

SIG TRADING LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2023

This Strategic report is intended to provide a summary of the development, performance and financial position of SIG Trading Limited ("the Company") for 2023. It provides details of the main trends and factors underlying the year's results and which are likely to affect future performance, and describes the Company's business and its key objectives, strategies, values and resources, together with the main risks and uncertainties it faces.

Introduction

The Company's principal activity is that of a leading supplier of specialist materials to the professional building, construction and related industries in the UK. The Company has a product and service offering of significant scale with strong positions in its core markets. The UK Interiors division is a market-leading supplier of insulation and interiors products and solutions to the construction industry, and the UK Exteriors division is a specialist merchant of roofing materials to small and medium-sized construction businesses. The UK Specialist Markets business, focussing on construction accessories and other specialist markets, is also now reported as a separate division.

The Company's ultimate parent company is SIG plc. As at 31 December 2023 SIG plc and its subsidiaries ("the Group") traded from 440 sites throughout the UK, Ireland and Mainland Europe and employed over 7,000 people. SIG plc has been trading for over 65 years, and is listed on the London Stock Exchange.

The businesses within SIG Trading Limited provide a full range of products and services to a wide range of customers. The Company works closely with leading manufacturers to promote improved or innovative products and solutions, and to ensure that their products are available to our customers.

The Company plays an important role in the construction products supply chain. This role is characterised by:

- providing a broad, multi-brand stock-holding offer to support its customers' needs;
- providing technical product and application support;
- providing access to a broad and diverse customer base, as a long-standing recognised brand in the industry;
- providing 'immediate' availability of product and proximity to site location;
- having an extensive delivery fleet;
- enabling contractors to maximise efficient use of labour; and
- providing credit terms to contractors.

Strategy and objectives

The SIG Group Executive Leadership Team presented an update on the Group's vision, long-term priorities and strategic growth opportunities at a Capital Markets event in November 2023. The Group's vision is to be the best in the market at what it does, with great service, the right products and excellent logistics, and to be the 'best' in the eyes of our customers.

The focus on our customers is at the centre of our strategy, and being a 'partner of choice' to our customers remains one of the Group's three long-term objectives. The second long-term objective is to improve our operating performance, and the Group has established four key pillars to drive the operating performance over the medium-term, which are covered in more detail below. The third long-term commitment is to grow sustainably, further detail on which is provided in the Sustainability review of the SIG Group Annual Report and Accounts on pages 20 to 47.

The Company's progress and strategic actions in 2023 in the four key areas identified as the key drivers of improved operating performance include the following:

Grow: Deliver above-market growth

We aim to grow our market share by delivering the best service and being the best specialist distributor and partner of choice for our customers. Despite the market contraction and lower volumes seen in 2023, we kept our focus on readying our business for the medium-term sales growth opportunities ahead and to gain business by winning on service. The UK Exteriors business, for example, delivered strong sales growth in 2023 relative to the market conditions. The business has invested consistently across the last two years in reinvigorating its branches, in-store merchandising and sales and customer service skills of our teams.

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Strategy and objectives (continued)

Execute: Strengthen execution and margin across all businesses

We are committed to improving our execution and our operating platform to deliver more profitable growth, and we believe that having motivated people, winning branches and efficient operations are key to performance. During the latter part of 2023 we executed a number of restructuring and productivity initiatives that will benefit the business in 2024 and beyond.

Modernise: Greater productivity through modernisation

We are pursuing the progressive modernisation of our operations, including improving our systems and operational processes through the use of technologies for greater efficiency and driving improvements in customer experience and in the way that we sell to and service our customers. New processes and digital tools have been implemented to support better pricing within UK Interiors.

Specialise: Accelerate in specialist, higher return businesses

The UK reorganisation to report Specialist Markets as a separate reporting unit is increasing the strategic focus on the opportunities for growth within this business.

RESULTS AND KEY PERFORMANCE INDICATORS

The results for the year are set out on page 13 of the Financial statements.

Turnover

Turnover for the year increased by 2% to £978m (2022: £961m), due to benefits from purchase price inflation offsetting reduced demand.

Gross profit

Gross profit decreased slightly to £254m (2022: £255m) with gross margin 26.0% (2022: 26.5%).

Operating profit

Operating costs before Other items increased during the year by £4m to £238m (2022: £234m), mainly due to operating cost inflation, offset by reduced bad debt expense as the prior year costs were impacted by the £5m write-off resulting from the administration of a major roofing contractor, Avonside, as reported last year. The relatively flat revenue and gross profit and increase in operating costs resulted in an operating profit before Other items of £16m (2022: £21m).

