2014 Full Year results

12 March 2015

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2014 Group highlights

- Like-for-like sales increased by 3.8%
  - Market outperformance of 2.8%
- Return on capital employed up 90bps to 10.3%
  - Met key target of ROCE > WACC + 300bps
- Strong progress and overdelivery on strategic initiatives
  - £10.1m net benefit in 2014, well ahead of original target
  - Procurement savings drive 50bps gross margin improvement
- 12 infill acquisitions for £20.9m and related earn-out
- Three underperforming businesses divested
- Final dividend increased by 24.2%

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Financial review

Doug Robertson
Group Finance Director

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Financial summary

	2014	2013	*Change*
Revenue	**£2,602.9m**	£2,539.7m	*2.5%*
Gross margin	***26.9%***	*26.4%*	*50bps*
Operating profit	**£110.2m**	£101.3m	*8.8%*
Operating margin	***4.2%***	*4.0%*	*20bps*
Profit before tax	**£98.1m**	**£90.0m**	***9.0%***
Basic earnings per share	**11.9p**	10.7p	*11.2%*
Dividend per share	**4.40p**	3.55p	*23.9%*
Return on capital employed	**10.3%**	**9.4%**	***90bps***

5.6% in constant currency

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

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Segmental performance

£m	2014	2013	Change	LFL change
UK & Ireland	**1,336.2**	1,200.3	*11.3%*	*9.2%*
Gross margin	***26.7%***	*26.2%*	*50bps*	
Mainland Europe	**1,266.7**	1,339.4	*(5.4)%*	*(1.0)%*
Gross margin	***27.1%***	*26.6%*	*50bps*	
Group revenues	**2,602.9**	**2,539.7**	***2.5%***	***3.8%***
UK & Ireland	**65.9**	50.3	*31.0%*	
Operating margin	***4.9%***	*4.2%*	*70bps*	
Mainland Europe	**54.2**	59.0	*(8.1)%*	
Operating margin	***4.3%***	*4.4%*	*(10)bps*	
Group* operating profit	**110.2**	**101.3**	***8.8%***	
Operating margin	***4.2%***	*4.0%*	*20bps*	

* Adjusted for Parent Company costs.

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Movement in Group profit

* In constant currency, reported as £10.1m

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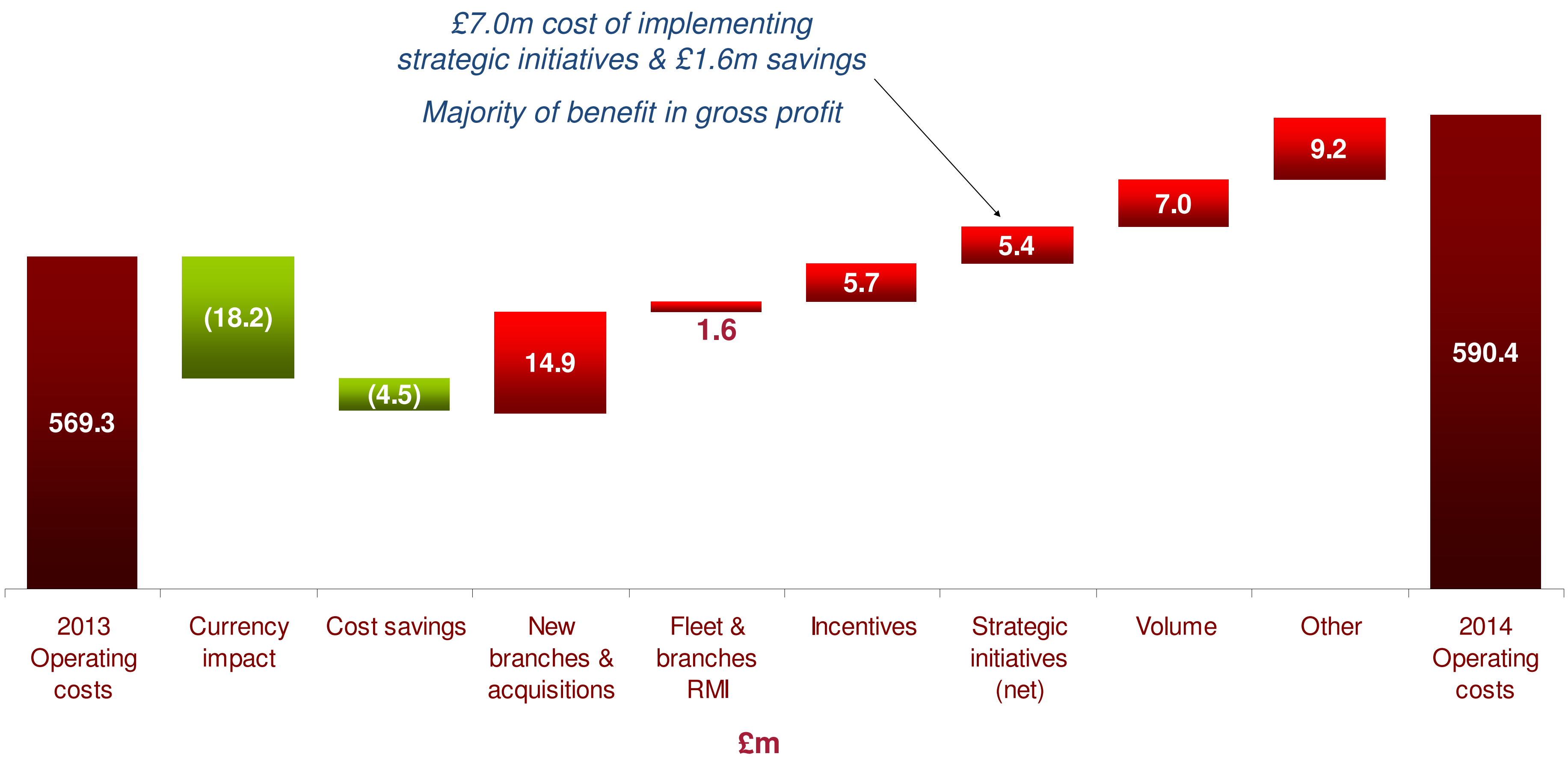
Movement in Group operating costs



