



2014 Half Year Results

12 August 2014

Highlights

- Good first half performance
 - LFL sales up 7.1%; strong EPS growth of 30.8%
- Strategic initiatives ahead of target
 - £3m net benefit in H1 2014; FY target raised to c.£7m
- Procurement gains drive 40bps increase in gross margin
- Significant improvement in ROCE
- Reinvestment and culture change programme underway
- Interim dividend increased by 23.5%

Financial review

Doug Robertson
Group Finance Director

Good progress on all financial metrics

	H1 2014	H1 2013	Change
Revenue	£1,286.9m	£1,208.3m	+6.5%
Gross margin	26.8%	26.4%	+40bps
Operating profit	£47.8m	£39.6m	+20.7%
Operating margin	3.7%	3.3%	+40bps
Profit before tax	£41.5m	£33.6m	+23.5%
Basic EPS	5.1p	3.9p	+30.8%
Dividend per share	1.42p	1.15p	+23.5%
Return on capital employed	10.0%	8.3%	+170bps
Net debt	£131.5m	£141.7m	(7.2%)

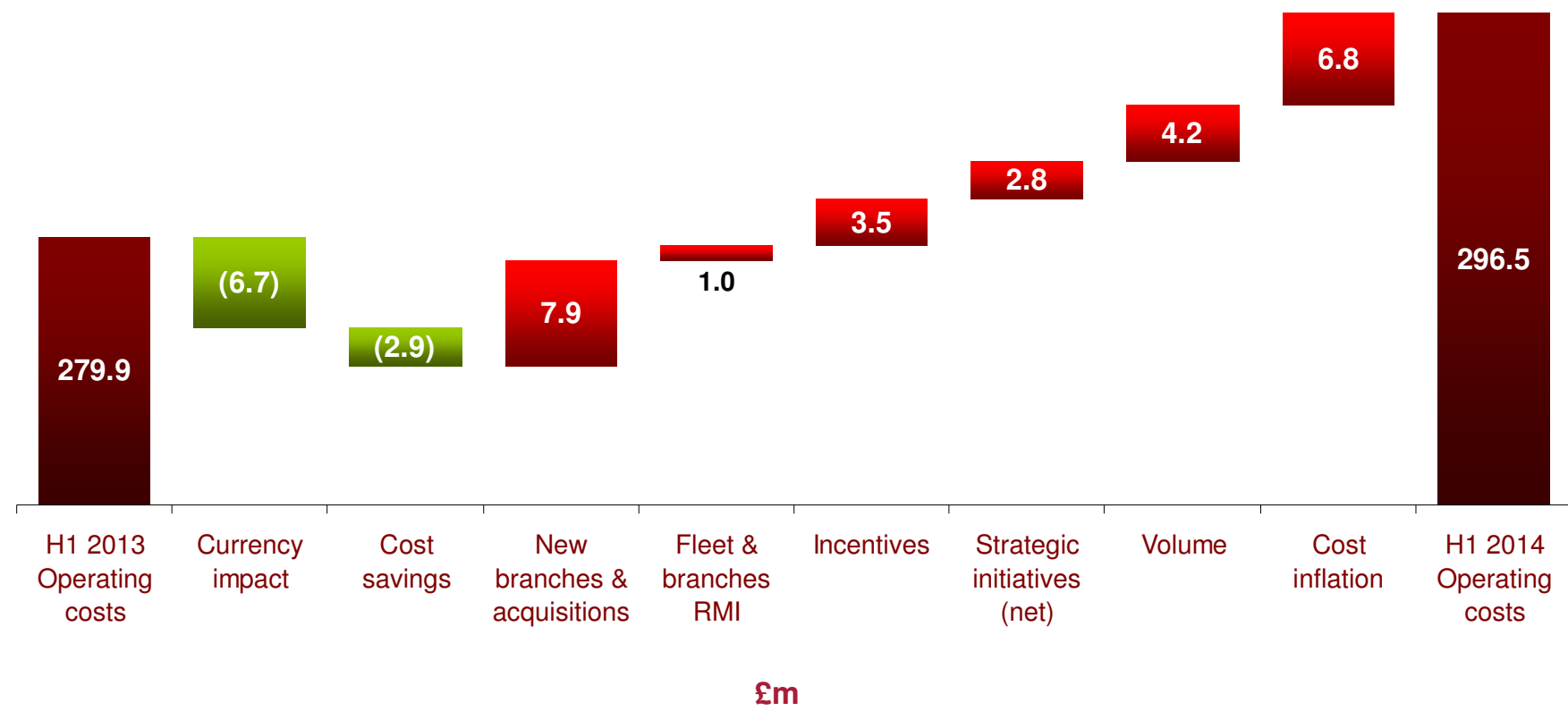
All figures are stated on an underlying basis excluding other items, as detailed in the appendix.

