Chief Financial Officer's Report

Focused on profitable growth

Tim Pullen
Chief Financial Officer

The Group had a strong performance in 2023 in its new operating structure with ongoing market and political uncertainty, but delivering results through transformation and self-help.

Revenue and operating margin

Group revenue for the year ended 31 December 2023 was £586.5m (2022: £622.2m), declining 5.7% despite an overall volume reduction of 12.4% year-on-year, in the context of market headwinds. UK revenue declined 7.4% but international revenue increased by 9.8%, representing 11.5% of revenue in the year (2022: 9.9%).

Underlying operating profit was £94.1m (2022: £98.2m), a decrease of 4.2% with a volume reduction offset by new product launches, balanced price and cost management and business simplification projects. As a result, the Group underlying operating margin increased by 20 basis points to 16.0% (2022: 15.8%), demonstrating progress towards medium-term margin targets despite the prevailing market softness.

The Group successfully completed several business simplification projects in 2022 and 2023, including a number of site closures and a centralised approach to procurement.

The Group also started the multi-year deployment of the Genuit Business System (GBS) which focuses on continuous improvement. These activities have successfully underpinned £15m of annualised cost savings without any reduction in capacity to ensure strong operating gearing as volumes normalise.

Profit before tax was £48.4m (2022: £45.4m), an increase of 6.6%. The Group continued to invest in product development and innovation throughout the year. In 2023, operating profit benefitted from £1.5m of HMRC approved Research and Development expenditure credit, relating to the year ended 31 December 2023.

"2023 was a year of business simplification, providing a strong platform for growth."

Revenue and operating margin

	2023 £m	2022 £m	Change %
Revenue	**586.5**	622.2	**(5.7)**
Underlying operating profit	**94.1**	98.2	**(4.2)**
Underlying operating margin	**16.0%**	15.8%	**20bps**

Revenue by geographic destination

	2023 £m	2022 £m	Change %
UK	**519.1**	560.8	**(7.4)**
Rest of Europe	**33.4**	32.4	**3.1**
Rest of World	**34.0**	29.0	**17.2**
Group	**586.5**	622.2	**(5.7)**

Scan to hear more from Tim Pullen and his reflections on 2023

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Business Review

Revenue

	2023 £m	2022 £m	Change %	LFL Change %
Sustainable Building Solutions	**242.8**	282.5	**(14.1)**	(14.1)
Water Management Solutions	**170.4**	172.4	**(1.2)**	(1.8)
Climate Management Solutions	**165.9**	158.6	**4.6**	4.6
	579.1	613.5	**(5.6)**	(5.8)
Other*	**7.4**	8.7	**(14.9)**	(14.9)
Total Group	**586.5**	622.2	**(5.7)**	(6.0)

* Relates to assets held-for-sale which are not reported as part of the Group's Strategic Business Units.

Underlying operating profit

	2023 £m	ROS %*	2022 £m	ROS %*	Change bps
Sustainable Building Solutions	**53.1**	**21.9**	59.3	21.0	**90**
Water Management Solutions	**17.7**	**10.4**	14.1	8.2	**220**
Climate Management Solutions	**22.7**	**13.7**	25.2	15.9	**(220)**
	93.5	**16.1**	98.6	16.1	**–**
Other**	**0.6**	**8.1**	(0.4)	(4.6)	**1270**
Total Group	**94.1**	**16.0**	98.2	15.8	**20**

* Return on sales (ROS) is equivalent to underlying operating margin (underlying operating profit / revenue).
** Relates to assets held-for-sale which are not reported as part of the Group's Strategic Business Units.

Revenue in the Strategic Business Units, for year ended 31 December 2023 was 5.6% lower than the prior year at £579.1m (2022: £613.5m). On a like-for-like basis, excluding the impact of acquisitions, revenue was 5.8% lower than prior year.

Ongoing self-help measures, deployment of the Genuit Business System and continued business simplification have strengthened our financial performance to offset continued levels of high inflation in materials, energy and labour costs. The team have worked hard on continuing to improve efficiencies, creating value and positioning us for growth.