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Working capital

	2014	2013
Stock days	**44**	43
Debtor days	**43**	44
Creditor days	**36**	37
Working capital / sales	**8.1%**	**8.9%**
Cash conversion*	**99%**	**103%**
Medium term cash conversion* (last 3 years)	**104%**	**110%**

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

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Cash flow and net debt

£m	2014	2013
Cash inflow from trading	**115.4**	**103.9**
Increase in working capital	(17.3)	(14.7)
Cash inflow from operations	**98.1**	**89.2**
Interest & tax	(28.5)	(26.3)
Net maintenance capex	(18.9)	(20.9)
Free cash flow	**50.7**	**42.0**
Investment capex	(17.7)	(17.2)
Dividends	(22.6)	(18.6)
Sale of land	8.1	-
Net payment from purchase & sale of businesses	(21.7)	(16.8)
Other	(2.5)	(5.3)
Increase in borrowings	**(5.7)**	**(15.9)**
Opening net debt	(121.2)	(105.3)
Closing net debt	**(126.9)**	**(121.2)**
Leverage	**1.0x**	**1.0x**

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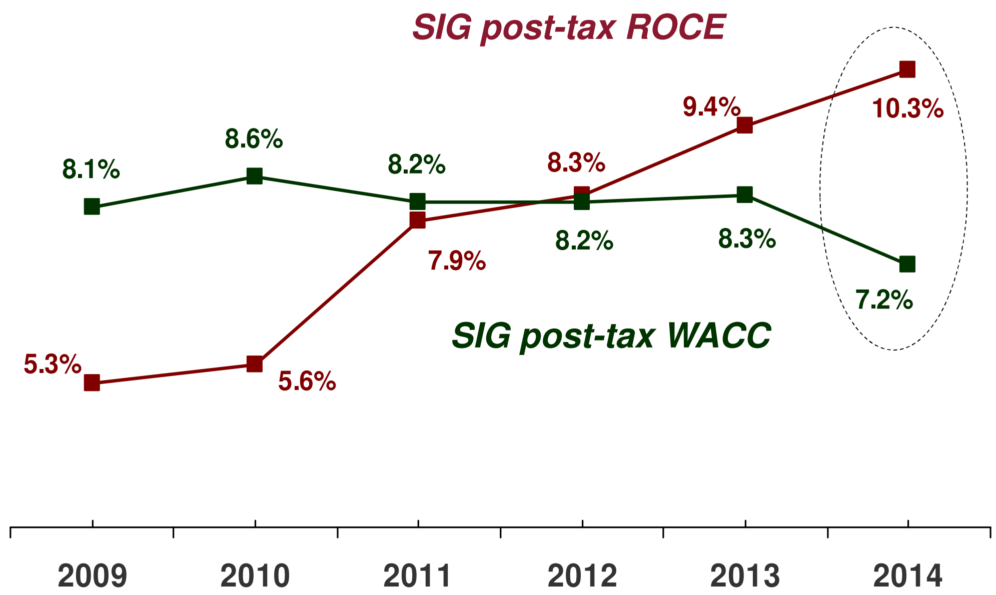
Acquisition strategy

