Successful recapitalisation provides foundation for new growth strategy

Results for the six months ended 30 June 2020

24 September 2020

Today's presenters

Steve Francis
Chief Executive Officer

Ian Ashton
Chief Financial Officer

H1 2020 summary

- Significant Covid-19 impact on sales and profit in H1, although less than initial internal estimates
- Trading has continued to improve over the summer period and is now trading stably under relevant Covid-19 protocols
- Successful equity raise of £165m and restructuring of the Group's financing facilities concluded in July, as previously announced
- Substantial liquidity headroom post equity raise, providing security against ongoing market uncertainty and confidence to invest in new growth strategy
- New leadership team and Board appointments
- Decisive strategic actions taken

Return to profitable growth – back to basics

Become winners again by reinforcing Proximity, Expertise, Service

1 **Sustainable behaviours**

Our people should feel safe, proud, valued because we operate sustainably in the “SIG Way”

2 **Branch focus**

Build entrepreneurial, well-trained, empowered & enabled winning branch “families”

3 **Sales & customer focus**

Strengthen sales capacity & productivity; focus on customer service

4 **Superior expertise**

Re-establish specialist focus and expertise in the branches & regions

5 **Closer to suppliers & markets**

Re-partner with suppliers – create “win-win” joint strategies; understand our joint opportunities better

6 **High productivity**

Well-invested, consistent & highly productive support functions & strong governance/ financial discipline

7 **Expansive vision**

Clear & expansive expression of “core” business as platform for acquisitive growth

Building a great, growing business sustainably

Our growth plan

UK: restore expertise, refocus on branches; reconnect with customers and suppliers

1/3rd

+

Revitalise Germany and continue to grow our other strong EU businesses

2/3rds

Structurally our markets have positive drivers of recovery and growth in the medium term and our franchises and market positions remain strong