We have built on the momentum from prior year in driving commercial excellence which has enabled us to successfully launch new products whilst balancing price and cost management. We have strived to improve our portfolio profit mix by taking ongoing actions on lower margin business. Against a backdrop of more challenging conditions, notably in the residential newbuild and RMI markets, we have continued optimising the cost base whilst maintaining capacity, investing in new equipment and boosting operational efficiency to ensure we are well positioned for improved market conditions.

Sustainable Building Solutions (SBS)

The strength and resilience of the SBS Business Unit was evident in a challenging market environment in 2023. Trading in SBS was resilient with revenue of £242.8m (2022: £282.5m), 14.1% lower than prior year. The volume decline was in-line with the UK residential new build and RMI sectors.

Despite volume challenges, underlying operating profit margin improved by 90 basis points, driven primarily by effective cost management through several improvement projects. As part of the wider Group business simplification plans, SBS executed an operating footprint consolidation with the completion on the sale of the Glasgow distribution centre and exiting of the Kirk Sandall site, both of which were integrated into the larger and strategic Doncaster facilities. The improvement projects were designed to simplify and improve the cost base without impacting service or reducing capacity.

The deployment of a lean transformation started with the continual, multi-year implementation of GBS at Polypipe Building Products (Doncaster) leading to improved customer service levels and providing a foundation for continuous business improvement. Management successfully completed a significant equipment refresh programme, which enabled a substantial reduction in past due orders, yielding both efficiency and inventory benefits. The Business Unit remains poised to take advantage of the eventual recovery in construction markets and in the meantime is focused on generating organic growth through significant product developments, including the PolyPlumb Enhanced range and value-add sustainability focused solutions such as Polypipe Advantage and Stax.

Water Management Solutions (WMS)

WMS revenue of £170.4m (2022: £172.4m) declined by 1.2% versus 2022 (1.8% on a like-for-like basis). The Business Unit performed well with revenue generated from new products and

"We'll be focusing on our growth strategy, underpinned by a continuing drive to deliver operational excellence, while keeping that focus on sustainability."

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geographical expansion. In the second half of 2023, WMS revenue grew by 2.1% driven by structural climate change relating to growth drivers, namely the increased frequency and severity of flood events resulting in a greater number of projects requiring stormwater attenuation solutions.

The Business Unit reported an underlying operating margin of 10.4% during the period, representing a 220-basis points improvement versus prior year. This improvement was driven by a combination of business and brand rationalisations, cost controls and focused investment in our people, processes and manufacturing capabilities.

The WMS medium-term growth strategy is underpinned by focused commercial activity, leveraging the increased levels of product development in 2023 and the Business Unit expects to benefit from changes in water management and biodiversity legislation.

Climate Management Solutions (CMS)

Revenue of £165.9m (2022: £158.6m) in CMS increased by 4.6% versus 2022. This increase was driven by strength in the residential ventilation market, with structural drivers associated with ventilating to reduce mould and damp problems, particularly in the social housing sector. This growth was partially offset by reduced demand for new boiler and heating system installations which has adversely affected the Adey business. The Adey business remains well positioned to benefit from the eventual recovery in the boiler market.

The CMS Business Unit reported an underlying operating margin of 13.7% in 2023, 220 basis points lower than 2022. This resulted predominantly from lower volumes at Adey and one-off IT security investment to achieve Group standard. The continual, multi-year implementation of GBS has begun in the Business Unit and business simplification projects including the consolidation of the Surestop business into Adey were completed in the year.

The Business Unit now has a solid foundation for profitable growth and is well-positioned to benefit from legislative and environmental tailwinds to deliver growth into the future.

Acquisitions

Keytec

On 31 March 2022, the Group acquired 100% of the voting rights and shares of Keytec Geomembranes Holding Company Limited (Keytec), for an initial cash consideration of £2.5m on a cash-free and debt-free basis plus a deferred consideration of £0.6m, which was paid in early 2023. The total cash consideration of £2.9m included a payment for net cash and working capital commitments on completion of £0.4m. Keytec is a supplier and installer of stormwater attenuation products, geomembranes and gas protection products.