Other items of £50m have been recognised in the year (2022: £6m), which have been disclosed separately as Other items due to their non-recurring, significant or unusual nature. These Other items consist of amortisation of acquired intangibles of £1m (2022: £2m), costs related to acquisitions of £3m (2022: £2m), restructuring costs of £4m (2022: £nil), impairment of investments of £9m (2022: £3m), impairment of goodwill, fixed assets and right-of-use assets of £34m, and other specific items of £1m credit (2022: £1m credit).

The above has resulted in the overall operating loss for the year of £34m (2022: £15m profit).

Profit before tax

Net interest payable has increased by £8m to £17m (2022: £9m) due to interest now payable on the loan to parent undertaking. This is offset by dividends received from subsidiary undertakings of £21m (2022: £2m), resulting in an overall loss before tax of £30m (2022: £8m profit).

OUTLOOK

The Board expects continued softness in market conditions in 2024. However, during this period of market weakness we will continue to strengthen our execution and organisation to deliver higher margin growth and performance for the medium-term. We remain confident in our ability to manage through the current phase of the industry cycle and to ensure that we are more than ready to take advantage of the significant long-term opportunities for the business as markets recover.

DIVIDENDS

The Company paid an interim dividend for the year ended 31 December 2023 of £4m following the receipt of a dividend of the same amount from its subsidiary, SIG Trading (Ireland) Limited. The Directors recommend that no final dividend is paid.

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STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2023

ACQUISITIONS AND DIVESTMENTS

The Company acquired Miers Construction Products Limited during the prior year (see Note 14). The results of this business are not included in these financial statements as they are not consolidated financial statements. The trade and assets of the Penlaw Group of companies (acquired in 2021) have been hived up into the Company at 31 December 2023 (see Note 27).

OPERATIONAL RISK MANAGEMENT

Risk management plays an integral part in SIG's planning, decision-making and management processes. All employees have a responsibility to ensure they understand the risks in their area of activity and in ensuring controls to manage the risks are operating effectively but the Board maintains overall responsibility for ensuring risk management and internal control systems are robust.

The Group Board sets the strategy for the SIG Group and ensures the risks for the delivery of this strategy are effectively identified and managed through the implementation of the risk management framework.

The Group employs a three lines of defence model to provide a simple and effective way to enhance the risk management process and ensure roles and responsibilities are clear. Activity is coordinated to ensure there are no gaps or duplication of controls.

Key developments of the management of risk and internal control in 2023 included:

- Continued review and updates to the risk management framework and Group Risk Register
- The Group Delegation of Authority policy refreshed and approved by the Group Board in September 2023
- A series of training modules and guidance on controls topics delivered by the Group Controls team
- Controls reviews carried out by the Group Controls team to further develop Risk and Control Matrices ("RACMs") and process map documentation across core financial processes
- Work carried out by the Group Controls team to identify, document and build out the IT General Controls ("ITGC") environment and to support operating company IT teams in remediating any control weaknesses identified.

Principal risks and uncertainties

There are a number of potential risks and uncertainties that could have a material impact on the Company's long-term performance. The Company has a comprehensive system of risk management in place across all parts of its business. The key risks are described below:

1. Cyber security: Internal or external cyber-attacks could result in system disruption or sensitive data being compromised
2. Health & Safety: Danger of incident or accident, resulting in injury or loss of life to employees, customers, or the general public
3. Macro-economic uncertainty: Macro-economic volatility impacts the Company's ability to accurately forecast and to meet internal and external expectations
4. Attract, recruit and retain our people: Failure to attract and retain people with the right skills, drive and capability to reshape and grow the business
5. Data quality and governance: Poor data quality could impact our financial management, fact-based decision-making, business efficiency and credibility with customers
6. Environmental, social and governance (ESG): SIG could suffer reputational impacts if it demonstrated poor environmental, social and governance arrangements and performance
7. Mergers and acquisitions: Inability to successfully execute, integrate and leverage merger and acquisition opportunities
8. Legal or regulatory compliance: Failure to comply with, or if we are found to be in breach of, legal or regulatory requirements
9. Modernisation: Failure to deliver the digital capabilities necessary to support improved efficiency and productivity or to remain competitive in the marketplace
10. Change management: Inability to change and grow the organisation as planned in order to meet growth targets

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Principal risks and uncertainties (continued)

Further details on developments and mitigating activities undertaken in 2023 are provided in the SIG Group Annual Report and Accounts on pages 60 to 63.

