



norcros

Investor Presentation

**Proposed
Acquisition of
Merlyn Industries
Limited by
Norcros plc**

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Key messages

- Proposed acquisition of Merlyn Industries Limited (“Merlyn”):
 - Market leading position in mid to high end branded shower enclosures in the UK
 - Acquisition consistent with Norcros’ strategy to enhance its bathroom product portfolio
 - Revenue of £30.7m and EBITDA of £6.8m (Y/E 31 March 2017)
- Cash consideration of £60m, funded through:
 - a Firm Placing and Placing and Open Offer of £31m
 - Debt of £33m⁽¹⁾
- Strong financial and strategic rationale:
 - Expected to be earnings enhancing in the first full year of ownership (Y/E 31 March 2019)⁽²⁾
 - Targeted to deliver pre-tax ROCE in excess of 13% in Y/E 31 March 2019⁽²⁾
 - Balance sheet capacity to fund further acquisition opportunities
- Directors intend to take up at least their basic entitlement in the Open Offer



⁽¹⁾ Total expenses in respect of the acquisition, equity raise and refinancing of approximately £4m

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Group strategy – key targets

Growth Target

- Double revenues to £420m by 2018
 - Organic and acquisition
 - Maintain 50% revenue derived from overseas
- Focus on sectors with highest returns
- Timeline to be reassessed in light of current year progress

Organic

- Market leading positions
- Strong trade and consumer brands
- Breadth of distribution
- 5 - 10% pa potential

Acquisition

- Complementary industry segments/geographical
- Bathroom controls and associated products
- Building/construction adhesives
- UK, SA, sub-Saharan Africa and Middle East

Returns Target

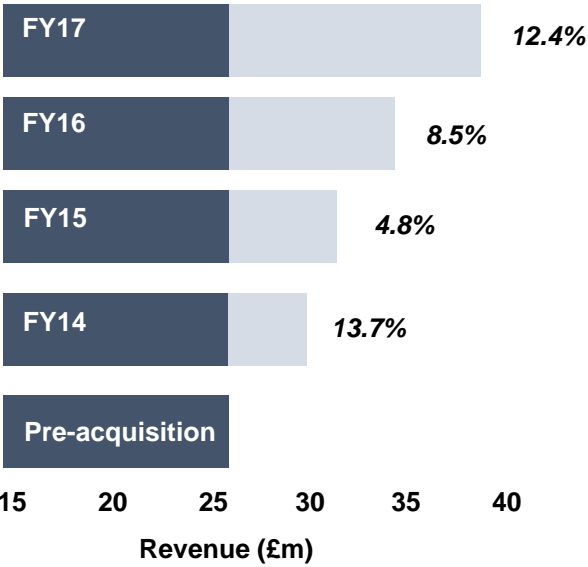
- Sustainable pre-tax ROCE 12-15%
- Improve returns from under-performing segments
- Invest in sectors with highest shareholder value return

Acquisition track record and proposed acquisition

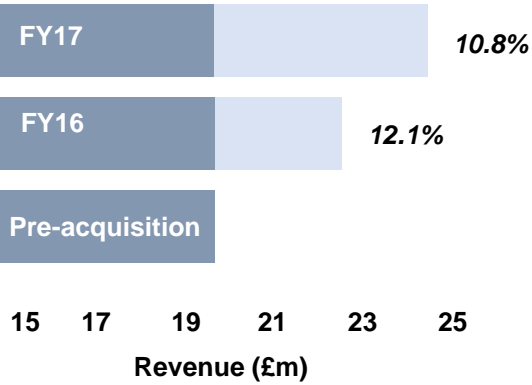
Group strategy					
		Vado	Croydex	Abode	Merlyn
		✓	✓	✓	✓
Acquisition criteria	1 Revenue target	✓	✓	✓	✓
	2 Underlying ROCE of 12%-15%	✓	✓	✓	✓
	3 Geographic fit	✓	✓	✓	✓
	4 Complementary market	✓	✓	✓	✓
	5 Preferred channel mix	✓	✓	✓	✓
	6 Export potential	✓	✓	✓	✓
	7 Growth potential	✓	✓	✓	✓

Management have a successful track record of acquiring and integrating complementary businesses and developing them

