

Norcros plc

Results for the year ended 31 March 2020

Norcros, a market leading supplier of high quality and innovative bathroom and kitchen products, today announces its results for the year ended 31 March 2020.

Financial Summary

	2020 ²		2019	% change as reported	% change Constant Currency
	Reported	Pre - IFRS16 ³	Pre - IFRS16		
Revenue	£342.0m	£342.0m	£331.0m	+3.3%	+5.0%
Underlying operating profit	£32.3m	£31.8m	£34.4m	-6.1%	
Underlying profit before taxation ¹	£28.8m	£30.2m	£32.6m	-11.7%	
Diluted Underlying EPS ¹	28.2p	29.5p	31.7p	-11.0%	
Underlying operating cash flow ¹	£38.4m	£33.4m	£39.8m	-3.5%	
Operating profit	£17.8m	£17.3m	£25.1m	-29.1%	
Net debt ¹	£36.4m	£36.4m	£35.0m		
Dividend per share	3.1p	3.1p	8.4p		

¹ Definitions and reconciliations of alternative performance measures are provided in note 5

² Year to 31 March 2020: 53 weeks (Year to 31 March 2019: 52 weeks)

³ See financial overview for more information on IFRS 16 impact

Year to 31 March 2020 Highlights

- Resilient performance despite challenging markets and COVID-19
- Eleventh consecutive year of revenue growth
- COVID-19 significantly impacted the business in seasonally important March; revenue reduced by £13.2m and underlying operating profit by £4.6m
- Underlying operating profit of £32.3m (2019: £34.4m), ahead of previous guidance in April 2020
- Operating profit of £17.8m (2019: £25.1m)
- Underlying ROCE above hurdle rate at 16.8% (2019: 18.2%)
- Strong cash generation maintained with net debt at £36.4m, Net Debt: EBITDA 0.9 times

COVID-19, liquidity and current trading

- Decisive action taken to safeguard our employees, reduce operating costs, minimise cash-burn and maximise liquidity
- Covenant waivers at September 2020 and March 2021; replacement maximum net debt covenant of £95m until June 2021 aligned with our operating scenario
- Current trading is gathering momentum and ahead of our COVID-19 operating scenario
- Year to date revenue to the end of May was 40% of last year, with activity levels continuing to improve with month to date sales in June running at c75% of last year
- Net debt of £38.6m as at 7 June 2020
- Strong balance sheet and current operating plan means Group well positioned to withstand COVID-19 impact and to continue to win market share

Martin Towers, Chair, commented:

“Norcros has recorded another year of revenue growth despite the unprecedented and abrupt global impact of the COVID-19 (Coronavirus) pandemic and the continued uncertain economic and political backdrop in our two main markets. The resilience of the Group’s business model and strategy is proving to be highly effective as we operate in the most unpredictable trading environment we have ever experienced.”

There will be a presentation today at 9.30 am for analysts via a conference call. The supporting slides will be available on the Norcros website at <http://www.norcros.com> later in the day.

Enquiries

Norcros plc

Nick Kelsall, Group Chief Executive
Shaun Smith, Group Finance Director

Tel: 01625 547700

Hudson Sandler

Nick Lyon
Toby Andrews

Tel: 0207 796 4133

Notes to Editors

Norcros is a market leading supplier of high quality and innovative bathroom and kitchen products with operations primarily in the UK and South Africa.

- Based in the UK, Norcros operates under seven brands:
 - Triton - Market leader in the manufacture and marketing of showers in the UK
 - Merlyn - The UK and Ireland's No.1 supplier of shower enclosures and trays to the residential, commercial and hospitality sectors
 - Vado - A leading manufacturer and supplier of taps, mixer showers, bathroom accessories and valves
 - Croydex - A market-leading, innovative designer, manufacturer and distributor of high quality bathroom furnishings and accessories
 - Abode - A leading niche designer and distributor of high quality kitchen taps, bathroom taps, and kitchen sinks
 - Johnson Tiles - The leading manufacturer and supplier of ceramic tiles in the UK
 - Norcros Adhesives - Manufacturer of tile & stone adhesives, grouts and related products
- Based in South Africa, Norcros operates under four brands:
 - Tile Africa - Chain of retail stores focused on ceramic and porcelain tiles, and associated products such as sanitaryware, showers and adhesives
 - Johnson Tiles South Africa - Manufacturer of ceramic and porcelain tiles
 - TAL - The leading manufacturer of ceramic and building adhesives
 - House of Plumbing - Market leading supplier of specialist plumbing materials
- Norcros is headquartered in Wilmslow, Cheshire and employs around 2,200 people. The Company is listed on the London Stock Exchange. For further information please visit the Company website: <http://www.norcros.com>

Chair's Statement

Overview

Norcros has recorded another year of revenue growth despite the unprecedented and abrupt global impact of the COVID-19 (Coronavirus) pandemic and the continued uncertain economic and political backdrop in our two main markets. The resilience of the Group's business model and strategy is proving to be highly effective as we operate in the most unpredictable trading environment we have ever experienced.

Group revenue for the year was £342.0m (2019: £331.0m), 3.3% higher than the prior year on a reported basis, 5.0% higher on a constant currency basis and 2.3% lower on a like for like constant currency basis. We estimate that the impact of COVID-19 on our operations and customer demand in our key trading month of March reduced revenue by £13.2m.

Underlying operating profit was £32.3m (2019: £34.4m), reflecting the impact of COVID-19 which we estimate reduced underlying operating profit by £4.6m, in part offset by the first-year contribution from House of Plumbing acquired on 1 April 2019 and the beneficial impact of the implementation of IFRS 16.

It is pleasing that these results were ahead of our guidance provided in our trading update of 1 April 2020.

COVID-19

The impact of COVID-19 has been significant, fast and unprecedented. The safety and wellbeing of our staff has been paramount in our considerations along with our key principle of doing the right thing at the right time for all our key stakeholders. Our operating model and business continuity plans have proved to be highly effective during this period and our people have responded admirably to this challenge.

We have responded swiftly after "lockdowns" designed to slow the spread of the virus were announced in our major markets by mothballing all of our facilities, safeguarding our employees and operating our businesses with a skeleton staff working predominantly from their homes. Whilst the majority of our customer base suspended their operations, it is pleasing that all our channels have now recommenced trading.

We have utilised all the relevant Government support in the UK, Ireland and South Africa and moved immediately to implement a cost reduction and cash conservation plan across the Group. The Group's strong balance sheet coming into this crisis and the swift actions taken to reduce costs and preserve cash, provide confidence that we have sufficient liquidity to enable the Group to withstand an extended period of reduced trading activity.

Dividend

Based on the unprecedented COVID-19 pandemic situation and the lack of certainty in both the short term trading outlook and the speed and timing of any longer term recovery, the Board believes that preservation of cash needs to remain a priority at this time and is therefore not proposing a final dividend for the year (2019: 5.6p per share). The interim dividend of 3.1p (2019: 2.8p) per share, which was paid on 11 January 2020, makes a total dividend for the year of 3.1p (2019: 8.4p) per share. The Board recognises the importance of dividends to shareholders and intends to return, at the appropriate time, to the progressive dividend policy that was in place prior to the COVID-19 pandemic, and will take into account the expectation of future cash flow generation and the long term earnings potential of the Group.

Pension scheme

The net deficit relating to our UK defined benefit pension scheme (as calculated under IAS 19R) has increased to £48.9m at 31 March 2020 from £31.6m at 31 March 2019, primarily as a result of the impact of COVID-19 on the financial markets and asset valuations.

We remain confident that our pension obligations continue to be appropriately funded and well managed, with the Company due to pay £3.3m this year into the scheme in accordance with the agreement made with

the Trustee in June 2019 based on the triennial valuation dated 1 April 2018. The Company and the Trustee continue to work constructively together at this uncertain time.

COVID-19 related impairment review

COVID-19 has significantly affected economic activity and disrupted the business operations of the Group and of our customers and suppliers. In line with Financial Reporting Council guidance and as part of our year end processes we have undertaken an assessment of the potential impact of COVID-19 on divisional forecasts. Sensitivities have been applied which reflect the fact that economic activity levels may remain subdued for some time, a result of COVID-19 business disruption, ongoing social distancing measures and business failures. As a result of this assessment it has been necessary to recognise a £9m non-cash impairment charge against the assets of Johnson Tiles UK. The business is the UK's leading ceramic tile manufacturer and supplier and operates across a broad range of distribution channels. This non-cash impairment has no operational impact on the business and its ability to trade and service its customers.

Governance

As Chair, one of my primary responsibilities is to ensure that the Group operates to the highest standards in all aspects of governance and risk management. Our aim at Norcros is to manage a growing business effectively, while ensuring that proper operating procedures and internal controls are maintained at all times. Transparency is central to this objective and you will find more detail about our approach and progress over the last year in the Corporate Governance section of our Annual Report and Accounts.

This has been my last year as Chair of Norcros having served on the board for nine years with eight of those as Chair. It has been an immense pleasure and privilege to work with the board and the management teams during this time. The Group has evolved significantly over this period through the pursuit of a coherent growth strategy encompassing both organic growth driven by new product development and a series of successful and astute acquisitions of market leading businesses which have complemented the Group's stable of brands. It has also been particularly pleasing to observe the development of our South African business into a well-run, significantly profitable and cash generative part of the Group.

Whilst leaving in a period of uncertainty, I am confident that the Group is in a strong position to emerge from the current situation and remains well positioned to deliver sustainable growth. I would like to thank everybody at Norcros for the dedication they have shown, with each and every one contributing to the "Norcros DNA" that is such an important hallmark of our business. I am confident that Mark Allen, in succeeding me as Chair, will find the board and management team totally committed to driving the growth strategy as soon as circumstance allows.

Acquisition of House of Plumbing

The Group's acquisition of the House of Plumbing business which completed on 1 April 2019 is a further step in the Group's strategy to expand its bathroom product portfolio and follows on from a number of successful acquisitions in the last few years. During the year the business has been successfully integrated and has performed in line with our expectations, COVID-19 aside.

People

As is normal in my annual summary I would like to once more thank the Group's employees who have helped to deliver upon the Group's strategic objectives. However, this year I would like to further thank and praise the staff for the way they have performed throughout this unprecedented period that has thrown up new challenges in performing the day-to-day job at a time of significant uncertainty in their personal lives with the health of family and co-workers of paramount importance.

Current trading

Current trading is gathering momentum and ahead of our COVID-19 operating scenario. Year to date revenues to the end of May were 40% of prior year with June month to date revenues running at c75% of the same period last year. Net debt at 7 June 2020 was £38.6m (31 March 2020 £36.4m).

Summary

Prior to the impact of COVID-19 the Group had reported ten consecutive years of revenue and underlying operating profit growth to 31 March 2019, a testament to the strength of our businesses, their market

leading positions, strong brands, product offer, well-established distribution channels and highly experienced management teams. This was overlaid by a successful execution of an ambitious and focussed growth strategy combined with a conservative approach to funding and a resultant lowly leveraged capital structure. The Group's conservative approach to funding its growth strategy has ensured that we entered this period of uncertainty in a strong financial position with sufficient liquidity to withstand a significant period of reduced demand.