- 2014: 12 acquisitions for £20.9m & earn-out up to £29.8m
- Since restarting programme in 2012 acquisitions are performing well
  - In aggregate returns higher than Group ROCE
- Ambition to increase pace and size of infill acquisitions
- Group has good cash conversion rates and strong balance sheet
- Targeting c.£200m expenditure over next three years on infill acquisitions
  - Maintain strict financial criteria and hurdle rates
- New Corporate Development Director appointed

Further significant improvement in ROCE



- SIG's ROCE was 310bps greater than WACC in 2014
- Met key financial target of ROCE > WACC + 300bps
- However, recognise benefit of lower WACC
- For 2015 reaffirmed medium-term target of ROCE > 11%

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ROCE portfolio analysis
2013 Capital Markets Day

	UK & Ireland	Mainland Europe
Above Group WACC	*UK Insulation/Interiors* *UK Roofing*	*France Insulation/Interiors* *Germany Insulation/Interiors*
Around Group WACC		*Air Handling* *Benelux*
Below Group WACC	*Ireland* *SIG Energy Management* *Ice Energy*	*France Roofing* *Poland* *German Roofing*

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2014 ROCE portfolio analysis

	UK & Ireland	Mainland Europe
Above Group WACC	*UK Insulation/Interiors* *UK Roofing* *Ireland*	*France Insulation/Interiors* *Germany Insulation/Interiors* *Air Handling*
Around Group WACC		
Below Group WACC	*SIG Energy Management* *Ice Energy*	*Benelux* *France Roofing* *Poland* *German Roofing*

Divested during 2014

Achieved all our 2014 financial objectives

Increase return on capital employed	***+90bps***	✓
Gross margin enhancement	***+50bps***	✓
Improve operating margin	***+20bps***	✓
£1-5m net benefit from strategic initiatives	***£10.1m***	✓
Closing working capital 8-9% of sales	***8.1%***	✓
Year end leverage c.1.0x	***1.0x***	✓

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2015 targets and guidance

	2015
Market outperformance	*2 – 3%*
Capex	*1.5 – 2.0x depreciation*
Leverage	*c.1.0x*
FX translation	*1c Δ (€) = c.£0.5m profit*
Effective tax rate	*c.27.5%*
Strategic initiatives (cumulative net benefit)	*c.£20m*
Return on capital employed	*>11%*

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Business review & outlook

Stuart Mitchell
Chief Executive

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UK & Ireland

- Strong performance in both countries
- Growth led by residential markets
- Recovery in non-residential sectors gathering pace
- Roll-out of UK ERP system progressing well
- Positive outlook for both markets in 2015
  - Principal risks UK election & Eurozone uncertainty

	2014 Sales	Change	LFL change	Vs Market	Gross margin ∆
UK	£1,265.2m	11.5%	8.9%	3.3%	50bps
Ireland	£71.0m	8.4%	14.7%	3.7%	(30)bps

France

- Market continues to be challenging
- Gross margin benefited from procurement initiative
- New housing starts down by 10%
- SIG strongly outperformed the market
- Lean business contributing good returns to SIG
- Market stable but expect to remain weak in 2015

2014 Sales	Change	LFL change	Vs Market	Gross margin Δ
£586.1m	(5.8)%	(2.1)%	3.0%	80bps

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Germany & Austria

- Good H1 performance
- Unexpected market downturn in Q3
- Impacted by geopolitical uncertainties
- Gross margin decline due to change in product mix
  - Improved by 110bps over last three years
- Market stabilised but not yet improving

2014 Sales	Change	LFL change	Vs Market	Gross margin Δ
£412.2m	(5.8)%	(0.3)%	0.2%	(40)bps

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Benelux & Poland

- H2 recovery in the Netherlands
- Belgium weakened as year progressed
- Business confidence in Poland impacted by Ukraine
- Poland gross margin up 160bps
  - Procurement savings / increased own-label

	2014 Sales	Change	LFL change	Vs Market	Gross margin Δ
Benelux*	£156.4m	1.0%	5.1%	6.9%	100bps
Poland	£112.0m	(10.2)%	(5.7)%	1.1%	160bps

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

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Good performance on strategic initiatives in first full year of programme