Note: Represents approximate revenue split by geographies

Financial review of the period

Ian Ashton

Chief Financial Officer

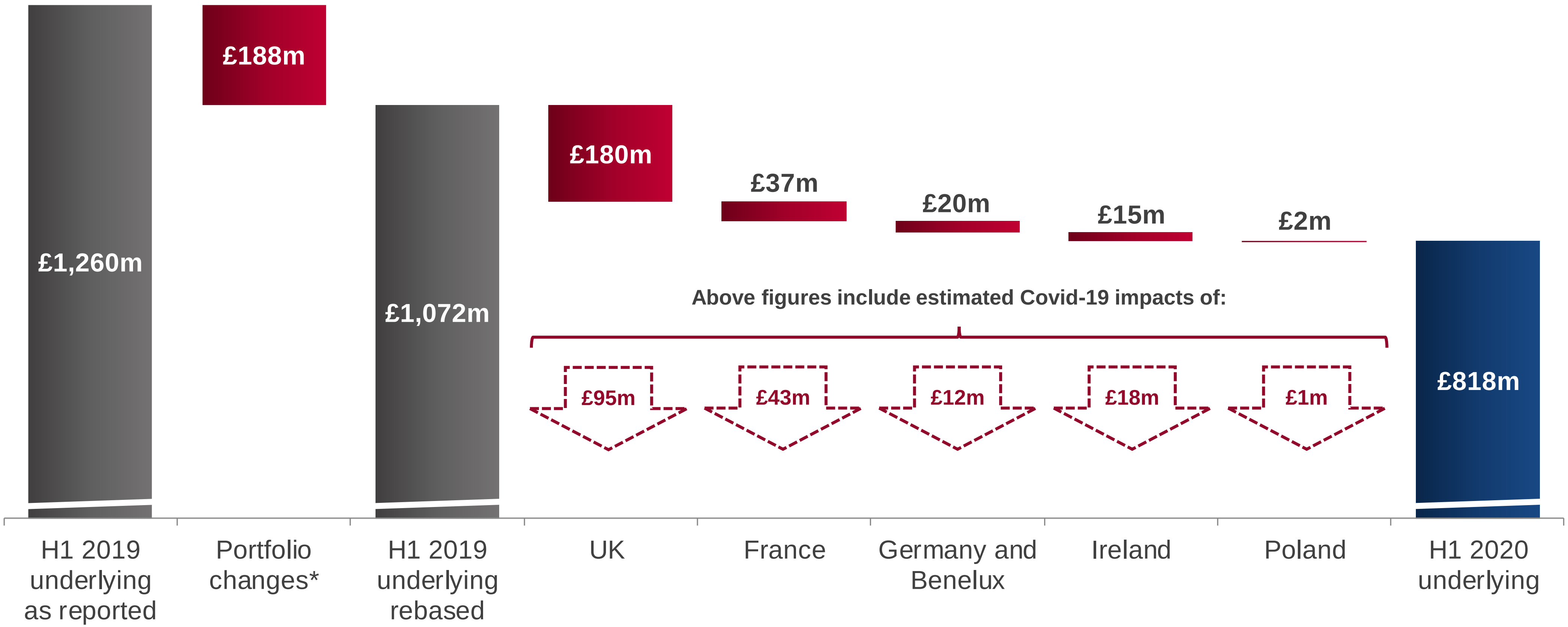
Key financials

	H1 2020	H1 2019	Change
Revenue	£818m	£1,072m	£(254)m
LFL sales	*(23.9)%*	*(5.4)%*	*n/a*
Gross profit	£203m	£271m	£(68)m
Gross margin	*24.8%*	*25.3%*	*(50)bps*
Operating (loss)/profit	£(43)m	£29m	£(72)m
Operating margin	*(5.3)%*	*2.7%*	*(800)bps*
(Loss)/profit before tax	**£(54)m**	**£17m**	**£(71)m**
Statutory (loss)/profit before tax *	£(125)m	£2m	£(127)m
Total (loss)/profit after tax **	**£(54)m**	**£1m**	**£(55)m**
Reported working capital	£109m	£175m	£(66)m
Working capital as a % of sales	*5.7%*	*5.3%*	*40bps*
Net debt	£342m	£449m	£(107)m
Net debt, pre IFRS 16	**£90m**	**£158m**	**£(68)m**

- LFL sales down 23.9%, principally due to Covid-19 impact across all markets; also continuation of the weakening trend seen in Q4 2019 in UK and to a lesser extent Germany
- 50bps gross margin decline, driven by reduced supplier rebates as a result of lower sales volumes, primarily in UK Distribution
- Operating profit decline of £72m reflecting the volume decline and a small increase in operating costs
- Working capital increased to 5.7% of sales, with much reduced reliance on factoring and cessation of some historic creditor management practices
- Group net debt, pre IFRS 16, improved to £90m, supported by proceeds from Air Handling disposal
- Net cash of £29m and gross cash of £268m at end of August - following equity raise in July

Note: Data represents underlying performance, post IFRS 16
* Continuing, stated after Other items ** Includes profit after tax from discontinued operations

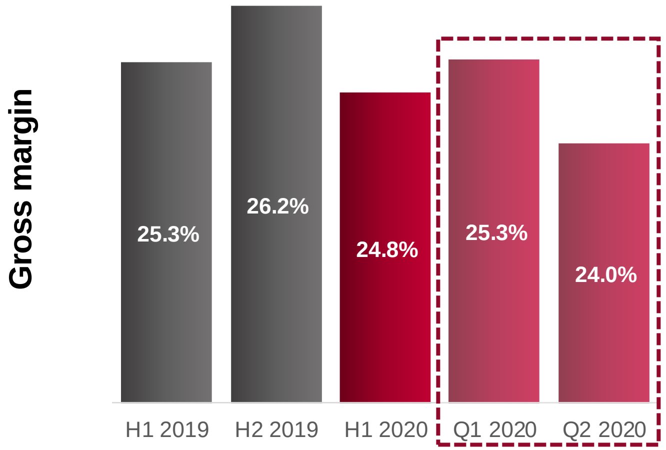
Revenue change by business unit



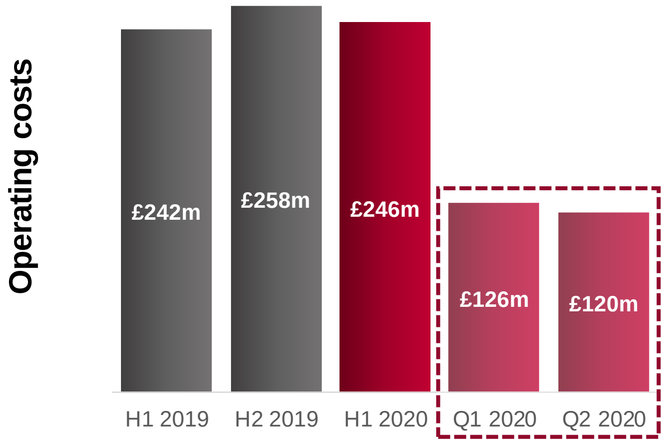
- EU revenues broadly flat excluding estimated Covid-19 impact
- UK shows continued underlying weakness, c20% down

* Represents the Air Handling division (disposed Jan 2020) and Building Solutions (National) Limited (non-core business)

