

SIG plc

## Interim Results Presentation Transcript

21 August 2008

**Les Tench, Chairman**

Good morning Ladies and Gentlemen. Welcome to this presentation of SIG's Interim Results and thank you for giving up your time to be with us this morning.

In addition to Chris Davies and Gareth Davies, we have with us today, John Chivers, Executive Director and one of our non Executive Directors, Michael Borlenghi.

Our presentations will be in two main parts. Firstly, there will be a financial review by Gareth Davies, Finance Director, followed by a trading review from Chris Davies, Chief Executive.

Following these presentations we shall be pleased to take any questions you have.

However, before handing over to Gareth, I should like to give a very brief overview of the key points.

The first half of 2008 has been one of a challenging environment and we have produced a solid performance.

We have a proven and experienced management team right across Europe who have been through hard times before and have a very active focus on cost control.

Our acquisition spend of £127m in the first half and high number of deals was influenced by first quarter vendor CGT issues in the UK and our spend will be

materially lower in the second half.

We believe the Group is in good shape to maintain further progress.

**Gareth Davies, Finance Director**

S5 - 2008 Performance Drivers
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Good morning ladies and gentlemen. Our 2008 Interim Results reflect a period of solid trading for the Group with good progress against a background of tougher trading conditions in certain of our businesses when compared to the first half of 2007.

Les has already referred to a number of key points in respect of the first half. Firstly, I would like to briefly explain some of the drivers of our first half performance.

We have seen positive market demand for our products in non-residential and industrial markets offsetting significant weakness in UK and Ireland residential.

We saw good like for like sales increases in the UK, which we believe to be ahead of the market and were pleased with the growth in Euros in Europe against particularly testing H1 2007 comparators.

We have expanded our specialist product range, moved into new countries and invested further in customer service.

These, together with an acceleration in acquisition activity in the first half, have helped to strengthen further our market leading positions.

Cost cutting programmes are well advanced in Group businesses where we believe market demand will be subdued for some time.

## S6 - Financial Highlights

We have achieved substantial sales and operating profit growth, with total sales up more than 35% and underlying operating profit up 20% to £84.0m (2007: £70.0m).

Like for like sales were up over 9% in sterling and 2.5% in constant currency with solid performances in all of our business streams except Ireland.

Our Business Development team has been busy in the first half completing a record number (24) of transactions and adding annualised sales of £185m to the Group. The timing of the completion of a number of the UK deals was brought forward in advance of the CGT changes at the start of April.

The Group remains in a solid financial position – with interest cover for the half year at a robust 5.4x (2007: 8.8x).

## S7 - Summary Income Statement

Looking first of all at the summary results:

Total sales increased by £395m (35.9%) to £1.494bn. In a period of more difficult trading conditions we are particularly pleased with the like for like growth in both the UK and Mainland Europe – Chris will give further details later.

Underlying operating profit before group costs of £4.6m (2007 - £3.5m), increased by 20.5% or £15.1m to £88.6m, with good like for like progress being supported by performances of the businesses acquired since 1 January 2007.

Our interest charge doubled to £15.7m (2007: £8.0m) reflecting the continued

investment in the business, both organic and through acquisition.

Underlying profit before tax at £68.3m was up 10.2%.

#### S8 - Analysis of Revenue Growth

The next slide analyses the total growth in revenue of £395m into its constituent parts.

We achieved a like for like sales growth of £27m or 2.5%, on a constant currency basis of which we believe approximately 2.9% to relate to price and minus 0.4% to volume.

A total contribution to sales of £266m came from acquisitions of which £213m arises from the growth in the contribution of the acquisitions made in 2007, and £53m from acquisitions made in 2008.

Currency – The strengthening of the Euro and the Polish Zloty added £102m to sales.

Giving a total increase of £395m.

#### S9 - Tax, Earnings and Dividends

Turning now to tax, earnings and dividends. The effective tax rate on underlying profits was 29%, a reduction of 1% from full year 2007 which was 30%.

The reduction is a result of a decrease in Corporation tax rates in UK and Germany this year. [ UK – 30% to 28% 1 April; Germany 40% to 30% 1 Jan]

Underlying EPS are up 4.4% to 35.8p (2007: 34.3p) on an increase compared with 2007 of 10.0m in the weighted average number of shares in issue –

arising from the share placing at the end of May 2007.

The Board has declared an interim dividend of 8.3p, up 3.8% on H1 2007 (8.0p). You will recall this follows increases of in excess of 20% in the Full Year dividend in each of the last 3 years.

This leaves dividend cover at 3.5 times at the half year stage (2007: 3.9 times).

S10 - Balance Sheet
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Turning to the Balance Sheet.

We have continued our planned investment in our vehicle fleet and properties during the period though at a slightly slower rate than last year. Our CAPEX depreciation ratio was 1.66 with Net spend of £31.9m compared to depreciation charged of £19.2m.

Net working capital was £377.9m, an increase of £138.1m over H1 2007, and reflects working capital in our acquisitions of £39m together with an increase supporting the growth of the business of £79m, with the balance of £20m arising from exchange rate movements.

