



# 2015 Capital Markets Day

Reshaping our supply chain; growing value added sales

London

16 November 2015



## Speakers and agenda (i)



**Stuart Mitchell**, Chief Executive

*Recent trading followed by Q&A*

*Good progress so far and much more to go for*

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**Phil Barnes**, Group Supply Chain Director

**Rob Barclay**, Managing Director UK & Ireland

*Reducing our cost to serve*



**Lex Hemels**, Managing Director Air Handling

*A large and attractive special distribution market*

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***Break for refreshments***

## Speakers and agenda (ii)



**Len Lvovich**, Group Corporate Development Director

**Kevin Sherlock**, Managing Director RoofSpace

*Offsite solutions for the construction industry*

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**Stuart Mitchell**, Chief Executive

*Why SIG is Stronger Together*

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***Q&A followed by drinks***

## 2015 trading

- Difficult Q3 trading conditions
- Reversal of improving H1 trend in Mainland Europe
- Improved October; positive LFLs in UK & Ireland and Mainland Europe
- Continue to expect underlying PBT in range of £85m – £90m

2015 LFLs	Q1	Q2	Q3
UK SIGD	4.4%	2.0%	2.6%
UK Exteriors	(1.0)%	(1.3)%	(4.4)%
France	(6.0)%	(0.9)%	(6.6)%
Germany	(4.2)%	(1.0)%	(1.5)%
<b>Group</b>	<b>0.1%</b>	<b>1.3%</b>	<b>(0.9)%</b>



# **Determined to get performance back on track**

- Recalibrate priorities given market conditions
  - Greater focus on sales / customers
  - Fewer internal projects
- Reduce cost base
  - Procurement and supply chain initiatives
  - Tight control of cost inflation
- Return leverage to target range of 1.0 – 1.5x
  - Slow pace of acquisition expenditure
  - Moderate capital expenditure

# At our last Capital Markets Day

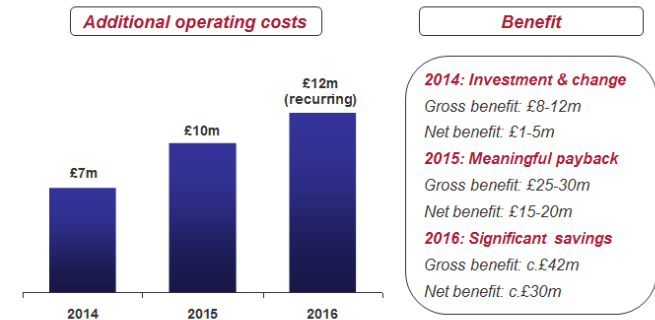
- Clear strategy and competitive advantage
- SIG acts as a loose federation
- Change the way we work
- Better leverage scale and best practice
- Reinvest in the business
- Launch of Strategic Initiatives
  - £30m net benefit by 2016
  - Focus on procurement

## Strategic Initiatives to improve business performance



- Led by senior operational expert
- International representation from across our businesses
- Sponsor at Group operating board
- Clear plan in place - now starting implementation phase

Targeting a net annual benefit of c.£30m per annum by 2016



Note: Costs/benefits shown on a cumulative basis and include new UK ERP system

**SIG** FOCUS, SPECIALISATION AND SERVICE

**SIG**  
STRONGER  
TOGETHER

# What we have achieved

## Transformed procurement

- Category management business as usual
- £17m saving to H1 2015

## Reinvested in people, IT & fleet

- Upskilled talent base
- Upgraded infrastructure

## Developed our value added sales offering

- Moving up the value chain
- Responding to customer demand



# Strengthened our senior leadership team



**Len Lvovich**, Group Corporate Development Director  
*Previously Homeserve, EDS and JPMorgan*

**Christian Horn**, Group Operations Director  
*Previously SVP, Head of Staples Advantage Europe*



**Ruxandra Ispas**, Group Procurement Director  
*Previously Diageo, Danone and Deloitte*

**Phil Barnes**, Group Supply Chain Director  
*Previously Wilkinson, Waitrose and Sainsbury's*



**Gabriele Hannen**, European Finance Director  
*Previously Mars, EMI and the Oetker Group*

***Benefiting from expertise gained across other industries***

# Developing our value added sales offering



*\* defined as sales of products which are own label or where SIG controls the design, fabrication or component assembly.*

# Changing markets are providing new challenges and new opportunities

- Changing customer demands
- eCommerce
- Growing importance of main contractors
- New construction methods
- Use of Building Information Modelling (BIM)
- Tighter regulations and energy efficiency



# Key strategic priorities address these opportunities

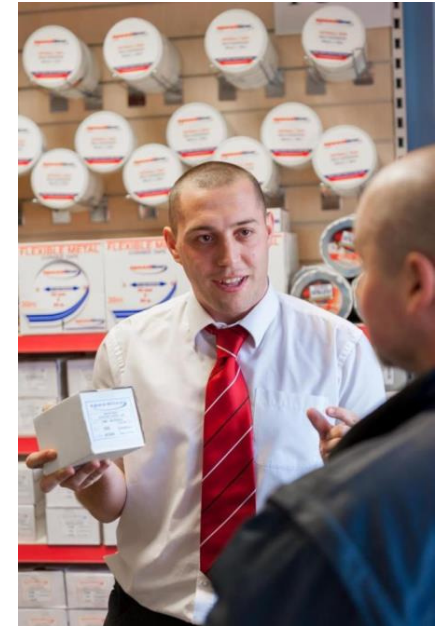
	Area	Progress to date	Going forward
1	<b>Continuously improve procurement</b>	£17m savings to June 2015 Reduced suppliers by 30%	Cumulative target of £30m by 2016 Further savings thereafter
2	<b>Reshape our supply chain</b>	Reviewed supply chain model	Implement two step strategy to reduce our cost to serve
3	<b>Grow value added sales</b>	Increased to 18% of Group revenues	Double current proportion of sales by 2018 Grow Air Handling / SIG Building Systems



