, currently operates out of three branches, two in Gauteng and a smaller branch in Limpopo. Performance reflected the lower levels of construction activity in the period which picked up in the second quarter, with further progress expected in the second half of the year.

House of Plumbing has a good commercial project pipeline having supplied a number of large projects during the period, including ABSA Towers in the Johannesburg CBD, The Lynwood Lane Retail Centre in Pretoria and a new Trinity House School in Glenvista.

Following the completion of the integration process, the management team is now focused on harnessing the Group's procurement infrastructure and expanding the branch network nationally, with a new branch planned for the end of the financial year and two further branches being considered in the next financial year.

Underlying operating profit and cash generation was in line with expectations for the period.

Summary and outlook

The Group has delivered a robust performance in the first half against the backdrop of challenging conditions in our two main markets which continues to demonstrate the resilience of the Group's strategy and operating model. The growth in the period reflects the strong organic revenue and profit growth in the UK domestic market and the contribution from the recently acquired House of Plumbing business which has now been successfully integrated. The fragmented nature of our markets continues to provide growth opportunities for the Group as we continue to focus on winning market share. The Board remains confident that the Group's leading market positions, portfolio of strong brands and financial strength will enable further progress in line with its expectations for the year to 31 March 2020.

Martin Towers
Chairman
14 November 2019

Note:

[4] LFL (like for like) at constant currency and adjusts 2019 revenue for House of Plumbing (acquired 1 April 2019) and 27 to 26-week period pro-rating

Condensed consolidated income statement

Six months to 30 September 2019

	Notes	**6 months to 30 September 2019 (unaudited) £m**	6 months to 30 September 2018 (unaudited) £m	Year ended 31 March 2019 (audited) £m
Revenue		**181.2**	162.6	331.0
Underlying operating profit		**17.4**	15.2	34.4
IAS 19R administrative expenses		**(0.9)**	(0.7)	(1.5)
Acquisition related costs	4	**(2.2)**	(1.9)	(3.8)
Exceptional operating items	4	**—**	—	(4.0)
Operating profit		**14.3**	12.6	25.1
Finance costs	7	**(1.9)**	(1.1)	(2.0)
Finance income	7	**1.3**	4.3	3.6
IAS 19R finance cost		**(0.4)**	(0.6)	(1.3)
Profit before taxation		**13.3**	15.2	25.4
Taxation	6	**(3.1)**	(3.2)	(6.0)
Profit for the period from continuing operations		**10.2**	12.0	19.4
Earnings per share attributable to equity holders of the Company				
Basic earnings per share:				
From profit for the period	5	**12.7p**	15.1p	24.2p
Diluted earnings per share:				
From profit for the period	5	**12.5p**	14.9p	23.9p
Weighted average number of shares for basic earnings per share (millions)	5	**80.3**	80.1	80.2
Alternative performance measures				
Underlying profit before taxation (£m)	3	**15.6**	14.2	32.6
Underlying earnings (£m)	3	**12.3**	11.2	25.7
Basic underlying earnings per share	5	**15.3p**	14.0p	32.1p
Diluted underlying earnings per share	5	**15.1p**	13.9p	31.7p

Condensed consolidated statement of comprehensive income

Six months to 30 September 2019

	6 months to 30 September 2019 (unaudited) £m	6 months to 30 September 2018 (unaudited) £m	Year ended 31 March 2019 (audited) £m
Profit for the period	**10.2**	12.0	19.4
Other comprehensive income and expense:			
Items that will not subsequently be reclassified to the Income Statement			
Actuarial gains on retirement benefit obligations	**2.1**	15.9	14.6
Items that may be subsequently reclassified to the Income Statement			
Foreign currency translation adjustments	**1.2**	(5.1)	(6.2)
Other comprehensive income for the period	**3.3**	10.8	8.4
Total comprehensive income for the period	**13.5**	22.8	27.8

Items in the statement are disclosed net of tax.

Condensed consolidated balance sheet

At 30 September 2019

	Notes	**At 30 September 2019 (unaudited) £m**	At 30 September 2018 (unaudited) £m	At 31 March 2019 (audited) £m
Non-current assets				
Goodwill		61.5	56.3	56.3
Intangible assets		38.9	40.3	38.6
Property, plant and equipment		41.3	42.8	42.3
Right of use assets	16	26.5	—	—
Deferred tax assets	6	—	0.7	0.8
		168.2	140.1	138.0
Current assets				
Inventories		83.9	79.8	79.5
Trade and other receivables		64.7	65.7	62.5
Derivative financial instruments	14	1.6	1.0	0.3
Cash and cash equivalents	8	22.4	22.0	27.2
		172.6	168.5	169.5
Current liabilities				
Trade and other liabilities		(77.7)	(75.0)	(79.6)
Lease liabilities	16	(5.6)	—	—
Current tax liabilities		(1.9)	(2.5)	(1.7)
Financial liabilities – borrowings	8	—	—	(3.8)
		(85.2)	(77.5)	(85.1)
Net current assets		87.4	91.0	84.4
Total assets less current liabilities		255.6	231.1	222.4
Non-current liabilities				
Financial liabilities – borrowings	8	(63.5)	(75.5)	(58.4)
Pension scheme liability	12	(29.0)	(28.8)	(31.6)
Lease liabilities	16	(24.1)	—	—
Other non-current liabilities		(1.9)	(1.1)	(0.9)
Provisions		(3.2)	(3.4)	(5.8)
		(121.7)	(108.8)	(96.7)
Net assets		133.9	122.3	125.7
Financed by:				
Share capital	9	8.0	8.0	8.0
Share premium		29.9	29.7	29.9
Retained earnings and other reserves		96.0	84.6	87.8
Total equity		133.9	122.3	125.7