During the year the Group has continued to win market share in its major markets despite conditions remaining challenging and up until the impact of COVID-19 in March, remained on track to record another year of revenue and underlying profit growth.

The current financial year will remain challenging as the Group continues to navigate the exit from lockdown as our markets recover. Notwithstanding, Norcros has a strong balance sheet and a highly experienced management team that together with the Group's leading market positions, strong brands, broad distribution channels and the swift action taken in response to COVID -19 gives the board confidence that the Group will return to growth as soon as practicable.

Group Chief Executive's Statement

Overview

The unprecedented COVID-19 pandemic negatively impacted the revenue and underlying operating profit of the business in the year to 31 March 2020 due to the significant drop-off in customer demand in the last two weeks of our key final period. Revenue for the year to 31 March 2020 increased 3.3% to £342.0m (2019: £331.0m) on a reported basis. This reflected the first-time contribution of the acquired House of Plumbing business in South Africa alongside robust revenue growth in particular at Merlyn and Croydex, offset by an estimated £13.2m revenue reduction in March as our customers reacted to government "lockdowns" designed to slow the spread of the virus. Underlying operating profit decreased 6.1% to £32.3m on the prior year (2019: £34.4m). We estimate that COVID-19 held back underlying operating profit by an estimated £4.6m in the final period due to the lost revenue and the costs involved in mothballing our operations.

Year to March 2020

Group revenue for the year increased by 3.3% to £342.0m (2019: £331.0m) on a reported basis, 5.0% on a constant currency basis, and decreased 2.3% on a like-for-like constant currency basis. Group underlying operating profit was £32.3m, 6.1% lower than the £34.4m recorded in the prior year.

The impact of the COVID-19 pandemic on our seasonally important month of March was significant with demand, almost immediately, reducing to minimal levels, as our customers focussed on the safety of their staff and on how they could best mitigate the impact of COVID-19 on their business. We estimate that the financial impact on the year to 31 March 2020, and specifically the month of March 2020, was a reduction in revenue of £13.2m and in underlying operating profit of £4.6m. Positively though, our cash collections remained strong and we finished the year with net debt of £36.4m and a leverage ratio of 0.9 times.

Revenue in the UK was £225.4m for the year (2019: £228.1m) down 1.2% on prior year principally reflecting the impact of COVID-19. We estimate the impact in relation to COVID-19 in the UK was to reduce revenue by £9.4m, a reversal of which would have resulted in a 2.9% increase on prior year. The year on year increase to the end of February, excluding the final COVID-19 impacted month of March, was 1%. This 1% underlying increase reflected a robust performance in Merlyn, Croydex and Vado mainly offset by the customer destocking and restructuring which impacted Triton's first half performance, the impact of which was gradually being recovered prior to March.

UK underlying operating profit for the year was lower than the prior year at £24.4m (2019: £26.5m) mainly due to the COVID-19 impact that we estimate reduced profit by £3.0m. The underlying operating margin was 10.8% (2019:11.6%) as a consequence.

Revenue in South Africa grew by 19.3% in constant currency and by 13.3% on a sterling reported basis to £116.6m (2019: £102.9m) reflecting the acquisition of the House of Plumbing business at the start of the year, and decreased 4.9% on a like for like constant currency basis (excluding House of Plumbing). We estimate the impact in relation to COVID-19 in South Africa was to reduce revenue by £3.8m, a reversal of

which would have resulted in a 23.3% increase on prior year at constant currency, with a 1.4% decrease on a like for like constant currency basis.

Johnson Tiles South Africa, our tile manufacturing business, performed robustly and has grown market share following the successful investment in additional capacity and plant improvements in the first half of the year. Tile Africa, our leading retailer of wall and floor tiles, adhesives, showers, sanitaryware and bathroom fittings and TAL, our market leading adhesive business suffered from lower market activity as the South African economy slowed during the year, in addition to the impact of the COVID-19 lockdown measures in March.

The acquisition of the House of Plumbing business which completed on 1 April 2019 for an initial consideration of ZAR 172m (£9.1m) on a debt and cash free and normalised working capital basis, further reinforces the Group's strong positions in the commercial and specification segments of the South African market. The business operates from three branches in South Africa located in Johannesburg (which is also where the head office is based), Pretoria and Lephalale and is led by an experienced management team who have remained with the business. House of Plumbing reported revenue for the year 1% higher than the prior year (pre-acquisition) on a constant currency basis which is a strong performance against the backdrop of COVID-19 disruption and the overall market challenges in South Africa.

South African underlying operating profit for the year was in line with the prior year performance, reflecting the first-time profit contribution of House of Plumbing (£1.8m) and the effect of IFRS 16 (£0.4m) offsetting the impact of COVID-19 (estimated to be £1.6m), weaker rand (£0.4m) and other market challenges. Underlying operating margin was 6.8% (2019:7.7%) reflecting the COVID -19 impact and the more competitive market for TAL with a number of new market entrants and the challenging market and economic conditions experienced in the retail and commercial sectors impacting TAF in particular.

The Group has a strong balance sheet with net debt of £36.4m (2019: £35.0m), and leverage of 0.9 times underlying EBITDA (2019: 0.8 times). This reflected a strong cash performance as the Group self-funded the £9.1m acquisition of House of Plumbing in the year.

COVID-19 and trading impact

In February and March 2020, COVID-19 spread and became a worldwide pandemic that affected not only the ability of businesses to source and supply goods and services but also global demand for products, as experienced in our main markets of the UK and SA, as unprecedented lockdowns were actioned by governments across the world.

The UK Government ordered a lockdown on 23 March that is still partly in place today. Many of the retailers we sell to promptly closed their stores and the vast majority of the UK's house building sites were closed, including all of those of the national developers we trade with. Virtually all of the commercial contract building sites were also closed with social housing refurbishment also coming to a complete standstill. Initial trading was minimal, with some limited internet-based trading and construction related sales. Year to date revenues to the end of May were 40% of prior year with June revenues running at c75% of the same period last year. The lockdown is now in the process of being eased and our operations have been reopening since May.

The South African Government issued a directive on 23 March 2020 requiring a 21-day national lockdown, effective midnight 26 March 2020 to midnight 16 April 2020 in order to contain the spread of COVID-19. This was extended to 1 May 2020 and has subsequently started to ease restrictions which has allowed us to reopen our manufacturing and retail operations. The country still remains on partial lockdown with movement and trade restricted to certain activities, with sales of our products and services currently unrestricted.

We are therefore currently in a "restart" phase in both of our main markets and we are working with our employees, customers and suppliers to ensure we can continue to operate safely and in accordance with the relevant guidelines. We also remain focussed on cost alignment and cash preservation and are reopening our facilities and capacity as demand recovers.

Due to the sharp decline in revenue across our businesses in late March a number of immediate actions were implemented which are described below.

People and Operations

The safety and wellbeing of our staff has been paramount in our considerations along with our key principle of doing the right thing at the right time for all our key stakeholders. Comprehensive business continuity

plans were enacted swiftly and mitigated the immediate impacts of COVID-19, including ensuring that those employees who could fulfil their jobs from home were able to do so.

In both the UK and South Africa we suspended our main manufacturing and assembly operations during March in a controlled way to safeguard our employees. During this time over 80% of the Group's workforce were furloughed (or the equivalent in SA and Ireland) and senior management teams across the Group volunteered temporary salary reductions. We are grateful for their continuing support and contribution at this time of great uncertainty.

Cash preservation and cost reduction

Once the severity of the pandemic in our major markets was apparent, we took immediate action across the business to preserve cashflow and reduce costs. We have taken advantage of the Government furlough schemes, tax payment deferrals and rent deferrals totalling over £10m in the first quarter of this year. Additionally, we have withdrawn the final year-end dividend and have ceased all non-essential capital expenditure. At the same time, we have been focussed on minimising the rate of cash burn by reducing costs and eliminating any discretionary expenditure. We have also frozen all pay throughout the Group with reviews deferred and secured voluntary reductions of 20% in the fees or salaries of the plc board members, Group leadership and senior management teams for the first quarter to end June 2020. The result of these measures is that the current cash burn in our operating scenario is approximately £5m per month compared to the unmitigated initial estimate of broadly double this level.

Direct Government support

We have accessed the coronavirus job retention scheme (CJRS) in the UK with circa £2m of support received in April and May in respect of approximately 70% of UK staff. Further claims are expected to be made as staff remain furloughed in the coming months as we continue to align our cost base commensurate with the level of demand. The South African Government support for the employed scheme and a similar scheme in Ireland have also been accessed and we will continue to utilise these support measures as appropriate.

We have deferred VAT and PAYE liabilities in the UK due for payment in April, May and June and will agree a revised payment date with HMRC at the end of June. We have also deferred the payment of UK business rates due in May and June.

We are keeping under review the Group's eligibility for the COVID-19 Corporate Finance Facility (CCFF) and Coronavirus Large Business Interruption Loans Scheme (CLBILS) but have held back from progressing any submissions in respect of either funding scheme as we have sufficient liquidity available based on our current operating scenario.

Funding and Liquidity

The Group is in a strong financial position and has access to a £120million committed RCF financing facility, maturing in November 2022, plus a £30million accordion facility and local facilities in SA. The Group has run a number of financial scenarios and is confident that it has sufficient liquidity to withstand an extended downturn in the coming year. Whilst the Group has significant liquidity headroom, it is possible that the economic recovery out of lockdown will be both slow and protracted and could in such circumstance lead to a significant reduction in profitability. In this scenario it is possible that the financial covenants, Net Debt: EBITDA and interest cover, in our RCF facility could be breached. As a result, we have had constructive discussions with the UK banking group who have agreed to covenant waivers at September 2020 and March 2021. We have agreed a replacement Maximum Net Debt covenant of £95m to be tested quarterly until June 2021. We believe this will provide the necessary headroom to allow us to continue to operate the business without damaging its market positions and to accommodate a slower than expected recovery. We are appreciative of the strong and prompt support received from our banking group at this time.

Strategy

In April 2018 we launched a refreshed strategy for growth and a 2023 vision for the Group, including an updated set of strategic targets. During the year we continued to make good progress against the strategic targets which were: to increase Group revenue to £600m by 2023; to maintain revenue derived outside of

the UK at approximately 50% of Group revenue; and to sustain a pre-tax return on underlying capital employed of more than 15% over the economic cycle.

Group revenue in the current year in constant currency increased by 5.0% to £342.0m. Our progress against the strategic targets benefited from the first-time contribution of House of Plumbing (HoP) acquired on 1 April 2019 which added revenues of £23.7m in the year. This acquisition is a further step in the Group's strategy to expand its bathroom product portfolio and follows on from a number of successful acquisitions in the last few years. The most significant event in the final quarter of the year has been the impact of COVID-19 which initially impacted the Group's supply chain in January/February followed by the sharp reduction in revenues in March as our customers responded as governments around the world imposed lockdowns designed to slow the spread of the virus. We estimate that this reduced revenues by £13.2m.