No material intangible assets were identified. The goodwill arising on the acquisition primarily represented the technical expertise of the Keytec staff, synergies of companies offering both supply and install services and market share. The goodwill was initially allocated entirely to the Commercial and Infrastructure Systems, which is now the Water Management Solutions segment.

Plura

An amount of £1.8m has been recognised as a non-underlying expense in the Group Income Statement in the year ended 31 December 2023 in respect of the Plura contingent consideration arrangement. This takes the total amount recognised as a liability on the Group Balance Sheet at 31 December 2023 to £8.2m. A payment of £1.0m was made in relation to this arrangement in December 2023. Accordingly, the aggregate final total amount payable under the contingent consideration is expected to be approximately £9.2m. Contingent consideration was determined based upon the agreed purchase price of the remaining 49% of shares on 8 December 2023. There is no material difference between the cash consideration and the fair value.

Non-underlying items

Non-underlying items before tax decreased to £32.1m (2022: £45.2m). These were driven by non-cash amortisation of £14.8m (2022: £15.2m) and total impairment charges of £2.5m (2022: £14.8m), respectively. The Group incurred one-off costs of restructuring of £15.3m (2022: £9.3m) related to the business simplification projects that have underpinned the £15m of annualised savings.

Non-underlying items comprised:

Non-underlying items	2023 £m	2022 £m
Amortisation of intangible assets	**14.8**	15.2
Impairment of goodwill	**–**	12.0
Impairment of intangible assets	**2.5**	2.8
Restructuring costs	**15.3**	9.3
Employment matters	**2.0**	–
Contingent consideration on acquisitions	**1.8**	3.1
Workday configuration (SaaS)	**1.2**	–
Acquisition costs	**0.4**	0.2
Profit on disposal of property, plant and equipment	**(4.7)**	–
Product liability claim	**(1.2)**	1.0
Isolated cyber incident	**–**	1.2
Unamortised deal costs	**–**	0.4
Non-underlying items before taxation	**32.1**	45.2
Tax effect on non-underlying items	**(8.0)**	(5.2)
Non-underlying items after taxation	**24.1**	40.0

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Exchange rates

The Group trades predominantly in Sterling but has some revenue and costs in other currencies, mainly the US Dollar and the Euro, and takes appropriate forward cover on these cash flows using forward currency derivative contracts in accordance with its hedging policy.

Finance costs

Underlying finance costs increased to £13.6m (2022: £7.6m) due to significantly higher Standard Overnight Index Average (SONIA) interest rates partially offset by lower level of RCF borrowings. Interest cover was 8.2x for the year (2022: 16.0x).

Interest was payable on the RCF at SONIA (2022: SONIA) plus an interest rate margin ranging from 0.90% to 2.75%. The interest rate margin at 31 December 2023 was 1.65% (2022: 1.60%). The Group has commenced an interest rate hedging strategy in 2024 to provide increased certainty and manage interest rate risk.

Taxation

Underlying taxation

The underlying tax charge in 2023 was £17.9m, (2022: £14.1m) representing an effective tax rate of 22.2% (2022: 15.6%). This was below the composite UK standard tax rate of 23.5% (2022: 19.0%).

Taxation on non-underlying items

The non-underlying taxation credit of £8.0m (2022: £5.2m) represents an effective rate of 24.8% (2022: 11.5%).

Earnings per share

	2023 £m	2022 £m
Pence per share:		
Basic	**15.5**	14.7
Underlying basic	**25.2**	30.8
Diluted	**15.4**	14.6
Underlying diluted	**25.1**	30.5

The Directors consider that the underlying basic earnings per share (EPS) measure provides a better and more consistent indication of the Group's underlying financial performance and more meaningful comparison with prior and future periods to assess trends in our financial performance.

Underlying basic EPS decreased by 18.2% in 2023 predominantly the result of increased interest and tax costs, driven by external factors.

Dividend

The final dividend of 8.3 pence (2022: 8.2 pence) per share is being recommended for payment on 5 June 2024 to shareholders on the register at the close of business on 3 May 2024. The ex-dividend date will be 2 May 2024. The proposed increase in the full-year dividend reflects the Group's strong balance sheet and confidence in its medium-term strategy.