Condensed consolidated statement of cash flow

Six months to 30 September 2019

	Notes	**6 months to 30 September 2019 (unaudited) £m**	6 months to 30 September 2018 (unaudited) £m	Year ended 31 March 2019 (audited) £m
Cash generated from operations	10	**18.0**	8.7	35.3
Income taxes paid		**(2.9)**	(1.9)	(4.6)
Interest paid		**(1.8)**	(1.1)	(1.8)
Net cash generated from operating activities		**13.3**	5.7	28.9
Cash flows from investing activities				
Purchase of property, plant and equipment and intangible assets		**(3.1)**	(3.6)	(5.6)
Proceeds on disposal of property, plant and equipment		**—**	0.1	0.1
Acquisition of subsidiary undertakings (including payment of deferred consideration) net of cash acquired		**(9.4)**	(2.0)	(2.1)
Net cash used in investing activities		**(12.5)**	(5.5)	(7.6)
Cash flows from financing activities				
Net proceeds from issue of ordinary share capital		**—**	—	0.2
Purchase of treasury shares		**(0.9)**	(1.1)	(1.1)
Costs of raising debt finance		**—**	—	(0.2)
Principal element of lease payments		**(2.0)**	—	—
Drawdown/(Repayment) of borrowings		**5.1**	11.0	(6.0)
Dividends paid to the Company's shareholders		**(4.5)**	(4.1)	(6.4)
Net cash (used in)/generated from financing activities		**(2.3)**	5.8	(13.5)
Net (decrease)/increase in cash at bank and in hand and bank overdrafts		**(1.5)**	6.0	7.8
Cash at bank and in hand and bank overdrafts at beginning of the period		**23.4**	17.3	17.3
Exchange movements on cash and bank overdrafts		**0.5**	(1.3)	(1.7)
Cash and cash equivalents net of overdrafts at end of the period		**22.4**	22.0	23.4

Alternative performance measures				
Underlying operating cash flow	3	**20.0**	11.4	39.8

Condensed consolidated statements of changes in equity

Six months to 30 September 2019 (unaudited)

	Ordinary share capital £m	Share premium £m	Treasury reserve £m	Translation reserve £m	Retained earnings £m	Total £m
At 31 March 2019	**8.0**	**29.9**	**(0.3)**	**(12.5)**	**100.6**	**125.7**
Comprehensive income:						
Profit for the period	—	—	—	—	10.2	10.2
Other comprehensive income:						
Actuarial gain on retirement benefit obligations	—	—	—	—	2.1	2.1
Foreign currency translation adjustments	—	—	—	1.2	—	1.2
Total other comprehensive income/(expense)	—	—	—	1.2	2.1	3.3
Transactions with owners:						
Shares issued	—	—	—	—	—	—
Dividends paid	—	—	—	—	(4.5)	(4.5)
Purchase of treasury shares	—	—	(0.9)	—	—	(0.9)
Settlement of share option schemes	—	—	0.8	—	(1.3)	(0.5)
Value of employee services	—	—	—	—	0.6	0.6
At 30 September 2019	**8.0**	**29.9**	**(0.4)**	**(11.3)**	**107.7**	**133.9**

Six months to 30 September 2018 (unaudited)

	Ordinary share capital £m	Share premium £m	Treasury reserve £m	Translation reserve £m	Retained earnings £m	Total £m
At 31 March 2018	8.0	29.7	—	(6.3)	73.2	104.6
Comprehensive income:						
Profit for the period	—	—	—	—	12.0	12.0
Other comprehensive income/(expense):						
Actuarial gain on retirement benefit obligations	—	—	—	—	15.9	15.9
Foreign currency translation adjustments	—	—	—	(5.1)	—	(5.1)
Total other comprehensive (expense)/income	—	—	—	(5.1)	15.9	10.8
Transactions with owners:						
Purchase of treasury shares	—	—	(1.1)	—	—	(1.1)
Settlement of share option schemes	—	—	0.8	—	(1.4)	(0.6)
Dividends paid	—	—	—	—	(4.1)	(4.1)
Value of employee services	—	—	—	—	0.7	0.7
At 30 September 2018	**8.0**	**29.7**	**(0.3)**	**(11.4)**	**96.3**	**122.3**

Year ended 31 March 2019 (audited)

	Ordinary share capital £m	Share premium £m	Treasury reserve £m	Translation reserve £m	Retained earnings £m	Total £m
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 (expense)/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 accounts

Six months to 30 September 2019

1. Accounting policies

General information

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 incorporated in England as a public company limited by shares. The shares of the Company are listed on the London Stock Exchange market of listed securities. The address of its registered office is Ladyfield House, Station Road, Wilmslow, SK9 1BU, UK.