On a sterling reported basis, Group revenue derived outside of the UK was 43.1% (2019: 41.7%), reflecting a full year of House of Plumbing's revenues in South Africa and in constant currency terms, from when the targets were set, 44.8%.

We continue to focus on the Group's underlying return on capital employed which this year was 16.8% on a reported basis and 16.4% on a pre-IFRS 16 basis (2019: 18.2%), exceeding our strategic target of 15% despite the impact of COVID-19. Adding back our estimate of the COVID-19 impact on underlying operating profit of £4.6m, the reported underlying return on capital employed would have been 19.2% (18.8% on a pre-IFRS 16 basis), ahead of last year's performance.

The Group's strategy remains valid and whilst the timing of its full delivery may, in light of the COVID-19 disruption need to be reassessed, we remain committed to it and are convinced that more opportunities to leverage our market positions and knowledge of the sector will emerge in the medium term. We are focussed in the short term on navigating the Group through these turbulent and extraordinary times but looking forward, the combination of our successful record of targeting, acquiring, integrating and subsequently growing quality businesses within the Group, together with our leading customer service, best in class quality and innovative product development, gives the board confidence that our strategic targets remain relevant in the context of creating value for our shareholders.

Summary and outlook

The Group was on course to deliver its eleventh consecutive year of revenue and underlying operating profit growth despite the slowdown experienced in the second half in South Africa. Unfortunately, the significant impact of COVID-19 in the final quarter changed the trading outlook materially, particularly for Norcros in March, its key trading month.

We reacted swiftly to adapt our businesses to operate safely and as cost effectively as possible in an extended period of reduced activity as government's around the world imposed lockdowns which reduced customer demand for our products significantly, almost overnight, as our customers temporarily closed their operations to safeguard their staff and mitigate the impact of COVID-19 on them. We are confident that the actions we have taken to reduce all non-essential expenditure, utilising in full all relevant Government support, including the furloughing (or equivalent) of more than 80% of our total workforce around the world, have ensured that the Group has sufficient resources available to it to ensure we can withstand an extended period of reduced trading.

We promptly moth-balled all of our manufacturing facilities both in the UK and South Africa where the lockdown was total and continued to service any customer demand using a skeleton workforce. As the lockdowns are now slowly being relaxed we are monitoring customer demand and are re-opening our facilities as demand builds. We will be cautious as to how we manage this, with employee safety paramount, ensuring that we align operational capacity with demand, with continued focus on cost and cash preservation until the outlook becomes more certain. Accordingly, we are currently considering a number of restructuring programmes across the Group which are likely to lead to a reduction in employee numbers of up to 10% of our worldwide headcount.

From a funding perspective, the drawing down of cash from our UK bank facilities has ensured an appropriate level of liquidity both in the lockdown period and as we emerge into the recovery stage.

Subsequent to this we have renegotiated our banking covenants which will provide the necessary headroom and flexibility to continue to operate the business optimally and in pursuit of our strategic aims.

Norcros has a strong balance sheet and a resilient business model. The board is confident that these attributes, in conjunction with the benefit of the management actions taken to date and to be implemented in response to the impact of the global COVID-19 pandemic, will ensure Norcros successfully navigates through the current uncertainty and emerges from it in a strong competitive position. Furthermore, the board continues to believe that the Group's strategy remains valid, is underpinned by its leading market positions, strong brands and broad distribution channels, and will enable the Group to return to growth as soon as practicable.

Business performance

	2020 £m IFRS 16 basis	2019 £m Pre-IFRS 16 basis
Revenue	342.0	331.0
Operating profit	17.8	25.1
IAS 19R administrative expenses	1.5	1.5
Acquisition related costs	4.0	3.8
Exceptional operating items	9.0	4.0
Underlying operating profit	32.3	34.4

	2020 £m IFRS 16 basis	2019 £m Pre-IFRS 16 basis
Revenue – UK	225.4	228.1
Revenue – South Africa	116.6	102.9
Revenue – Group	342.0	331.0
Underlying operating profit – UK	24.4	26.5
Underlying operating profit – South Africa	7.9	7.9
Underlying operating profit – Group	32.3	34.4
Underlying operating profit margin – UK	10.8%	11.6%
Underlying operating profit margin – South Africa	6.8%	7.7%
Underlying operating profit margin – Group	9.4%	10.4%

	2020 £m IFRS 16 basis	2019 £m Pre-IFRS 16 basis
Underlying operating profit	32.3	34.4
Depreciation of right of use assets	4.5	-
Lease payments	(5.0)	-
Depreciation and underlying amortisation (owned assets)	6.8	6.9
Underlying EBITDA	38.6	41.3
Net working capital movement	(4.8)	(2.1)
Share-based payments	0.1	1.2
Operating profit impact of IFRS16	0.5	-
Depreciation of right of use assets	4.5	-
Cash settlement of share options	(0.5)	(0.6)
Underlying operating cash flow	38.4	39.8
Lease payments	(5.0)	-
Underlying operating cash flow (pre-IFRS 16)	33.4	39.8

	2020 IFRS 16 Basis	2019 Pre-IFRS 16 basis
Basic underlying earnings per share	28.4p	32.1p
Diluted underlying earnings per share	28.2p	31.7p

Business review – UK

In the UK, revenue was 1.2% lower than the prior year at £225.4m (2019: £228.1m) and underlying operating profit also lower by £2.1m to £24.4m (2019: £26.5m). These results were impacted by the COVID-19 related slowdown in customer demand and the closure of our UK operations in the important final two weeks of March estimated to have reduced revenue by £9.4m and underlying operating profit by £3.0m. We estimate UK revenue would have grown by 2.9% on prior year, adjusting for the impact of COVID-19, a resilient performance in an already challenging market.

UK revenue to the end of February, prior to the COVID-19 impacted March, was up 1% on prior year with domestic revenues 2.9% higher driven by strong performances in Merlyn, Croydex, Vado, Johnson Tiles and Norcros Adhesives, only marginally less than the first half like for like domestic revenue growth of 3.4%. This was a resilient domestic performance and reflected share gains in a number of important distribution channels.

Triton

Revenue at Triton, the UK's market leader in showers, was 14.1% lower in the year at £48.6m (2019: £56.6m). The COVID-19 impact on revenue in March was estimated as £4.3m. Revenue to the end of February, prior to the COVID-19 impact, was 9% lower than the prior year mainly due to the major customer destocking and restructuring programmes which significantly impacted revenues in the first half. Despite this, Triton maintained its electric shower market share and leadership position in the UK.

For the full year, UK revenue was 15.3% lower, with trade sales down 23% and retail down 10.9%.

Export revenue was 8.7% below last year reflecting a softer trading environment in Eire in the first half, Triton's main international market and the COVID-19 impact on revenue in March.

New products continue to be a key driver in maintaining Triton's long term leading market position. During the year the most notable new product launch was that of the AS2000R silent running power shower, awarded the international Quiet Mark approval in recognition of its low noise and high performance and developed to meet growing consumer demand for powerful showering products that won't wake up family members during their morning routine.

During the past year Triton continued to see growth in the specification and contract market sector, investing in attending some of the country's leading trade exhibitions. Triton was a sponsor partner at the CIH Housing conference in June 2019, (Europe's largest housing event), and Future-Build at London's ExCeL and Homes exhibition in early March 2020. As part of its ongoing drive to be the supplier of choice Triton has also continued to look at improvements to minimise its environmental impact with programmes focussed on reducing water, electricity and gas usage and initiatives on packaging, paper and plastics reduction.

Triton also continued to improve and extend the technical training offered to the trade professional, increasing the number of free courses delivered at its Nuneaton headquarters whilst also working with colleges around the UK to support young people.

Triton has a robust and supportive supply chain, good levels of finished goods and raw materials and will respond quickly as the COVID-19 lockdown lifts.

Triton again delivered strong underlying operating profit margins along with excellent cash conversion in the period and we are confident that Triton's brand strength and product offering will continue to deliver excellent returns in the post-COVID-19 market.

Merlyn

Merlyn, the UK and Ireland's No. 1 supplier of shower enclosures and trays to the residential, commercial and hospitality sectors performed strongly and recorded revenue of £42.5m (2019: £39.5m), growth of 7.6% on the previous year despite the impact of COVID-19 that reduced revenue in March by an estimated £0.9m. The business provides a quality product offering and customer centric service with the brand well placed to benefit from the growing emphasis on bathrooms and the premiumisation trend within the home.

UK revenue grew by 8.4% with a particularly strong performance in the retail sector where revenue grew 15.6% driven by strong sales of the new Arysto 6 and 8 and MBox product ranges, supported by new product launches of the IQ / Easy, Merlyn Black and the Arysto 8 Infold and Inline ranges which were

instrumental in achieving strong growth in the independent retailer and buying group segments. The ongoing investment in customer and staff training and targeted investment in the UK Sales team has supported this growth during the year.

The UK Trade sector contracted by 0.7%, reflecting destocking and restructuring programmes in a number of the National Merchants in the period

Merlyn won a number of new major specification contracts in the year including London & Quadrant, Vistry Homes, Avant Homes and Stay City and retained a number of contracts which included Redrow, among others.

Exports grew by 2.0% year on year with the Irish market continuing to recover following strong growth last year whilst the French market also recorded good growth.

New product development remains a core component of Merlyn's growth strategy and this has continued in the current year with new product vitality of 28% (2019: 23%) being achieved with a number of new product introductions including Arysto X, Arysto Colour, Revo, slip resistant trays and a new bath screen which were all launched at KBB in March 2020.

Merlyn has continued to invest in its workforce during the year, with additional sales resource recruited to target the specification and housebuilder segments, and in customer service and training. Merlyn also achieved ISO14001:2015, ISO9001: 2015 and ISO45001: 2018 in the period, further enhancing its quality credentials.

Merlyn recorded a strong performance with an underlying operating profit ahead of last year and strong cash conversion maintained despite the impact of COVID-19.

Vado

Vado, our leading manufacturer of taps, mixer showers, bathroom accessories and valves, recorded revenue of £42.3m for the year (2019: £41.4m), 2.2% higher than the previous year despite the March impact of COVID-19 which we estimate reduced revenue by £1.1m, as a result of the sharp decline in demand in the last few weeks of the year.

UK revenue grew by 5.6% on prior year with growth mainly in the retail sector, up 11.8%, with strong performances in the existing client base being augmented with some new customer wins. We continue to see the benefits of the successful roll out of market leading point of sale material whilst the award of an OEM supply contract from the Fortis Buying Group further accelerated growth on prior year.

In the trade sector revenue was 1.7% higher with new contract wins at Everything Water, Countryside and CALA Homes. Investment in new product ranges generated additional revenue and margins in the year, particularly the successful launch of the 'Individual' range of coloured finishes. This range enabled us to win new specification contracts for new build projects, both in the year and rolling forward into the current year.