Significant profit improvement in both regions

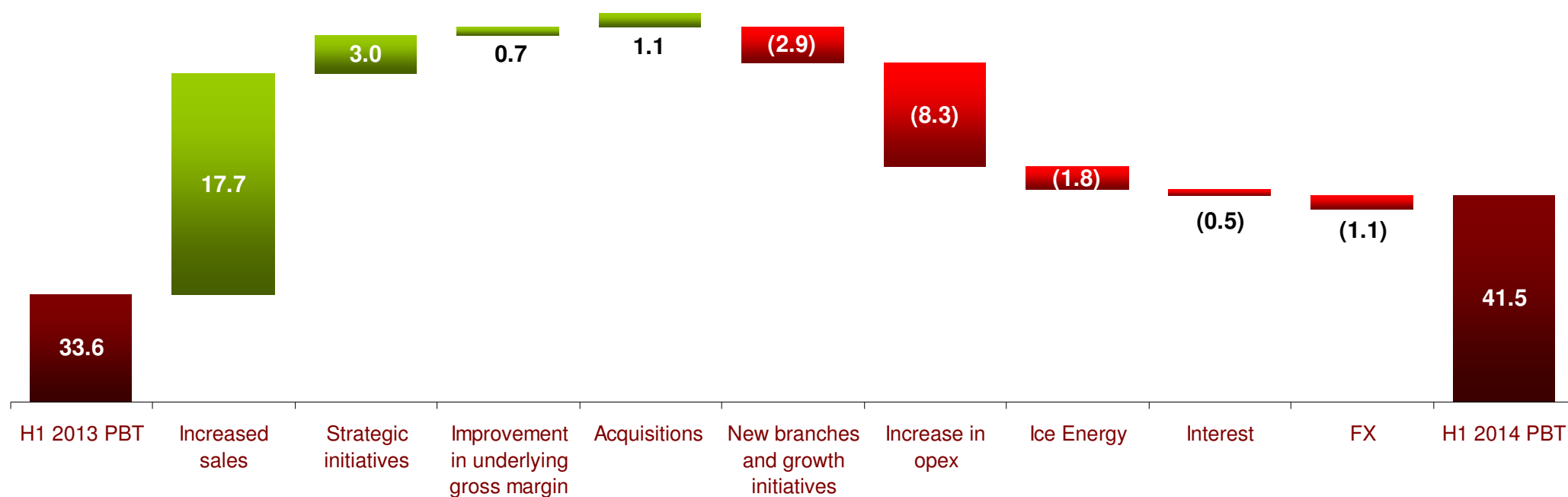
£m	H1 2014	H1 2013	Change	LFL change
UK & Ireland	650.4	570.9	+13.9%	+11.6%
Mainland Europe	636.5	637.4	(0.1%)	+3.3%
Group revenues	1,286.9	1,208.3	+6.5%	+7.1%
UK & Ireland	24.3	19.8	+22.7%	
<i>Operating margin</i>	3.7%	3.5%	+20bps	
Mainland Europe	27.5	22.9	+20.1%	
<i>Operating margin</i>	4.3%	3.6%	+70bps	
Group* operating profit	47.8	39.6	+20.7%	
<i>Operating margin</i>	3.7%	3.3%	+40bps	

* Adjusted for Parent Company costs.

Movement in Group operating costs



Profit growth driven by operational leverage and strategic initiatives



£m

Working capital

	H1 2014	H1 2013
Stock days	45	47
Debtor days	49	51
Creditor days	47	50
Working capital / sales	9.2%	9.4%
Cash conversion*	94.7%	113.1%
Medium term cash conversion* (last 3 years)	106.9%	116.1%

* Excludes cash costs on restructuring and one-off pension payments.