This condensed consolidated interim financial information was approved for issue on 14 November 2019 and does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006 and has neither been audited nor reviewed.

Basis of preparation

This condensed consolidated interim financial information for the six months to 30 September 2019 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34, 'Interim financial reporting', as adopted by the European Union.

The Directors consider, after making appropriate enquiries at the time of approving the condensed consolidated interim financial information, that the Company and the Group have adequate resources to continue in operational existence and, accordingly, that it is appropriate to adopt the going concern basis in the preparation of the condensed consolidated interim financial information.

The condensed consolidated interim financial information should be read in conjunction with the Annual Report and Accounts for the year ended 31 March 2019, which has been prepared in accordance with IFRS as adopted by the European Union. The Annual Report and Accounts was approved by the Board on 12 June 2019 and delivered to the Registrar of Companies. The report of the external auditor on the financial statements was unqualified.

Accounting policies

The principal accounting policies applied in the preparation of this condensed consolidated interim financial information are included in the financial report for the year ended 31 March 2019. These policies have been applied consistently to all periods presented.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to the expected total annual profits or losses.

New standards, amendments to standards and interpretations

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 April 2019.

The Group has adopted the following new standards, amendments and interpretations now applicable.

Standard or interpretation	Content	Applicable for financial years beginning on or after
Amendment to IAS 28	Investments in associates and joint ventures	1 April 2019
IFRS 16	Leases	1 April 2019

As at 1 April 2019, the Group adopted IFRS 16 Leases, the impact of which is presented in note 16. Apart from this standard, the same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements.

The following standards, amendments and interpretations are not yet effective and have not been adopted early by the Group:

Standard or interpretation	Content	Applicable for financial years beginning on or after
IFRS 17	Insurance contracts	1 April 2021

This standard is not expected to have a material impact on the Group.

Risks and uncertainties

The principal risks and uncertainties affecting the Group, together with the approach to their mitigation, remain as set out on pages 27 to 30 in the 2019 Annual Report, which is available on the Group's website (www.norcros.com). The principal risks are: cyber risk and data loss, uncertainty surrounding Brexit, market conditions, exchange rate risk, pension scheme risk, interest rate risk, loss of key customers, competition, reliance on production facilities, loss of key supplier, staff retention and recruitment and acquisition risk.

The Chairman's Statement in this interim statement includes comments on the outlook for the remaining six months of the financial year.

Forward-looking statements

This interim statement contains forward-looking statements. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to be correct. Due to the inherent uncertainties, including both economic and business risk factors underlying such forward-looking information, actual results may differ materially from those expressed or implied by these forward-looking statements.

The Group undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Accounting estimates and judgments

The preparation of condensed consolidated interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the condensed consolidated interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 March 2019.

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, which is considered to be the Board, assesses performance and allocates resources based on geography as each segment has similar economic characteristics, complementary products, distribution channels and regulatory environments.

		6 months to 30 September 2019 (unaudited)		
	Notes	**UK £m**	**South Africa £m**	**Group £m**
Revenue		**115.6**	**65.6**	**181.2**
Underlying operating profit		**12.5**	**4.9**	**17.4**
IAS 19R administrative expenses		**(0.9)**	**—**	**(0.9)**
Acquisition related costs	4	**(1.8)**	**(0.4)**	**(2.2)**
Operating profit		**9.8**	**4.5**	**14.3**
Finance costs (net)				**(1.0)**
Profit before taxation				**13.3**
Taxation	6			**(3.1)**
Profit from continuing operations				**10.2**
Net debt	10			**(41.1)**

		6 months to 30 September 2019 (unaudited) pre IFRS 16		
	Notes	**UK £m**	**South Africa £m**	**Group £m**
Revenue		**115.6**	**65.6**	**181.2**
Underlying operating profit		**12.4**	**4.7**	**17.1**
IAS 19R administrative expenses		**(0.9)**	**—**	**(0.9)**
Acquisition related costs	4	**(1.8)**	**(0.4)**	**(2.2)**
Operating profit		**9.7**	**4.3**	**14.0**
Finance costs (net)				**(0.1)**
Profit before taxation				**13.9**
Taxation				**(3.2)**
Profit from continuing operations				**10.7**
Net debt	10			**(41.1)**

	Notes	6 months to 30 September 2018 (unaudited) UK £m	 South Africa £m	 Group £m
Revenue		109.9	52.7	162.6
Underlying operating profit		11.4	3.8	15.2
IAS 19R administrative expenses		(0.7)	—	(0.7)
Acquisition related costs	4	(1.8)	(0.1)	(1.9)
Operating profit		8.9	3.7	12.6
Finance income (net)				2.6
Profit before taxation				15.2
Taxation	6			(3.2)
Profit from continuing operations				12.0
Net debt	10			(53.5)

	Notes	Year ended 31 March 2019 (audited) 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	4	(3.8)	-	(3.8)
Exceptional operating items	4	(4.0)	-	(4.0)
Operating profit		17.2	7.9	25.1
Finance income (net)				0.3
Profit before taxation				25.4
Taxation	6			(6.0)
Profit for the year from continuing operations				19.4
Net debt	10			(35.0)

There are no differences from the last Annual Report in the basis of segmentation or in the basis of measurement of segment profit or loss.