Export revenue declined by 10% on the prior year. Notwithstanding, revenues grew in Africa through the year although lower sales of PEX plumbing products in the Middle East held back progress.

Vado launched three major products in the year that contributed to its new product vitality rate of 32.1% (2019: 35.7%). The launch of the 'Individual' range which capitalises on the significant demand for bathroom products in coloured finishes significantly exceeded expectations. Vado launched "Booth and Co", a new sub-brand aimed at the growing trend in "traditionally styled" brassware which won a number of new trade contracts as well as growing in retail. Vado also launched the "Axces" range which contains five new ranges aimed at the higher-volume mid-market sector, which has been well received in its target retail sector and is now opening up opportunities in social housing, student housing and care homes and on new construction projects. Further to these key successful launches, Vado continues to drive new product development with further product launches planned for the first half of the current year which will reinforce Vado's position at the forefront of market trends.

Vado successfully implemented a new Warehouse Management System in the year which significantly reduced picking errors and improved stock accuracy with the development of a new suite of KPIs to better monitor and track operational efficiencies in warehousing, assembly and packing.

Underlying operating profit was in line with the prior year and cash generation remained strong despite the impact of COVID-19.

Croydex

Croydex, our market leading, innovative designer, manufacturer and distributor of high-quality bathroom furnishings and accessories, recorded revenue of £23.7m (2019: £21.7m) for the period, which was 9.2% higher than the prior year despite the impact of COVID-19 in March which reduced revenue by an estimated £0.4m.

UK revenue was 10.9% higher than the prior year with both the Retail and Trade channels showing growth. The UK retail market remains challenging, particularly in DIY where the Kingfisher unification programme and Homebase transformation with continued lack of credit insurance support continued to impact. Despite this and the March COVID-19 impact, retail sales were up 10.1% on prior year driven by a number of new listings and active promotions, including new category wins with Argos and range growth with John Lewis and The Range.

Revenue in the UK trade sector grew strongly again, 13.8% ahead of prior year. The UK trade sector, although challenging, provides opportunities in both specification and increased on-line activity with growth driven by additional listings with Screwfix, category rollouts into Toolstation, a new category win with Selco and additional online trade penetration through Plumbworld. The business continues to invest in its digital strategy to support sales growth both domestically and internationally.

Export sales were in line with the prior year with some continued growth in Europe, however this has been negated by a decline in revenue in the US where sales were impacted by the introduction of trade tariffs and some customer destocking, particularly at Home Depot and Amazon. We continue to supply toilet seat promotions to Germany via Toom and have commenced supply to OBI and Leroy Merlin in Italy via our distribution partner, utilising our unique IP that helps win new market share.

Further new product development has played a major role in driving new sales opportunities, particularly around patented innovations with product vitality at 33.4% (2019: 41.4%). The new Flexi-fix toilet seat range is performing well with interest now being shown on an international level and e-Commerce sales also benefitting. The “Rust-Free” storage solutions, “Flexi-Fix” accessories and “Hang & Lock” cabinet collections have supported several new international retail initiatives in both Europe and the US. This year’s development activity focussed on new cabinet hanging systems (surface and recessed mounting) targeted at the US market, new “StickNLock” shower rod technology and unique reversible grab bars to meet the ADA (American Disability Association) and housebuilding standards.

Croydex has very good relationships with its suppliers, many of them in China, which helped to minimise the disruption when COVID-19 first impacted during the Chinese New Year, with suppliers now back to full operational levels.

Underlying operating profit was ahead of the prior year and cash generation remained strong despite the impact of COVID-19.

Abode

Abode, our leading designer and distributor of high-quality hot water taps, bathroom brassware, kitchen taps and sinks, recorded revenue of £14.8m for the year, 8.6% lower than the prior year (2019: £16.2m). The COVID-19 revenue impact in March was estimated at £0.8m, resulting in a 3.7% estimated decline in revenue disregarding COVID-19.

Abode’s strong year on year revenue growth since its acquisition in 2016 was impacted this year by the unwinding of some of the Brexit related stock build into key customers in the prior year and the sharp decline in March. Despite this the business continues to make good progress and the Pronteau range was significantly strengthened by the launch of a ‘slimline’ tap family at a lower price-point than comparable competitor products and further strengthened by a second generation boiler which provides greater simplicity of installation and maintenance augmented by an installation service offered in conjunction with Triton. These designs are aimed at the mass market and have potential to re-define the category with the combined proposition launched at the KBB exhibition in March 2020.

Underlying operating profit and cash performance were both lower than the previous year, reflecting the second half challenges and the impact of COVID-19.

Johnson Tiles

Johnson Tiles, our UK market leading ceramic tile manufacturer and a market leader in the supply of both own manufactured and imported tiles, recorded revenue of £41.7m (2019: £41.4m), 0.7% higher than the prior year. This result was significantly impacted by COVID-19 in March, estimated to have reduced revenue by £1.4m, without which Johnson Tiles would have recorded a 4.1% increase in revenue on the prior year.

UK revenue was 4.6% ahead of the prior year reflecting share gains and a robust performance in a market that we believe has declined by circa 5%. UK retail revenue was 10.5% higher than the previous year with strong growth in Wickes driven by the full year effect of the highly successful Rigid Luxury Vinyl Tiles range, and the introduction of four new UK manufactured tile ranges in B&Q (Urban Concrete, Lofthouse, Perla and Haver) more than offset the decline from the One Kingfisher product unification programme.

UK trade sector revenue was in line with prior year with the result being impacted by COVID-19 in March due to the rapid closure of building sites severely impacting the purchases made by our distributors. This again reflected a strong performance in a market that continues to be affected by the significant slowdown in the social housing refurbishment market.

The Johnson Tiles customer focused service model coupled with market leading specification expertise has led to good progress in the house builder and specification market. This has resulted in gaining specifications to supply a number of major contracts including: London and Quadrant, Hilton Garden Inn in Hanley, UPS East Midlands Airport Hub, Quest Hotel in Liverpool, Balfron Tower in London, South Thames College, Riverside Housing (national deal), BUPA, LNPG (a national purchasing deal for private landlords), Kelaty House student accommodation in London and Clayton Hotel in Manchester. Additionally, the business continued to supply a number of national house builders including Barratt David Wilson, Persimmon Charles Church, Redrow, St Modwen Homes, Lovell Homes and Telford Homes.

Export revenue, which accounts for approximately 8% of overall revenue, was 30.4% below last year. This was partly due to weak trading conditions and the impact of COVID-19 on Leroy Merlin in France and partly our decision to exit the low margin markets in the Middle East. Encouraging progress is being made with Bauhaus in Germany with new product introductions delivering year on year growth and with Kesko in Scandinavia where new ranges were introduced for the first time.

We have set ourselves the objective of taking the market leading position of removing all single use plastics from our products. This has significant environmental and commercial benefits and is highly valued by our customer base as it makes our products plastic free, reducing our plastic usage from 100 tonnes per annum to zero and saving around 260 tonnes of CO2 emissions every year.

The business reacted swiftly to COVID-19 and closed its manufacturing operations whilst actively promoting the message that we are still open for business, fulfilling orders from stock and maintaining contact with both existing and potentially new customers. We will continue to monitor demand levels now that UK house building and DIY retailers continue to open up as the lockdown is lifted. The key decision about when to re-start manufacturing will be dependent on the sustainability of demand levels.

Cash generation remained strong in the year with profit impacted by the COVID-19 impact in March.

Norcros Adhesives

Revenue at Norcros Adhesives, our UK manufacturer and supplier of tile and stone adhesives and ancillary products, was 4.4% higher at £11.8m (2019: £11.3m) despite the impact of COVID-19 that negatively impacted revenue by an estimated £0.5m in March. The revenue growth reflected higher domestic revenues offset by a weaker performance in the Middle East.

Revenue in the UK was up 14.4% on prior year. UK Retail revenue was 24.5% ahead of prior year reflecting the benefit of new product lines introduced into a number of key customers during the second half of the prior year, which also carried an improved margin. UK Trade revenue was 5.0% ahead of last year, reflecting improvement from the Resilient channel combined with growth in the established Fixer accounts. Revenue to distributors declined by 3.9% on last year reflecting a shift in market share, however we have continued to develop our specification activity which underpins this sector and pleasingly we have successfully renewed the Barratt Homes contract until 2021.

Our Middle East operation was impacted by restructuring during the period, and a new General Manager was appointed in November 2019. The disruption affected revenues and new business development, however we are now well placed to move the business back into growth. Despite this, the business supplied some major projects in the region including the prestigious Mall of Oman.

New product initiatives include several formulation improvements which are designed to optimise product performance whilst delivering improvements to gross margin. The business has also developed a new range of products for external application which we are in the process of launching. These new products support the growing tiling trend in garden areas following developments in porcelain tile manufacture that require a more complex adhesive system.

In terms of environmental performance, the business has successfully renewed both its ISO9001 and ISO14001 accreditations to the latest (2015) standards and maintained Gold Standard from the Supply Chain Sustainability School (which is partnered with the housebuilder Barratt).

Despite the overall revenue growth, the restructuring and resulting disruption in the Middle East meant the business made a small loss in the year in line with last year. The investments made in the business and the actions taken in the Middle East operation leave the business better positioned to return to profitability as markets recover post-COVID-19.

Business review - South Africa

Revenue grew by 19.3% in constant currency and by 13.3% on a Sterling reported basis to £116.6m (2019: £102.9m) reflecting the acquisition of the House of Plumbing business at the start of the year, offset by the impact of COVID-19 in March estimated at £3.8m. Like for like constant currency revenue decreased by 4.9% with the business performance to the end of February, pre the COVID 19 impact, 4.4% behind prior year on a like for like constant currency basis reflecting the difficult economic environment and lower levels of activity.

Underlying operating profit was in line with prior year performance of £7.9m (2019: £7.9m) reflecting the first-time profit contribution of House of Plumbing and the £0.4m effect of IFRS 16 offsetting the impact of COVID-19, estimated at £1.6m, and other market challenges, which included a sharp contraction in the Tile Africa contracts business, a decrease in TAL exports and national power rationing (load shedding) in the second half. The rand depreciated against sterling in the year with the average exchange rate 5.7% weaker at ZAR 18.97 (2019: ZAR 17.95) which had an adverse £0.4m impact on underlying operating profit. The return on sales of 6.8% compared to 7.7% in the prior year.

Market conditions have remained challenging in the past year, with the construction sector having been in recession since late 2017. COVID-19 is likely to slow any economic recovery in 2020/21 and as such there is a key focus on efficiencies, productivity, cost reduction and cash preservation. A restructuring programme which has recently been announced is likely to result in a reduction in employees by circa 10%, the cost of which will be incurred in the current year.

Johnson Tiles South Africa

Johnson Tiles South Africa, our tile manufacturing business, recorded revenue of £14.0m (2019: £15.0m) a 6.7% decrease on a reported basis and 1.4% lower on a constant currency basis. The COVID-19 impact in March is estimated to have reduced revenue by £0.7m. In the year to February, prior to the COVID-19 impacted March, the business recorded 0.4% constant currency growth on the prior year following the investment in additional capacity and plant improvements in the first half of last year. Despite the weaker second half the overall performance for the year was resilient in the context of a challenging market environment, ongoing load shedding and competitor capacity increases which came online during the year.