# Supply chain review

- Current approach reflects loose federation
- Remit of local branch manager
- Next area of focus after procurement
- Reduce cost to serve
- Further improve customer service levels

**Ultimate goal to deliver £50m savings from supply chain**







# Reducing our cost to serve

**Phil Barnes**  
Group Supply Chain Director

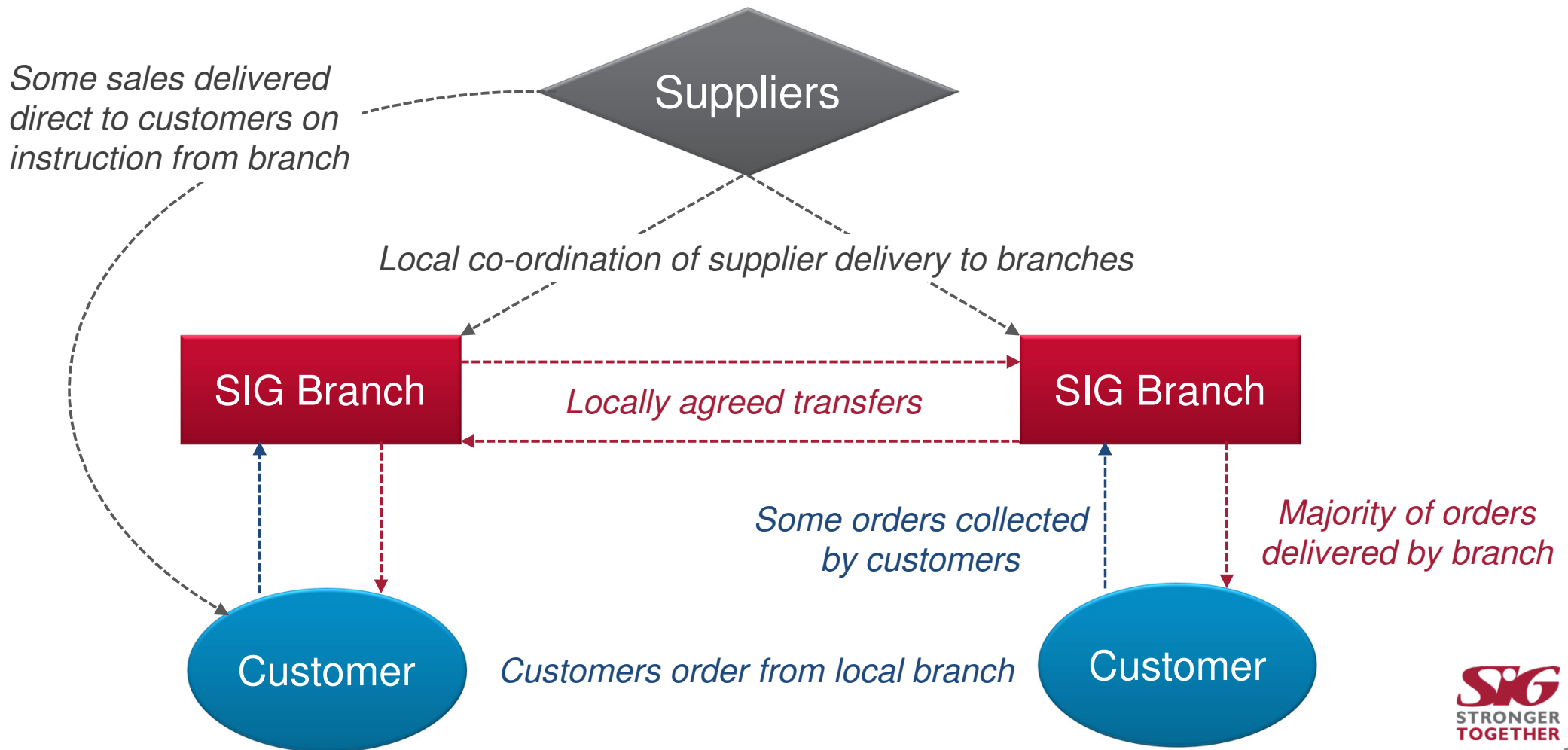


# Why are we reshaping our supply chain?

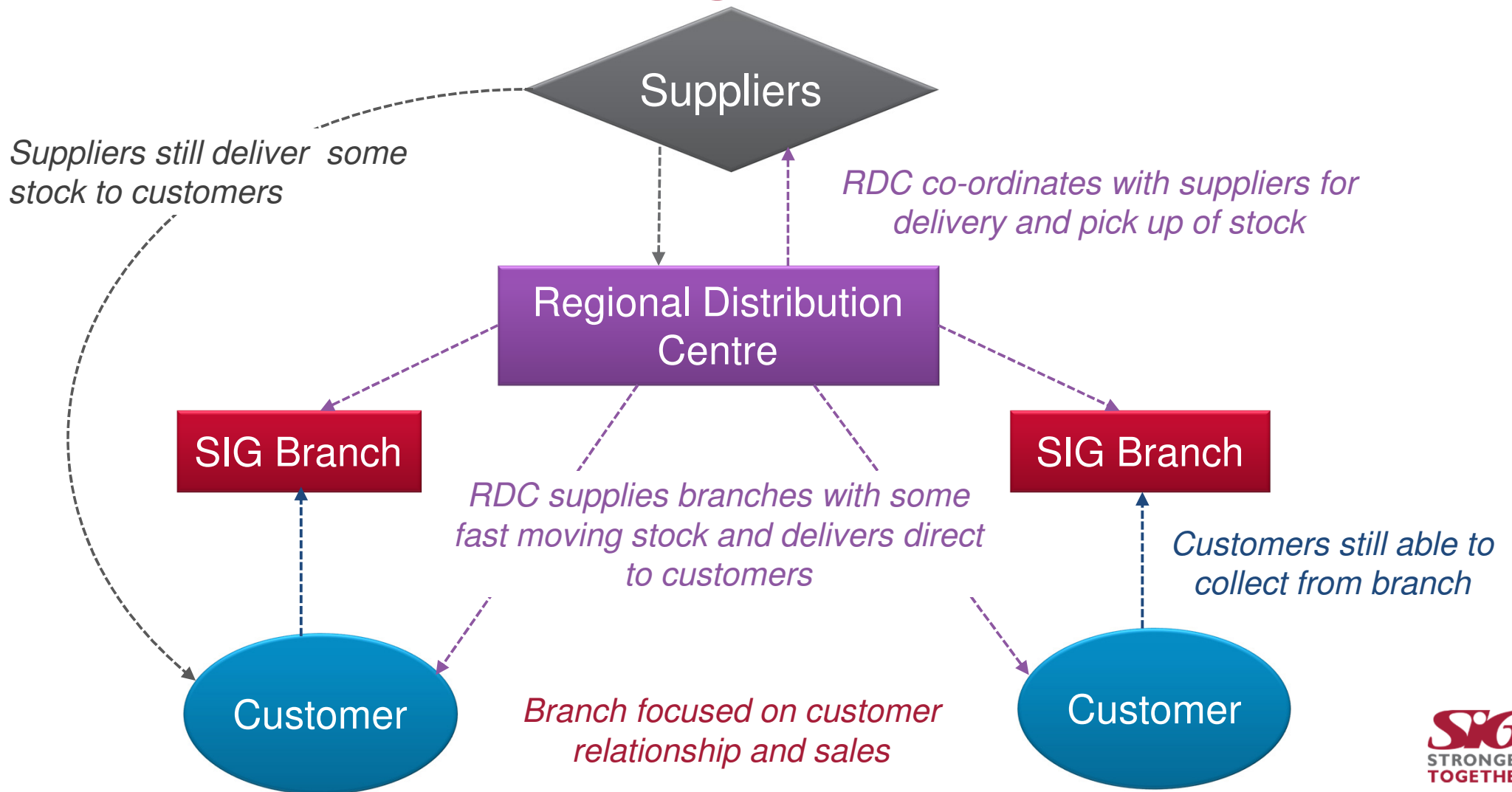
- Served SIG well in the past but needs updating
- Our cost to serve is too high
- Property, labour and warehousing c.11% of sales
- Different ways of working and not leveraging scale
- Better co-ordinate internally and with suppliers
- Respond to changing customer demands



# Current model reliant on local branches



# Ideal model based on regional distribution centres



# Operating characteristics of SIG businesses

United Kingdom		France		Germany
SIGD	SIGE	Lariviere	LiTT / Ouest Isol	WeGo
Insulation & interiors	Exteriors	Exteriors	Insulation & interiors	Insulation & interiors
57 branches	208	116	94	61
90% delivered/ 10% collected	50/50	50/50	70/30	85/15
Large industrial estates	Small industrial estates	Small industrial estates	Medium industrial sites	Large industrial estates

# Supply chain considerations

- Existing property leases
- Suitable locations & investment requirements
- Ensure we retain collected sales
- Supplier co-ordination
- Minimise disruption to customers



**Moving to an RDC model requires careful planning and execution**

# **Two-step strategy to maximise returns while minimising risk**

## **Step one: Regional hubs utilising existing network**

- Expand role of larger branches; professionalise logistics function