3. 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 operating margin	Underlying operating profit expressed as a percentage of revenue
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 excluding the impact of IFRS16 in line with our banking covenants.
Net debt	Net debt is the net of cash, capitalised costs of raising finance and total borrowings. IFRS16 lease commitments are not included in line with our banking covenants.
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

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 annual bonus and long-term incentives earned by the Directors. 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:

Condensed Consolidated Income Statement

(a) Underlying profit before taxation and underlying earnings

	6 months to 30 September 2019 (unaudited) £m	**6 months to 30 September 2019 (unaudited) pre IFRS16 £m**	6 months to 30 September 2018 (unaudited) £m	Year ended 31 March 2019 (audited) £m
Profit before taxation	**13.3**	**13.9**	15.2	25.4
Adjusted for:				
IAS 19R administrative expenses	**0.9**	**0.9**	0.7	1.5
Acquisition related costs	**2.2**	**2.2**	1.9	3.8
Exceptional operating items	**—**	**—**	—	4.0
Amortisation of costs of raising finance	**0.1**	**0.1**	0.1	0.2
Net movement on fair value of derivative financial instruments	**(1.3)**	**(1.3)**	(4.3)	(3.6)
IAS 19R finance cost	**0.4**	**0.4**	0.6	1.3
Underlying profit before taxation	**15.6**	**16.2**	14.2	32.6
Taxation attributable to underlying profit before taxation	**(3.3)**	**(3.4)**	(3.0)	(6.9)
Underlying earnings	**12.3**	**12.8**	11.2	25.7

(b) Underlying EBITDA

	6 months to 30 September 2019 (unaudited) £m	**6 months to 30 September 2019 (unaudited) pre IFRS16 £m**	6 months to 30 September 2018 (unaudited) £m	Year ended 31 March 2019 (audited) £m
Operating profit	**14.3**	**14.0**	12.6	25.1
Adjusted for:				
Depreciation and amortisation (owned assets)	**3.5**	**3.5**	3.4	6.9
Operating profit impact of IFRS16	**(0.3)**	—	—	—
IAS 19R administrative expenses	**0.9**	**0.9**	0.7	1.5
Acquisition related costs	**2.2**	**2.2**	1.9	3.8
Exceptional operating items	**—**	**—**	—	4.0
Underlying EBITDA	**20.6**	**20.6**	18.6	41.3

Condensed Consolidated Statement of Cash Flow

Underlying operating cash flow

	6 months to 30 September 2019 (unaudited) £m	**6 months to 30 September 2019 (unaudited) pre IFRS16 £m**	6 months to 30 September 2018 (unaudited) £m	Year ended 31 March 2019 (audited) £m
Cash generated from continuing operations (note 10)	**18.0**	**15.1**	**8.7**	35.3
Adjusted for:				
Cash flows from exceptional items and acquisition related costs	**0.4**	**0.8**	**1.4**	1.9
Pension fund deficit recovery contributions	**1.6**	**1.6**	**1.3**	2.6
Underlying operating cash flow	**20.0**	**17.5**	**11.4**	39.8

4. Acquisition related costs and exceptional operating items

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

	6 months to 30 September 2019 (unaudited) £m	6 months to 30 September 2018 (unaudited) £m	Year ended 31 March 2019 (audited) £m
Acquisition related costs			
Deferred remuneration[1]	**0.3**	—	0.2
Intangible asset amortisation[2]	**1.9**	1.8	3.5
Advisory fees[3]	**—**	0.1	0.1
	2.2	1.9	3.8

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 advisory fees incurred in connection with the Group's business combination activities.

	6 months to 30 September 2019 (unaudited) £m	6 months to 30 September 2018 (unaudited) £m	Year ended 31 March 2019 (audited) £m
Exceptional operating items			
Onerous property lease provision costs[1]	—	—	3.0
GMP equalisation costs[2]	—	—	1.0
	—	—	4.0

1. Exceptional costs of £3.0m were incurred 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 expires in June 2022.
2. Exceptional past service costs of £1.0m were estimated in relation to the UK High Court ruling on 26 October 2018 that trustees of UK defined benefit pension schemes must equalise guaranteed minimum pensions. The past service cost increased the pension liability.

5. Earnings per share

Basic and diluted earnings per share

Basic earnings per share (EPS) is calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the period, 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.