Johnson Tiles South Africa continued to perform well in retail as well as the commercial housing project market, having secured specifications in leading developments including De Zicht (432 units) in Cape Town and Amberfield 47 (590 units) in Pretoria. The business continues to develop a new product pipeline and expects that new product launches will help drive improved yields in the year ahead.

Underlying operating profits were in line with prior year.

Tile Africa

Tile Africa, our leading retailer of wall and floor tiles, adhesives, showers, sanitaryware and bathroom fittings had a challenging year with revenue of £56.8m (2019: £63.9m) a 11.1% decrease on a reported

basis and 6.4% lower on a constant currency basis. The COVID-19 impact in March is estimated to have reduced revenue by £1.7m.

The commercial contracts part of the business has been particularly impacted in the year because of lower market activity levels rather than the loss of any key customers. Despite the lower overall market activity, Tile Africa nevertheless supplied a number of prestigious projects during the year including the Sasol Boulevard Mall (3,000 m²), Emperor's Gate Montana Housing Development (20,000m²) and the "55" on Southdale Housing Development (3,500m²).

The retail business was also held back by range management decisions and our imported stock availability. However, our ability to offer a full basket of wall and floor coverings, including luxury vinyl & laminates and bathroom products continues to drive ongoing and sustainable market share growth. Tile Africa relocated and upgraded the Port Elizabeth store during the period and currently operates 32 owned stores and 2 franchise stores. Our flagship Greenstone store is in the process of being upgraded to display a full range of alternative floor and wall coverings. We do not plan to open any new stores in the year ahead as we focus on driving improved performance through our existing base.

The revenue decline saw operating profit levels decline in the year which was partially offset by early cost management interventions. In anticipation of the economic recovery in SA being potentially slow and protracted, management is continuing to review the cost base and a number of further interventions are actively being considered.

TAL

TAL, our market leading adhesive business recorded revenue of £22.1m (2019: £24.0m) a 7.9% decrease on a reported basis and 3.1% on a constant currency basis with the decline attributable to lower export sales mainly due to the ongoing economic downturn in Zimbabwe, a decline in our domestic South African market and the COVID-19-related shutdown in March. The COVID-19 impact in March is estimated to have reduced revenue by £1.0m.

Despite this, TAL was the preferred partner in a number of major construction projects during the period, including the new Deloitte head office (3,500m²), the 1,512-unit Polofields residential development and the Gateway building in Waterfall (2,500m²). TAL is making good progress on the product development front, with a strong focus on providing integrated fixing solutions in the adjacent and growing non-tile, floor and wall covering product categories. In this regard, TAL provided a bespoke fast track terrazzo-look floor, durable enough to accommodate the high volume of traffic for the food court at Greenstone Mall, one of South Africa's biggest shopping malls in Edenvale, Gauteng.

Increased competition, mainly from new entrants, and raw material cost increases negatively impacted margins in the year which together with the revenue decline resulted in lower operating profits in the year, however cash generation was in line with prior year.

House of Plumbing

On 1 April 2019, Norcros South Africa completed the acquisition of House of Plumbing. House of Plumbing is a market leading supplier of specialist plumbing materials focused on the specification and commercial segments of the market. This acquisition complements the Group's strong positions and enhances our product offer to the important commercial and specification segments, where we have been successfully building our business.

During the year the House of Plumbing business has been successfully integrated and recorded revenue of £23.7m, 1% up on the prior year on a constant currency basis when it was not under Norcros ownership. The COVID-19 impact in March is estimated to have reduced revenue by £0.4m. Following the smooth completion of the integration process, the management team has been preparing an accelerated growth plan through an expansion of the geographic coverage of the business in South Africa. House of Plumbing currently operates out of three branches located in Johannesburg, Pretoria and Lephalale. House of Plumbing completed work on a number of landmark projects including The ABSA Towers in Johannesburg, Tlhabane Square Shopping Centre in Rustenburg, The Pretoria Head & Neck Hospital and The Southern Sun Ridgeway Hotel in Zambia.

Underlying operating profit and cash generation were slightly behind expectations mainly due to the impact of COVID-19.

Financial overview

	2020 £m	2019 £m
	IFRS 16 basis	Pre-IFRS 16 basis
Revenue	342.0	331.0
Underlying operating profit	32.3	34.4
IAS 19R administrative expenses	(1.5)	(1.5)
Acquisition related costs	(4.0)	(3.8)
Exceptional operating items	(9.0)	(4.0)
Operating profit	17.8	25.1
Net finance (costs)/income	(2.8)	0.3
Profit before taxation	15.0	25.4
Taxation	(4.1)	(6.0)
Profit for the year	10.9	19.4

IFRS 16 Implementation

On 1 April 2019 Norcros implemented IFRS 16 Leases on a modified retrospective basis where the comparatives for 2019 have not been restated. The impact of the implementation of IFRS 16 is reviewed further in the section below.

Revenue

Group revenue at £342.0m (2019: £331.0m) increased by 3.3% on a reported basis, by 5.0% on a constant currency basis, and decreased 2.3% on a constant currency like for like¹ basis. The current year had 53 weeks, (2019: 52 weeks) however due to the significant impact of COVID-19 on revenue in March this has not been adjusted for the purposes of any comparative analysis.

Underlying operating profit

Underlying operating profit decreased by 6.1% to £32.3m (2019: £34.4m). Our UK businesses delivered underlying operating profit of £24.4m (2019: £26.5m), and our South African businesses generated an underlying operating profit of £7.9m (2019: £7.9m). Group underlying operating profit margin was 9.4% (2019: 10.4%).

IAS 19R administrative costs

These costs represent the costs incurred by the Trustee of administering the UK pension scheme and are reflected in the Income Statement under IAS 19R. Costs of £1.5m are in line with prior year (2019: £1.5m).

Acquisition related costs

A cost of £4.0m (2019: £3.8m) has been recognised in the year and is analysed as follows:

	2020 £m	2019 £m
	IFRS 16 basis	Pre-IFRS 16 basis
Deferred remuneration	0.6	0.2
Intangible asset amortisation	3.7	3.5
Release of provision for contingent consideration	(1.1)	-
Advisory fees ²	0.8	0.1
	4.0	3.8

1 Like for like is defined as constant currency (2019 at 2020 monthly average rates) impact being £5.2m and excluding House of Plumbing revenue of £23.7m in 2020.

2 Professional advisory fees incurred in connection with the Group's business combination activities.

In accordance with IFRS 3R, a proportion of the deferred consideration payable to the former shareholders of certain acquired businesses is required to be treated as remuneration, and, accordingly, is expensed to the Income Statement as incurred which amounts in the current year to a cost of £0.6m in relation to the House of Plumbing acquisition (2019: £0.2m in relation to Abode).

The House of Plumbing acquisition on the 1 April 2019 increased the amortisation charge in the year by £0.2m.

On acquiring the House of Plumbing, £1.1m of contingent consideration was provided for in relation to expected future payments to former shareholders of House of Plumbing subject to the business achieving certain financial performance targets. As at 31 March 2020, under IFRS 9, the expected fair value of the provision is nil and therefore this amount has been released to the income statement.

The advisory fees in the current year relate to the costs incurred in relation to acquisition activity that did not conclude.

Exceptional operating items

A net exceptional operating charge of £9.0m (2019: £4.0m) has been recognised this year.

	2020 £m IFRS 16 basis	2019 £m Pre-IFRS 16 basis
COVID-19 related impairment	9.0	-
Onerous property lease provision costs	-	3.0
GMP equalisation costs	-	1.0
	9.0	4.0

COVID-19 has significantly affected economic activity and disrupted the business operations of the Group. In response to this, and in line with guidance from the Financial Reporting Council, the Group has reviewed all cash generating units to determine whether any of the assets related to our operations are impaired. These reviews are performed by comparing the estimated future cash flows generated by the divisions with the carrying value of the assets generating those cash flows. The future cash flows are sensitised in relation to potential future COVID-19 impacts including depressed economic activity from further business disruption, social distancing measures and business failures. As a result of these reviews, tangible, intangible and right of use assets within the Johnson Tiles UK business have been impaired with a non-cash impairment charge of £9.0m recognised as an exceptional item in the income statement.

Exceptional costs of £3.0m were incurred in the previous year to increase the provision in relation to an onerous and surplus legacy property lease following the reappraisal of the likely future cash flows. The property is the only remaining legacy lease the company has which will expire in June 2022. Exceptional past service costs of £1.0m were expensed in the prior year in relation to a UK High Court ruling that trustees of UK defined benefit pension schemes must equalise guaranteed minimum pensions (GMP).

Net finance costs

	2020 £m IFRS 16 basis	2019 £m Pre-IFRS 16 basis
Interest payable on bank borrowings	(1.6)	(1.8)
Interest on lease liabilities	(1.9)	—
Amortisation of costs of raising debt finance	(0.2)	(0.2)
Finance costs	(3.7)	(2.0)
Movement on fair value of derivative financial instruments	1.7	3.6
Finance income	1.7	3.6
IAS 19R finance cost	(0.8)	(1.3)
Net finance (costs)/income	(2.8)	0.3

Net finance costs for the year of £2.8m compare to a £0.3m income in 2019. This decrease is partially due to the movement in the fair value of foreign exchange contracts reflecting a lower level of income in the year of £1.7m (2019: £3.6m income). Additionally, the current year finance costs include a £1.9m IFRS 16 lease liability interest charge in relation to the IFRS 16 lease liabilities recognised on 1 April 2019. Bank interest payable of £1.6m (2019: £1.8m) was lower than the previous year due to a lower level of debt across the year.

The Group has recognised a £0.8m interest cost in respect of the defined benefit pension scheme liability (2019: £1.3m) which reduced by £0.5m principally reflecting the lower deficit at the start of the year.

Underlying profit before tax

Underlying profit before tax was £28.8m (2019: £32.6m), mainly reflecting the decreased underlying operating profit of £2.1m noted above. Underlying profit before tax is reconciled as shown below:

	2020 £m IFRS 16 basis	2019 £m Pre-IFRS 16 basis
Profit before taxation from continuing operations	15.0	25.4
Adjusted for:		
– IAS 19R administrative expenses	1.5	1.5
– acquisition related costs	4.0	3.8
– exceptional operating items	9.0	4.0
– amortisation of costs of raising finance	0.2	0.2
– net movement on fair value of derivative financial instruments	(1.7)	(3.6)
– IAS 19R finance cost	0.8	1.3
Underlying profit before taxation	28.8	32.6

Taxation

The tax charge for the year of £4.1m (2019: £6.0m) represents an effective tax rate for the year of 27.3% (2019: 23.6%). This increase in effective tax rate is mainly due to the impact of the Johnson Tiles UK impairment where the majority of the assets impaired do not have a tax base.

