

Chief Executive Officer's review

Progress toward our mid-term targets

Joe Vorih
Chief Executive Officer



My second year as CEO of Genuit has been one of significant strategic progress for the Group, despite a backdrop of continued external challenges. Our performance was resilient in the face of ongoing softness in the UK construction market, with successful product launches, balanced price and cost management, ongoing business simplification and growth in our international revenues helping to offset this volume decline.

Importantly, our leadership team has remained fully focused on executing our Sustainable Solutions for Growth strategy, the benefits of which are already flowing through. All this has only been possible thanks to the great work of our incredible team across the entire Genuit Group.

Our business simplification programme over 2022 and 2023 has been highly successful, and we have announced £15m of annualised savings from a range of self-help measures that leave the Group more streamlined, efficient and better placed for profitable growth. This has included the site consolidation programme across six sites that we are in the final phases of completing, with no reduction to our productive capacity. The deployment of the Genuit Business System on a multi-year basis has also begun to bear fruit as we begin to implement lean processes throughout the Group in order to drive a culture of continuous improvement.

These strategic decisions have served to improve our annual underlying profit margin from 15.8% to 16.0% despite the market-driven decline in revenues of 5.7%. Underlying operating cash conversion has also been strong at 87.7%, approaching our 90% mid-term target, strengthening our financial position and allowing us to de-leverage the balance sheet while continuing to invest in growth.

With the Group on a firm financial footing and with high confidence in our strategic direction, we are pleased to be able to propose an increase in our full-year dividend to 12.4p and formally introduce a progressive dividend policy.

Revenue	EBIT Margin	EBIT	Cash Conversion	DPS	Net Debt
£586.5m	16.0%	£94.1m	87.7%	12.4p	£149m
Down 5.7%	Up 20bps	Down 4.2%	Up 30.3pps	Up 0.1p	Reduced 10.2%
Market headwinds	Improved operational gearing	Volume reduction offset by business simplification	Progress towards 90% target	Delivering shareholder returns	Leverage reduced from 1.2x (Dec 2022) to 1.1x
↓	↑	↓	↑	↑	↓

Chief Executive Officer's review continued

“While the short-term outlook is unsettled, there has never been a better time to be focused on creating sustainable living.”



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Our customers: challenging market conditions remain

Genuit today is focused on sustainability-driven growth, helping our customers respond to climate adaptation and mitigation challenges. We continue to focus on segments that benefit from mid-term regulation and a customer-driven need for climate solutions – the electrification of our houses and workplaces to reduce carbon, better cooling and ventilation as the climate warms, more effective rainwater collection and reuse, and attenuation of flooding and stormwater runoff now more prevalent than ever. We provide these solutions into a range of end markets – new house building and RMI, commercial and multi-story residential construction, infrastructure including stormwater management projects within road and rail – and we are growing in many of these sectors internationally.

The structural UK housing shortage continues and must be addressed, so that despite the recent weakness, mid-term growth in this sector should be robust as the UK seeks to build the houses needed. 2023 saw a decline in site openings and starts, with higher interest rates affecting mortgages, cost of living concerns continuing and planning constraints still affecting housebuilders. We are expecting these low levels to continue into 2024 but expect pent-up demand to drive stronger growth in time.

There were some important segmental trends in residential construction. Notably, our Nuaire ventilation business saw organic growth in 2023 driven by increased penetration of new ventilation solutions – most notably to control damp and mould in social housing. Our Nu-Heat business saw a decline in renewable energy conversion projects as affordability was a concern for consumers, though project interest has increased since the government announced the increase of the Boiler Upgrade Scheme from £5,000 to £7,500 – certainly a positive development. On the other hand, the gas boiler market remained below normal levels, as the supply chain constraints of 2022 were replaced with decreased demand as consumers put off boiler replacements, keeping existing systems running. Historically, this has created pent-up demand for replacement of boilers as they age, demand that may return quickly when confidence returns.

While the UK still represents nearly 90% of Group sales, our geographic expansion activity continues as the demand for water management and building drainage solutions in the Middle East continues to develop, and we introduced new network infrastructure products – including for the North American market.