Gross margin and operating costs



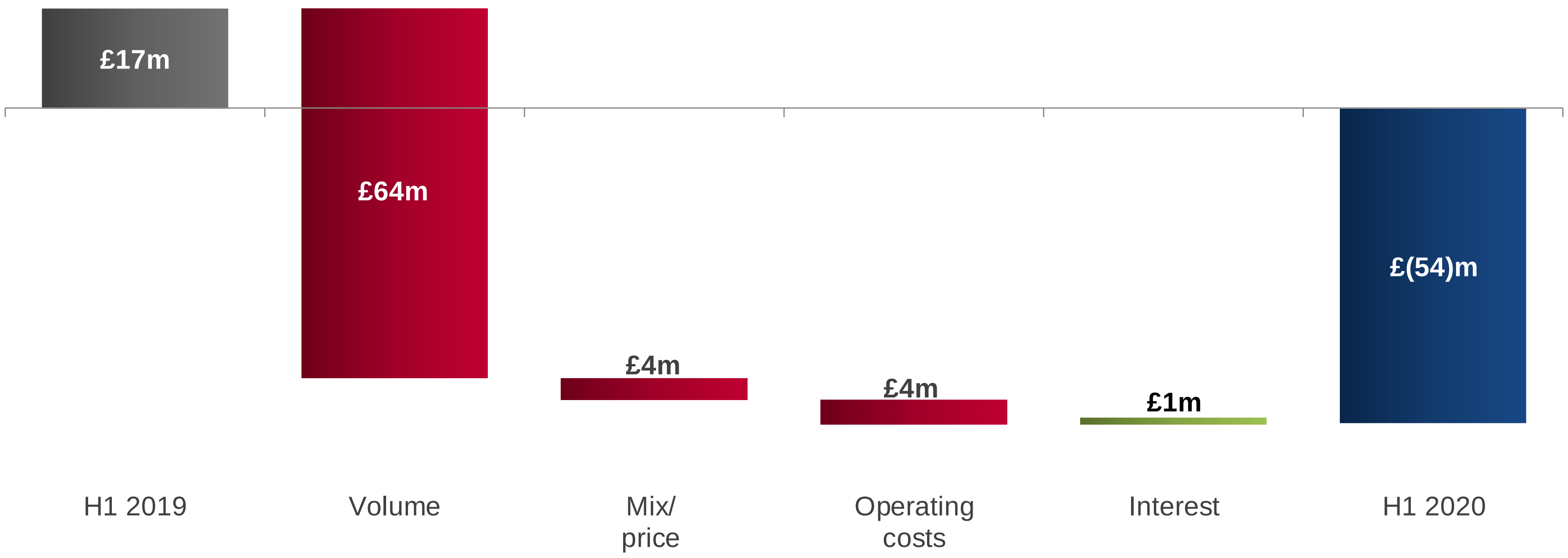
- H1 2020 gross margin of 24.8%, 50bps lower than H1 2019
- Gross margin decline principally due to reduced sales volumes in key markets driving lower levels of rebates receivable
- UK Distribution further impacted by the continuation of the weakening trend seen in Q4 2019



- H1 2020 operating costs of £246m, reflecting a year-on-year increase of £4m (1.8%)
- Increase in costs principally as a result of:
  - Additional provisions for bad debts
  - One-off FY 2019 balance sheet accrual releases
  - Inflation
  - Incremental legal, professional & audit fees
  - Partially offset by furlough benefits

Note: Data represents underlying performance, post IFRS 16

Profit before tax



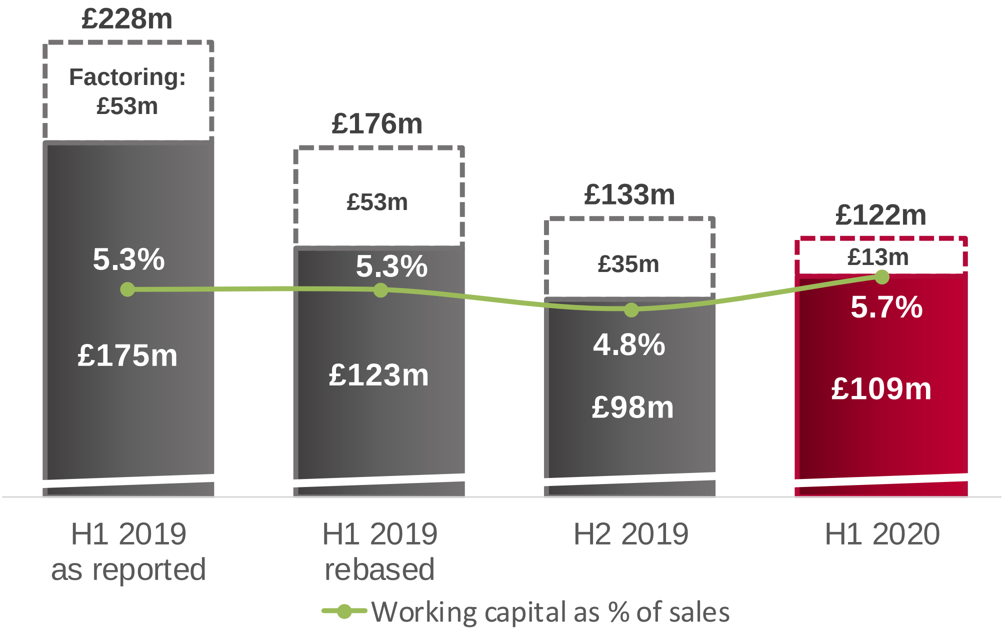
- Gross profit reduction of £68m, with reduced sales volumes leading to lower rebates and related margin impact
- Small year on year increase in operating costs of £4m
- Reduction in interest costs due to lower average net debt balance during the period