The Group aims to pay a progressive dividend, based on dividend cover of 2.0x or greater over the business cycle. The Directors intend that the Group will pay the total annual dividend in two tranches, an interim dividend and a final dividend, announced at the time of publication of the interim and final results.

Balance sheet

The Group's balance sheet is summarised below:

	2023 £m	2022 £m
Property, plant and equipment	**176.4**	169.9
Right-of-use assets	**22.9**	22.3
Goodwill	**454.1**	455.4
Other intangible assets	**142.7**	159.7
Net working capital	**28.3**	33.8
Taxation	**(44.7)**	(47.9)
Other current and non-current assets and liabilities	**6.2**	0.1
Net debt (loans and borrowings, and lease liabilities, net of cash and cash equivalents)	**(149.3)**	(166.2)
Net assets	**636.6**	627.1

The net value of property, plant and equipment has increased by £6.5m following the continued focus on investing in targeted capital expenditure offset by the sale of two additional sites.

Pensions

The Group does not have any defined benefit pension schemes and only has defined contribution pension arrangements in place. Pension costs for the year amounted to £5.4m (2022: £6.5m) reflecting the reduction in headcount in the Group across the year.

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Cash flow and net debt

The Group's cash flow statement is summarised below:

	2023 £m	2022 £m
Operating cash flows before movement in net working capital	**105.6**	113.6
Add back non-underlying cash items	**14.2**	9.6
Underlying operating cash flows before movement in net working capital	**119.8**	123.2
Movement in net working capital	**4.1**	(19.7)
Net Capital expenditure excluding non-underlying proceeds of sale	**(33.8)**	(40.9)
Settlement of lease liabilities	**(7.6)**	(6.2)
Underlying cash generated from operations after net capital expenditure excluding non-underlying proceeds of sale	**82.5**	56.4
Income tax paid	**(12.1)**	(7.0)
Interest paid	**(13.4)**	(3.7)
Non-underlying proceeds of sale	**6.9**	
Other non-underlying cash items	**(14.2)**	(9.6)
Settlement of deferred and contingent consideration	**(1.6)**	(0.5)
Acquisition of businesses	**–**	(2.6)
Debt issue costs	**–**	(3.1)
Dividends paid	**(30.5)**	(30.5)
Proceeds from exercise of share options net of purchase of own share	**0.3**	0.4
Other	**(0.7)**	2.2
Movement in net debt – excluding IFRS 16	**17.2**	2.0
Movement in IFRS 16	**(0.3)**	(2.5)
Movement in net debt – including IFRS 16	**16.9**	(0.5)

Delivery of strong cash generation remains core to the Group's strategy. Underlying operating cash conversion of 87.7% (2022: 57.4%) calculated as underlying operating cashflow (after payments for capital expenditure excluding non-underlying proceeds of sale and lease liabilities) divided by underlying operating profit. The Group remains committed to achieving a conversion rate of 90.0% over the medium-term.

A positive working capital movement in the year was achieved through lower levels of inventory following increases in prior periods to improve customer service performance following the recovery in demand and supply chain disruption that followed the pandemic.

Net capital expenditure investment (excluding non-underlying proceeds from sale) decreased to £33.8m (2022: £40.9m) as the Group continued to focus on investing in targeted manufacturing facility development, capacity and key, strategic and innovative projects.

Net debt of £149.3m comprised:

	2023 £m	2022 £m
Bank loans	**(145.0)**	(195.9)
Cash and cash equivalents	**17.0**	50.0
Net debt (excluding unamortised debt issue costs)	**(128.0)**	(145.9)
Unamortised debt issue costs	**2.1**	2.8
IFRS 16	**(23.4)**	(23.1)
Net debt	**(149.3)**	(166.2)
Net debt (excluding unamortised deal issue costs): pro-forma EBITDA	**1.1**	1.2

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Financing

The Group has a Sustainability-Linked Loan (SLL) committed through to August 2027 with one further uncommitted annual renewal through to August 2028 following a refinancing with the existing bank syndicate in 2022. The facility limit is £350.0m with an additional uncommitted 'accordion' facility of up to £50.0m. At 31 December 2023, £120.0m of the RCF was drawn down. Additionally, in 2022 the Group entered a fixed rate £25.0m seven-year private placement loan note until August 2029 with an uncommitted shelf facility of an additional £125.0m.