Net debt

£m	H1 2014	H1 2013
Cash inflow from trading	53.8	41.8
Increase in working capital	(26.8)	(23.6)
Cash inflow from operations	27.0	18.2
Interest and tax	(13.5)	(11.6)
Net maintenance capex	(14.7)	(11.5)
Free cash flow	(1.2)	(4.9)
Investment capex	(1.0)	(1.4)
Dividends	(14.2)	(12.0)
Sale of land	11.6	-
Net payment from purchase & sale of businesses	(4.9)	(11.2)
Special contribution to defined benefit pension scheme	(2.5)	(3.0)
Exchange and fair value movements & other	1.9	(3.9)
Increase in borrowings	(10.3)	(36.4)
Opening net debt	(121.2)	(105.3)
Closing net debt	(131.5)	(141.7)

Six infill businesses acquired year to July

- Three acquisitions H1 2014, initial consideration £5.2m
 - Included controlling interest in Coxbench IP to further develop Insulshell
- Three further acquisitions in July, taking total expenditure to £14.6m
- Expect to complete further deals in H2
- Cash expenditure at lower end of £30m-£50m range
- Infill acquisitions performing well and meeting targets
 - All individually above Group WACC
 - In aggregate higher than Group ROCE

On track to meet all 2014 financial objectives

Increase return on capital employed	✓
Gross margin enhancement	✓
Improve operating margin	✓
Deliver strategic initiatives	✓
Closing working capital 8-9% of sales	✓
Leverage at year end c.1.0x	✓

Medium term target: ROCE > WACC + 300bps in 2015

**Outstanding
customer
service**

**Sales out-
performance**

**Operational
efficiency**

**Gross margin
enhancement**

**Focus on
financial returns**

2014 guidance

	March 2014	Latest view
Market outperformance	2-3%	Unchanged
Capex	c.150% depreciation	Unchanged
Leverage	c.1.0x	Unchanged
Infill acquisitions	£30m – £50m	c.£30m
FX	1c Δ (€) = c.£0.5m profit	Unchanged
Effective tax rate	c.29%	Unchanged
Strategic initiatives	£1m – £5m net benefit	c.£7m net benefit

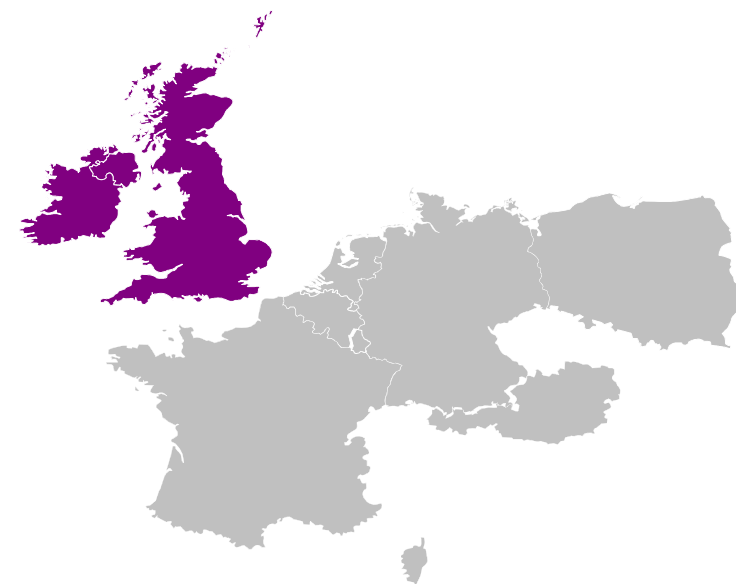
Business review & outlook

Stuart Mitchell
Chief Executive

UK & Ireland



- Strong UK performance
- Improved trading conditions led by housing market
- Early signs of pick up in commercial sector
- Miller Pattison business divested
- Ireland recovering from low base
- Positive H2 outlook