Average net debt during the first half was £575m and borrowings amounted to £640.2m at the period end with gearing increasing to 105% from 75% at the start of the year. This of course reflects the significant H1 acquisition spend and investment in working capital which I shall discuss shortly. I anticipate that gearing will fall by the year end given the expected reduction in acquisition activity, internal working capital initiatives and stronger trading cash flows in the second half.

S11 - Working Capital
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Looking at working capital. The working capital to sales ratio was 12.2%, a 1.7% increase over the equivalent period last year.

- Stock days have increased by 6 to 46 (2007: 40 days). I shall discuss the factors giving rise to this increase on the next slide.
- Debtor days have remained at 55. We are particularly pleased that we have maintained this rate given the harsher trader environment and the increase in revenue in the period.
- Finally, creditor days reduced by 2 day to 48 days (2007: 50).

The bad debt charge as a % of sales at 0.5% showed a small improvement over H1 2007 (0.7%) and was in line with the full year 2007. Whilst being pleased with this, the success being due to the skill of our credit control team, we remain vigilant going forward and this will remain a key area of focus.

#### S12 – Factors affecting stock turn

The main contributing factors to the six days increase in stock days when compared to June 2007 are:

Firstly – A number of the larger businesses acquired since 30 June 2007 have slower stock turn than the Group average at that date.

Secondly – we have opened 31 Brownfield sites in the first half – these have been stocked up appropriately with a total stock of £5m but because of the timing of commencement of trading have recorded only a low level of sales in the period.

Finally, during the period we have opened a Group slate purchasing platform in Spain which will give us significant savings over time. This held stock of £6m at the period end.

### S13 – Cash Flow

I would now like to make a few comments on cash flow in the first half.

We generated £40m from operations after an increase in working capital of £63m.

The interest and tax payments were £16m more than last year and the Group made a special contribution to the defined benefit pension scheme of £7m.

We spent £118.1m (net of cash acquired) in respect of 24 acquisitions and £5.2m in respect of contingent consideration following achievement of targets by acquisitions from previous years, making a total cash outflow of £123.3m.

Following the strengthening of the Euro and Zloty in the First Half, exchange differences together with fair value movements on our swap contracts added £30m to the closing debt position (as we borrow in Euros to hedge our Euro assets and take benefit from lower Euro interest rates)

Overall, our borrowings increased by £211m

### S14 – Trading Cash Conversion (i)

Our Trading Cash Conversion in the first half amounted to 48% of operating profit – our historic norm has been achievement of 100% conversion for the year with 90% conversion in the first half.

### S15 – Trading Cash Conversion (ii)

In absolute terms, the conversion of 48% of our underlying operating profit into cash is £36m below historic norm, and arises predominantly from the stock increases and creditor reductions that I mentioned previously.

We are looking to convert 100% of our operating profit across the full year and have appropriate plans and incentives in place to target this.

## S16 - Financial Summary

Before finishing, I would like to briefly summarise the financial highlights of the first half:

- We have achieved good progress again in the first half with underlying profit before tax up 10%.
- We have further invested in growth opportunities in both existing business and through acquisition.
- We have a strong ongoing focus on improvement of cash flow in the second half and are well advanced on a cost-cutting programme in areas where there is expectation of continued subdued demand.

That completes my brief review of the first half of the year, thanks for your attention. I would now like to hand over to Chris Davies to run through his review of first half trading – Chris .....

**Chris Davies, Chief Executive**

## S18 – Presentation Content

Good morning everybody, and thanks again for joining us today.

In this section, I'll first of all go through trading performance for the Group as a whole, and then look individually in a bit more detail at the UK & Ireland, and at Mainland Europe.

After that, I'll take you through the picture on Acquisitions, followed by some comments on the Outlook going forward, and then finally we will open up and take questions from the floor.

## S19 – Section Header – Trading Performance SIG

So let's begin with a look at our overall trading performance in the first half year, starting with Sales.

### S20 – Total Sales Growth (i)

Total sales increase was £394.6m, up 35.9% in Sterling, or 26.6% on a constant currency basis.

Like for like growth in Sterling was 9.3%, and 2.5% in constant currency.

### S21 – Total Sales Growth (ii)

Looking at how the actual growth of £394.6m was achieved, £100.9m or 26% was strict like for like, £53.2m or 13% was from acquisitions made in 2008, and the balance of £240.5m or 61% came from the incremental impact in 2008 of 2007 acquisitions.

### S22 – Total Sales Growth (iii)

Looking at the sales growth from another angle, of the 9.3% like for like Sterling increase, 6.8% was a result of currency movements year on year, principally the €Euro. Underlying volume was down by just (0.4%), but this was more than compensated for by overall price inflation of 2.9%.

### S23 – Sales Growth – Regional Analysis

And finally looking at the regional breakdown of sales growth, on a constant currency basis UK & Ireland sales were up 16.2% in total and 2.0% like for like, with turnover in Mainland Europe up 46.5% in total and 3.4% like for like.