Despite the short-term headwinds that continue in 2024, we do see positive developments. The Future Homes Standard is expected to drive a significantly increased uptake of air-source heat pumps (ASHPs) and underfloor heating, more heat recovery in ventilation, and a continued focus on energy efficiency and lower carbon products. Again, last year, we saw hotter summers and more pronounced storms and flooding – challenging construction in the short term but reaffirming confidence in the need for our water management and green urbanisation solutions. In addition, lower carbon content (such as with the higher recycled-content plastic products we provide) is quickly moving up the agenda for our customers, in line with their own carbon commitments or driven by local initiatives such as the London Plan. On balance, while the short-term outlook is unsettled, there has never been a better time to be focused on creating sustainable living.

Our strategy: Sustainable Solutions for Growth

Our Sustainable Solutions for Growth strategy is built around four key pillars:



Growth – focus on higher-growth, sustainability-driven markets, via organic growth and disciplined M&A opportunities



Sustainability – continually improve the sustainability of our operations to be the lowest-carbon choice for our customers



Genuit Business System – create value through lean transformation and operational excellence



People and Culture – create value and enable growth through the capability, expertise and development of our employees

I am pleased with the progress that we have made against each of these commitments in 2023, which has seen us drive improvements throughout the business and strengthen our position going into 2024.

Chief Executive Officer's review continued



Growth

By focusing on sustainability-driven markets in the built environment, we see significant opportunities to outperform the broader construction market. The necessity of adapting to climate change, regulatory changes and shifting customer preferences create a series of structural tailwinds that will enable us to achieve organic growth and open the possibility for disciplined M&A opportunities.

Despite the softness in the UK construction sector in 2023 and the overall decline in volumes, I'm pleased to say that this approach helped to secure revenue opportunities across all three of our Business Units. Sustainability-driven structural growth drivers including the need for greater ventilation in social housing and stormwater attenuation have served to drive demand for our solutions.

The launch of exciting new product lines, including PolyPlumb Enhanced in Sustainable Building Solutions (SBS), Nu-Deck and MVHR with cooling in Climate Management Solutions (CMS) and SubTerra CT in Water Management Solutions (WMS), demonstrates our commitment to innovating within our product ranges and providing customers with innovative and highly relevant solutions. All these products tie into the need to address climate adaptation challenges and improve the resilience of the built environment.

Solution selling, including expanding the Nu-Heat direct-to-contractor or homeowner offering, and working with national and regional homebuilders to install early ASHP and underfloor heating solutions – ahead of the Future Homes Standard – were effective. Our commercial offering has expanded with Polypipe Advantage prefabricated solutions growing, enhanced with a new Stax line of pre-configured solutions. We merged our Keytec and Alderburgh installation businesses to create a class leading water management solution partner with national reach.

The launch of these products, solutions and services, with a continued pipeline of development, means that despite some variation as products mature, we remain on track to maintain our target of 25% of all sales coming from products developed in the last five years. Furthermore, our success in integrating past acquisitions successfully, stronger leadership capability, and decreased leverage, all position the Group well to continue to develop and pursue strategic acquisitions that will add to our organic growth potential and enhance shareholder returns in the future.

Sustainability

Our growth strategy is inextricably linked to sustainability, as the key driver of our markets and the core of our product suites. It is therefore imperative that we are continually pursuing a programme of improvement in regard to our own sustainability metrics, ensuring that we are the lowest-carbon supplier of choice to our customers.

We are on a trajectory to become net-zero by 2050, and our sustainability plans have progressed well in the year. Most notably, in 2023 we became the first amongst our UK peers to have verified SBTi approval for our near-term carbon reduction targets, which amongst other commitments will see us reduce our scopes 1 & 2 greenhouse gas (GHG) emissions by 30% by 2027 compared to 2021.

We are also the largest user of recycled polymers across our European peer group, making up almost half our total tonnage, and we have held the LSE Green Economy Mark since 2019 with over 70% green revenues.