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

	6 months to 30 September 2019 (unaudited) £m	**6 months to 30 September 2019 (unaudited) pre IFRS 16 £m**	6 months to 30 September 2018 (unaudited) £m	Year ended 31 March 2019 (audited) £m
Profit for the period	**10.2**	**10.7**	12.0	19.4

	6 months to 30 September 2019 (unaudited) Number	**6 months to 30 September 2019 (unaudited) pre IFRS 16 Number**	6 months to 30 September 2018 (unaudited) Number	Year ended 31 March 2019 (audited) Number
Weighted average number of shares for basic earnings per share	80,262,938	80,262,938	80,112,526	80,154,891
Share options and warrants	1,060,929	1,060,929	915,632	985,038
Weighted average number of shares for diluted earnings per share	**81,323,867**	**81,323,867**	81,028,158	81,139,929

	6 months to 30 September 2019 (unaudited)	**6 months to 30 September 2019 (unaudited) pre IFRS 16**	6 months to 30 September 2018 (unaudited)	Year ended 31 March 2019 (audited)
Basic earnings per share:				
From profit for the period	**12.7p**	**13.3p**	15.1p	24.2p
Diluted earnings per share:				
From profit for the period	**12.5p**	**13.2p**	14.9p	23.9p

Basic and diluted underlying earnings per share

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

	6 months to 30 September 2019 (unaudited) £m	**6 months to 30 September 2019 (unaudited) pre IFRS 16 £m**	6 months to 30 September 2018 (unaudited) £m	Year ended 31 March 2019 (audited) £m
Underlying earnings for the period (note 3)	**12.3**	**12.8**	11.2	25.7

	6 months to 30 September 2019 (unaudited)	**6 months to 30 September 2019 (unaudited) pre IFRS 16**	6 months to 30 September 2018 (unaudited)	Year ended 31 March 2019 (audited)
Basic underlying earnings per share	**15.3p**	**15.9p**	14.0p	32.1p
Diluted underlying earnings per share	**15.1p**	**15.7p**	13.9p	31.7p

6. Taxation

Taxation comprises:

	6 months to 30 September 2019 (unaudited) £m	6 months to 30 September 2018 (unaudited) £m	Year ended 31 March 2019 (audited) £m
Current			
UK taxation	**1.7**	1.7	2.0
Overseas taxation	**1.4**	1.4	3.5
Prior year adjustment	**—**	—	0.2
Total current taxation	**3.1**	3.1	5.7
Deferred			
Origination and reversal of temporary differences	**—**	0.1	0.3
Total tax charge	**3.1**	3.2	6.0

Current tax expense is recognised based on management’s estimate of the weighted average annual income tax rate expected for the full financial year.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. Deferred tax is calculated in full on temporary differences under the liability method.

The movement on the deferred tax account is as shown below:

	6 months to 30 September 2019 (unaudited) £m	6 months to 30 September 2018 (unaudited) £m	Year ended 31 March 2019 (audited) £m
Deferred tax asset at the beginning of the period	**0.8**	4.0	4.0
Charged to the Consolidated Income Statement	**—**	(0.1)	(0.3)
Charged to the Consolidated Statement of Comprehensive Income	**(0.3)**	(3.2)	(3.0)
Acquisitions	**(0.5)**	—	—
Exchange differences	**—**	—	0.1
Deferred tax asset at the end of the period	**—**	0.7	0.8

	6 months to 30 September 2019 (unaudited) £m	6 months to 30 September 2018 (unaudited) £m	Year ended 31 March 2019 (audited) £m
Accelerated capital allowances	**(0.2)**	0.2	(0.2)
Other timing differences	**(4.8)**	(4.4)	(4.3)
Deferred tax asset relating to pension deficit	**5.0**	4.9	5.3
Deferred tax asset at the end of the period	**—**	0.7	0.8

7. Finance income and costs

	6 months to 30 September 2019 (unaudited) £m	6 months to 30 September 2018 (unaudited) £m	Year ended 31 March 2019 (audited) £m
Finance costs			
Interest payable on bank borrowings	**(0.9)**	(1.0)	(1.8)
Interest on lease liabilities	**(0.9)**	—	—
Amortisation of costs of raising debt finance	**(0.1)**	(0.1)	(0.2)
Finance costs	**(1.9)**	**(1.1)**	**(2.0)**
Movement on fair value of derivative financial instruments	**1.3**	4.3	3.6
Net finance (costs)/income	**(0.6)**	3.2	1.6

8. Borrowings

	At 30 September 2019 (unaudited) £m	At 30 September 2018 (unaudited) £m	At 31 March 2019 (audited) £m
Non-current			
Bank borrowings (unsecured):			
– bank loans	**64.0**	76.0	59.0
– less: costs of raising finance	**(0.5)**	(0.5)	(0.6)
Total non-current	**63.5**	75.5	58.4
Current			
Bank borrowings (unsecured):			
– bank overdrafts	—	—	3.8
Total borrowings	**63.5**	75.5	62.2

The fair value of bank loans equals their carrying amount as they bear interest at floating rates.