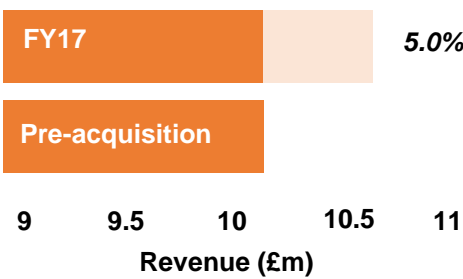
Vado⁽¹⁾ – April 2013: £16.0m



Croydex⁽²⁾ – June 2015: £20.0m



Abode – April 2016: £4.8m

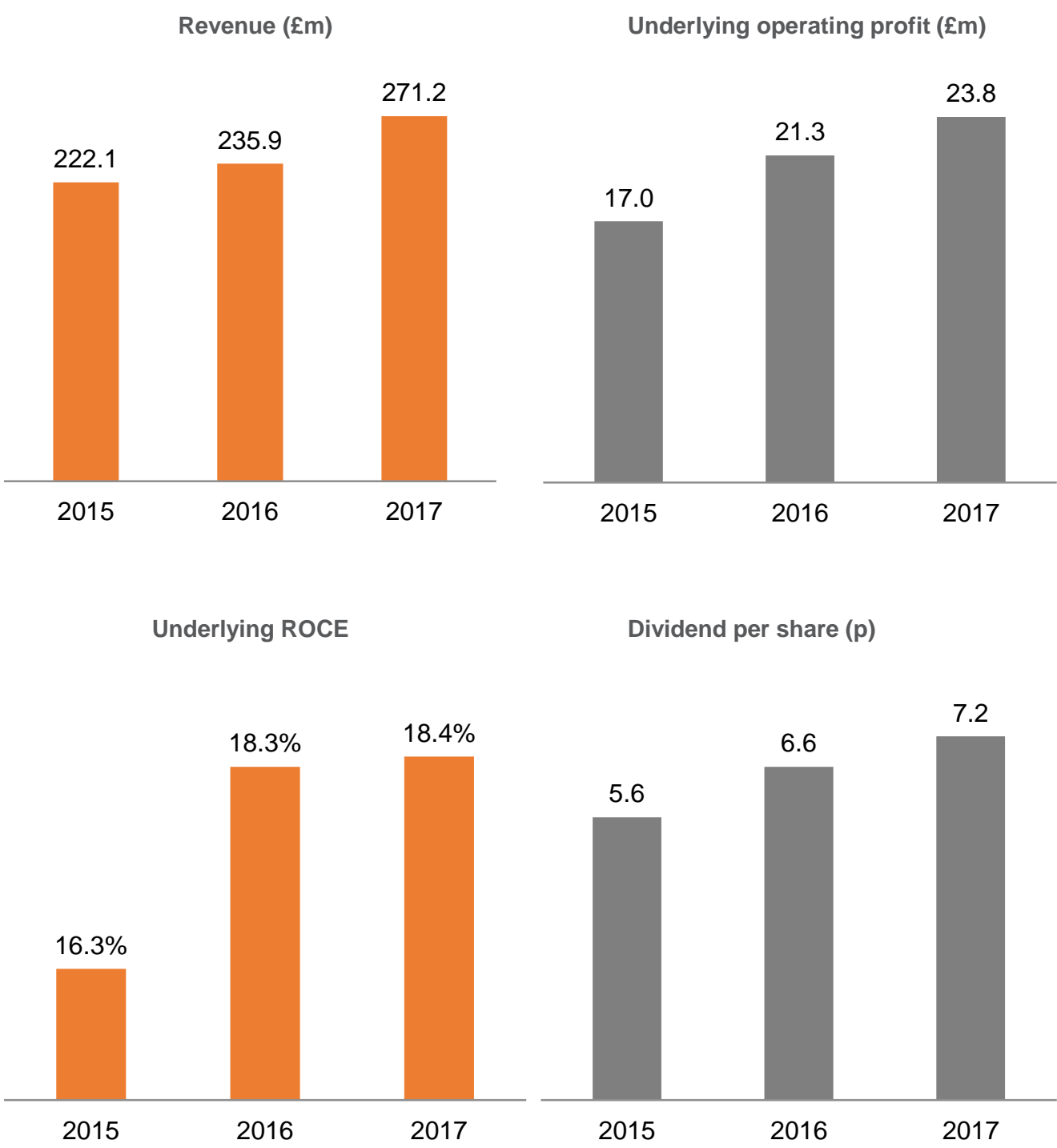


- 3 successful acquisitions to date (funded by debt)
 - Significant revenue growth achieved
 - Materially earnings enhancing
 - ROCE hurdle achieved

(1) Pre-acquisition revenue to 31st December 2012
 (2) FY16 revenue includes 3 months pre Norcros ownership; pre-acquisition revenue to 31st December 2014