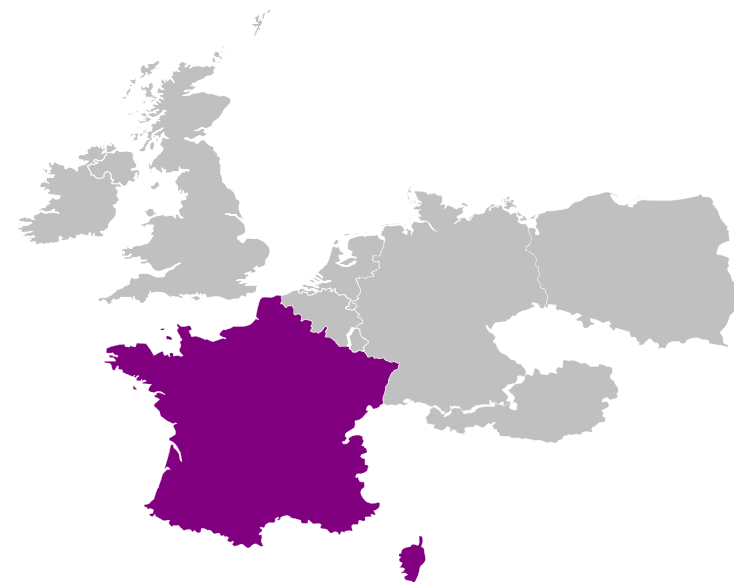


	H1 2014 Sales	Change	LFL change	Vs Market	Gross margin
UK	£616.1m	+14.1%	+11.3%	+1.2%	+20bps
Ireland	£34.3m	+10.6%	+15.6%	+1.2%	+20bps

France



- Q1 benefited from mild weather
- Weak market, further decline expected in H2
- Strong SIG business
- Building blocks in place for further market outperformance
- Procurement initiative delivering savings

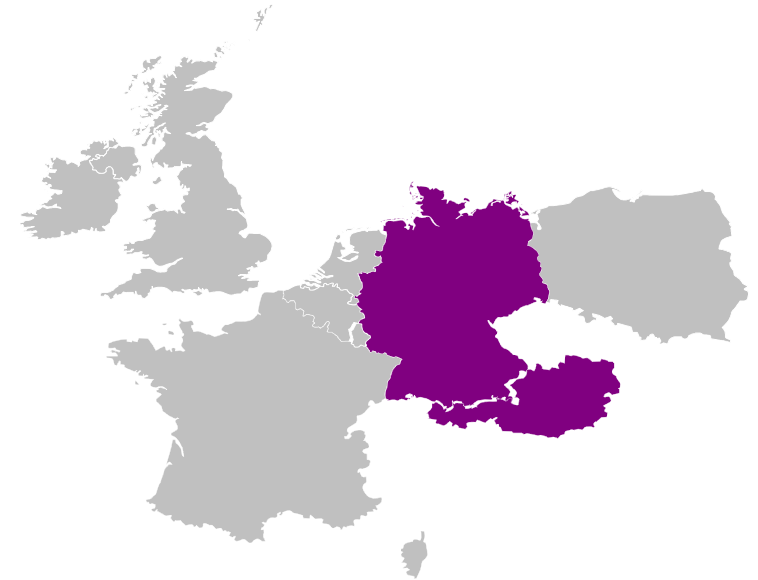


H1 2014 Sales	Change	LFL change	Vs Market	Gross margin
£300.8m	(0.5%)	+2.1%	+3.5%	+90bps

Germany & Austria



- New build residential sector performing well
- Non-residential market more subdued
- Industrial insulation affected by power station refurbishment hiatus
- Gross margin up 180bps vs H1 2011

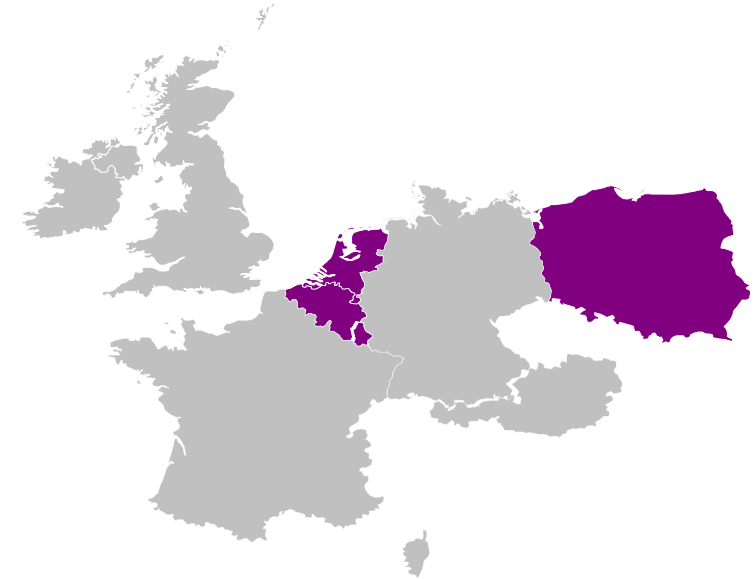


H1 2014 Sales	Change	LFL change	Vs Market	Gross margin
£205.1m	+0.7%	+5.1%	+0.5%	(90bps)

Benelux & Poland



- Belgium performing well
- Market in the Netherlands remains weak
- Significant improvement in Poland gross margin
- Both regions benefiting from procurement gains



	H1 2014 Sales	Change	LFL change	Vs Market	Gross margin
Benelux*	£77.3m	+0.7%	+4.6%	+7.3%	+140bps
Poland	£53.3m	(2.7%)	+0.5%	+6.7%	+210bps

* Includes international air handling business, except for market outperformance which is Benelux only.