The repayment terms of borrowings are as follows:

	At 30 September 2019 (unaudited) £m	At 30 September 2018 (unaudited) £m	At 31 March 2019 (audited) £m
Not later than one year	—	—	3.8
After more than one year:			
– later than two years and not later than five years	**64.0**	76.0	59.0
– costs of raising finance	**(0.5)**	(0.5)	(0.6)
	63.5	75.5	58.4
Total borrowings	**63.5**	75.5	62.2

The Group has an unsecured £120m revolving credit facility with a £30m accordion facility with Lloyds Bank plc, Barclays Bank plc and HSBC Bank plc. The banking facility is in place up to November 2022.

Net debt

The Group's net debt is calculated as follows:

	At 30 September 2019 (unaudited) £m	At 30 September 2018 (unaudited) £m	At 31 March 2019 (audited) £m
Cash and cash equivalents	**(22.4)**	(22.0)	(27.2)
Total borrowings	**63.5**	75.5	62.2
Net debt	**41.1**	53.5	35.0

9. Called up share capital

	At 30 September 2019 (unaudited) £m	At 30 September 2018 (unaudited) £m	At 31 March 2019 (audited) £m
Issued and fully paid			
80,465,383 ordinary shares of 10p each	**8.0**	8.0	8.0

During the period 4,524 and 92,544 ordinary shares of 10p were issued to satisfy vesting of options under the Company's SAYE and deferred bonus plan schemes respectively.

10. Consolidated Cash Flow Statements

(a) Cash generated from operations

	6 months to 30 September 2019 (unaudited) £m	6 months to 30 September 2019 (unaudited) pre IFRS16 £m	6 months to 30 September 2018 (unaudited) £m	Year ended 31 March 2019 (audited) £m
Profit before taxation	**13.3**	**13.9**	15.2	25.4
Adjustments for:				
– IAS 19R administrative expenses included in the Income Statement	**0.9**	**0.9**	0.7	1.5
– acquisition related costs included in the Income Statement	**2.2**	**2.2**	1.9	3.8
– exceptional operating items included in the Income Statement	**—**	**—**	—	4.0
– cash flows from exceptional items and acquisition related costs	**(0.4)**	**(0.8)**	(1.4)	(1.9)
– cashflow from net settlement of share options	**(0.5)**	**(0.5)**	—	(0.6)
– depreciation and underlying amortisation	**3.5**	**3.5**	3.4	6.9
– depreciation of right of use assets	**2.2**	**—**	—	—
– finance costs included in the Income Statement	**1.9**	**1.0**	1.1	2.0
– finance income included in the Income Statement	**(1.3)**	**(1.3)**	(4.3)	(3.6)
– pension fund deficit recovery contributions	**(1.6)**	**(1.6)**	(1.3)	(2.6)
– IAS 19R finance cost included in the Income Statement	**0.4**	**0.4**	0.6	1.3
– share-based payments	**0.5**	**0.5**	0.7	1.2
Operating cash flows before movements in working capital	**21.1**	**18.2**	16.6	37.4
Changes in working capital:				
– increase in inventories	**(2.0)**	**(2.0)**	(7.5)	(7.6)
– decrease/(increase) in trade and other receivables	**2.2**	**2.2**	(4.2)	0.1
– (decrease)/increase in trade and other payables	**(3.3)**	**(3.3)**	3.8	5.4
Cash generated from operations	**18.0**	**15.1**	8.7	35.3

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

(b) Analysis of net debt

	Net cash and current borrowings £m	Non-current borrowings £m	Net debt £m
At 1 April 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)
At 1 April 2018	17.3	(64.4)	(47.1)
Cash flow	6.0	(11.0)	(5.0)
Other non-cash movements	—	(0.1)	(0.1)
Exchange movement	(1.3)	—	(1.3)
At 30 September 2018	**22.0**	**(75.5)**	**(53.5)**
At 1 April 2019	23.4	(58.4)	(35.0)
Cash flow	(1.5)	(5.1)	(6.6)
Exchange movement	0.5	—	0.5
At 30 September 2019	**22.4**	**(63.5)**	**(41.1)**

11. Dividends

A final dividend in respect of the year ended 31 March 2019 of £4.5m (5.6p per 10p ordinary share) was paid on 2 August 2019.

On 14 November 2019 the Board declared an interim dividend in respect of the year ended 31 March 2020 of 3.1p per 10p ordinary share. This dividend is payable on 10 January 2020 to shareholders on the register on 29 November 2019 and is not reflected in this condensed consolidated interim financial information. The shares will be quoted ex-dividend on 28 November 2019. Norcros 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 interim dividend is 13 December 2019.