Norcros financial highlights and current trading

Financial highlights

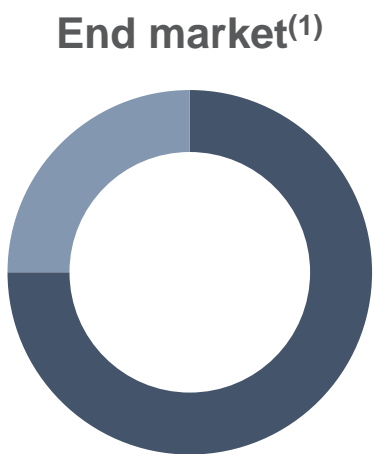
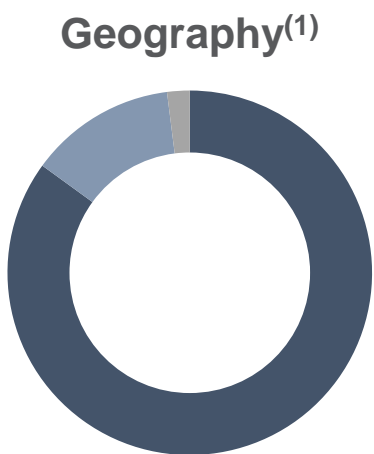
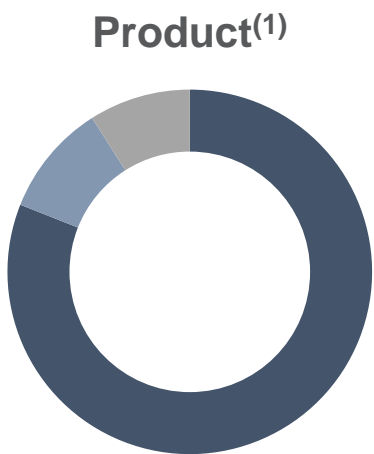
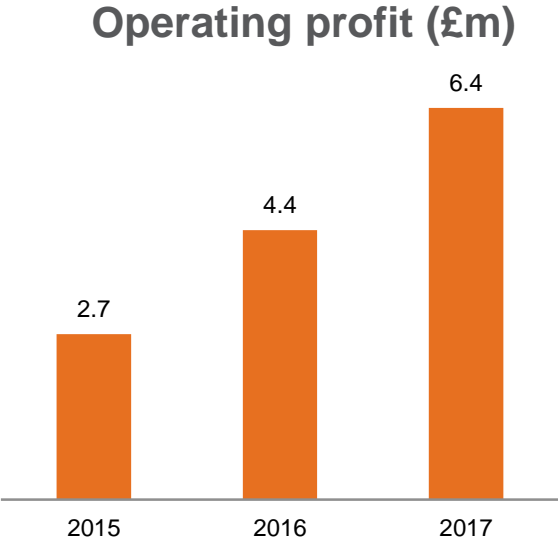
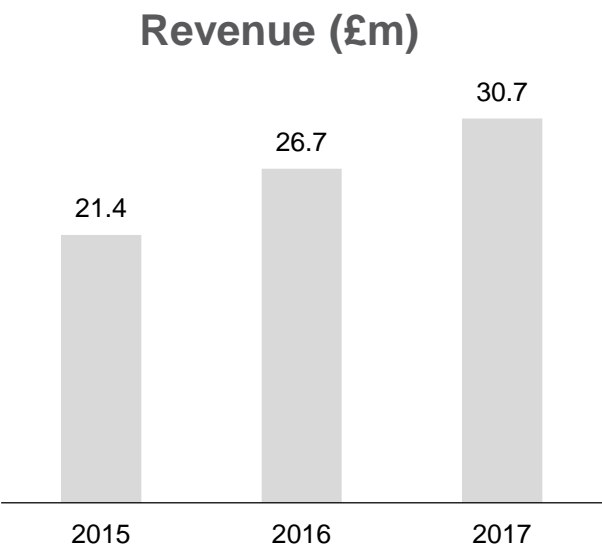


Current trading: H1 trading update (12 October 2017)

- Group revenue and underlying operating profit in the first half is expected to be in line with the Board's expectations
- Group revenue for the first half is expected to be approximately £144.9m (2016: £128.8m), 12.5% higher than the prior year and 7.1% higher on a constant currency basis
- UK revenue for the first half was 8.4% higher than the prior year, reflecting growth in all channels, and benefitting in particular from the Group's strong positions in the new housebuild sector and in selective export markets.
- The Group continues to focus on working capital and cash management and as a result of this closing net debt is expected to have reduced to around £21m (2016: £27.5m)
- Strong performance demonstrates the strength of the Group's market positions and the resilience of a diversified business portfolio delivering revenue growth in all UK sectors, strong growth in exports and sustained progress in South Africa

Overview of Merlyn

- 1 Leading position in growing shower enclosure market
- 2 Premium branded proposition
- 3 Culture of innovation and product development
- 4 Successful multi-channel sales strategy
- 5 Track record of organic growth; highly profitable and cash generative
- 6 Further growth opportunities