- Add local collect branches where appropriate
- Targeting net annual savings of at least £20m by 2018

## **Step two: Move to Regional Distribution Centres**

- Trial model in our main markets during 2016
- Explore use of 3<sup>rd</sup> party providers
- Targeting an additional £30m savings p.a.

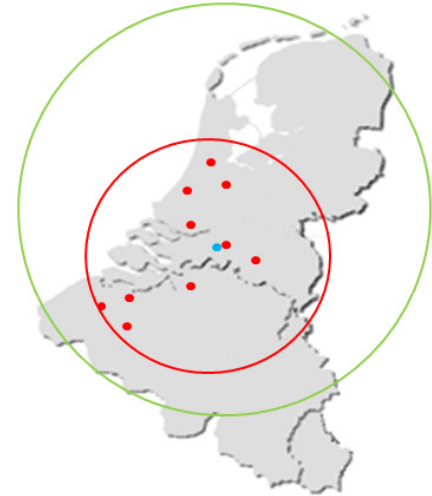


## RDC in The Netherlands

- Already operate RDC in Tilburg
- Stock managed centrally
- Customer deliveries outsourced to 3<sup>rd</sup> party hauliers

### Realised significant benefits

- Branches focus on customer needs
- Lowered cost to serve by 200bps
- Stock days reduced by a third



*80% sales within 140km*  
*Maximum delivery 250km*



*Need to prove model in larger markets*



## **The SIG supply chain opportunity**

*Our ultimate goal is to reduce our cost to serve by £50m (200bps) by centralising supplier and customer deliveries to larger branches or regional distribution centres.*

*To enhance our customer service and significantly reduce working capital through a dedicated team of supply chain professionals.*



# Reducing our cost to serve Operational plan

**Rob Barclay**  
Managing Director UK & Ireland



# UK supply chain Insulation & Interiors (SIGD)

- Reduce cost to serve and improve customer service
- Three branch types (regional/standard/local)
  - Utilise existing sites where possible
  - Regional branches support local sites
  - Local branches better serve collect sales
- Rationalise inbound supplier deliveries to larger sites