#### S24 – Regional Performance – Sales (i)

Staying with another aspect of the split between our operating regions, in the first half of this year Mainland Europe accounted for a fraction over 43% of total Group sales, up from 34.3% in the same period last year. On a constant currency basis the European share is 39.7%.

#### S25 – Sales Sector Split – H1 2008

And finally by way of sales analysis, the sector split for the first half shows Insulation and Building Environments at 35.1% of total sales, with Exteriors at 28.0%, Interiors at 26.0% and Specialist Construction Products at 10.9%.

#### S26 – Total Operating Profit Growth (i)

Moving on to profits, Operating Profit increased by £14.0m, up 20.0% in Sterling or 14.1% on a constant currency basis. Like for like profits were down (3.0%) in Sterling, or (7.1%) in constant currency.

#### S27 – Total Operating Profit Growth (ii)

Analysing profit growth on the same basis as sales, like for like Operating profit was down by (£2.1m) in Sterling, with acquisitions contributing a total of £16.1m, of which £5.5m from 2008 transactions and an incremental £10.6m from 2007 acquisitions.

#### S28 – Operating Profit – Regional Performance

On a regional basis, in the UK & Ireland total Operating Profit was up by 4.2% in constant currency though down by (8.5%) on a like for like basis in constant currency. In Mainland Europe, total Operating Profit increased by 52.0% in

local currency and by 6.4% like for like.

#### S29 – Net Operating Profit Margins

Looking at margins, compared to the same period last year the Group net operating margin, after Group costs, was down in the First Half of 2008 by (0.8%) to 5.6%. Within this figure, the UK & Ireland net margin fell by (0.9%) to 7.0%, while the Mainland European margin rose slightly from 4.3% to 4.5%.

Whilst I would very much want to emphasise that our Irish business continues to be comfortably profitable, even in the face of a savage downturn in the market, returns there have dropped in H1 2008 from above Group average to below, this against a comparative period last year where the decline in the Irish market was only just beginning.

If we exclude Ireland, total operating profit in UK only was up by 14.3% and by 0.7% on a like for like basis.

Again, excluding Ireland from the overall Group comparatives shows Total Operating Profit up by 23% in constant currency and flat on a like for like basis.

Similarly, the standalone UK net margin, excluding Ireland, was down by (0.3%) in the 1st Half at 7.5%, compared to 7.0% on a combined UK & Ireland basis.

#### S30 –Section Header – UK & Ireland

Let's now look in a bit more detail at the trading performance in UK and Ireland

#### S31 –UK & ROI – Sales Growth

Total sales growth in the region was £126.9m, of which £23.4m was like for like, £36.5m came from 2008 acquisitions and £67.0m was from the

incremental impact of 2007 acquisitions.

#### S32 –UK & ROI – Market sector performance

Turning to performance in the individual market sectors, sales in H1 2008 were up in all of our 4 major areas, with operating profits also up in Insulation and Building Environments as well as Interiors, and in line with prior year in Exteriors and SCP. We added a total of 40 trading sites, spread across the 4 streams.

We believe that we have taken share in all sectors of the market

#### S33 –Insulation & Building Environments

In UK insulation distribution, reduced demand from the house building sector was partly offset by the increased thickness of material required to meet the 2006 Part 'L' Building regulations.

Although demand from residential was well down in the period, the volume of work coming from the non-residential and industrial process sectors continued to hold up well.

On the installation side, our Miller Pattison subsidiary started to benefit from strong growth in demand for retrofit insulation resulting from the new CERT scheme.

#### S34 –Exteriors

The Exteriors market was also increasingly affected by the decline in the housing market, both new build and RMI.

Our UK sales of traditional pitched and flat roof products in fact remained fairly stable in the 1st half of the year, although market demand for uPVC and

other products which are more oriented towards the improvement market was more sharply down, and our volume in these products suffered some decline.

The extension of our product range has continued, including the further development of own brand roofing accessories, and through the acquisition of Steadman's, a manufacturer of a range of metal cladding & roofing panels and accessories for the non-residential Exteriors sector.

#### S35 – Interiors

In Interiors, we enjoyed a strong sales and profit performance, both in total and like for like.

We continued to see good levels of non-residential project work across the full range of building types, both in the private and public sectors, and as well as pure distribution, our specialist manufacturing businesses performed very satisfactorily. We made some small bolt-on acquisitions on the manufacturing side which complement and expand our offering in the areas of specialist glazing and washroom cubicles.

#### S36 – SCP

Our SCP division saw strong year on year sales growth of 23.5%, essentially driven by 2007 acquisitions.

Sales to major non-residential projects and to supply chain & other larger contractors were resilient, though demand was well down in those product areas close to residential construction such as brickwork accessories and site access products.

Widening of the product range continues to be a focus of management attention and activity.

### S37 – Section Header – Mainland Europe

Turning now to Mainland Europe, before looking in some detail at our individual countries and regions there are a few general points to make by way of overview.

### S38 – Section Header – Mainland Europe

Market conditions in the 1st Half year have been generally stable, notwithstanding some weakness in the residential sector, particularly in Germany and, incipiently, in France.

We have produced a good set of numbers against testing comparatives, notably in Germany and Poland.