Note: Data represents underlying performance, post IFRS 16

Other items – continuing operations

£m	H1 2020 PBT impact	H1 2020 Cash impact
Amortisation of acquired intangibles	(2.8)	-
Impairment charges	(42.8)	-
Disposals/exits	1.5	(0.7)
Net restructuring costs	(3.5)	(2.7)
Investment in omnichannel retailing	(4.1)	(6.4)
Non-underlying finance costs	(12.0)	(0.4)
Costs associated with refinancing	(6.9)	(1.9)
Other specific items	(1.1)	(1.7)
Total other items	**(71.7)**	**(13.8)**

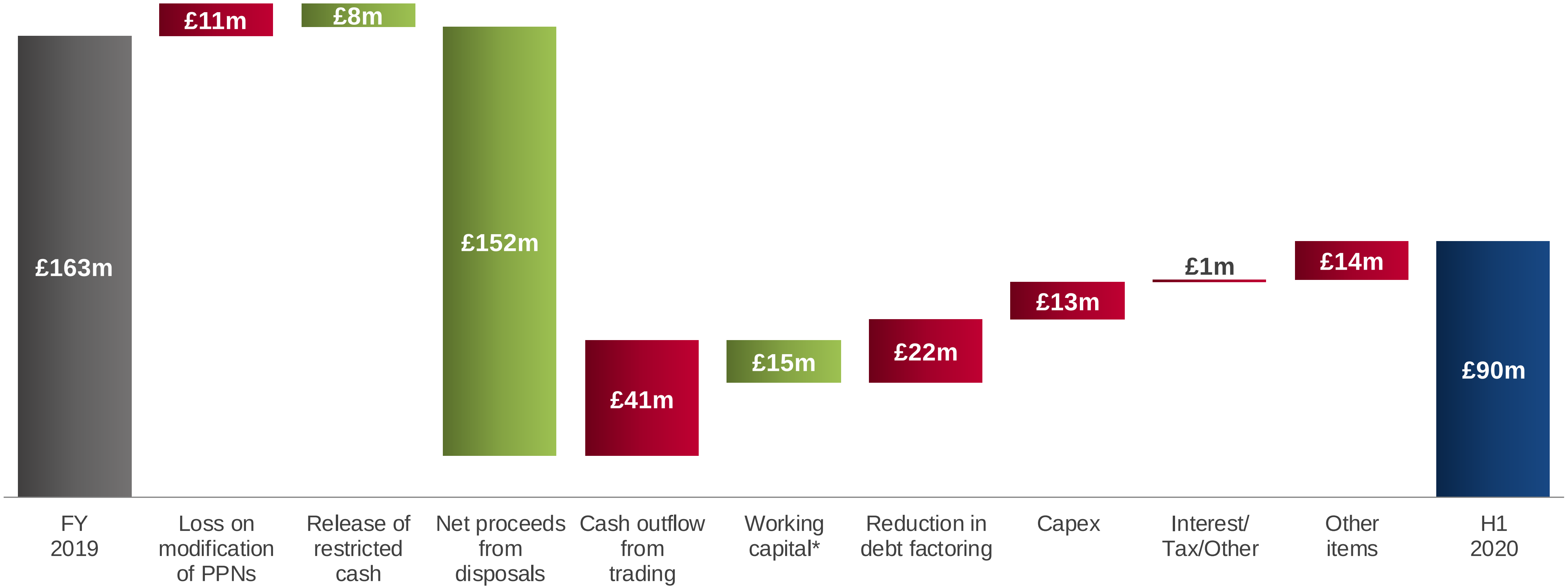
Working capital



- Working capital increase of £11m from December 2019 as a result of reduced factoring and removal of more aggressive creditor management at the end of June 2020, partially offset by underlying reductions due to much lower trading volumes
- Covid-19 actions include disciplined inventory management and cash collections, payment term negotiations with suppliers and utilisation of government support schemes
- At 30 June, there was c£17m (31 August: c£13m) of Covid-19 government supported deferrals to unwind