## SIGD branch types

	Regional	Standard	Local
Size	c.100,000 ft <sup>2</sup>	c.35,000 ft <sup>2</sup>	c.18,000 ft <sup>2</sup>
Products	Full range for delivery and collection	Wide range for delivery and collection	Core range mainly for collection
Service	Delivers for own and local branches	Delivers for own branch	Urgent requests only
Transport	Dedicated on site team	Manager reports to regional team	Driver on site
Inbound deliveries	Direct from suppliers	Suppliers and regional branches	Regional branches

# UK supply chain Exteriors (SIGE)

- Different model to SIGD; higher % collected sales
- Organise branches into 21 local clusters
- Single site in each cluster acts as regional hub
  - Logistics professionals situated in hubs
  - Hubs co-ordinate transport & stock for clusters
- Branches continue to deliver direct to sites





# Targeting benefit of at least £10m from UK supply chain

- Improved warehouse efficiency (£4m)  
*Reduced stock & headcount; warehouse management systems; local branches collect only*
- Higher vehicle utilisation (£3m)  
*Fewer lorries; reduced mileage*
- Inbound COGs savings (£3m)  
*Suppliers deliver to fewer sites; improved forecasting*
- Further upside from increased brand reach  
*More local sites; construction accessories & fixings offerings in more branches*



# Germany supply chain

## WeGo

- Similar model and approach to SIGD
- Standardise network based on three branch types:
  - Main ( $>€13m$ ), Midi ( $€3 - €13m$ ) & Express ( $<€3m$ )
  - Main sites as regional hubs
  - Hubs co-ordinate logistics and stock
- Optimise inbound deliveries
- Targeting savings of £4-5m p.a.



# France supply chain

## LiTT/Lariviere/Ouest Isol

- Higher collected sales and low population density
- Efficiencies will be derived from:
  - Fleet optimisation
  - Sharing vehicles between businesses
  - Closure of underperforming branches
- Targeting savings of £5-6m p.a.





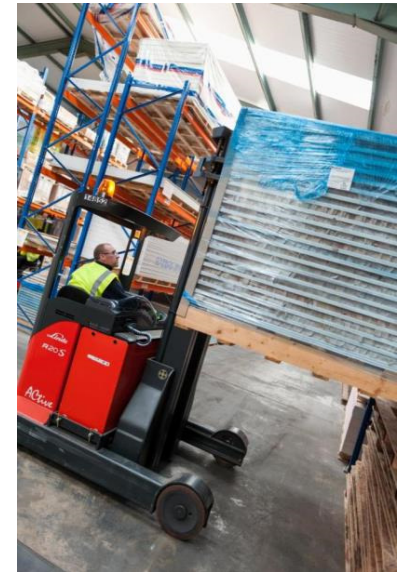
## Step one: Supply chain benefits

£m	2016	2017 incremental	2018 incremental
UK SIGD	1.0	6.0	1.0
UK SIGE	0.5	1.5	-
France	0.5	1.0	3.5
Germany	1.0	1.5	2.5
<b>Total</b>	<b>3.0</b>	<b>10.0</b>	<b>7.0</b>
<b>Cumulative</b>	<b>3.0</b>	<b>13.0</b>	<b>20.0</b>

**Associated one-off charge of c.£10m**

## Step two: Move to RDCs

- Trial 4 new RDCs in UK, Ireland, Germany and France
- Stock majority of SIG's product offering
- Balance in-house expertise with 3<sup>rd</sup> party providers
  - Inbound supply
  - Distribution centre management
  - Outbound fulfilment
- Apply experience from Tilburg



# Supply chain summary

- Two-step strategy with goal to deliver £50m savings
- Benefits for customers and suppliers

## First step: Move to regional hubs

- Low-risk, low-cost route to securing at least £20m savings

## Second step: Roll out RDCs across the Group

- Targeting additional £30m savings





## **Air Handling**

**A large and attractive  
specialist market for SIG**



## **Air handling within SIG**

- Acquired Air Trade Centre in 2008
- Adjacent and complementary market with similar drivers
- Better insulate = better ventilate
- Technical insulation for ducting
- Specialist distribution model
- Consolidation opportunities in fragmented market

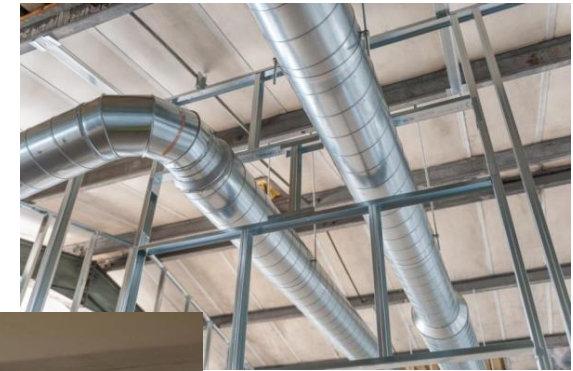
**Goal to double current €200m sales by 2018 substantially through organic growth**



# Air Handling within the HVAC market

## *‘The V of HVAC’*

- Air handling units
- Ducts & fans
- Valves & volume dampers
- Fire & smoke control
- Climate controls
- Grills & diffusers
- Climate ceilings



# A large and attractive market

**European market size €6 – €8bn p.a.**

- High growth, outperforming construction sector

## **Strong demand drivers**

- Energy efficiency, air quality & fire protection

## **Importance of project offering**

- Whole system solution from design to supply



# Significant role for specialists in the supply chain

## Current routes to market

- Manufacturers (55%)
- Specialist distribution (35%)
- General distribution (10%)