We have continued to build our network in Central Europe, with acquisitions adding to our coverage in Poland and taking us for the first time into Hungary.

And finally, our new European MD has joined us at the beginning of July.

### S39 – Mainland Europe – Sales Growth

Total sales growth in the period was £267.7m, of which £77.6m or 29% was like for like, £16.7m or 6.2% was from 2008 acquisitions and £173.4m or 64.8% derived incrementally from 2007 acquisitions, principally the Larivière roofing business we bought at the end of June last year.

### S40 – Mainland Europe – Sales by region

In the 1st half 2008, the effect of organic developments and acquisitions has seen the share of our European business accounted for by Germany and France become much more even, at around 40% each, although all regions saw growth in the period.

Let's now have a brief look at the individual countries and their performance in local currency, starting with Germany.

S41 – Germany & Austria - € performance

Total €Euros sales in Germany were up 6.3%, with the like for like number up 1%, against exceptional 2007 comparators.

Weak residential demand saw our local currency turnover reduce like for like in roofing, but this was offset by a very solid sales performance in our WeGo operation's core insulation and interiors activities.

We added a total of 6 new sites in the period, bringing our network to 88 locations.

Operating profit was up 7%, and the net margin was maintained.

S42 – France - € performance

Sales in €Euros were up 169%, mainly due to the effect of the Larivière acquisition, which has performed soundly in a softening market. However, at the same time like for like sales were up a very healthy 8.8% thanks to a strong performance in our core insulation, air handling and interiors operations.

We continued our planned programme of Brownfield site openings, and together with a single site acquisition added a total of 19 sites in the period, spread right across our different business streams.

Notwithstanding the cost of this development activity,  
Operating profit rose by 194% in total and 19.3% like for like.

#### S43 – Poland - PLN performance

Our sales in Poland were up 8% in total, and 1.7% like for like, again, as in Germany against very tough comparators. Operating profits were down substantially, (33%) in total and (41%) like for like. The principal factors at work here were some price deflation compared to overheated levels in the early part of last year (although that has now largely worked its way out of the system), some patchiness in demand having an effect on gross margins, and continued investment in strengthening our central management structures.

It's important to remember that in common with other developing countries in the region, Poland is a rather volatile market, and that our operations there are very much a work in progress as we continue to invest and expand, and integrate the Wodan business and bring it up to SIG standard. We continue to be very optimistic about our prospects in Poland going forward.

#### S44 – Central Europe - € performance

We have now completed our first year of trading in Central Europe, although still on a modest scale and with no like for likes to report at this stage.

Having last year acquired Insulation and Interiors operations in Czech Republic and Slovakia, we continue to regard this part of the world as offering excellent medium-term profit growth opportunities for SIG, and we further developed our presence here by making our entry into Hungary with the purchase of a 5 branch Insulation and Interiors business. This now gives us 28 trading sites in the 3 countries.

We are building up a regional HQ in Prague to manage and develop our businesses in Central Europe, and as long as we remain subscale in the region this will hold back profits. Nevertheless, we made a small profit in the 1st half of 2008, and are pleased with our progress so far.

#### S45 – Benelux - € performance

In good market conditions for our core industrial insulation and interiors businesses in Holland and Belgium, turnover was up 25% in total and 10.7% like for like.

Our net margins rose, helped by good performance from 2007 acquisitions, and operating profit was accordingly up by 38% in the period, 7% like for like.

#### S46 – Acquisitions

I'd now like to move on to our acquisition programme.

#### S47 – Acquisitions

In the 1st half of 2008 we completed 24 transactions, all of them profitable.

They have combined, historic, annualised sales of £185m, of which we enjoyed an impact of £53m in the period. 45% of the acquired sales figure is in insulation and building environments.

Total consideration including assumed debt was £127m.

Altogether these deals have added 61 trading sites to our network, and in all cases integration is proceeding well.

There have been no further acquisitions completed since the end of June, and we do not anticipate further acquisition spend being material in the remainder of the year.

#### S48 – Outlook

And to conclude the review of trading, let me say a few words about outlook

going forward.

#### S49 – Outlook – Short Term

Against a background of ongoing, negative macroeconomic news flow, external forecasts for the UK & Irish residential building sector continue to be downgraded for the rest of 2008 and into 2009.

However, the short term prospects for the non-residential and non-construction industrial sectors, which represent two thirds of our sales, remain stable to positive in all our countries of operation.

Although in the present climate we are keeping a very close watch on market developments, and are wary of projecting too far ahead, trading since the period end has been solid.

As we indicated in our July trading statement, we are presently implementing cost reduction measures in those businesses where trading is down, and likely to remain so for the foreseeable future, and at the same time we have prepared additional contingency measures, in case trading levels should turn down significantly in any particular area.

I would also reiterate that the management team has the proven expertise and the experience to outperform in challenging markets, and that, whilst we are not event-proof, our broad portfolio of countries and market sectors provides us with above average resilience.

#### S39 – Outlook – Longer Term

Looking beyond the immediate future, the energy pricing and conservation agenda will continue to work in our favour, as Europe's leading distributor of insulation & related products and services.