2017

DELOITTE BEST MANAGED COMPANY

2016

INNOVATION 4 GROWTH PROGRAMME
MOST INNOVATIVE COMPANY

2016

CCMA CONTACT CENTRE OF THE YEAR

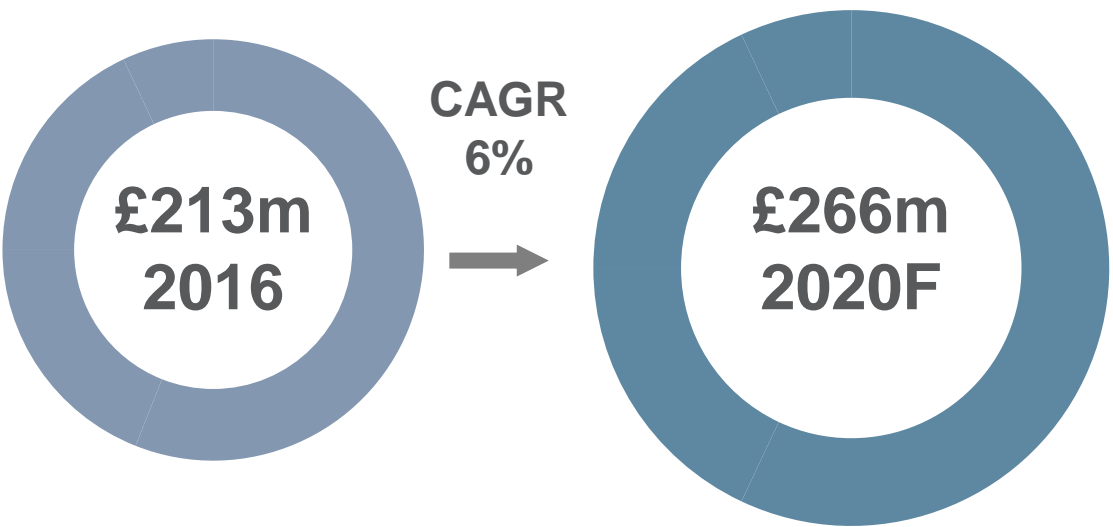
2015

EY ENTREPRENEUR OF THE
YEAR FINALIST

(1) Shown as a percentage of gross revenue which is revenue pre-rebates (all unaudited figures)

Market growth drivers

Merlyn’s total current addressable market – enclosures, bath screens and trays in UK and Ireland⁽¹⁾



- Merlyn’s respective shares of the UK and Irish markets⁽²⁾ are approximately 15% and 35%
- These markets have displayed strong levels of historical growth with the UK higher value enclosures market having grown at 9 per cent CAGR over 2013-2016, versus 7 per cent overall market growth during this period

- Growing emphasis on the bathroom within the home
- Growing consumer preference for showering
- Ongoing premiumisation trend
- Increase in number of bathrooms per property
- Increasing new build activity across the UK
- Continued growth in consumer bathroom spend
- Growth in hotel/leisure/retirement build activity

Forecast market growth underpinned by positive underlying market dynamics and sector trends

⁽¹⁾ Future growth is driven by volume and price increases
⁽²⁾ UK market excludes Northern Ireland, Ireland market includes Northern Ireland

Well established brands



Range description

New luxury range of enclosures launched in May 2016, utilising high quality materials

The Series Collection, Merlyn's most well-known range of mid-to-high end products

Fast and easy installation products designed for use by contractors and tradesmen

Mid-to-high end shower enclosures

Primary Channel

Premium bathroom specialists with high end showrooms

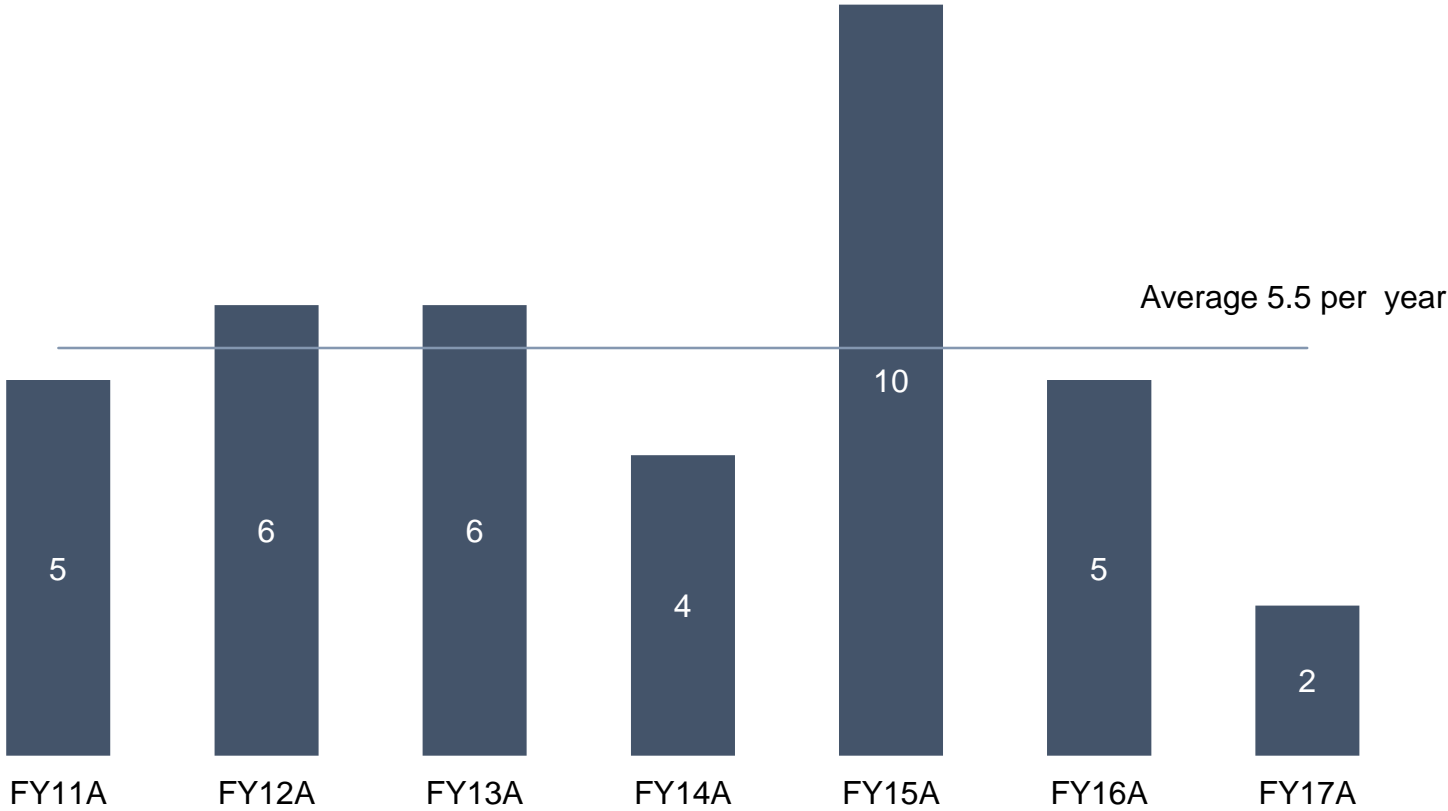
Bathroom specialists with mid-to-high end showrooms