Note: Rebased to exclude working capital balances of the Air Handling division

Net debt (pre IFRS 16)



- Net debt improvement of £73m, supported by Air Handling disposal proceeds
- On a post IFRS 16 basis, the net debt position as at 30 June totalled £342m
- At 31 August, net and gross cash of £29m and £268m respectively

* Excludes £(8)m accrual movement on fees (included in net proceeds) and includes £4m balance in Building Solutions (classified as asset held for sale in FY 2019)

Stronger capital structure

Revised debt structure

£'m	Date of expiry	Denomination	Structure 30 Jun 2020	Structure 31 Aug 2020	Draw down 30 Jun 2020	Draw down 31 Aug 2020
Private placement notes	2023 - 2026	EUR/USD	187	138	187	138
Old RCF (£233m)	27 May 2021	GBP	233	-	70	-
New RCF (£25m)	31 May 2023	GBP	-	25	-	-
Term loan	31 May 2023	GBP	-	70	-	70
Total			**420**	**233**	**257**	**208**

- Debt maturities 2023 – 2026
- Fees associated with the refinance total c£13m
- Modified Private Placement Notes and revised bank debt facilities
- Revised covenants to cover net debt (max: £225m from 1 Jan 2021), net worth (min: £250m) and liquidity levels (min: £40m) until Feb 2022
- From March 2022, net debt covenant replaced with quarterly leverage thresholds. All other covenants continue, along with the introduction of an interest cover covenant

Equity raise

- Total of £165m of capital raised
- Fees associated with the raise totalled c£12m, giving net proceeds of £153m
- Capital raise included a total investment by CD&R of c£83m
- IKO Enterprises took up its full allocation

Outlook

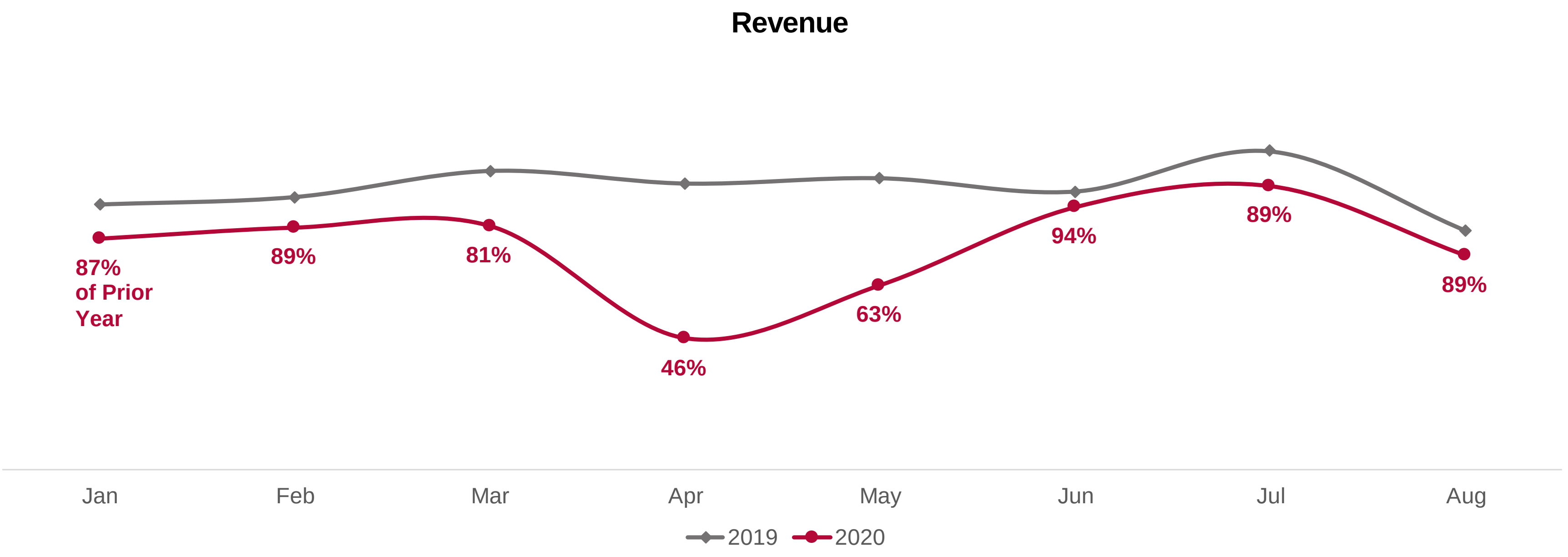
- Market fundamentals remain sound, but there remains significant economic uncertainty in the short term
- Compared to initial estimates of possible Covid-19 impact, trading was better than anticipated in H1, and full year 2020 sales are now expected to be moderately higher than previously guided in May
- H2 expected to remain loss making but at a lower rate than H1
- Liquidity:
  - Net cash position at 31 August of £29m, and liquidity headroom vs covenant of c£250m
  - Expected continued underlying cash outflow in H2, partly due to unwind of cash deferrals (Covid-19 related) and cessation of historic year end and half year creditor management