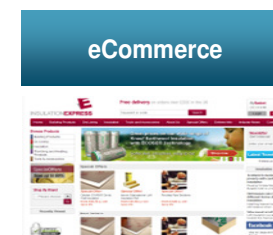
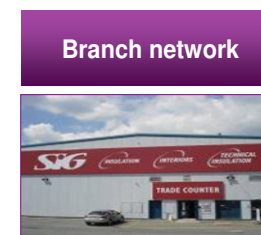
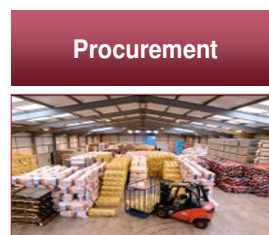
Strategic initiatives progress

Procurement	Fully recruited team	H1 2014	<i>Completed</i>	✓
	Reduce suppliers by one-third	2015	<i>On track</i>	●
	Grow own label by 50%	2016	<i>On track</i>	●
Network	UK branch rationalisation (Phase I)	H1 2014	<i>Identified opportunities for savings</i>	✓
	North East supersite appraisal	H2 2014	<i>Early indications positive</i>	●
	Scope UK ideal network (Phase II)	H1 2014	<i>First stage completed</i>	✓
	Scope Germany ideal network	H2 2014	<i>On track</i>	●
Vehicles	Implement telematics (UK)	H2 2013	<i>Completed; benefiting from savings</i>	✓
	Fork lift truck purchasing agreement	H2 2013	<i>Completed; signed agreement with Linde</i>	✓
	Implement telematics (Mainland Europe)	H1 2014	<i>In progress</i>	●
	Fleet purchasing agreement	H1 2014	<i>In progress</i>	●
eCommerce	Design UK platform	H1 2014	<i>Completed</i>	✓
	Launch UK platform	Q1 2015	<i>Expected launch 2015</i>	●
	Mainland Europe strategy	2015	<i>On track</i>	●

Net benefit from initiatives is ahead of target

	H1 2014
Gross benefit	
Procurement	£5m
Vehicles & branch network	£1m
Total	£6m
Additional Investment	£3m
Net benefit	£3m

FY cumulative targets	£m
2014	c.7
2015	15 – 20
2016	c.30



- £3m net benefit H1 2014
- Exceeded expectations for procurement
- FY 2014 target increased to c.£7m from £1m-£5m
- Provides confidence in delivery of rest of the programme

Procurement accounts for the majority of savings

Category	Product	Action
Roofing	Lead	Benchmark costs
	Fixings	New supplier / pricing
	Membranes	Own label development
Ceilings	Grids	International tender
Technical insulation	Pipe and ductwork	European agreement
	Foil insulating tape	Alternate sourcing
	Small gauge insulants	Leverage international pricing
Structural insulation	PIR/PUR	Joint European approach
	Multifoil	Consolidate supply base
Air Handling	Fans, ducting, grills	New sourcing for own label
Drylining	Access panels	International tender
	Stud & track	Tender and total cost approach

- Examples of efficiencies already secured
- Savings of up to £500k per product item
- c.£4m benefit in 2014
- Sourced across all category forums

North East supersite update

- Relocation of 5 brands from 4 sites to 1
 - 103,000 sq ft, 60 people, 15 vehicles
 - Opened on schedule Dec 2013
- Early indications positive, key metrics:
 - Delivered sales per vehicle ↑ 31%
 - Sales per warehouse employee ↑ 29%
 - Return on capital ↑ 270bps
- Continue to monitor performance



Supply chain review

- Fundamental network review underway
- First stage covering SIGD is complete (60 branches)
 - North East supersite findings
 - Position business for growth
- Conclusions:
 - Further network rationalisation
 - More regional supersites
 - New local branches
- Currently enacting plan
- Next stage to evaluate remainder of network