National and regional merchants and specification contracts

Bathroom product distributors

Culture of innovation and product development

Number of new/evolved product range launches



38
NEW/EVOLVED PRODUCT RANGES
LAUNCHED IN LAST 7 YEARS

Consistent pipeline of **6-7**
new product ranges
























10-20%
AVERAGE OF TOTAL SALES
DERIVED FROM NPD

24 month
AVERAGE DESIGN AND
DEVELOPMENT CYCLE



(1) NPD % of sales FY14 to FY17 (unaudited)

Multi channel strategy

		% revenue ⁽¹⁾	
Independent Retail / Regional Merchants	Largest and most established of Merlyn's sales channels, with the Business serving this market since inception in 2000.	62%	<div> <div>     </div> <div>    </div> </div>
Specification	Recognising the opportunity to develop in the new build market, Merlyn began specifically targeting the Specification channel in 2013.	22%	<div> <div>     </div> <div>    </div> </div>
National Merchants	Following Merlyn's success in the Independent channel, the Business began directly targeting the national merchants in 2011, with the 4 major players in the space.	12%	<div> <div>   </div> <div>   </div> </div>
Distribution	Merlyn has served the Distribution market since 2005. Customers in this channel are primarily specialist bathroom product distributors who typically buy in bulk and sell on to independent merchants and specifiers using their own catalogues.	4%	<div> <div>    </div> <div>   </div> </div>

(1) Percentages relate to gross revenue pre-rebates and are unaudited

Strong track record of growth and cash generation

P&L

	2015 (£m)	2016 (£m)	2017 (£m)
Revenue	21.4	26.4	30.7
<i>% growth</i>		23.4%	16.3%
Operating profit	2.7	4.4	6.4
<i>% growth</i>		63.0%	45.5%
<i>% margin</i>	12.6%	16.7%	20.8%
Finance costs	—	(0.1)	(0.6)
Finance income	0.3	0.6	—
Profit before tax	3.0	4.9	5.8
Taxation	(0.4)	(0.6)	(0.8)
Profit for the year from continuing operations	2.6	4.3	5.0

Revenue growth driven by:

- Market growth
- New product ranges
- Recent customer wins (e.g. Barratt)
- Increased share of wallet

Margin improvement:

- Operating leverage
- Increased share of wallet

- 98% of tax payable in Ireland (13.5% rate of tax)

Cash flow statement

	2015 (£m)	2016 (£m)	2017 (£m)
Profit before tax	3.0	4.9	5.8
Finance (income) / costs (net)	(0.3)	(0.5)	0.6
Net working capital	(0.4)	(0.3)	(0.6)
D&A	0.4	0.3	0.4
Share based payments	-	0.3	-
Cash generated from operations	2.7	4.7	6.2
Operating profit cash conversion	100%	107%	97%
Net cash used in investing activities	(0.4)	(0.6)	(0.7)
Net cash flow pre financing and tax	2.3	4.1	5.5

Current trading

Merlyn is trading in line with the expectations of the management of the business for the six months ended 30 September 2017, with the revenue growth continuing to be driven by:

- successful price increases
- new product launches and;
- growing market share

Significant growth opportunities

Significant opportunities to continue to grow by focusing on current core activities

Existing ranges and new product innovations

Expansion of established routes to markets

Increased “share of wallet” within the current customer base

Exciting medium and long-term strategic opportunities including

New geographies: driving further internationalisation of the business

New product categories: widening Merlyn’s product range into complementary areas

New channels: expanding in the commercial, hospitality and care markets

Funding and post deal balance sheet

- Capital structure of enlarged group maintains strong capital discipline
- Norcros net debt of £23.2m (as at 31 March 2017)
- Pro forma net debt / EBITDA as at 31 March 2018 expected to be approximately 1.3x
- New debt facilities have been arranged:
 - Quantum increased to £120m
 - Term extended to November 2021 (option to extend to 2022)
- Quantum of equity fund raise allows:
 - Capital flexibility for Norcros to execute on M&A pipeline
 - Progressive dividend policy to be maintained
 - New shares to benefit from H1 2018 interim dividend