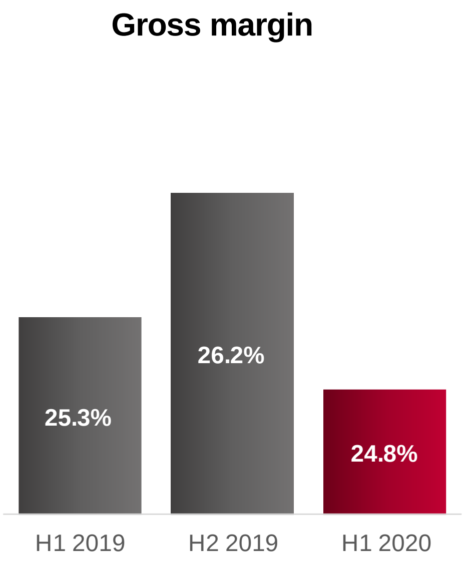
Current trading and strategic update

Steve Francis

Chief Executive Officer

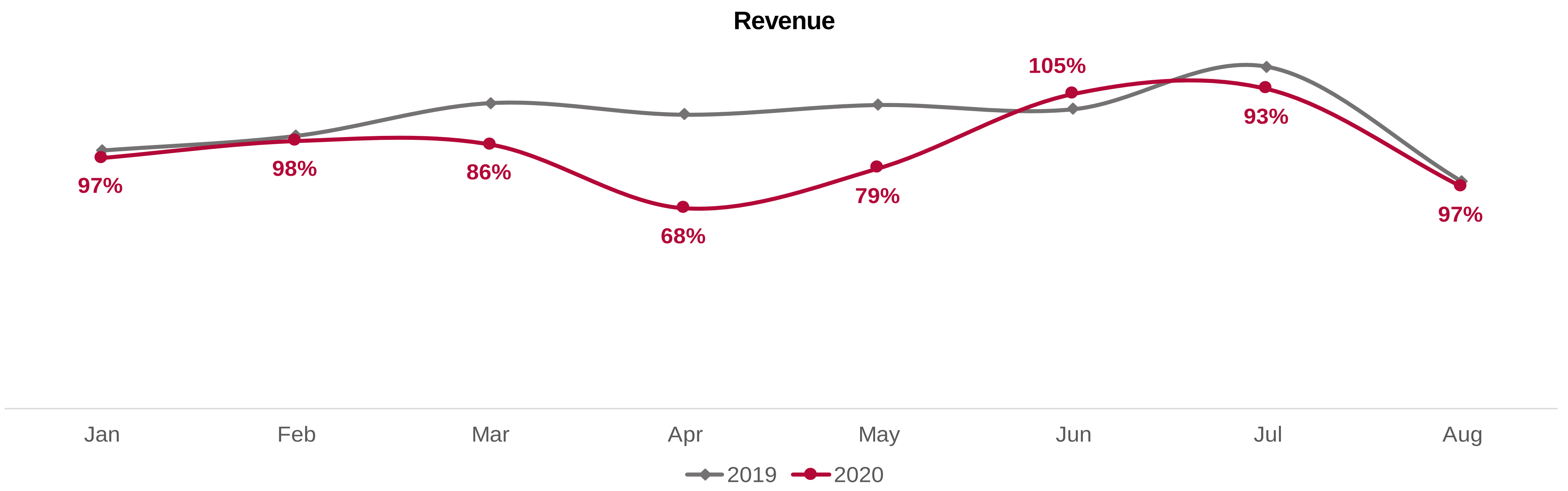
Trading activity – Group





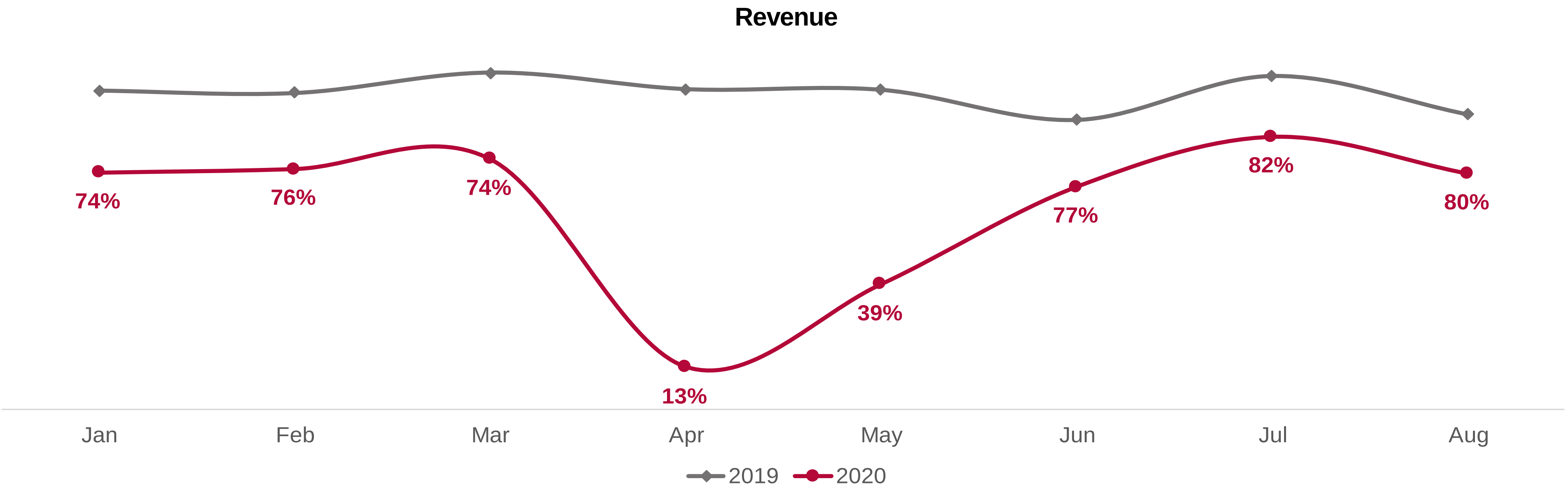
- Lockdown severely impacted UK, Ireland and France businesses with Group revenues 36% down in March and April
- Revenue improved in May and June as lockdown restrictions eased and trading returned gradually to pre Covid-19 levels
- Positive revenue trend continued into July, with the Group recording revenue of 89% of July 2019 levels
- Revenue impacted in August primarily due to seasonality (summer holidays)
- H1 2020 Gross margin at 24.8%, 50bps lower than H1 2019

Trading activity – EU



- Trading activity suffered a temporary setback in France following the temporary closure of all branches mid-March, with the average daily sales reducing to c50% year on year
- France revenues have improved since the lockdown period and are ahead of 2019 levels in August
- Germany and Benelux were less impacted by government measures than other OpCo’s, with trading levels in May to July demonstrating a steady increase in demand
- Trading sites in Ireland temporarily closed through end March and April followed by a staged reopening during May
- Trading in Poland least impacted by Covid-19 with trading volumes remaining stable after a relatively small drop in April

Trading activity – UK



- During the lockdown period, UK revenues reduced to as low as 13% of 2019 revenue in April. The businesses remained open to service critical and emergency projects only
- Trading recovered gradually in May and June as sites reopened, sales were at c77% of 2019 levels in June
- Revenue increased further in July and reached c82% of July 2019 sales
- Trading volumes fell in August, following the usual seasonal pattern