Culture change programme underpins strategic initiatives

- New Group vision, mission and values
- Strengthening the SIG brand
- Cross-border working groups established
 - Procurement, Supply Chain, IT, Finance, HR
- Leverage scale, benchmark across SIG and utilise best practice
- Whole greater than the sum of the parts



SIG

**STRONGER
TOGETHER**



SIG
**STRONGER
TOGETHER**

Summary and outlook

- Good first half performance
 - Significant improvement in all financial metrics
 - 170bps increase in ROCE
 - Reinvesting in the business & culture change
- Strategic initiatives ahead of target
 - Exceeded expectations on procurement
 - Raised FY 2014 net benefit target
- FX headwinds and challenging market in France
- Strong base on which to achieve full year expectations

Appendix

Sales analysis

Change on H1 2013	Mainland Europe	UK & Ireland	Group
Price	1.0%	(0.3)%	0.4%
Volume	2.3%	11.9%	6.7%
Like-for-like	3.3%	11.6%	7.1%
Currency	(4.3)%	(0.4)%	(2.5)%
Acquisitions	0.8%	2.7%	1.8%
Working days	0.1%	-	0.1%
Reported	(0.1)%	13.9%	6.5%

Impact of disposals on prior year comparators

£m	Sales	Underlying PBT
H1 2013 reported in prior year	1,277.4	30.2
German roofing	(54.8)	2.2
Miller Pattison	(14.3)	1.2
H1 2013 continuing operations	1,208.3	33.6

Balance sheet

£m	H1 2014	H1 2013
Net Capex	15.7	12.9
Depreciation*	11.7	11.8
Capex / Depreciation	1.3x	1.1x
Net working capital	235.5	255.9
Net debt	131.5	141.7
Net debt / EBITDA ratio**	1.0x	1.2x
Interest cover**	9.8x	8.0x

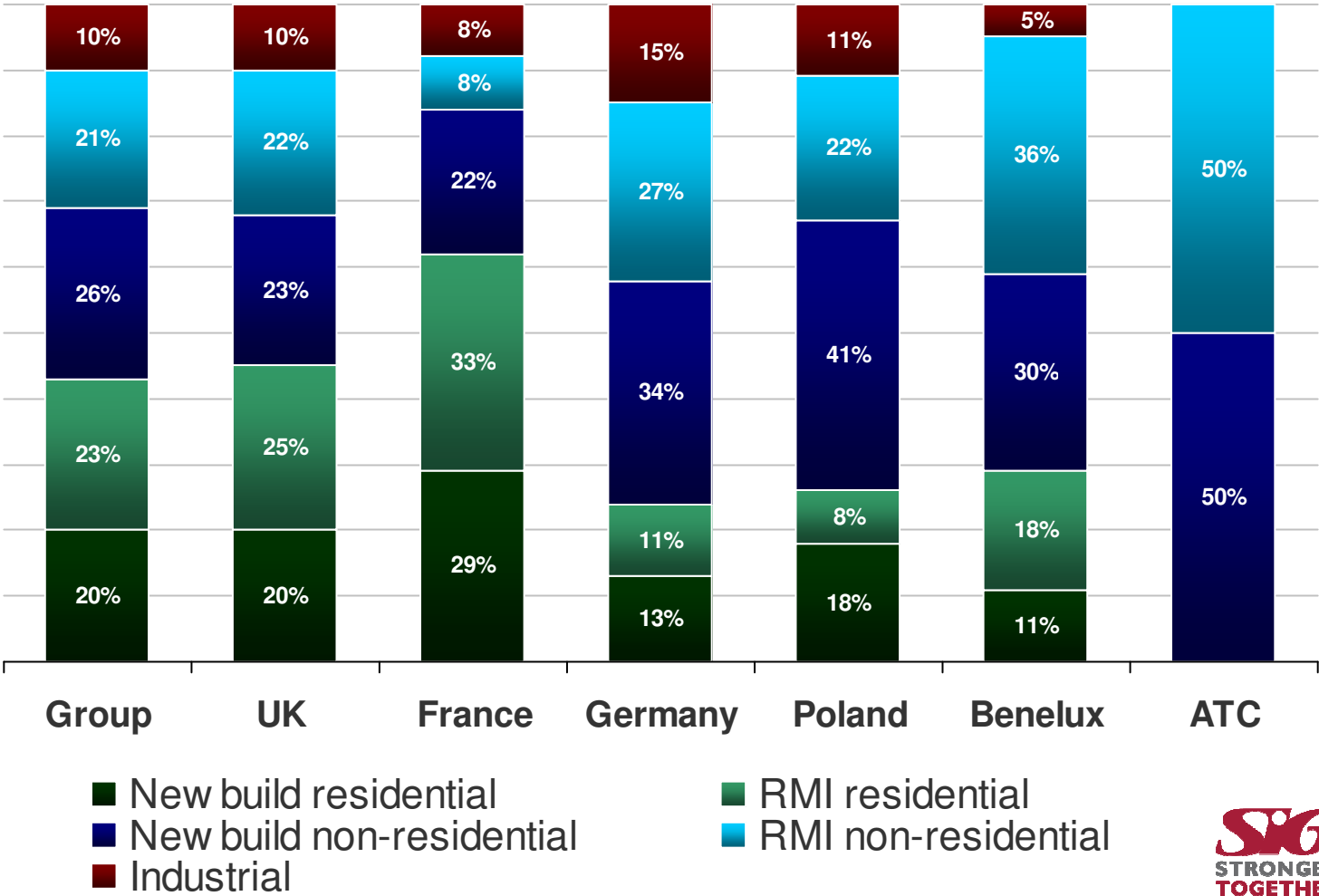
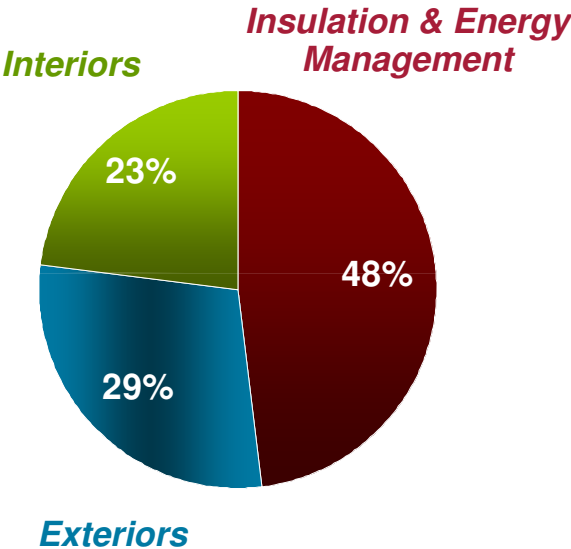
* Including amortisation of computer software.