Summary

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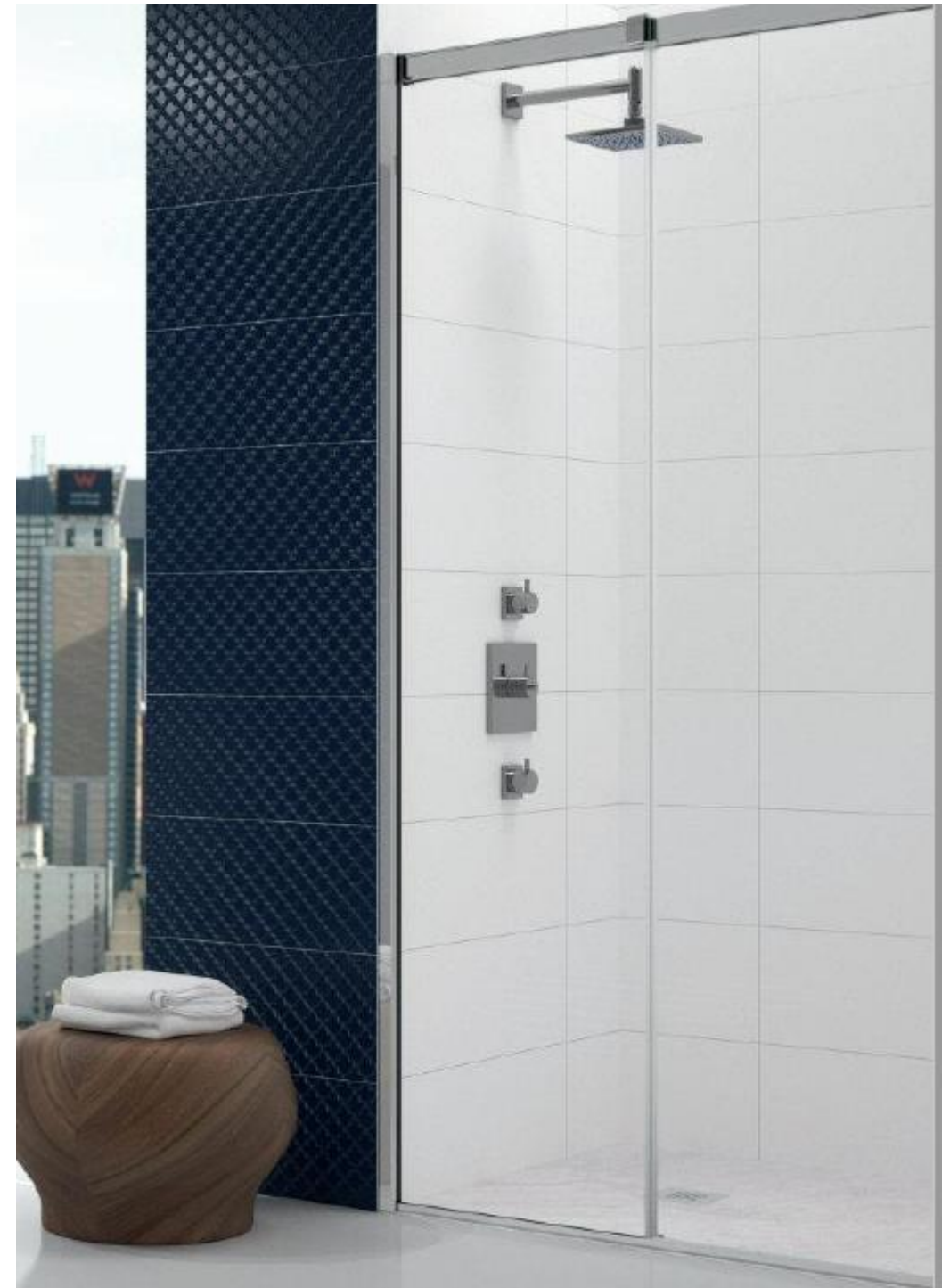
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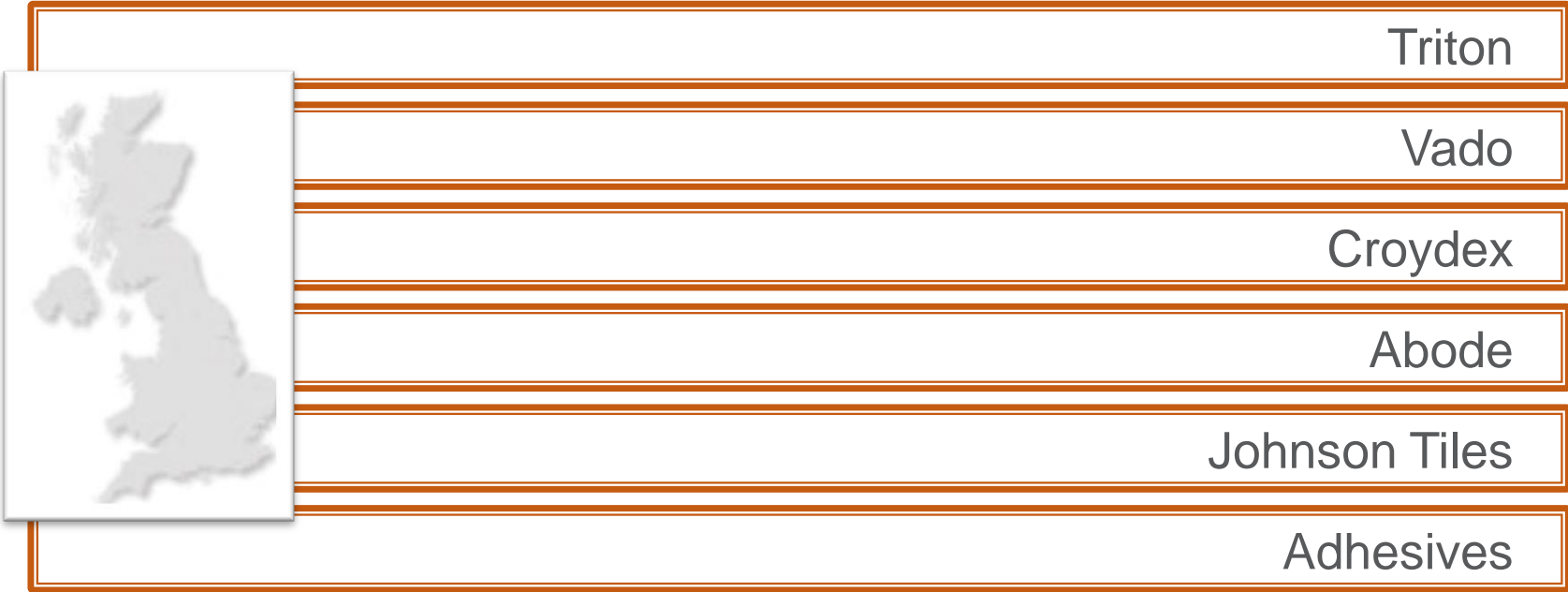
APPENDIX