We said that we would leverage sustainability leadership for growth, remain the champion of the most sustainable building solutions and extend our plastic recycling usage. As these sustainability targets are a key component of our strategy, they form an integral part of Executive and senior management remuneration to ensure reward is fully aligned with our strategic priorities. In 2023, we added the annual measure of carbon reduction into the annual bonus arrangements for a wider cohort of our managers.

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Our science-based targets

	Progress
Reduce absolute scopes 1 & 2 GHG emissions 30% by 2027	24%
Increase annual sourcing of renewable electricity from 94% in 2021 to 100% by 2027 through 2030	91%
83% of suppliers (by emissions) of purchased goods and services will have science-based targets by 2027	32%

In 2023 the Science-Based Target initiative (SBTi) approved Genuit Group's near-term science-based emissions reduction target and we've already made significant progress towards meeting those targets with the 2023 performance seeing a 24% decrease from the 2021 base year.

During the year our GHG intensity was 0.140tCO₂e/t despite lower production volumes and we decreased our scope 1 emissions by more than the corresponding decrease in production. The majority of electricity supplied to our operations was from renewable sources at 91%.

The Group is committed to provide leadership in the construction products sector when it comes to climate change and we see the adoption of science-based climate change targets as key. We'll continue to engage and work with our suppliers to ensure that they take action to reduce carbon in the supply chain, but already c.32% of suppliers have a science-based climate change target.

Chief Executive Officer's review continued

Genuit Business System

Embedding the lean transformation of the business and creating a culture of continuous operational improvement and excellence is at the heart of our value creation strategy. The Genuit Business System (GBS) will enable the Group to standardise processes, share best practices and achieve benefits of scale, and will be at the core of our journey to achieving our medium-term >20% operating margin target.

In 2022, we started our journey to implement these principles as we began to deploy the GBS at Adey as our first Lean Lighthouse. We have seen significant productivity improvements, financial savings and space savings from this first lean site transformation.

In 2023, we extended that Lean Lighthouse deployment across Polypipe Building Products, and we also commenced a further project in Horncastle that will accelerate in 2024.

The success of our Lean Lighthouse projects has energised our people and allowed us to continue the multi-year deployment of the Genuit Business System on a wider scale across the Group. In the first full year, over 10% of Genuit employees have now participated in lean Kaizen events or training – showing both the pace of deployment across the Group and how much more progress and benefit there is to realise. We are very pleased with the results of this so far and believe that it will help to empower and inspire our people. Enabling our people to unlock the full potential of our business is at the heart of what we are building.

People and Culture

Our people are the heart of our business and the key driver of our success, and as such our growth strategy is highly focused on making sure that they are empowered to drive progress. Accordingly, we have continued to invest in talent, engagement and culture throughout 2023.

Core to the creation of a positive culture has been the creation of our Genuit Leadership Team (GLT) in 2022, consisting of c.70 of the top leaders across the Group. This group was instrumental in defining our new purpose (Together, we create sustainable living) and forming our Trademark Behaviours that will underpin our culture – We work together, We take ownership and We find a better way. Since this team will be instrumental in modelling and strengthening our culture and executing our strategy, we have focused our diversity and leadership development efforts with them first. We are proud that GLT membership now consists of 29% female leaders, and all of the GLT will participate in a new Genuit Leadership Programme over the coming year.

We have also worked to strengthen the Group-wide talent pipeline in 2023 and are committed to providing accredited learning programmes through our graduate schemes and apprenticeships. Further, we have been able to develop an accredited programme to help our current workforce be better prepared for the future, learning basic manufacturing and lean tools. All these efforts have helped us increase the percentage of our workforce in such programmes to 8% – a significant improvement and a sign of the importance we place on career development. The year also saw us launch Workday – our new self-serve HR platform to make people management and development more effective, and in early 2024 we plan to undertake our first Group-wide employee engagement survey. Additionally, our use of the Workplace platform has resulted in stronger cross-Group communication with all our colleagues.

Lastly, Genuit Group became a strategic partner of the Construction Inclusion Coalition in 2023, extending our commitment to inclusion in this all-important industry.