£m	2014
Gross benefit	
Procurement	14.7
Supply chain	2.0
eCommerce	0.2
Total	**16.9**
Investment	**6.8**
Net benefit	**10.1**

UK & Ireland: £7.9m & Mainland Europe: £6.8m
Savings across all international category forums
Broadly in proportion to expenditure

Network: £0.8m
Vehicle utilisation: £0.8m
Vehicle purchasing: £0.4m

In line with £7m forecast

More than double original target

FY cumulative targets	£m
2015	c.£20m
2016	c.£30m

- **Delivery ahead of expectations**
- **Procurement accounts > 75% of savings**
- **High degree of confidence in rest of programme**

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Strategic initiatives
Procurement ahead of schedule

Procurement		
Fully recruited team	H1 2014	Complete; 27 Category Managers appointed
Reduce suppliers by one-third	2015	On track; reduced by 22% to 7,573 in 2014
Grow own label by 50%	2016	On track; plans in progress

Focus for 2015

- Implement standard best practice processes across OpCos
- Further progress supplier consolidation
- Accelerate sales of own label products

£14.7m gross benefit from procurement in 2014

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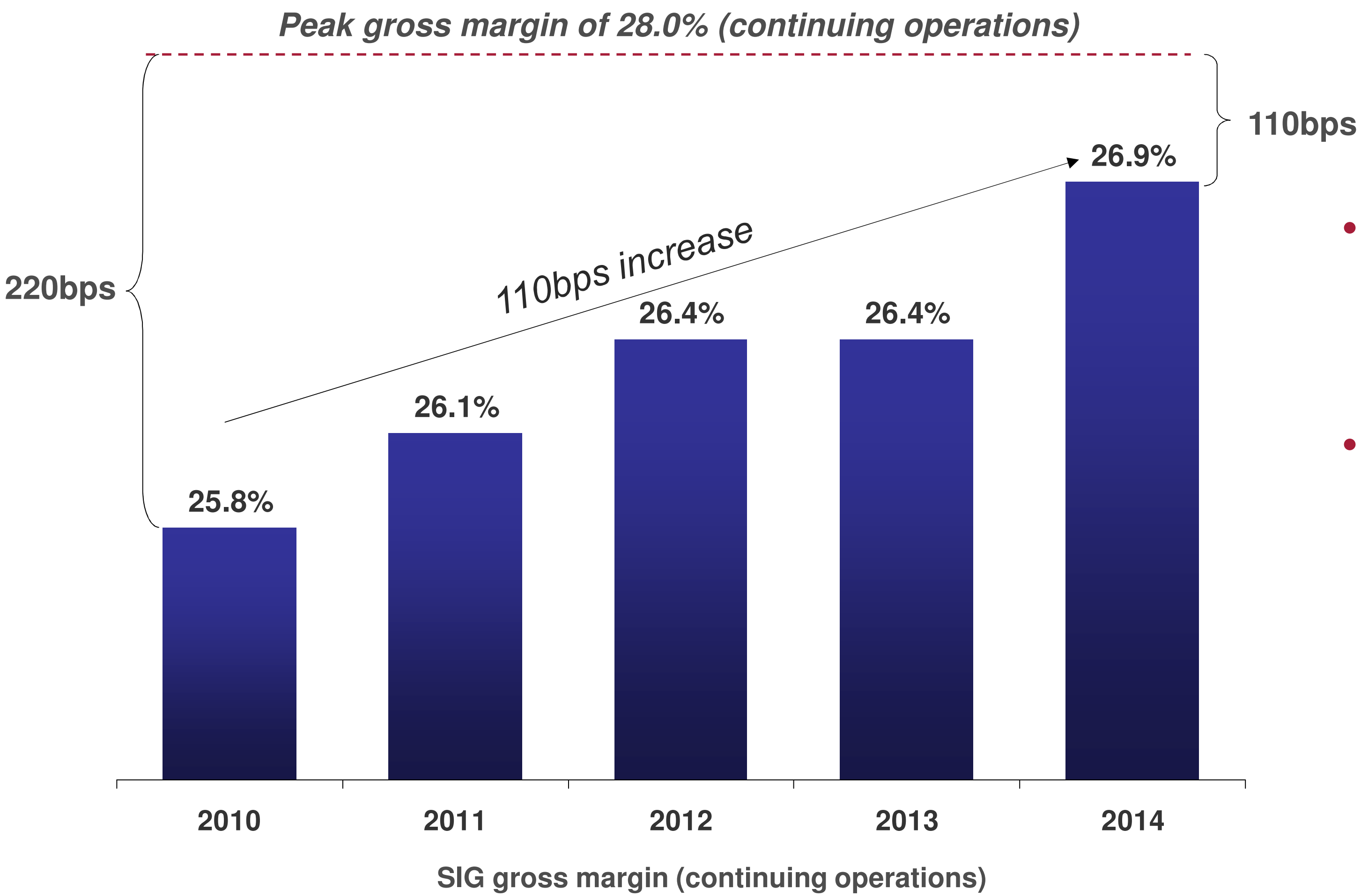
Gross margin has benefited significantly from increased focus and procurement savings