S172 and stakeholder engagement

The Directors consider that they have performed their fiduciary duty, as stipulated under s172 of the Companies Act 2006 in good faith to promote the success of the Company for the benefit of its members as a whole. They have taken into consideration, amongst other matters: the likely consequence of any decision in the long term; the interests of the Company's employees; the need to foster relationships with suppliers, customers and others; the impact of the Company's operations on the community and the environment; the desirability of the Company maintaining a reputation for high standards of business conduct; and the need to act fairly between members of the Company.

The Directors have identified its key stakeholders as its employees, customers, suppliers and the communities in which it operates. This section describes how the Board engages with its key stakeholders and how it considers their interests when making its decisions, and provides details on primary methods of engagement, why engagement is considered important, examples of issues raised by stakeholders and actions taken as a result of the engagement.

Employees

SIG is a people business. Engagement by the Group with its stakeholders is through its people. Accordingly, engagement by the Group with its workforce underpins SIG's success. SIG's growth and sustainability depends on having the right company culture, supported by suitable behaviours and with a clear purpose. Engagement activities include the Group Board Workforce Engagement programme, which provides the opportunity for employees to raise and discuss their experiences and identify key priorities and opportunities for improvement, the cascading of SIG plc Group communication and Executive Leadership Team broadcasts, the annual employee engagement survey led by the Group, individual business roadshows, business specific newsletters and the annual wider leadership management conference. Actions taken include continued investment in health and safety, regular communications to employees on Workplace relating to company news and recognising achievements, and a focus on wellbeing and mental health, ensuring that employees have knowledge of and access to the current support available to them, for example under the Group's Wellbeing and Mental Health services.

Customers

Understanding the needs and requirements of our customers is hugely important and the Group seeks to use this knowledge to partner effectively with our customers. Customer service is vital to maintaining and growing revenues and profits, and we use engagement with our customers to develop and strengthen our sales capacity and productivity to improve our service and continually develop and refresh our product offering. Engagement activities include business specific websites, dedicated customer relationship managers for larger customers, reward scheme and structured calls to obtain feedback, and a Group-wide customer engagement survey was again conducted in 2023. Actions taken during the year include development of the Group's sustainability commitments, progressing the digitalisation and modernisation of processes in response to customer requests and focussing on actions required in light of the annual customer engagement survey.

Suppliers

SIG enjoys a pivotal position in industry supply chains. The Company connects suppliers and customers in ways which they would be unlikely to achieve without SIG's presence. We are a principal route to market for many of our suppliers and we seek to add value for our suppliers by operating as their supply chain partner of choice. We engage with our suppliers to understand their businesses and to identify ways in which we can work with them strategically. Engagement with suppliers relates both to immediate or short-term trading matters and longer-term issues. During the year we have worked alongside manufacturers to identify opportunities for improvements in sustainability measures, whilst addressing the potential challenges and barriers to change. We've taken a collaborative approach and are supporting efforts on compliance and reporting.

Local community and environment

The Directors recognise that close relationships with the communities in which the business operates help to foster the long-term success of the business. SIG is part of its local communities, and its actions should have a beneficial impact on those communities. Actions taken during the year include continuing the work of the Charity and Community network forum in which all SIG businesses across the Group are represented. SIG UK organised a range of events and initiatives, including its third annual charity fundraising gala, and in partnership with suppliers has raised in excess of £100,000 for our nominated charities, Rainy Day Trust and Cancer Research UK.

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**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023**

S172 and stakeholder engagement (continued)

SIG in the UK is a partner of the Supply Chain Sustainability School, which provides resources to help the UK business to lead the conversation on sustainable business practices both internally and within its supply chain.

CAUTIONARY STATEMENT

This review and other sections of this report contain forward looking statements that are subject to risk factors associated with the building and construction sectors. It is believed that the expectations set out in these statements are reasonable, but they may be affected by a wide range of variables which could cause actual results or trends to differ materially from those expressed or implied by the forward looking statements, including but not limited to, risks associated with changes in economic conditions, the Company's growth strategy, fluctuations in product pricing or availability and changes in exchange and interest rates.

This report was approved by the Board on 27 September 2024 and signed on its behalf.



Ian Jackson
Director