UK market share recapture plan

1 **Merge leadership of UK businesses**

2 **Facilitate growth through better operations**

3 **Energise sales and market share recovery**

Restore Expertise; Refocus on Branches

- Return of Philip Johns with 30 years' SIG & industry experience
- SIGD & SIGE merged under single UK leadership
- Re-recruit experience & expertise: 20 senior recruits adding 450 years of industry experience
- New regional structure, footprint & channel optimisation (local accountability and P&Ls) – 324 positions filled. In place by October 1st
- 50% internal re-appointments; 38% new hires 12% vacancies
- Review/restructure support processes (e.g. Shared Service Centre and I.T. systems)

Remove Blockages to Growth

- Give permission, de-centralise, reduce bureaucracy
- Formalise S&OP to improve planning
- Foster entrepreneurial & commitment culture founded on safety first
- Strong leadership & mentoring for salesforce
- Performance management of sales based on training, mentoring, activity metrics, high management cadence and CRM+
- Enhance service including OTIF (On time In Full) & service recovery
- Stock accuracy, visibility & availability
- Local margin know-how & controls to be re-introduced
- Complete 1st Groupwide employee survey

Reconnect with Customers & Suppliers

- Re-establish Board level partnerships with key suppliers & customers
- Re-empower local supplier relationships & programmes (e.g. rebates)
- Strengthen category expertise
- Invest in footprint selectively
- Acquisition of add-on businesses
- Focus on strong and complementary digital presence

The Group’s medium term financial targets

Margin

- Target an operating margin of approximately 5% within the Group’s operating companies
- Group operating margin of approximately 3%, trending towards approximately 5% in the longer-term