Summary: we are well-placed for 2024 and beyond

Overall, this has been a year of significant strategic progress towards our medium-term targets. We have successfully created a more streamlined and effective business, leading to improved margins and a strong financial position that has given us the confidence to implement a progressive dividend policy. Across our strategic pillars we have made good progress, and the work that has been done to create a Group that can achieve growth and efficiencies, underpinned by sustainability and a strong culture, is evident.

The macroeconomic uncertainty that impacted the construction sector in 2023 is likely to continue into 2024, and the softness in volumes is therefore expected to continue across several markets. The strategic successes that we have achieved in 2023, however, mean that Genuit is in an excellent position to navigate the near-term market headwinds, and will be well-placed to benefit when the market normalises. I remain highly confident that we are moving in the right direction, and sustainability-driven tailwinds such as the need for increasing energy efficiency in heating and ventilation, stormwater solutions to address significant rainfall events and the need for lower carbon building materials will significantly benefit our businesses over the medium-term.

I would like to close by thanking all my colleagues at Genuit for their efforts in the year. Ever since I joined as CEO, I have been constantly impressed by their dedication, imagination, and hard work, and I look forward to continuing to work with them all to create sustainable living together.

Joe Vorih
Chief Executive Officer
12 March 2024

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Chief Executive Officer's review continued



Q&A

Joe Vorih
Chief Executive Officer

Q What do you see as your main priorities for 2024?

I'm proud of the work our team did in the face of challenging market conditions in 2023. We do have some work to do to finish the simplification projects we started during the next few months – projects that are on track to underpin £15m of annualised savings without any reduction in capacity. Beyond that, we are investing in growth – new product launches, focused solution and cross-selling projects, and geographic expansion. And, importantly, preparing for the 2025 Future Homes Standard. To make this possible, we will continue to invest in our people and our leaders.

Q Can you explain the new purpose statement 'Together, we create sustainable living'?

Our Genuit Leadership Team – the top 70 or so leaders in our business – felt we needed a better purpose statement. A group of them developed this – with input from Genuit team members. 'Together' speaks to all of us as Genuit, the 'we' will work as a team and in partnership with our customers. And we are an innovation company that will 'create' new solutions aimed at improving how we live and work, while mitigating climate change and helping ensuring climate adaptation. Hence, 'sustainable living.' I can't begin to convey how well this has resonated with our people and prospective joiners!

Q Does M&A play a role in each Business Unit?

Absolutely! We've been clear that our M&A priorities will be to add to our solution capabilities and accelerate organic growth. To that end, Climate Management Solutions and Water Management Solutions are the clear focus as we look to expand the complete solution for low-carbon heating and cooling of our homes and offices, create complete blue/green urbanisation solutions, and more effective stormwater management solutions. Ideally, new Genuit companies will bring technology, routes to market, and an expanded global presence – in addition to being great investments. Of course, we will remain open to solid deals that expand our market share in any of the three Business Units.

Q How are you building Genuit Group's employer brand equity?

While you won't see Genuit as a product brand, I've said all along that we want to be a great place to work – truly an exemplar company with the best talent top to bottom. To do that, we have to invest in leadership – as we are with our newly-launched Genuit Leadership Programme. Inclusiveness matters, especially when it comes to creating career advancement opportunities for any of our associates who aspire to a great career here. And, living our Trademark Behaviours of 'We work together,' 'We take ownership,' and 'We find a better way.' There's no shortcut to creating a great culture – but there's also nothing more important!

Q What is next in lean and the Genuit Business System?

Clearly, we have put lean thinking at the heart of our strategy by making the Genuit Business System a core pillar of our growth strategy. This may surprise some, but it's about relentless focus on creating customer value, and shifting waste into investment in our future. We are actively deploying GBS across most of our sites and are starting to see bottom line results that allow us to reinvest in future growth. Most importantly, lean is one of the best possible ways to drive engagement – empowering everyone one of our 3,100 plus team members to learn how to improve their work to benefit them and their customers. What could be better than that?