The Group is subject to two financial covenants. At 31 December 2023, there was significant headroom and facility interest cover and net debt to EBITDA covenants were comfortably achieved:

Covenant

	Covenant requirement	Position at 31 December 2023
Interest cover	>4.0:1	8.2:1
Leverage	<3.0:1	1.1:1

Going concern

The Group continues to meet its day-to-day working capital and other funding requirements through a combination of long-term funding and cash deposits. The Group's bank financing facilities consist of a £350.0m Sustainability-Linked Loan with an uncommitted 'accordion' facility of £50.0m and a seven-year private placement loan note of £25.0m with an uncommitted £125.0m shelf facility. At 31 December 2023, liquidity headroom (cash and undrawn committed banking facilities) was £247.0m (2022: £229.1m). The Group's focus will continue to be on deleveraging, and its net debt to EBITDA ratio stood at 1.1x pro-forma EBITDA at 31 December 2023 (2022: 1.2x). This headroom means the Group is well-positioned with a strong balance sheet.

As a result, the Directors have satisfied themselves that the Group has adequate financial resources to continue in operational existence for a period of at least the next 21 months to 31 December 2025. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements.

Forward-looking statements

This report contains various forward-looking statements that reflect management's current views with respect to future events and financial and operational performance. These forward-looking statements involve known and unknown risks, uncertainties, assumptions, estimates and other factors, which may be beyond the Group's control, and which may cause actual results or performance to differ materially from those expressed or implied from such forward-looking statements. All statements (including forward-looking statements) contained herein are made and reflect knowledge and information available as of the date of preparation of this report and the Group disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements due to the inherent uncertainty therein. Nothing in this report should be construed as a profit forecast.

Tim Pullen
Chief Financial Officer
12 March 2024

Chief Financial Officer's Report continued

Q&A

Tim Pullen
Chief Financial Officer

Q What attracted you to join Genuit Group?
From the outside in, I could see a very clear strategy, inspiring leadership from our CEO Joe Vorih and a strong future opportunity. I also liked the context of the Genuit story. This is a business that is going through change and experiencing a cyclical downturn, but one that also has powerful structural drivers that will enable growth and, of course, Genuit has sustainability at its core. These are great ingredients for making an impact and achieving success.

Q Has anything surprised you in your first few months?
It was clear to me that the Genuit group is comprised of a number of excellent and resilient businesses, just look at the brands and the market shares! But beyond that I was also pleasantly surprised by the level of proactivity that was already underway in reducing the structural cost base of the business. Without any reduction in our capacity this business simplification has increased the operational gearing at a time when volumes are low, and this will improve the profit potential of the business as volumes increase through the cycle.

Q What are your priorities for 2024?
Our business simplification provides a strong foundation for our growth agenda. Whilst the market remains challenging and we enter 2024 with a degree of uncertainty, we have confidence in our medium-term goals. During this coming year, we'll be focusing on our growth strategy, underpinned by a continuing drive to deliver operational excellence, while keeping that focus on sustainability.

Q What is Genuit's biggest opportunity for growth?
That's simple. Our business is built for the transition. Here I am referring to the changing market dynamics and the regulatory environment around sustainability, which includes the twin challenges of lowering the carbon footprint of the built environment while adapting to the impacts of climate change. In turn this affords a significant opportunity for Genuit's portfolio of sustainable building products.

Q What is the greatest challenge the industry is facing?
Clearly climate change represents both a challenge and an opportunity for Genuit. In addition to this, I can see that labour shortages in the construction industry remain a key challenge, particularly if the growing demands for more housing in the UK are to be met. But again, Genuit's approach to innovation can really help meet this challenge. We can deliver simplified, kitted products and multi-product solutions, which enable lower labour costs for our construction customers and help make new housing more affordable.