Transaction and timetable details

- Size of issue: c.£31.4m
- Expected issue structure
 - Firm placing: c.£10.6m
 - Placing & Open offer: c.£20.8m
- Issue price: 172p
- Expected timing:
 - Interim results: 16 November 2017
 - Open offer closes: 21 November 2017
 - General Meeting: 22 November 2017
 - Dealings and settlement: 23 November 2017



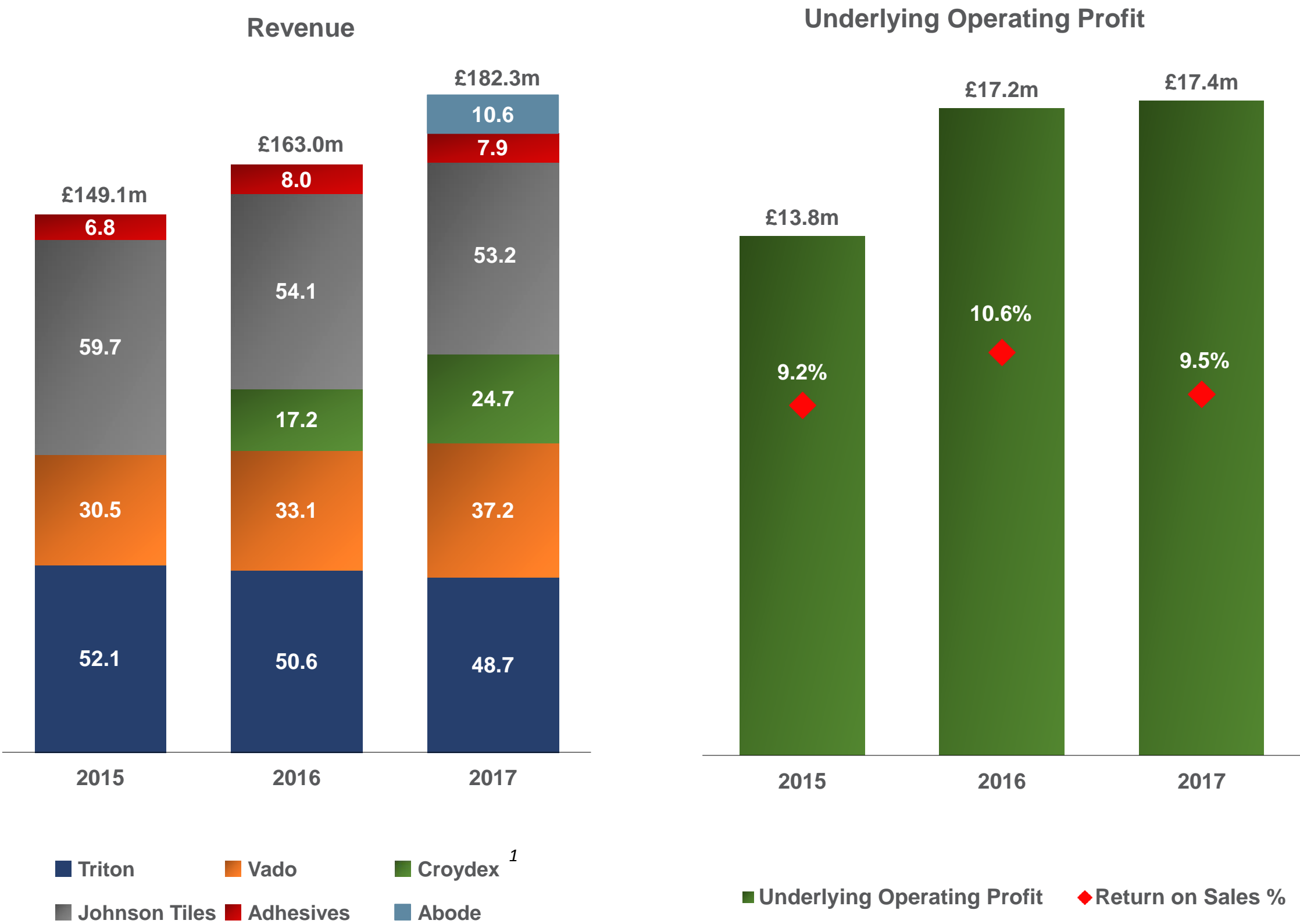
Revenue Growth (constant currency – 12 months to 31st March 2017)