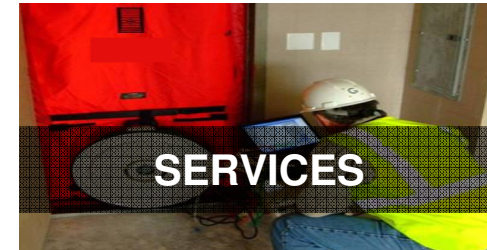
## Increasing specialist role

- Products from multiple manufacturers
- Projects offering
- Branch network
- Reduced expertise of installers

***SIG is the largest pure-play specialist distributor***



# The SIG air handling proposition



One-stop shop for specialist contractors	Design and supply whole system solutions	Commissioning and maintenance
<ul style="list-style-type: none"> <li>• Broad product range</li> <li>• Proximity to customer</li> <li>• Technical advice</li> <li>• Smart webshop</li> </ul>	<ul style="list-style-type: none"> <li>• Design-led technical offering</li> <li>• Best solution for customer</li> <li>• Regulatory knowledge</li> </ul>	<ul style="list-style-type: none"> <li>• Operate as designed</li> <li>• Preventative maintenance</li> <li>• Reduce life time costs</li> </ul>
Specialist contractors	Specialist contractors with sales focus on M&E consultants, end-users & architects	End-users and main contractors

# Moving up the value chain

- HC Groep acquired by SIG in September 2015
- Climate control, climate ceilings, air treatment and ventilation systems
- Partners with client, consultant, architect and installer

## The Edge Amsterdam case study

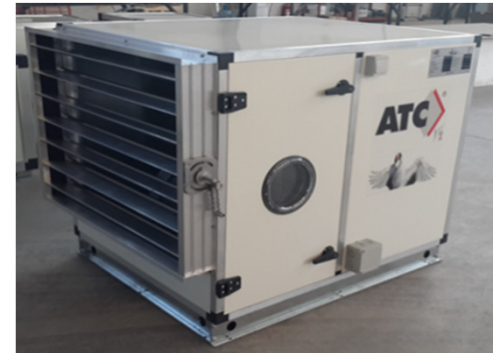
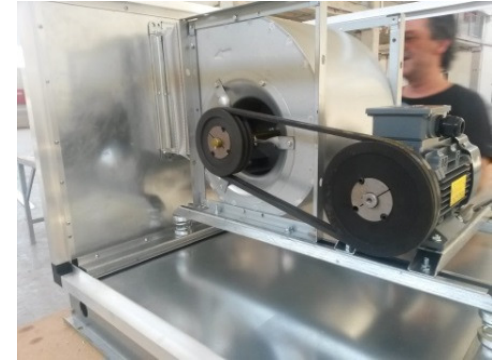
- Most sustainable office building in the world (BREEAM 5 stars)
- Design & supplied complete air handling system

<https://www.youtube.com/watch?v=z3YWI1F6caM>



# Adding value through fabrication and assembly

- Assemble 3<sup>rd</sup> party manufactured components
- Barriers to entry in supply chain
- Complements projects solutions offering
- Consistent with Group strategy of growing higher margin own label sales
- c.10% of SIG's current Air Handling revenues



*Assembly of air handling unit ATC Turkey*

# Simplified and clearer branding



Poland  
2% sales



France  
30% sales



Belgium  
18% sales

Eastern Europe  
9% sales

Turkey  
7% sales



The Netherlands  
23% sales



UK  
11% sales

# Our goal for SIG Air Handling

## Build a leading Air Handling business in Europe

- Grow organically & consolidate fragmented market

## Double current sales of €200m p.a. by 2018

- Increase project offering and own-label sales

## Enhance SIG's returns

- Higher operating margin of c.7-8%







# Offsite solutions for the construction industry



# What is offsite construction?

- Pre-assembly of building components in a factory environment for on-site installation
- Alternative to traditional methods
- Full service offering and built to order
- Fast growing mainly new build market
  - Currently worth c.£3-4bn\* p.a
  - 16%\* CAGR since 2008



\* Company estimates



## Offsite construction within SIG

- SIG Building Systems combines three businesses into single offsite proposition
- Common customer base and end-markets
- Products supplied from rest of the SIG Group
- Responding to changing customer demands
- Rapidly growing market



**Goal to grow sales from £30m to £150m by 2018**

# Why offsite is attractive for our customers

Customer desire for complete managed solutions



Helps contractors address skill shortages

Significant reduction in build time



Improved health & safety and reduced on-site activity

Greater cost certainty & less weather dependent



Enhanced quality control; built in factory environment

# Why offsite is attractive for SIG

- Higher growth, margin and returns on capital
- Common materials and customer base
  - Procurement and market access synergies
- Enhances value-added proposition
- Substantial barriers to entry
  - Full service offer
  - Customer relationships
  - Technological and design expertise
  - Intellectual property