- Recovered half of decline vs historic peak
- Further opportunities for improvement through strategic initiatives

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Good progress on our strategic initiatives

Branch network	
UK branch rationalisation	✓
North East supersite appraisal	✓
Scope UK ideal network	✓
Scope Germany ideal network	✓

Complete

Comprehensive supply chain review commenced

Commercial vehicles	
Implement telematics (UK)	✓
FLT purchasing agreement	✓
Implement telematics (ME)	2015
Fleet purchasing agreement	✓

Approaching completion

Telematics roll-out in Germany & Poland

eCommerce	
Design UK platform	✓
Launch UK platform	2016
Mainland Europe strategy	✓

In progress

Build UK site, adopt local solutions in Mainland Europe

Focus for 2015

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2015 outlook

- Trading conditions to remain variable
  - Good growth in the UK & Ireland
  - Uncertainty persisting in Mainland Europe
- Euro weakness and potential adverse translational effect on profit
  - Partially offset by lower fuel costs
- Scope for self-help through market outperformance and strategic initiatives
- Confident of achieving good progress this year
  - Strong H1 comparators so weighted towards second half

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We are delivering on our strategy

Improving shareholder returns

- ROCE up 90bps to 10.3%; met WACC + 300bps
- Underperforming businesses divested
- Disciplined approach to capital management

Strategic initiatives ahead of schedule

- £10m net benefit in 2014
- High degree of confidence in rest of the programme

Confident of meeting our 2015 targets

- Continue to improve gross / operating margins
- Deliver c.£20m cumulative benefit from initiatives
- Return on capital employed > 11%


SIG 360°
Energy Efficiency Rating
ENERGY RA
DOMESTIC PR
Energy R
elmhurst energy

Appendix

Streamlining SIG's reporting timetable

From six…

- January trading update
- March Full Year results
- May AGM IMS
- July trading update
- August Half Year results
- November IMS

…to four announcements per year

- March Full Year results
- May AGM trading statement
- August Half Year results
- December pre-close trading update

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Sales analysis

Change on 2013	Mainland Europe	UK & Ireland	Group
Price	0.9%	(0.9)%	0.1%
Volume	(1.9)%	10.1%	3.7%
Like-for-like	**(1.0)%**	**9.2%**	**3.8%**
Currency	(5.5)%	(0.4)%	(3.1)%
Acquisitions	1.1%	2.5%	1.8%
Working days	-	-	-
Reported	**(5.4)%**	**11.3%**	**2.5%**

Impact of disposals on prior year comparators

£m	Sales	Underlying PBT
2013 reported in prior year	2,582.4	88.1
Miller Pattison	(25.2)	3.1
Ice Energy	(17.5)	(1.2)
2013 continuing operations	**2,539.7**	**90.0**

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Balance sheet

£m	2014	2013
Net Capex*	**36.6**	38.1
Depreciation**	**24.0**	23.7
Capex / Depreciation	**1.5x**	1.6x
Net working capital	**209.7**	227.9
Net debt	**126.9**	121.2
Net debt / EBITDA ratio***	**1.0x**	1.0x
Interest cover***	**8.7x**	9.7x

* Excluding sale of land

** Including amortisation of computer software.

*** Based on covenant calculation.

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Other items

£m	2014	2013
Amortisation of acquired intangibles	19.6	20.6
Profits and losses on sale of businesses	14.0	42.8
Operating losses attributable to businesses divested in 2014 and loss on associate	6.7	1.9
Restructuring costs	9.2	18.0
Goodwill impairment charge	-	2.0
Net fair value losses on derivative financial instruments and unwinding of provision discounting	2.1	1.9
Other one-off items	7.5	0.7
Total	59.1	87.9