The standard rates of corporation tax in the UK, South Africa and Ireland were 19% (2019: 19%), 28% (2019: 28%) and 12.5% (2019: 12.5%) respectively.

Dividends

The Group responded swiftly to the impact of COVID-19 and the need to preserve cash. The board has therefore taken the decision not to recommend the payment of a final dividend (2019: 5.6p). The interim dividend of 3.1p (2019: 2.8p), makes a total dividend of 3.1p (2019: 8.4p) in respect of the year ended 31 March 2020. The board recognises the importance of dividends to shareholders and intends to return, at the appropriate time, to the progressive dividend policy that was in place prior to the COVID-19 pandemic, and in setting the dividend level will take into account the expectation of future cash flow generation and the long term earnings potential of the Group.

Balance Sheet

The Group's balance sheet is summarised below.

	2020 £m IFRS 16 basis	2019 £m Pre-IFRS 16 basis
Property, plant and equipment	29.0	42.3
Right of use assets	20.6	-
Goodwill and intangible assets	96.5	94.9
Deferred tax	4.7	0.8
Net current assets excluding cash and borrowings	67.5	61.0
Pension scheme liability	(48.9)	(31.6)
Lease liabilities	(25.1)	-
Other non-current assets and liabilities	(3.5)	(6.7)
Cash and borrowings	(36.4)	(35.0)
Net assets	104.4	125.7

Total net assets decreased by £21.3m to £104.4m (2019: £125.7m).

Property, plant and equipment reduced by £13.3m, and included additions of £4.0m (2019: £5.8m) and acquisition additions of £0.1m (2019: nil) related to the House of Plumbing acquisition. A net impairment charge of £7.6m was recognised in relation to the Johnson Tiles impairment. The depreciation charge was £6.6m (2019: £6.6m) and exchange differences were £3.2m (2019: £1.9m). The disposals in the year had no impact on net book value which was the same in the prior year.

The deferred tax asset increased by £3.9m to £4.7m (2019: £0.8m). The increase mainly relates to a £3.5m increase in the pension deferred tax asset reflecting the current year actuarial losses in the pension scheme.

Pension schemes

On an IAS 19R accounting basis, the gross defined benefit pension scheme valuation of the UK scheme showed a deficit of £48.9m compared to a deficit of £31.6m last year. Whilst the present value of scheme liabilities fell by £17.2m mainly due to a fall in long-term inflation expectations, the value of scheme assets fell by £34.5m primarily due to the negative impact of COVID-19 on the financial markets.

The triennial actuarial valuation for the Group's UK defined benefit pension scheme as at 1 April 2018 reported an actuarial deficit of £49.3m (2015: £73.5m) representing an 89% funding level (2015: 84%). The deficit recovery plan was agreed with the scheme Trustee, with a cash contribution of £3.3m per annum plus CPI, payable for the 6.5 years to 30 September 2025.

In line with the above agreement the Group made deficit recovery contributions of £3.3m (2019: £2.6m) into its UK defined benefit pension scheme during the year.

The Group's contributions to its defined contribution pension schemes were £3.5m (2019: £3.3m).

Cash flow and net debt

Underlying operating cash flow was £1.4m lower than in the prior year at £38.4m (2019: £39.8m).

	2020 £m IFRS 16 basis	2019 £m Pre-IFRS 16 basis
Underlying operating profit	32.3	34.4
Depreciation and amortisation	6.8	6.9
Net working capital movement	(4.8)	(2.1)
Share-based payments	0.1	1.2
Depreciation of right of use assets	4.5	-
Cash settlement of share options	(0.5)	(0.6)
Underlying operating cash flow	38.4	39.8
Lease payments	(5.0)	-
Underlying operating cash flow (pre-IFRS 16)	33.4	39.8

Underlying operating cashflow benefitted in the year from £5.0m of lease costs, being reclassified to interest costs and lease payments. The £5.0m of lease costs were replaced by £4.5m of depreciation in underlying operating profit. This was more than offset by a £2.1m reduction in underlying operating profit and an increased net working capital outflow of £2.7m. Underlying operating cash conversion in the year was 99.5% of underlying EBITDA (2019: 96.4%).

	2020 £m IFRS 16 basis	2019 £m Pre-IFRS 16 basis
Underlying operating cash flow	38.4	39.8
Cash flows from exceptional items and acquisition related costs	(0.3)	(1.9)
Pension fund deficit recovery contributions	(3.3)	(2.6)
Cash flow generated from operations	34.8	35.3
Net interest paid	(3.5)	(1.8)
Taxation	(5.3)	(4.6)
Net cash generated from operating activities	26.0	28.9
Capital expenditure	(4.8)	(5.6)
Proceeds on disposal of property, plant and equipment	-	0.1
Acquisitions	(9.2)	(2.1)
Dividends	(7.0)	(6.4)
Share transactions	(0.8)	(0.9)
Principal element of lease payments	(3.8)	-
Other items	(1.8)	(1.9)
Movement in net debt	(1.4)	12.1
Opening net debt	(35.0)	(47.1)
Closing net debt	(36.4)	(35.0)

Cash generated from operating activities was £2.9m lower than the previous year at £26.0m, largely due to the £1.4m decrease in underlying operating cash flows and the £1.9m lease liability interest costs in relation to IFRS 16 included in net interest paid. Cash flows from exceptional items and acquisition related costs in the current year primarily relate to costs of restructuring at Triton and Johnson Tiles, whilst in the prior year they mainly relate to the Johnson Tiles restructuring costs.

Capital expenditure at £4.8m (2019: £5.6m) includes £0.6m of manufacturing equipment at Johnson Tiles and £0.5m in relation to Tile Africa store upgrades.

Acquisition expenditure of £9.2m relates to the £8.8m net outflow in relation to the House of Plumbing acquisition and £0.4m being the final deferred consideration payment in relation to the Abode acquisition in 2016. In the prior year the £2.1m mainly relates to the payment of deferred consideration in relation to Croydex and Abode acquisitions.

Net debt increased by £1.4m in the year to £36.4m (2019: £35.0m).

Funding and Liquidity

The Group increased the amount of its committed banking facilities to £120m (plus a £30m accordion) at the time of the Merlyn acquisition in November 2017. The maturity date was originally November 2021 with an option to extend for a further year and the Group exercised this option in the prior year and has extended the maturity date of the facility to November 2022. We also have an unsecured overdraft facility in South Africa.

As a result of the COVID-19 pandemic, the Group implemented a number of immediate actions that are described in detail in the Group Chief Executive's statement. In relation to funding and liquidity, whilst the Group has significant liquidity headroom, it is possible that the recovery out of the COVID-19 lockdowns could be both slow and protracted and could in such circumstance lead to a significant reduction in profitability. In this scenario it is possible that the financial covenants, Net Debt: EBITDA and interest cover, in our RCF facility could be breached. Accordingly, we have had constructive discussions with the UK banking group and agreed a number of covenant waivers at September 2020 and March 2021. We have agreed a replacement Maximum Net Debt covenant of £95m to be tested quarterly until June 2021. We believe this will provide the necessary headroom to allow us to continue to operate the business without damaging its market positions and to accommodate a slower than expected recovery.

We are appreciative of the strong and prompt support received from our banking group.

IFRS 16 Implementation Impact

The adoption of IFRS 16 in the current year to 31 March 2020 has resulted in an asset (right of use asset) of £24.7m and financial liability to pay lease rentals of £27.7m being recognised on the balance sheet as at 1 April 2019. Instead of recognising a rental expense of £5.0m in the period a depreciation charge of £4.5m has been recognised on the right of use asset and a £1.9m interest charge on the lease liability. This has increased operating profit by £0.5m and decreased profit before tax by £1.4m. The overall impact of the implementation of IFRS 16 on the income statement over the life of the lease is neutral but will result in a higher charge in the earlier years following implementation and a lower charge in later years. Implementation of IFRS 16 has also impacted the underlying return on capital employed which is 16.4% pre-IFRS 16 impact and 16.8% on a reported basis.

The cash flows associated with the lease payments which were previously classified as operating cashflows are now classified as interest costs and financing cash flows and have increased net cash generated from operations by £5.7m, net cash used in financing activities by £3.8m and interest costs by £1.9m. Underlying operating cashflow has increased by £5.0m with £0.7m of the increased financing activities cashflow attributable to an onerous lease payment, hence deemed as non-underlying, and excluded from underlying operating cashflow. There is no impact on Norcros's existing banking covenants as a result of the implementation.

Responsibility Statement

Each of the directors, whose names and functions are listed below, confirms that, to the best of their knowledge:

The consolidated financial statements, prepared in accordance with the applicable United Kingdom law and in conformity with IFRS, as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and

The business review includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole.

Directors: Martin Towers (Chair), Nick Kelsall (Group Chief Executive), Shaun Smith (Group Finance Director), David McKeith (Non-Executive Director), Mark Allen (Non-Executive Director) and Alison Littlely (Non-Executive Director).

Nick Kelsall
Group Chief Executive

Shaun Smith
Group Finance Director

Consolidated income statement

Year ended 31 March 2020

	Notes	2020 £m	2019 £m
Continuing operations			
Revenue	2	342.0	331.0
Underlying operating profit		32.3	34.4
IAS 19R administrative expenses		(1.5)	(1.5)
Acquisition related costs	3	(4.0)	(3.8)
Exceptional operating items	3	(9.0)	(4.0)
Operating profit		17.8	25.1
Finance costs	4	(3.7)	(2.0)
Finance income	4	1.7	3.6
IAS 19R finance cost		(0.8)	(1.3)
Profit before taxation		15.0	25.4
Taxation		(4.1)	(6.0)
Profit for the year from continuing operations		10.9	19.4
Earnings per share attributable to equity holders of the Company			
Basic earnings per share:			
From profit for the year	6	13.6p	24.2p
Diluted earnings per share:			
From profit for the year	6	13.5p	23.9p
Weighted average number of shares for basic earnings per share (millions)		80.3	80.2
Alternative performance measures			
Underlying profit before taxation (£m)	5	28.8	32.6
Underlying earnings (£m)	5	22.8	25.7
Basic underlying earnings per share	6	28.4p	32.1p
Diluted underlying earnings per share	6	28.2p	31.7p

Consolidated statement of comprehensive income

Year ended 31 March 2020

	2020 £m	2019 £m
Profit for the year	10.9	19.4
Other comprehensive income and expense:		
Items that will not subsequently be reclassified to the Income Statement		
Actuarial (losses)/gains on retirement benefit obligations	(14.8)	14.6
Items that may be subsequently reclassified to the Income Statement		
Foreign currency translation adjustments	(9.2)	(6.2)
Other comprehensive (loss)/income for the year	(24.0)	8.4
Total comprehensive (loss)/income for the year	(13.1)	27.8

Items in the statement are disclosed net of tax.