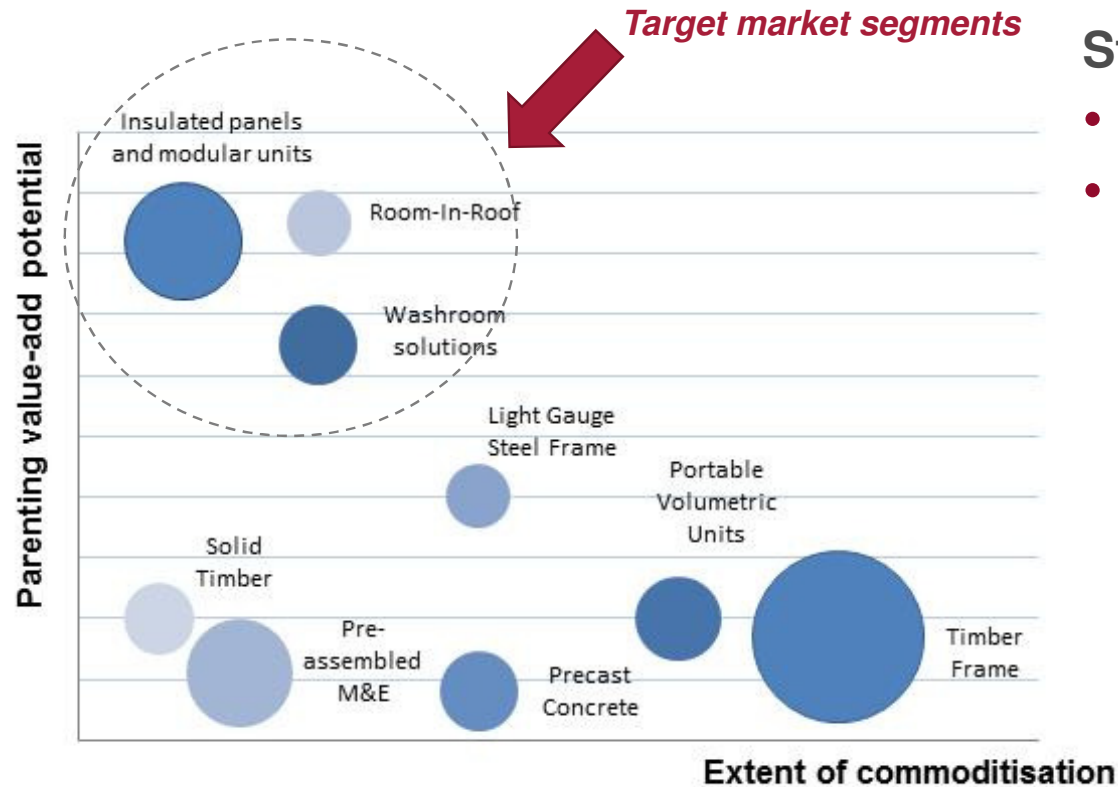
# SIG's offsite construction portfolio



Panelised and volumetric building systems	Bathroom pods and washroom modules	Room-in-roof
Design, assemble and install super-insulated large panels and complete modular units	Design, assemble and deliver modular and flat-pack washroom solutions	Design, assemble and install insulated panelised roofing systems
Public & private residential, education	Commercial, healthcare & residential	Private residential
Main contractors, public and private developers	Main and sub-contractors, private developers and housebuilders	Housebuilders



# SIG's offsite addressable market opportunity



## Strategic focus:

- Offsite technologies that are not commoditised
- Solutions where SIG can add most value:
  - *Common customer base*: main contractors, specialist sub-contractors, house builders
  - *Common end-markets*: residential, commercial, education, healthcare
  - *Common materials*: insulation, membranes, sheet materials, timber, fixings

Target market segments of £1.1bn in the UK and growing rapidly



# Insulshell: Panelised and volumetric systems

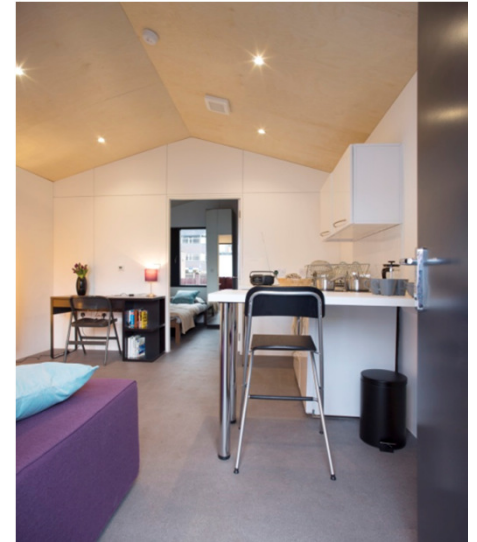
- Super insulated panels and complete modular housing systems
- Bespoke design, built to order and patent protected
- Rapid growth over last 12 months
- £1.2m capital injection to increase capacity
  - Relocated to 100,000ft<sup>2</sup> premises
- Strong customer value proposition





# Volumetric offering has significant growth potential

- Unique scalable proposition
- Helps address UK housing shortage
- Fast build times and low-cost
- Average order size c.£120k per house
- Significant demand from:
  - Innovative developers
  - Local authorities
  - Housing associations



# Metecho: Bathroom pods and washroom modules

- Design and assembly of bathroom panels, walls & pods, modular washrooms
- £1m capital injection to increase capacity
- Relocated to new premises in Alfreton

## Significant opportunities for growth

- 90% market traditional, 10% offsite very fragmented
- Build strong market position
- Displace traditional methods





# Offsite solutions for the construction industry

**Kevin Sherlock**  
Managing Director SIG RoofSpace





## 2.5 Storey house types



*“Planning Policy Guidance 3 (PPG3) was introduced to steer policy away from the development of large, spacious houses on greenfield sites, towards higher density development using brownfield or urban sites wherever possible”*

# Significant advantages over traditional build



## *Traditional*

- × Lengthy build process, up to 4-5 weeks
- × Risk of gable and party wall collapse
- × Multiple trades required
- × Health & safety issues working at height
- × No cost certainty

## *RoofSpace*

- ✓ Up to six units completed in a day
- ✓ Reduced exposure to adverse weather
- ✓ Reduced footfall and risk of falling
- ✓ Fully managed process
- ✓ Cost certainty