Leverage

- Headline Financial Leverage of <1.5x

Dividend

- Dividend cover of 2-3x once appropriate leverage has been achieved

Summary

Equity raise and debt restructuring completed

Covid-19: resilience and adaptability minimises impact – thanks to our people

Return to Growth strategy progresses to plan

Steady trading and strong liquidity position

Foundations in place for delivery – medium term expectations remain unchanged

Questions

Appendix:

Supporting schedules

Underlying financials by segment

UK	Revenue	Change	LFL	Gross margin	Change	Operating profit	Change	Operating margin	Change
UK Distribution	£155m	(47.5)%	(47.5)%	22.9%	(200)bps	£(27.4)m	£(34.2)m	(17.7)%	(2,000)bps
UK Exteriors	£104m	(27.5)%	(27.5)%	27.2%	(170)bps	£(8.9)m	£(14.0)m	(8.5)%	(1,210)bps
Total	**£259m**	**(41.0)%**	**(41.0)%**	**24.8%**	**(160)bps**	**£(36.3)m**	**£(48.2)m**	**(14.0)%**	**(1,670)bps**

France	Revenue	Change	LFL	Gross margin	Change	Operating profit	Change	Operating margin	Change
France Distribution	£74m	(20.6)%	(20.2)%	26.4%	+280bps	£1.3m	£(5.3)m	1.8%	(530)bps
France Exteriors	£154m	(10.4)%	(11.4)%	23.6%	+30bps	£1.6m	£(2.6)m	1.0%	(140)bps
Total	**£228m**	**(14.0)%**	**(14.5)%**	**24.5%**	**+110bps**	**£2.9m**	**£(7.9)m**	**1.3%**	**(280)bps**

Germany and Benelux	Revenue	Change	LFL	Gross margin	Change	Operating profit	Change	Operating margin	Change
Germany	£177m	(7.5)%	(7.8)%	28.2%	+60bps	£(1.3)m	£(4.6)m	(0.7)%	(250)bps
Benelux	£48m	(11.2)%	(10.7)%	24.5%	(30)bps	£1.8m	£(1.1)m	3.8%	(160)bps
Total	**£225m**	**(8.3)%**	**(8.5)%**	**27.4%**	**+40bps**	**£0.5m**	**£(5.7)m**	**0.2%**	**(230)bps**
Ireland	£33m	(29.7)%	(29.4)%	21.9%	(300)bps	£(1.4)m	£(4.3)m	(4.2)%	(1,030)bps
Poland	£72m	(3.2)%	(6.0)%	20.6%	+30bps	£0.6m	£(0.7)m	0.8%	(90)bps
Group	**£818m**	**(23.7)%**	**(23.9)%**	**24.8%**	**(50)bps**	**£(43.2)m**	**£(72.3)m**	**(5.3)%**	**(800)bps**

Note: Data represents underlying performance post IFRS 16. Group totals stated net of central costs.

Impact of divestments and closure of non-core businesses

	Underlying revenue	Underlying PBT
As reported at H1 2019 results	**£1,260.1m**	**£27.3m**
Businesses identified as non-core in 2019:		
Building Solutions (National) Ltd	£(28.4)m	£(1.6)m
Maury	£(0.9)m	£0.3m
Discontinued operations:		
Air Handling	£(159.3)m	£(8.6)m
Restated at H1 2020 results	**£1,071.5m**	**£17.4m**

Note: Data represents underlying performance post IFRS 16.

Number of trading sites

	31 Dec 2019	Closed/ merged	30 Jun 2020
UK Distribution	44	(1)	43
UK Exteriors	110	(1)	109
Total UK	154	(2)	152
France Distribution	38	-	38
France Exteriors	108	-	108
Total France	146	-	146
Germany	51		51
Benelux	15	-	15
Total Germany and Benelux	66	-	66
Ireland	9	-	9
Poland	43	(1)	42
Total Group	418	(3)	415

Definition of terms

Underlying operations	Excludes businesses divested or closed, or which the Board has resolved to divest or close by 24 September 2020.
Like-for-like (LFL)	Sales per working day in constant currency, excluding acquisitions and disposals completed or agreed in the prior year, or before the announcement of the Group's results for the relevant period. Sales are not adjusted for branch openings or closures.
Operating margin	Underlying operating (loss)/profit, divided by underlying revenue.
Opex as % of sales	Underlying operating costs as a percentage of underlying revenue.
Working capital as % of sales	Working capital to sales ratio, is the ratio of closing working capital (including provisions but excluding pension scheme obligations) to annualised revenue, after adjusting for any acquisitions and disposals in the current and prior year, on a constant currency basis.

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