We have excellent expansion opportunities, whether by acquisition or organic development, in both existing and new territories, and we see many ways to extend our range of products and services within our chosen fields of operation.

We will deal effectively and decisively with any short term changes in the market, while continuing to do the right things to secure the future success of the Group.

With that I'll hand back to the Chairman to open up the meeting for your questions.

## **Question and Answers**

### **Tim Steer, New Star Asset Management**

Just a quick question on the cost savings that your hoping to get I guess the next year and 2009. Can you give us an estimate of the extent of the costs you're going to be taking out during that period?

### **Gareth Davies, Finance Director**

That is still something Tim that we are still working on in terms of numbers. We have incurred a certain amount of costs in the first half which the main focus of that has been in Ireland and in parts of the roofing business in the UK. So for the year as whole for this year following Phase One of this program we essentially think costs versus benefits will just about wash its face. As far as next year is concerned the activities thus far should give us cost savings of around about £10m next year. As far as Phase Two which is on a preparation basis so we're ready to go but not activated yet should us a

costs savings of another £10m. **Tim Steer** – What sort of areas are these costs? Is it mainly people? **Gareth Davies** – its people and branch rationalisation are the main areas, Tim, yes.

**Aynsley Lammin, Citigroup** –

Just in the UK are you seeing an increased competition / pressure on the gross margin to meet some of the generous merchants trying to sell more into the non-residential space given how weak the residential side is? And secondly could you comment on what your lead indicators are telling you on non-residential office type building in the UK as we go into 2009?

**Chris Davies, Chief Executive**

Before I answer Aynsley I would just like to say that John Chivers would normally be here on the platform with us. John is in the audience today but is recovering from a short illness which is why we have spared him this today. There is nothing untoward about John not sitting here today. First on the gross margins – our gross margins for the first half in the UK have held up well. Across the piece. Situationally here and there across the particular products and branches it has been a different picture - up and down. I think it is reasonable to assume that as both contractors and some of our distribution competitors find their business down in the residential sector they will seek to take their share elsewhere. As we indeed ourselves are doing where some of our businesses are finding demand a little bit reduced in the house building sectors and we are obviously diverting sales efforts into other areas and trying to pick up business there. But that does not flow through as yet into reduced gross margins. But as you know I think we have said this many times – we win and lose orders every day for a penny. And the market has always been

competitive and will continue to be so, but we will not be out sold. The other question was about the lead indicators on non residential – I think if you look at some of the external forecasts, if you look at the CPA numbers and others the suggestion is that the non-residential sector in the UK is likely to be holding up next year. I think there is a bit of question obviously about premium office, we've read some of the reports coming out from the British Land last week about some of the landmark projects such as the 'Cheese Grater' and the 'Walkie Talkie'. Those are not really on our priority hit list as the sort of projects we work in, in interiors. We are more oriented at the smaller and refurbishment end of the interiors market and whilst I think leisure and retail and other consumer pointing non residential applications may see some easing next year in the UK, PFI initiatives in health and education have been gaining momentum and we see that running forward strongly into 2009 taking up really any slack that there might be in the private sector. Also in 2009 I believe that we will start to see some of the projects relating to the Olympics coming through. There has been some filtering through of early stage work as you know over the last several months but we anticipate that gathering momentum in 2009. The Olympics as we said before will represent something like a dozen to 18 major non-residential projects of a variety of types – retail, leisure, accommodation and so forth, which play absolutely into our strengths and those of our contractor partners. Elsewhere outside the UK in mainland Europe we anticipate the non residential sector will remain very solid to positive next year.

**Andy Brown, Panmure Gordon**

Just In terms of Poland, is Poland profitable? **Gareth Davies** – Yes it is, yes.

**Andy Brown** - And should it stay profitable?

**Chris Davies**

Absolutely. Yes absolutely. I think the point to get over there is that we had a really exceptional first half last year where we had some superheated products/pricing, shortages of a whole variety of building materials, not just insulation but into plasterboard, roofing tiles and so forth where Poland was actually importing building products from Germany and surrounding countries which had been absolutely unprecedented. Of course we like other distributors sought to take advantage of that particular opportunity. Our results last year were far ahead of what we would have expected. Life has returned a bit more to normal there has been some shake out of excess stock in the market. The main part of price deflation occurred before the end of 2007 and although there has been some softness and a small amount of price deflation this year and a bit of patchiness in demand all the macro numbers are still very good for Poland. They actually have a bit of a situation like we've seen in Ireland and in Spain where there has been some speculative development particularly in apartments around the big cities financed by Spanish and British and other investors. That has sort of hit out at the moment and there is a bit of overhang of space but non-residential is still going well. Single family building work for housing is also still going well. We think in the medium term Poland is very good and certainly our business there is very solid.

**Andy Brown, Panmure Gordon**

Brilliant. Second question, just in terms of pricing trends. I know you gave us a number of 2.5%, is it possible for you to break that down a bit more by geography. Are you seeing positive pricing across all the regions and all products?