# SIG RoofSpace

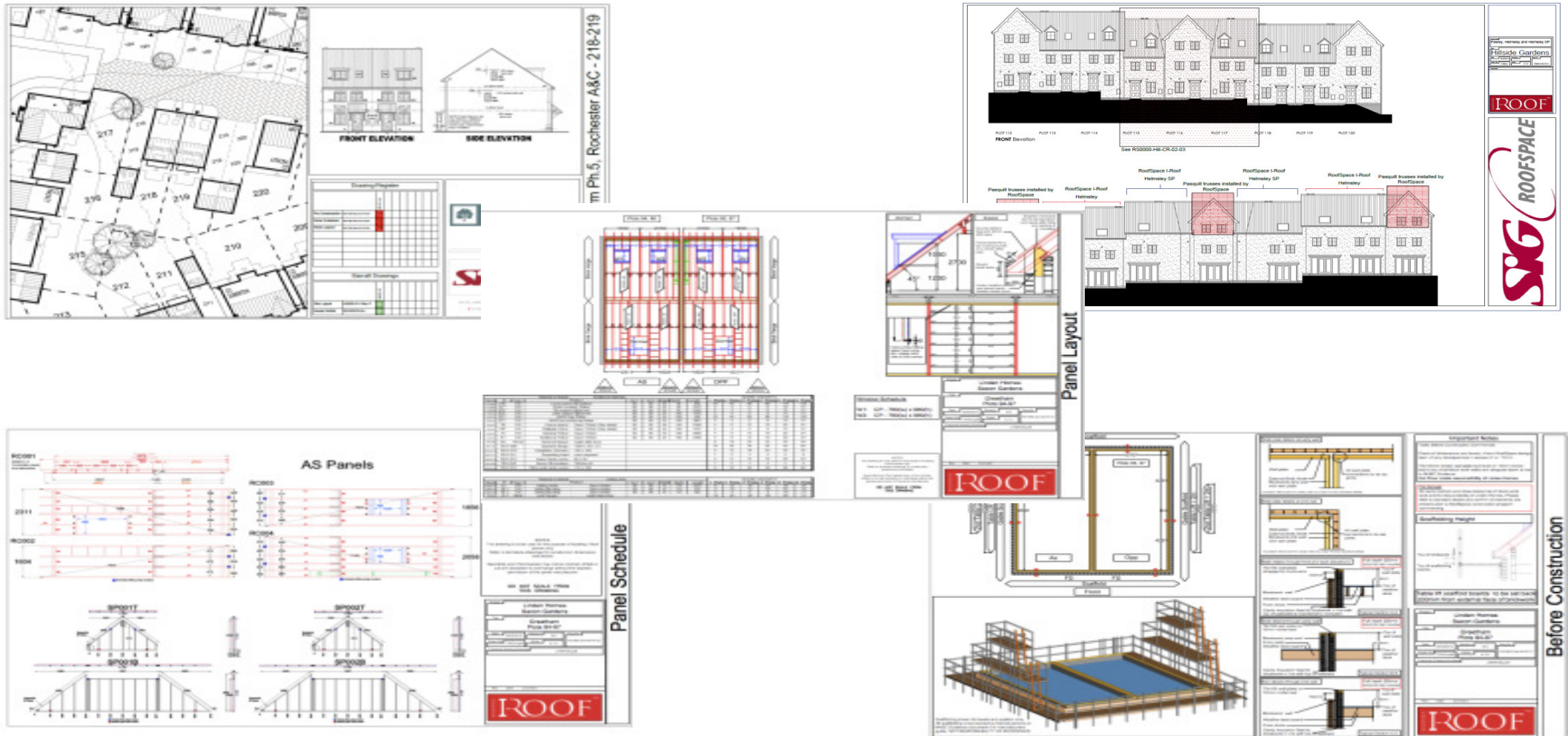
- #1 in offsite residential room-in-roof market
- Design/manufacture/install/support service for clients
- Owner of I-Roof panel system
- Built to order; average cost c.£6k per roof
- Materials supplied by SIG Group
- Sole and exclusive deal with Barratt
- Relocated to new facility in Alcester



*RoofSpace I-Roof panels  
fully insulated in a factory  
controlled environment to  
achieve client U/values*