Consolidated balance sheet

At 31 March 2020

	2020 £m	2019 £m
Non-current assets		
Goodwill	60.1	56.3
Intangible assets	36.4	38.6
Property, plant and equipment	29.0	42.3
Right of use assets	20.6	—
Deferred tax assets	4.7	0.8
	150.8	138.0
Current assets		
Inventories	78.9	79.5
Trade and other receivables	60.5	62.5
Derivative financial instruments	2.0	0.3
Cash and cash equivalents	47.3	27.2
	188.7	169.5
Current liabilities		
Trade and other payables	(72.9)	(79.6)
Lease liabilities	(5.2)	—
Current tax liabilities	(1.0)	(1.7)
Financial liabilities – borrowings	(0.1)	(3.8)
	(79.2)	(85.1)
Net current assets	109.5	84.4
Total assets less current liabilities	260.3	222.4
Non-current liabilities		
Financial liabilities – borrowings	(83.6)	(58.4)
Pension scheme liability	(48.9)	(31.6)
Lease liabilities	(19.9)	—
Other non-current liabilities	(0.3)	(0.9)
Provisions	(3.2)	(5.8)
	(155.9)	(96.7)
Net assets	104.4	125.7
Financed by:		
Share capital	8.1	8.0
Share premium	29.9	29.9
Retained earnings and other reserves	66.4	87.8
Total equity	104.4	125.7

Consolidated cash flow statement

Year ended 31 March 2020

	Notes	2020 £m	2019 £m
Cash generated from operations	7	34.8	35.3
Income taxes paid		(5.3)	(4.6)
Interest paid		(3.5)	(1.8)
Net cash generated from operating activities		26.0	28.9
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(4.8)	(5.6)
Proceeds on disposal of property, plant and equipment		-	0.1
Acquisition of subsidiary undertakings (including payment of deferred consideration) net of cash acquired		(9.2)	(2.1)
Net cash used in investing activities		(14.0)	(7.6)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital		0.1	0.2
Principal element of lease payments		(3.8)	—
Purchase of treasury shares		(0.9)	(1.1)
Costs of raising debt finance		-	(0.2)
Drawdown/(repayment) of borrowings		25.0	(6.0)
Dividends paid to the Company's shareholders		(7.0)	(6.4)
Net cash generated from/(used in) financing activities		13.4	(13.5)
Net increase in cash at bank and in hand and bank overdrafts		25.4	7.8
Cash at bank and in hand and bank overdrafts at the beginning of the year		23.4	17.3
Exchange movements on cash and bank overdrafts		(1.6)	(1.7)
Cash at bank and in hand and bank overdrafts at the end of the year		47.2	23.4

Consolidated statement of changes in equity

Year ended 31 March 2020

	Ordinary share capital £m	Share premium £m	Treasury reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
At 1 April 2018	8.0	29.7	—	(6.3)	73.2	104.6
Comprehensive income:						
Profit for the year	—	—	—	—	19.4	19.4
Other comprehensive income/(expense):						
Actuarial gain on retirement benefit obligations	—	—	—	—	14.6	14.6
Foreign currency translation adjustments	—	—	—	(6.2)	—	(6.2)
Total other comprehensive income for the year	—	—	—	(6.2)	14.6	8.4
Transactions with owners:						
Shares issued	—	0.2	—	—	—	0.2
Dividends paid	—	—	—	—	(6.4)	(6.4)
Purchase of treasury shares	—	—	(1.1)	—	—	(1.1)
Settlement of share option schemes	—	—	0.8	—	(1.4)	(0.6)
Value of employee services	—	—	—	—	1.2	1.2
At 31 March 2019	8.0	29.9	(0.3)	(12.5)	100.6	125.7
Comprehensive income:						
Profit for the year	—	—	—	—	10.9	10.9
Other comprehensive (expense):						
Actuarial loss on retirement benefit obligations	—	—	—	—	(14.8)	(14.8)
Foreign currency translation adjustments	—	—	—	—	(9.2)	(9.2)
Total other comprehensive expense for the year	—	—	—	—	(24.0)	(24.0)
Transactions with owners:						
Shares issued	0.1	—	—	—	—	0.1
Dividends paid	—	—	—	—	(7.0)	(7.0)
Purchase of treasury shares	—	—	(0.9)	—	—	(0.9)
Settlement of share option schemes	—	—	0.8	—	(1.3)	(0.5)
Value of employee services	—	—	—	—	0.1	0.1
At 31 March 2020	8.1	29.9	(0.4)	(12.5)	79.3	104.4

Notes to the preliminary statement

Year ended 31 March 2020

1. Basis of preparation

The principal activities of Norcross plc (“the Company”) and its subsidiaries (together “the Group”) are the design, manufacture and distribution of a range of high quality and innovative bathroom and kitchen products mainly in the UK and South Africa. The Company is a public limited company which is listed on the London Stock Exchange market of listed securities and is incorporated and domiciled in the UK. The address of its registered office is Ladyfield House, Station Road, Wilmslow, SK9 1BU.

The financial information presented in this preliminary announcement is extracted from, and is consistent with, the Group’s audited financial statements for the year ended 31 March 2020. The financial information set out above does not constitute the Company’s statutory financial statements for the periods ended 31 March 2020 or 31 March 2019 but is derived from those financial statements. Statutory financial statements for 2020 will be delivered following the Company’s annual general meeting. The auditors have reported on those financial statements; their report was unqualified and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The Group’s results have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Going concern

In adopting the going concern basis for preparing the financial statements, the Directors have considered the Group’s business activities and the principal risks and uncertainties in the context of the current operating environment. This includes the possible impacts of the global COVID-19 pandemic on the Group and an assessment of their effects on the Group’s forecast liquidity and banking covenants.

Due to the impact of COVID-19 and the financial scenario planning that was developed it was evident that in certain stress scenarios it was possible that the financial covenants, Net Debt: EBITDA and interest cover, in our RCF facility could be breached. We therefore approached our banking group to seek appropriate amendments to certain covenants. As a result, the banking group has agreed to waive the leverage covenant at September 2020 and March 2021 and also the interest cover covenant at March 2021. In return, we have agreed a replacement maximum Group net debt covenant, of £95m, to be tested quarterly until June 2021 when the performance of the business is projected to return to more normal levels of activity.

A going concern assessment was developed on a bottom-up basis using key assumptions, the most important of which include estimates of revenues, operating costs and future capital expenditure. Sensitivities were applied to the model which were informed by internal and external data sources, including a review of the Group’s current trading levels and a review of regional macroeconomic forecasts. Further downside sensitivities were applied in relation to potential future COVID-19 impacts including depressed economic activity from causes such as further business disruption, social distancing and customer failures.

This data was aggregated to model three scenarios to reflect the potential impact of COVID-19 on the Group, (and its ability to continue as a going concern) as summarised below:

- Scenario 1: significant reduction in revenue, 62% of that reported in the year to 31 March 2020.
- Scenario 2: significant reduction in revenue, 57% of that reported in the year to 31 March 2020 with the second half revenue significantly weaker whereby lockdown is initially eased more quickly which results in a COVID-19 “double dip” reduction in half two revenues.
- Scenario 3: significant reduction in revenue, 45% of that reported in the year to 31 March 2020 whereby lockdown is initially eased more quickly which results in a COVID-19 “double dip” and a more severe reduction in half two revenues than Scenario 2. In this Scenario 3 second half revenue would be 40% of revenue reported in the COVID-19 impacted second half of the year to 31 March 2020.

In all three scenarios, the Group continues to exhibit sufficient and prudent levels of liquidity headroom against the amended RCF financial covenants during the 12-month period under assessment particularly when considered against the actions the group has already taken or has at its disposal including a number of cash conservation and cost reduction actions such as:

- Government furlough schemes, tax payment deferrals and rent deferrals;
- No FY20 final dividend paid
- Cessation of all non-essential capital expenditure; and
- A freeze on all pay increases throughout the Group and reduction in salaries of the plc board members, Group leadership and senior management teams for the first quarter to the end of June 2020.

The Directors note that in the event of a very severe downturn as described in Scenario 3 above then covenants at September 2021 (which is beyond the 12 month going concern period) could be breached unless further management action were taken. While the Directors believe that this scenario is highly unlikely they note that they have time to respond in such a scenario, and would take additional actions such as further reductions in capital expenditure and operating costs, and other cash conservation measures which are within their control.

As a result of this detailed assessment, including the various scenarios and mitigating actions available to the Group, and with reference to its balance sheet and existing committed facilities, whilst acknowledging the inherent uncertainty of the current economic outlook, the Board has concluded that the Company is able to meet its obligations when they fall due for a period of at least 12 months from the date of this report. For this reason, the Company continues to adopt the going concern basis for preparing the Group financial statements. In forming this view, the Board has also concluded that no material uncertainty exists in its use of the going concern basis of preparation.

2. Segmental reporting

Continuing operations — year ended 31 March 2020

	UK £m	South Africa £m	Group £m
Revenue	225.4	116.6	342.0
Underlying operating profit	24.4	7.9	32.3
IAS 19R administrative expenses	(1.5)	—	(1.5)
Acquisition related costs	(4.5)	0.5	(4.0)
Exceptional operating items	(9.0)	—	(9.0)
Operating profit	9.4	8.4	17.8
Finance costs (net)			(2.8)
Profit before taxation			15.0
Taxation			(4.1)
Profit for the year from continuing operations			10.9
Net debt			(36.4)
Segmental assets	270.8	68.7	339.5
Segmental liabilities	(209.4)	(25.7)	(235.1)
Additions to property, plant and equipment	2.7	1.3	4.0
Depreciation and amortisation	10.2	4.8	15.0

Continuing operations — year ended 31 March 2019

	UK £m	South Africa £m	Group £m
Revenue	228.1	102.9	331.0
Underlying operating profit	26.5	7.9	34.4
IAS 19R administrative expenses	(1.5)	—	(1.5)
Acquisition related costs	(3.8)	—	(3.8)
Exceptional operating items	(4.0)	—	(4.0)
Operating profit	17.2	7.9	25.1
Finance income (net)			0.3
Profit before taxation			25.4
Taxation			(6.0)
Profit for the year from continuing operations			19.4
Net debt			(35.0)
Segmental assets	236.9	70.6	307.5
Segmental liabilities	(166.0)	(15.8)	(181.8)
Additions to property, plant and equipment	2.9	2.9	5.8
Depreciation and amortisation	8.2	2.2	10.4

The split of revenue by geographical destination of the customer is below:

	2020 £m	2019 £m
UK	197.7	198.2
Africa	118.9	104.9
Rest of World	25.4	27.9
	342.0	331.0

No one customer had revenue over 10% of total Group revenue.

3. Acquisition related costs and exceptional operating items

An analysis of acquisition related costs and exceptional operating items is shown below:

	2020 £m	2019 £m
Acquisition related costs		
Deferred remuneration ¹	0.6	0.2
Intangible asset amortisation ²	3.7	3.5
Release of provision for contingent consideration ³	(1.1)	—
Advisory fees ⁴	0.8	0.1
	4.0	3.8

1 In accordance with IFRS 3R, a proportion of the deferred consideration payable to the former shareholders of certain acquired businesses is required to be treated as remuneration, and, accordingly, is expensed to the Income Statement as incurred over the period of the related agreement.