**Chris Davies**

I think 2.5% was a historic trend line which has been the batting average for the last 8-10 years. This time we're closer to 3%, about 2.9% overall we said this morning. Generally speaking everywhere has seen positive growth. I've mentioned a little bit of deflation in Poland, that's of the order of a percent and half or so. A bit of price deflation in German roofing but other than that I think the very real cost pressures that are on the manufacturers have resulted in them needing to push through price increases in the first half and there is a strong indication that they will be going for some price increases in the second half of this year. In the UK, fibre insulation has been mildly positive in terms of price growth in the first half. Foam insulation so EPS and PIR slightly down but again with a price increase coming in to the market in June in foams we think that should turn a bit in the second half of the year. I think the hot story in terms of pricing right across Europe and particularly in the UK is metal. Where steel shortages in China and so forth are continuing to drive prices and indeed in the UK there is a bit of a reaction due to the strengthening of the Euro against sterling which has obviously tended to push up the price of imports.

**Andy Brown, Panmure Gordon**

Brilliant, ok, a couple more if I may. You did touch on own brand sort of opportunities. Potentially how significant could that be for the group, presumably there would be a margin benefit as well coming through from own brand.

**Chris Davies**

The group's position is that we are distributors of the leading premium brands of products right across our product range. So we're not in the business of looking to own brand plasterboard or insulation or our key core products where we work in partnership with the major manufacturers. So we're talking really about the niche product or accessory end of the market where we believe there is value in being able to offer the market instead of a range of generic no name products, something that's backed in terms of quality and reputation by SIG and enabling us to group together purchases a bit better across the piece. So it tends to be at the accessory and niche product ends of things.

**Andy Brown, Panmure**

Ok, Brilliant, final one – just in terms of the cash flow, you mentioned the target is a 100% cash conversion. Are you likely to be there by the end of this year?

**Gareth Davies**

We're certainly hopefully that we will do, we will be. We set working capital targets within the group and have set some stiff ones for the rest of the year. For example we are looking to reduce working capital in terms of stock and debtors by £40-£50 million over the next three months or so. We've been

there before, that is the target and we see no reason at this stage that we won't hit that target.

**Tim Steer, New Star Asset Management**

Gareth, what happens if you hear about prices rises in January and February for insulation products will you be stocking up ahead of those price rises?

**Gareth Davies**

At a time of rising prices, Tim, we will as a stockist we always have some kind of a benefit on that and we take a judgement at that particular time, so should we try to stock up to get the benefit of that against what demand is looking like in the market place and we work with our manufacturers to make the decision on that.

**Tim Steer, New Star Asset Management**

Tell us a little bit about the slate purchasing business in Spain and why you have decided to do that.

**Chris Davies**

In terms of natural slate the major producing market in Western Europe is Spain, particularly around Galicia where there are a number of independently owned quarries. The business we acquired in France last year, Lariviere is the largest distributor of slate in France, some natural French slate from quarries down in the western part of France but importing very large quantities of Spanish slate direct from a variety of quarries in full loads because there is a difference in quality and type, size and so forth. They have had three or four regional platforms in the French business for re-distribution around their network in France. The decision was taken which we supported when we came through the door we signed it off for them to put a central marshalling

platform together in Galicia to bring in full loads from the various quarries. Then to ship onwards in mixed loads to final destinations in France thereby achieving savings in distribution costs and so forth. Now we are also significant importers of slate into the UK and into Ireland in our roofing businesses and so we're in the process also of expanding the activities of that platform to help support our businesses in the UK and in Ireland and thereby gain some efficiencies and so there is clearly a stock build situation we are going through there at the moment. **Tim** – Can I follow that up? How much of your capacity might be supplied by Spain in terms of group capacity?

**Chris Davies**

Capacity in terms of sales? If you look at the UK, our slate sales in the UK come partly from the Welsh quarries in Llangollen but mainly imported slate and mainly from Spain so imported slate would be in the UK something like 75-85% of our usage and Spanish slate in Ireland would be a similar sort of percentage.

**Andy Brown, Panmure Gordon**

In terms of acquisitions, I can sort of understand why you're a bit more sort of careful considering the uncertain sort of backdrop. Is it fair to say that if the right deal comes along at the right price and it makes sense strategically, you will still go after it, you will still sort of look at it. You're not just turning the tap off as there are concerns out there about funding.

**Chris Davies**

I think to get this thing in perspective Andy, if you look at what we did in 2007, if you exclude the Lariviere acquisition which was a one off platform deal, we did 26 transactions last year and spent around about £130 million by way of