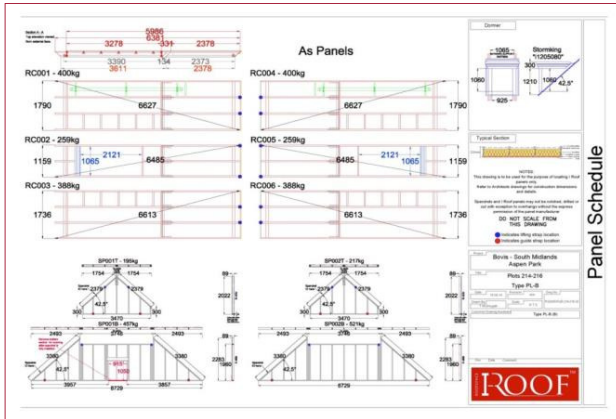


# In-house design created with bespoke software



# SIG controls the end-to-end process

*Design & build panels offsite*



*Pre-installation site check*



*Deliver product*



*Install I-Roof panels*



*Install ancillary products*



*Plot complete*





# Currently engaged with the Top 10 UK developers



**BARRATT HOMES**



**PERSIMMON HOMES**

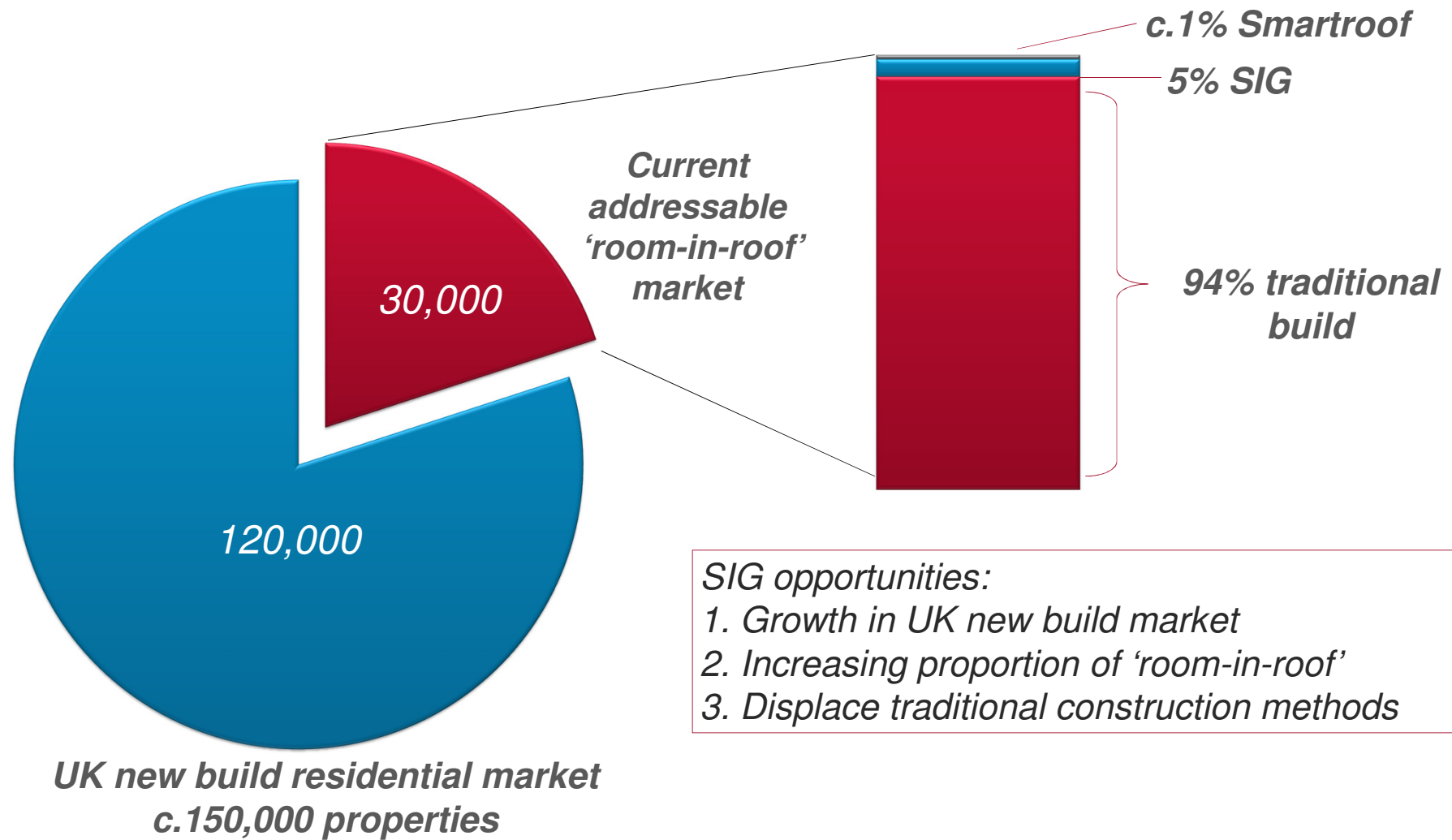


**TAYLOR WIMPEY**



**LINDEN HOMES**

# Significant untapped market potential



# Our goal for SIG Building Systems



## Transformational opportunity with high barriers to entry

- Rapidly growing market, displacing traditional build

## Leverages SIG's capabilities

- Procurement, client relationships & proposition

## Target organic growth in sales to £150m by 2018

- Double-digit operating margin





# Why SIG is Stronger Together

**Stuart Mitchell**  
Chief Executive





## Progress to date

- SIG is becoming a more coherent Group
- Reinvested in people and infrastructure
- First phase transformed procurement function

### *More to come...*

- Second phase reshape our supply chain
- Double value added sales by 2018
- Focus on air handling & offsite construction



# Clear opportunities to improve efficiency and grow

Area	Opportunity	
Supply chain	Step one: £20m saving by 2018 Step two: Further potential £30m saving	<b><i>Reduce cost</i></b>
Procurement	Additional £10m saving by 2016 Further efficiencies thereafter	
Air handling	£12m additional profit by 2018	<b><i>Grow business</i></b>
Offsite construction	£18m additional profit by 2018	

# Conclusion

- Determined to get performance back on track
- Dual strategy of efficiency and growth

## By 2018 we are targeting...

- At least £30m reduction in procurement & supply chain costs
- £30m additional profit from air handling & offsite construction

## In addition...

- £30m potential further upside supply chain step two



## **SIG investment case**

**Our goal is to be the leading specialist solutions provider to the construction industry**

### **Specialist partner of choice**

- **Partner of choice** for customers/suppliers
- Specialist with **unique expertise and technical advice**
- Double **value added sales** as a proportion of Group revenues



**SIG**  
**STRONGER**  
**TOGETHER**

### **Efficient business**

- Better leverage strength and scale of SIG, particularly in **procurement**
- Significantly reduce cost to serve by improving **supply chain** efficiency
- **Resilient, scalable and repeatable IT infrastructure**

### **#1 or strong #2 in core markets**

- Focus on **four synergistic markets** of Exteriors, Interiors, Insulation & Air Handling in **existing territories**
- **Balanced portfolio** of Res / Non-res and RMI / New Build markets
- Mix of **organic growth & infill acquisitions**

### **Financial discipline**

- Focus on **gross margin, quality of earnings and cash flow**
- **Strong balance sheet** and cash conversion
- Continue to increase **ROCE**
- Grow **operating margins**

**Underpinned by exceptional people and strong H&S focus**