2 Non-cash amortisation charges in respect of acquired intangible assets.

3 Contingent consideration in relation to the acquisition of House of Plumbing was fair valued under IFRS 9 on 31 March 2020 with subsequent release of the provision

4 Professional advisory fees incurred in connection with the Group's business combination activities.

	2020 £m	2019 £m
Exceptional operating items		
COVID-19 related impairment ¹	9.0	—
Onerous property lease provision costs ²	—	3.0
GMP equalisation costs ³	—	1.0
	9.0	4.0

1 As at 31 March 2020 a one-off, non-cash impairment charge of £9.0m was recognised in relation to the impact of COVID-19 on the assets of Johnson Tiles UK.

2 Exceptional costs of £3.0m were incurred to increase the provision in relation to an onerous and surplus legacy property lease following the reappraisal of the likely future cash flows. The property is the only remaining legacy lease the company has which expires in June 2022.

3 Exceptional past service costs of £1.0m were estimated in relation to the UK High Court ruling on 26 October 2018 that trustees of UK defined benefit pension schemes must equalise guaranteed minimum pensions. The past service cost increased the pension liability.

4. Finance costs and income

	2020 £m	2019 £m
Interest payable on bank borrowings	(1.6)	(1.8)
Interest on lease liabilities	(1.9)	—
Amortisation of costs of raising debt finance	(0.2)	(0.2)
Finance costs	(3.7)	(2.0)
Movement on fair value of derivative financial instruments	1.7	3.6
Finance income	1.7	3.6
Net finance (costs)/income	(2.0)	1.6

5. Alternative performance measures

The Group makes use of a number of alternative performance measures to assess business performance and provide additional useful information to shareholders. Such alternative performance measures should not be viewed as a replacement of, or superior to, those defined by Generally Accepted Accounting Principles (GAAP). Definitions of alternative performance measures used by the Group and, where relevant, reconciliations from GAAP-defined reporting measures to the Group's alternative performance measures are provided below.

The alternative performance measures used by the Group are:

Measure	Definition
Underlying operating profit	Operating profit before IAS 19R administrative expenses, acquisition related costs and exceptional operating items
Underlying profit before taxation	Profit before taxation before IAS 19R administrative expenses, acquisition related costs, exceptional operating items, amortisation of costs of raising finance, net movement on fair value of derivative financial instruments, discounting of property lease provisions and finance costs relating to pension schemes
Underlying taxation	Taxation on underlying profit before tax
Underlying earnings	Underlying profit before tax less underlying taxation
Underlying capital employed	Capital employed adjusted for business combinations where relevant and the average impact of exchange rate movements
Underlying operating margin	Underlying operating profit expressed as a percentage of revenue
Underlying return on capital employed (ROCE)	Underlying operating profit expressed as a percentage of the average of opening and closing underlying capital employed.
Basic underlying earnings per share	Underlying earnings divided by the weighted average number of shares for basic earnings per share
Diluted underlying earnings per share	Underlying earnings divided by the weighted average number of shares for diluted earnings per share
Underlying EBITDA	Underlying EBITDA is derived from underlying operating profit before depreciation and amortisation excluding the impact of IFRS16 in line with our banking covenants.
Underlying operating cash flow	Cash generated from continuing operations before cash outflows from exceptional items and acquisition related costs and pension fund deficit recovery contributions
Net debt	Net debt is the net of cash, capitalised costs of raising finance and total borrowings. IFRS16 lease commitments are not included in line with our banking covenants.
Pro-forma underlying EBITDA	An annualised underlying EBITDA figure used for the purpose of calculating banking covenant ratios
Pro-forma leverage	Net debt expressed as a ratio of pro-forma underlying EBITDA

Underlying profit and underlying earnings per share measures provide shareholders with additional useful information on the underlying performance of the Group. This is because these measures are those principally used by the Directors to assess the performance of the Group and are used as the basis for calculating the level of the annual bonus and long-term incentives earned by the Directors. Underlying ROCE is one of the Group's strategic key performance indicators and is therefore provided so that shareholders can assess the Group's performance in relation to its strategic targets. Underlying EBITDA and underlying operating cash flow are also used internally by the Directors in order to assess the Group's cash generation. The term 'underlying' is not recognised under IFRS and consequently the Group's definition of underlying may differ from that used by other companies.

Reconciliations from GAAP-defined reporting measures to the Group's alternative performance measures

Consolidated Income Statement

(a) Underlying profit before taxation and underlying earnings

	2020 £m IFRS 16 basis	2020 £m Pre-IFRS 16	2019 £m Pre-IFRS 16
Profit before taxation from continuing operations	15.0	16.4	25.4
Adjusted for:			
– IAS 19R administrative expenses	1.5	1.5	1.5
– acquisition related costs (see note 3)	4.0	4.0	3.8
– exceptional operating items (see note 3)	9.0	9.0	4.0
– amortisation of costs of raising finance	0.2	0.2	0.2
– net movement on fair value of derivative financial instruments	(1.7)	(1.7)	(3.6)
– IAS 19R finance cost	0.8	0.8	1.3
Underlying profit before taxation	28.8	30.2	32.6

Taxation attributable to underlying profit before taxation	(6.0)	(6.3)	(6.9)
Underlying earnings	22.8	23.9	25.7

(b) Underlying EBITDA

	2020 £m IFRS 16 basis	2020 £m Pre-IFRS 16	2019 £m Pre-IFRS 16
Operating profit from continuing operations	17.8	17.3	25.1
Adjusted for:			
– depreciation and amortisation (owned assets)	6.8	6.8	6.9
– depreciation of leased assets	4.5	—	—
– lease costs	(5.0)	—	—
– IAS 19R administrative expenses	1.5	1.5	1.5
– Acquisition Related costs	4.0	4.0	3.8
– exceptional operating items (see note 3)	9.0	9.0	4.0
Underlying EBITDA	38.6	38.6	41.3

Consolidated Cash Flow Statement

(a) Underlying operating cash flow

	2020 £m IFRS 16 basis	2020 £m Pre-IFRS 16	2019 £m Pre-IFRS 16
Cash generated from operations (see note 7)	34.8	29.1	35.3
Adjusted for:			
– cash flows from exceptional items and acquisition related costs (see note 7)	0.3	1.0	1.9
– pension fund deficit recovery contributions (see note 7)	3.3	3.3	2.6
Underlying operating cash flow	38.4	33.4	39.8

Consolidated Balance Sheet

(a) Underlying capital employed and underlying return on capital employed

	2020 £m IFRS 16 basis	2020 £m Pre-IFRS 16	2019 £m Pre-IFRS 16
Net assets	104.4	104.4	125.7
Adjusted for:			
– pension scheme liability (net of associated tax)	39.7	39.7	26.3
– cash and cash equivalents	(47.3)	(47.3)	(27.2)
– financial liabilities – borrowings	83.7	83.7	62.2
Capital employed	180.5	180.5	187.0
Foreign exchange adjustment	9.6	9.6	1.8
IFRS 16 net asset adjustment	—	3.1	—
Adjustment for acquisitions	7.2	7.2	—
Underlying capital employed	197.3	200.4	188.8
Average underlying capital employed	192.1	193.8	188.7
Underlying return on capital employed	16.8%	16.4%	18.2%

6. Earnings per share

Basic EPS is calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held in the Norcros Employee Benefit Trust.

For diluted EPS, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potential dilutive ordinary shares. At 31 March 2020 the potential dilutive ordinary shares amounted to 668,944 (2019: 985,038) as calculated in accordance with IAS 33.

The calculation of EPS is based on the following profits and numbers of shares:

	2020 £m IFRS 16 basis	2020 £m Pre-IFRS 16	2019 £m Pre-IFRS 16
Profit for the year	10.9	12.0	19.4

	2020 Number	2020 Number	2019 Number
Weighted average number of shares for basic earnings per share	80,300,209	80,300,209	80,154,891
Share options	668,944	668,944	985,038
Weighted average number of shares for diluted earnings per share	80,969,153	80,969,153	81,139,929

	2020 IFRS 16 basis	2020 Pre-IFRS 16	2019 Pre-IFRS 16
Basic earnings per share:			
From profit for the year	13.6p	14.9p	24.2p
Diluted earnings per share:			
From profit for the year	13.5p	14.8p	23.9p

Basic and diluted underlying earnings per share

Basic and diluted underlying earnings per share has also been provided which reflects underlying earnings from continuing operations divided by the weighted average number of shares set out above.

	2020 £m IFRS 16 basis	2020 £m Pre-IFRS 16	2019 £m Pre-IFRS 16
Underlying earnings (see note 5)	22.8	23.9	25.7

	2020 IFRS 16 basis	2020 Pre-IFRS 16	2019 Pre-IFRS 16
Basic underlying earnings per share	28.4p	29.8p	32.1p
Diluted underlying earnings per share	28.2p	29.5p	31.7p

7. Consolidated cash flow statement

(a) Cash generated from operations

The analysis of cash generated from operations is given below:

Continuing operations

	2020 £m IFRS 16 basis	2020 £m Pre-IFRS 16	2019 £m Pre-IFRS 16
Profit before taxation	15.0	16.4	25.4
Adjustments for:			
– IAS 19R administrative expenses included in the Income Statement	1.5	1.5	1.5
– acquisition related costs included in the Income Statement	4.0	4.0	3.8
– exceptional items included in the Income Statement	9.0	9.0	4.0
– finance costs/(income) included in the Income Statement	2.0	0.1	(1.6)
– IAS 19R finance cost included in the Income Statement	0.8	0.8	1.3
– cash flows from exceptional items	(0.3)	(1.0)	(1.9)
– settlement of share options	(0.5)	(0.5)	(0.6)
– depreciation of property, plant and equipment	6.6	6.6	6.6
– underlying amortisation	0.2	0.2	0.3
– depreciation of right of use asset	4.5	—	—
– pension fund deficit recovery contributions	(3.3)	(3.3)	(2.6)
– share-based payments	0.1	0.1	1.2
Operating cash flows before movement in working capital	39.6	33.9	37.4
Changes in working capital:			
– increase in inventories	(2.4)	(2.4)	(7.6)
– decrease in trade and other receivables	3.6	3.6	0.1
– (decrease)/increase in trade and other payables	(6.0)	(6.0)	5.4
Cash generated from operations	34.8	29.1	35.3

(b) Analysis of net debt

	Net cash and current borrowings £m	Non-current borrowings £m	Net debt £m
At 1 April 2018	17.3	(64.4)	(47.1)
Cash flow	7.8	6.2	14.0
Other non-cash movements	—	(0.2)	(0.2)
Exchange movement	(1.7)	—	(1.7)
At 31 March 2019	23.4	(58.4)	(35.0)
Cash flow	25.4	(25.0)	0.4
Other non-cash movements	—	(0.2)	(0.2)
Exchange movement	(1.6)	—	(1.6)
At 31 March 2020	47.2	(83.6)	(36.4)

Other non-cash movements relate to the movement in the costs of raising debt finance in the year.