consideration. And we've said and we're on record as saying that we envisage going forward in a typical year acquisition spend to be in the region of £150-175 million. Now in the first six months of this year, we've done 24 deals and have spent very close to the amount that we spent in the entire 12 month period last year. That's not because we've been going particularly gangbusters and throwing money around. It's because of the way the deals have fallen; also influenced by the CGT changes in the UK. So over the course of the year, it has been dragged forward, and we would expect to remain inside the kind of indicative levels that we talked about anyway in respect of what's happening out in the market place. Now given the situation out there, debt is obviously a consideration, secondly we want to conserve some firepower because we believe that going forward over the next 12 months there will be potential deals be coming available that we would not want to miss out on because we spent our money on something else earlier and funds are not unlimited. There is also the question of also valuations that we feel in a market where performance of some of the businesses that we are presently talking to and those we may be developing conversations with, we want to be paying a price if we do them that is based on current performance and future prospects and not on historic numbers. And we don't feel at this stage that a lot of vendors have twigged onto the changed circumstances, a lot of the businesses we buy are small privately owned companies where the vendors are really not affected by what they read in the newspapers, they just want the best price they can get for their businesses. And their ideas on valuation are a bit detached from trend. I think it will take a while before some of them accustom themselves to what's possible in the market place. For all

those factors, it is going to be materially slower in the second half but as you say, if something very compelling comes along we will not turn it away just because we have an arbitrary figure in mind of what we should spend.

**Aynsley Lammin, Citigroup**

Just following on from that, can you just give us more of a sense of how much of a priority reducing debt has become in the sense of stepping back from acquisitions, are you kind of pulling back on Brownfield openings, CAPEX and how much of a priority is reducing debt now?

**Gareth Davies**

It is a main priority, we have had a very good run on investing in organic business and via acquisitions we have always said Aynsley that cash flow and working capital management in particular is a focus of the Group we have been investing for the right reasons and will continue to invest for the right reasons and look at the returns that those investments will give us. It has become certainly from around about the end of May onwards, it has become a significant focus both at central and local management. But having said that when we look at our debt position in terms of where are we against our covenants we've still got quite a lot of head room, our leverage ratio which is the key ratio in this regard at the half year is just under 2.7 times and that compares to 3.5 which is the covenant with our debt providers.

**Chris Davies**

Just picking up the question Aynsley, about Brownfield's as we've indicated in previous meetings when we acquired the Lariviere business they had a very clear branch roll out program that would run over three years initially and beyond that and we believe that is a very well founded and logical business

plan and one that we have supported. We've opened 9 new Lariviere branches in the first half of this year and we've opened 9 other branches in our pre-existing businesses, whether that's in air handling, interiors or industrial insulations. Of course these things take a while in the gestation in terms of organising property and staff and so forth. And it's our intention in second half of this year and running into 2009 to continue in a measured way, our organic development plans, particularly in France because we believe that's the right thing to do in the medium and long term. And we also have some plans elsewhere in the UK for example where we're testing some new trading formats that we believe over time will enable us to increase our penetration of the UK market. So there are a number of things on a Brownfield basis that we will continue to do because we believe that's the right thing to do to secure the future development and success of the business.

**Andrew Gardner, Man Securities**

Three if you could please, just on costs, if you could give some sort of quantum of cost pressures you can see running through the business at the moment obviously of fuel and if any of those costs you have are fixed. Secondly on the UK mostly, we've been hearing given the scale of the volume declines from particularly residential and being talked about if not starting already on commercial, that a lot of the builders of these products have been negotiating with the local authorities and the government for scaling back the energy efficiency requirements in the trade off to try to bump up that volume. If you have any comment on those talks. And thirdly the trends in France and Germany, if you could give a bit more colour in terms of Germany. Germany

is probably as low as it can go in many of the building measures particularly in residential and in France the macro stats don't seem to be pushed as in terms of indebted countries in Europe. So if you could give us some more colour there please.

**Chris Davies**

Gosh there are a lot of questions there! Gareth, do you want to deal with costs then I will take the market ones?

**Gareth Davies**

Yes. If you look at our cost base obviously the people, it would be our main cost followed by property costs and then fuel costs and you asked the question I suppose as to within the cost area as a whole where you are seeing the pressures. The pressures, primarily in relation to the fuel costs, which are significantly ahead of the same period last year. I think there is now a feeling that those costs will start reducing a little bit with the fall in the oil price. There is an indication on that within Chris talking a little in detail on the UK margin and within the number this year fuel costs in the first half in the UK would have been around £2million or so more than in the equivalent period last year. So that is the main area where we are talking about cost increases of around 25% half year on half year. Otherwise the cost pressures are much less.

**Chris Davies**

I'm trying to remember the various questions, you asked a bit about the market in France and Germany we'll deal with that first. In terms of Germany, there are actually quite a number of fairly positive noises coming out of Germany from a lot of various reporting institutes although GDP has been

dropping a bit partly that's because of exports. But certainly in terms of non-residential construction the prospects running through for the next couple of years are looking positive and certainly that's what we're finding on the ground from reports from contractors we work with in Germany. On the residential side, I think 2008 is going to be an all time low in terms of new build. As you understand in Germany unlike the UK there is very little by way of regional or national house building developers, it tends to be small builders and a lot of the properties are individually designed and built. Certainly in the detached housing area, and the reason it's low is largely because a couple of measures which had an impact at the end of 2006 one was the withdrawal of some tax credits and the other was the increase of VAT by 3% which tended to drag forward both RMI and new building works for planning permission purposes and starting purposes. That saw a surge in 2007 but it has left a shortage of planning applications in the early part of 2008 and that is now leading to less building work in 2008. The general view of the institute and of manufacturers is that there will be some modest rise in residential construction in 2009 and in 2010 in Germany from what is a historic low this year. So I think generally speaking the construction outlook in Germany is pretty positive, although as far as we're concerned roofing has been much more difficult than we had originally anticipated this year. Looking at France again we see good prospects and perhaps a slight slowing down in the non residential area but nonetheless looking positive according to the various agencies and forecasting bodies for 2009. There is a bit of a question over residential and there are a lot of numbers coming out that look fairly negative, I think these are partly distorted there are some issues associated with land