Group Revenue (reported – 12 months to 31st March 2017)

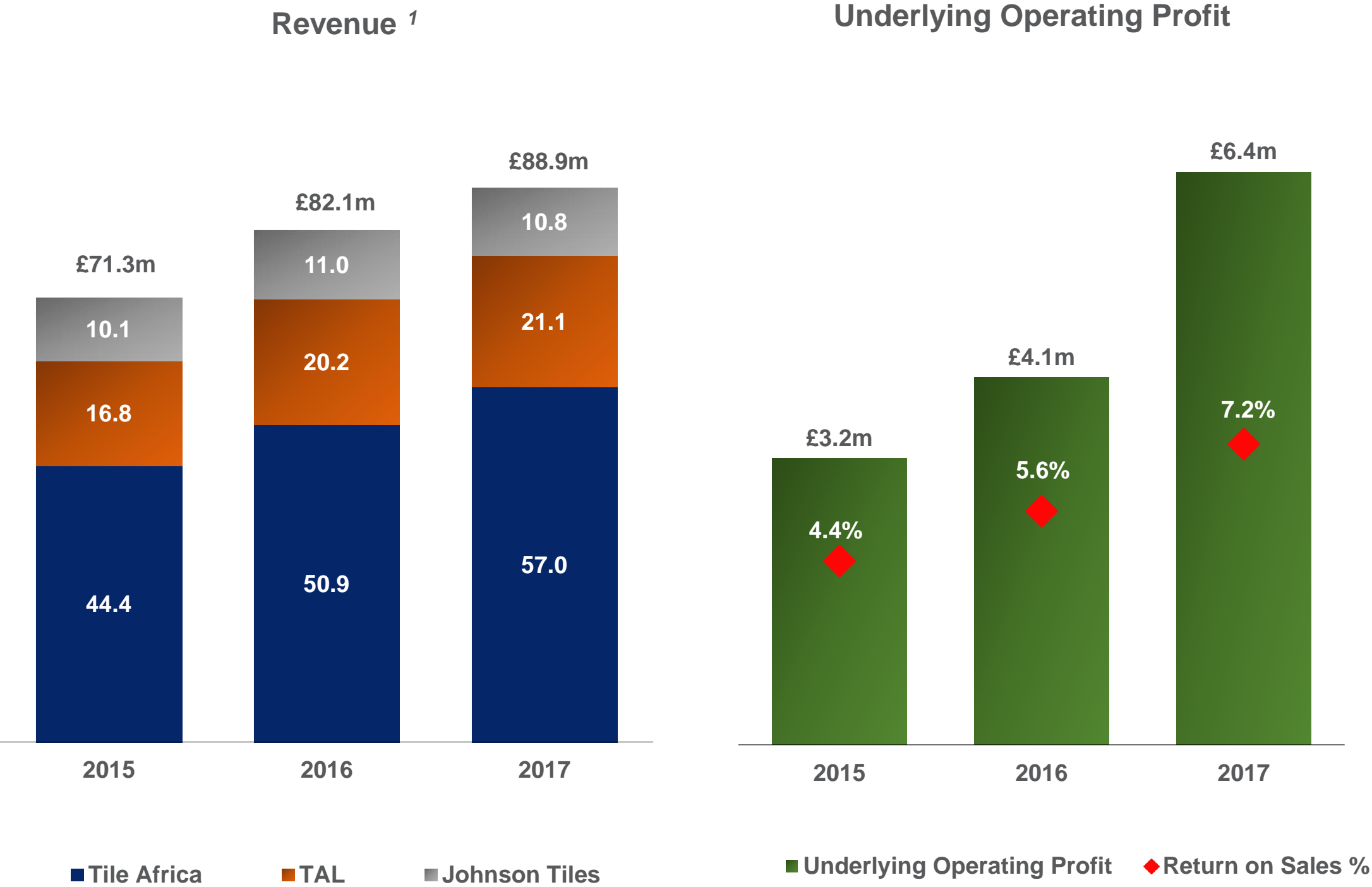
UK	SA	Group
+11.8%	+8.3%	+10.6%
£ 48.7m		
£ 37.2m		
£ 24.7m		
£ 10.6m		
£ 53.2m		
£ 7.9m		
	£ 10.8m	
	£ 21.1m	
	£ 57.0m	
£182.3m	£88.9m	£271.2m

UK: Revenue and profit growth in challenging markets



¹ Nine months revenue. Acquired June 2015

South Africa: Further year of excellent progress



¹ On a constant currency basis