** Based on covenant calculation.

Other items

£m	H1 2014	H1 2013
Amortisation of acquired intangibles	9.4	10.2
Profits and losses on sale of businesses	5.0	-
Operating losses attributable to businesses divested in 2014	4.2	3.4
Restructuring costs and other one-off items	6.8	5.8
Goodwill impairment charge	3.3	-
Net fair value losses on derivative financial instruments	1.0	1.1
Total	29.7	20.5

Market exposure



Trading sites movement

	31 Dec 2013	Closed/ merged	Opened	Acquired	Disposed	30 June 2014
UK	310	(4)	3	1	(12)	298
Ireland	12	-	-	-	-	12
UK & Ireland	322	(4)	3	1	(12)	310
France	202	-	6	-	-	208
Germany & Austria	60	-	-	-	-	60
Benelux*	31	-	1	-	-	32
Poland	51	-	-	-	-	51
Mainland Europe	344	-	7	-	-	351
Group Total	666	(4)	10	1	(12)	661

* Includes the Group's international air handling business

Definition of terms

Continuing operations	Excluding the impact of any disposals made in current and prior year
Like-for-like	Sales per day in constant currency excluding acquisitions and disposals
ROCE	Return on Capital Employed, calculated on a rolling 12 month basis as underlying operating profit less tax, divided by average net assets plus average net debt
WACC	Weighted average cost of capital
Leverage	Ratio of closing net debt over underlying operating profit before depreciation, adjusted for the impact of acquisitions and disposals during the previous 12 months ("EBITDA")
Working capital to sales	Ratio of working capital (including provisions but excluding pension scheme obligations) to annualised sales (after adjusting for acquisitions and disposals) on a constant currency basis
Underlying gross margin	Ratio of underlying gross profit to underlying sales (excluding disposals)
Underlying operating margin	Ratio of underlying operating profit to underlying sales (excluding disposals)
Interest cover	Ratio of the previous twelve months' underlying operating profit (including the trading losses and profits associated with divested businesses) over net financing costs (excluding pension scheme finance income and costs)