registry in France which we believe is making some of the numbers look a bit worse than they actually are in terms of planning consents and building starts. But it is clear that on a Q1 and Q2 basis planning consents for residential are down and at some stage that will feed through into lower starts and so on. It remains to be seen how that might affect our business going forward, we're not heavily exposed in our insulations and interiors business at all into housing but obviously in terms of our Lariviere business and in roofing that is significantly exposed. All I can say is that we've held up well so far in France in what is a softening market. Lariviere like for like numbers for the first half although we didn't own the business are up on a strict like for like basis 4 percent this year.

**Les Tench, Chairman**

Chris there was the last question about commenting on anecdotal stories about some contractors talking to local authorities about reducing energy efficiency measures.

**Chris Davies**

I haven't come across any of that in fact, as far as we can see clearly legislation is one aspect and contractors have as far as new build is concerned they have no opportunity at all to install below regulation standards of insulation and certainly our take on it is that all commissioning bodies whether those are private people or developers and so forth see advantage not disadvantage in investing in energy conservation particularly in a time of very high energy pricing. Some people will inevitably try to cut corners and we've no evidence of that being attempted on any scale and certainly not being successful.

**Tian Chen, HSBC Halbis**

Three questions. First of all you talk about first half year pricing inflation 2.9% what kind of pricing change in the second half so far are you expecting on a similar level this year? Consider that you start seeing kind of price deflation second half of last year. Second question is that you talked about cutting back the level of inventories to improve working capital how does this square with your extension of the product offerings? Last question is about your maintenance CAPEX, how much will it be for the second half?

**Chris Davies**

I will deal with the price one and (Gareth) you take the other two? Clearly I can't comment on what we've seen so far in the second half of the year in the way of further price inflation because the reports and the numbers just aren't there yet. As I said we are expecting to see some further price moves by manufacturers in the second half and for example in terms of metals, for example in terms of fibrous insulations, for example in terms of ceiling tiles. Predominately as a result of either raw material shortage or of energy and other cost pressures on manufacturers. So I would just say in general terms that I would see the pricing environment from manufacturers being generally positive but of course the extent to which all of those increases can be passed through either from manufacturers to distribution or from distribution into contractors will be a day to day issue as it develops on the ground. You know clearly in a market that is very competitive you know we fight for orders every day and we fight for the best price that we can and we have to see how that develops over time. What I'm suggesting is that the pricing environment looks positive in the second half of the year. And we've certainly no reason to

believe that we won't finish the year, year on year at around trend in the area of 2.5-3% up on last year.

**Gareth Davies**

Okay you have a question on working capital and how the extension of the product range squares up with this? The extension of the product range covers a number of areas. One of those for example is in relation to Chris mentioned within the roofing division we bought a fabricator of roofing products. That's a different product so the extension just doesn't necessarily mean we're adding or extending all the ranges in every single branch it means that maybe we've gone into a different sub sector within the main business stream but the way it squares is essentially on an ongoing basis we are looking at the returns we get from stock across the business and take a decision as to whether certain stock lines turn quicker than others and some are a lot slower. So, on an ongoing basis we look at the timings and if we're making an investment to extend a certain product area we will look at support that by reducing in other areas. It is as simple as that.

**Tien Chen, HSBC Halbis**

What is the maintenance CAPEX for?

**Gareth Davies**

The maintenance CAPEX is essentially, we term that as the equivalent of the depreciation charge. Most of our CAPEX relates to the improvement of customer service by adding to our delivery capability and that means investing in our vehicle fleet essentially. So in the first half again we've invested slightly below where we expected to be as far as budgeting is concerned we still expect to spend further in the second half though for the year as a whole

originally we had budgeted to spend just over £55m and we think we will be quite a bit less than that this year.

**Les Tench**

Any further questions?

**“Unknown”**

Just a quick one, in terms of you obviously spoke about residential being 1/3 and non residential being 2/3, is there any major discrepancies across countries in that number? Could you just give us a bit more colour on that?

**Chris Davies**

I think the way that we described this in the past is to say that around that average we start higher in the west and lower as we move east really. So in terms of where we are in Ireland, we are in more like 45-50% of our historic sales in Ireland have been in residential. And unlike any other country in Europe residential is about 75% historically of the Irish construction market. Elsewhere the non-residential tends to be larger so in that sense we kind of reflect the market in Ireland. We're around the average in the UK and a bit below the average going through other countries.

**Les Tench**

Okay if there are no more questions. Thank you very much for your attendance.