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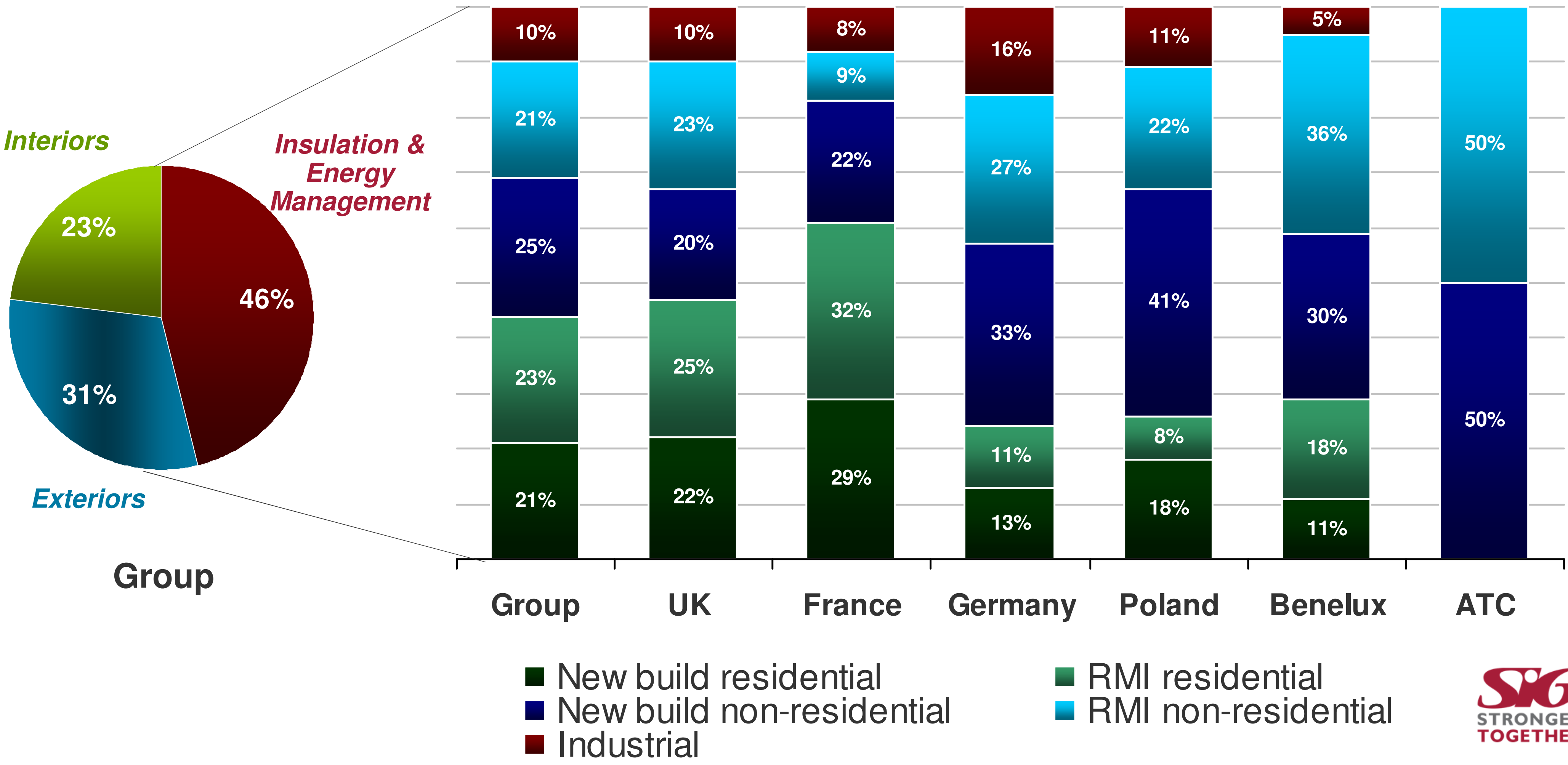
Market exposure



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Trading sites movement

	31 Dec 2013	Closed/ merged	Opened	Acquired	Disposed	31 Dec 2014
UK	310	(7)	3	5	(12)	299
Ireland	12	-	-	-	-	12
UK & Ireland	**322**	**(7)**	**3**	**5**	**(12)**	**311**
France	201	-	5	4	-	210
Germany & Austria	61	-	-	-	-	61
Benelux*	31	-	1	1	-	33
Poland	51	-	-	-	-	51
Mainland Europe	**344**	**-**	**6**	**5**	**-**	**355**
Group Total	**666**	**(7)**	**9**	**10**	**(12)**	**666**

* Includes Air Trade Centre

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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)

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