12. Retirement benefit obligations

(a) Pension costs

Norcros Security Plan

The Norcros Security Plan (the "Plan"), the principal UK pension scheme of the Group's UK subsidiaries, is funded by a separate trust fund which operates under UK trust law and is a separate legal entity from the Company. The Plan is governed by a Trustee board which is required by law to act in the best interests of the Plan members and is responsible for setting policies together with the Company. It is predominantly a defined benefit scheme with a modest element of defined contribution benefits.

The valuation used for IAS 19R disclosures has been produced by KPMG, a firm of qualified actuaries, to take account of the requirements of IAS 19R in order to assess the liabilities of the scheme at 30 September 2019. Scheme assets are stated at their market value at 30 September 2019.

(b) IAS 19R, 'Retirement benefit obligations'

The principal assumptions used to calculate the scheme liabilities of the Norcros Security Plan under IAS 19R are:

	At 30 September 2019	At 30 September 2018	At 31 March 2019
Discount rate	**1.90%**	2.95%	2.50%
Inflation rate (RPI)	**3.10%**	3.20%	3.25%
Inflation (CPI)	**2.10%**	2.20%	2.25%
Salary increases	**2.35%**	2.45%	2.50%

The amounts recognised in the Condensed Consolidated Balance Sheet are determined as follows:

	At 30 September 2019 (unaudited) £m	At 30 September 2018 (unaudited) £m	At 31 March 2019 (audited) £m
Total market value of scheme assets	**418.4**	398.9	396.4
Present value of scheme liabilities	**(447.4)**	(427.7)	(428.0)
Pension deficit	**(29.0)**	(28.8)	(31.6)

13. Related party transactions

The remuneration of executive and non-executive Directors will be disclosed in the Group's Annual Report for the year ending 31 March 2020.

14. Financial risk management and financial instruments

Financial risk factors

The Group's operations expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and energy price risk); credit risk; and liquidity risk. An explanation of these risks and how the Group manages them is set out on page 96 of the Group's 2019 Annual Report. The interim financial information does not include all financial risk management information and disclosures required in annual financial statements; they should be read in conjunction with the Group's 2019 Annual Report. There have been no material changes in the risk management process or in any risk management policies since the year end.

Derivative financial instruments carried at fair value through profit and loss

	At 30 September 2019		At 30 September 2018		At 31 March 2019	
	Assets (unaudited) £m	**Liabilities (unaudited) £m**	Assets (unaudited) £m	Liabilities (unaudited) £m	Assets (audited) £m	Liabilities (audited) £m
Forward foreign exchange contracts:						
– current	**1.6**	**—**	**1.0**	—	0.3	—

The above financial instruments are classified as level 2 instruments based on the hierarchy defined in IFRS 7. Consequently, fair value measurements are derived from inputs other than quoted prices included in level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

15. Business combinations

Acquisition of House of Plumbing

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 following table summarises the consideration paid for House of Plumbing (HOP) and the provisional fair value of the assets acquired, and the liabilities assumed:

	£m
Consideration	
Cash	**9.8**
Contingent consideration	**1.1**
	10.9

	£m
Recognised amounts of identifiable assets and liabilities	
Intangible assets	**2.0**
Property, plant and equipment	**0.1**
Inventories	**1.9**
Trade and other receivables	**3.6**
Cash and cash equivalents	**1.0**
Trade and other payables	**(2.3)**
Deferred tax liability	**(0.5)**
Total identifiable net assets	**5.8**
Goodwill	**5.1**
Total	**10.9**

The contingent consideration of £1.1m reflects the maximum amount, also being the current best estimate, to be paid to a number of former minority shareholders of House of Plumbing after the two-year anniversary of acquisition subject to the business achieving certain financial performance targets over the same period. A number of current employees, who were also shareholders of House of Plumbing, participate in this arrangement, but in view of the fact that payment of this amount is contingent upon the continued employment of these individuals, no contingent consideration has been recognised in accordance with IFRS 3 (revised). The amounts payable will instead be treated as remuneration and accordingly they will be expensed as acquisition related costs in the income statement over the next two years should the performance targets be achieved. The maximum amount and current expectation are that future payments over this period to the former shareholders who are employees will total £1.2m.

The provisional fair value adjustments principally reflect the assessment of the value of acquired intangible assets of £2.0m and a deferred tax liability of £0.5m, mainly arising from the recognition of acquired intangible assets.

In most business combinations there is an element of cost which cannot be allocated against the individual assets and liabilities acquired. This residual amount is recognised as goodwill and is supported by a number of factors which do not meet the criteria required for them to be treated as intangible assets. It is not expected at this stage that any of the goodwill will be deductible for tax purposes.

Costs relating to the transaction have been expensed to the Condensed Consolidated Income Statement and included within acquisition related costs in previous periods.

The revenue and profit after tax included in the Condensed Consolidated Statement of Comprehensive Income since 1 April 2019 attributable to HOP was £13.0m and £0.6m respectively.

The net cash outflow from the transaction reported within investing activities was as follows:

	£m
Cash consideration	9.8
Cash acquired	(1.0)
Foreign exchange revaluation	0.2
Net cash outflow reported in the Consolidated Cash Flow Statement[1]	**9.0**

[1] Consolidated cash flow statement net cash outflow due to acquisition of subsidiary undertakings includes £0.4m payment of deferred consideration in relation to previous acquisitions.

16. Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements. The Group has adopted IFRS 16 from 1 April 2019, but has not restated comparatives for the previous year, as permitted under the specific transitional provisions in the standard. The reclassifications and adjustments arising from the new standard are recognised in the opening balance sheet as at 1 April 2019.

Impact on the balance sheet

The change in accounting policy affected the following items in the balance sheet on 1 April 2019:

	1 April 2019 (unaudited) £m
Right of Use Asset	**26.6**
Lease Financial Liability	**(29.6)**
Provision (UK property provision in respect of onerous legacy property lease)	**2.2**
Other Creditors	**0.8**

There was no net impact on retained earnings at 1 April 2019.

Lease liabilities

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019. The Group's weighted average (by lease liability) incremental borrowing rate applied to lease liabilities as at 1 April 2019 was 7.4%.

The lease liabilities at 30 September 2019 and 1 April 2019 were as follows:

	30 September 2019 (unaudited) £m	1 April 2019 (unaudited) £m
Current liabilities	**5.6**	5.0
Non-current liabilities	**24.1**	24.6
	29.7	29.6

Lease liabilities recorded at 1 April 2019 can be reconciled to operating lease disclosures as at 31 March 2019 as follows:

	1 April 2019 (unaudited) £m
Operating lease commitments disclosed as at 31 March 2019	**27.4**
(Less): short-term leases recognised on a straight-line basis as expense	**(0.4)**
(Less): low-value leases recognised on a straight-line basis as expense	**(0.1)**
Difference due to extensions and split of lease commitments	**14.5**
Gross future lease cashflows per IFRS 16	**41.4**
Effect of discounting	**(11.8)**
IFRS 16 Lease liability recognised as at 1 April 2019	**29.6**

Right of use assets

Right of use assets were measured at the amount equal to the lease liability, adjusted by the amount of prepaid or accrued lease payments relating to leases recognised in the balance sheet as at 1 April 2019. The right of use asset has been reduced by the carrying amount of the onerous lease provision at 1 April 2019 instead of performing impairment reviews under IAS 36.

The recognised right-of-use assets relate to the following types of assets:

	SA		**UK**		**TOTAL**	
	30 September 2019 (unaudited) £m	1 April 2019 (unaudited) £m	30 September 2019 (unaudited) £m	1 April 2019 (unaudited) £m	30 September 2019 (unaudited) £m	1 April 2019 (unaudited) £m
Properties	16.2	16.2	7.2	7.5	**23.4**	**23.7**
Plant and equipment	0.7	0.8	1.3	1.1	**2.0**	**1.9**
Vehicles	0.1	-	1.0	1.0	**1.1**	**1.0**
Total	17.0	17.0	9.5	9.6	**26.5**	**26.6**

Impact on the income statement and earnings per share

For the six-months ended 30 September 2019, instead of recognising a rental expense of £2.5m in the period a depreciation charge of £2.2m has been recognised on the right of use asset and a £0.9m interest charge on the lease liability.

Underlying Operating Profit was £0.3m higher as a result of applying IFRS 16 due to the lower depreciation charge than rental expense. Profit before tax was £0.6m lower due to interest expenses being higher at the beginning of the lease term. This also reduced diluted underlying earnings per share by 0.6p (see note 5).

The overall impact of the implementation of IFRS 16 on the income statement over the life of the lease is neutral but will result in a higher charge in the earlier years following implementation and a lower charge in later years. There is no impact on Norcros's existing banking covenants as a result of the implementation.

Impact on the cash flow statement

The overall impact of IFRS 16 on the annual cash flow is zero. Payments in respect of leases which were previously recognised within cash flows from operating activities are now separated between interest cost and the payment of principal elements recorded in the cash flow statement under financing activities. This has increased net cash generated from operations by £2.9m, increased net cash used in financing activities by £2.0m and increased interest cost by £0.9m. Underlying operating cashflow has only increased by £2.5m due to £0.4m of the increased financing activities cashflow being related to onerous lease payment, hence deemed as exceptional, and excluded from underlying operating cashflow.

Practical expedients applied

Applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease. For future options unless it is certain the lease will not be extended, the extension is included in the IFRS 16 assessment.

The revised leases accounting policy will be disclosed in the 2020 annual report.

Statement of Directors' responsibilities

The Directors confirm that this condensed consolidated interim financial information has been prepared in accordance with International Accounting Standard 34, 'Interim financial reporting', as adopted by the European Union and that the Interim Report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed consolidated interim financial information and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the first six months and any changes in the related party transactions disclosed in the last Annual Report.

The Directors of Norcros plc and their respective responsibilities are as listed in the Norcros plc 2019 Annual Report.

By order of the Board

N. P. Kelsall	**S. M. Smith**
Group Chief Executive	***Group Finance Director***
14 November 2019	14 November 2019