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SIG plc: 2022 Full Year Trading Update

SIG plc ("SIG", or "the Group"), a leading supplier of specialist insulation and building products across Europe, today issues a trading update for the year ended 31 December 2022 ("FY22").

Highlights

- FY22 results reflect the continuing successful delivery of the Return to Growth strategy and the resilience of the Group's diversified business model
- Full year like-for-like[1] ("LFL") sales growth of 17%, with revenues of £2.74bn
- Substantial increase in underlying operating profit[2]; expected to be at c£80m, in line with market expectations, up from £41m in 2021
- Positive free cash flow[3] for the year
- New CEO Gavin Slark (formerly CEO of Grafton Group plc) will join the Group on 1 February 2023

Summary

The Return to Growth Strategy, initiated in 2020, continued to deliver significant progress in the year, with strong growth in revenue and profitability, underpinned by continued improvement in operational performance and superior customer service. As anticipated, market demand softened in most geographies in H2, but we continued to benefit from solid execution of our commercial strategy, strengthening our positions in the markets in which we operate. Input price inflation eased in H2, as expected, but remained a strong tailwind to year-on-year revenue growth.

As a result of the above, and subject to audit, the Board expects to report FY22 revenues of c£2,743m, together with a substantial improvement in underlying operating profit to c£80m, up from the £41.4m reported in 2021.

This performance was achieved despite a one-off loss of c£5m in H2 resulting from the administration of Avonside, a major UK roofing contractor and one of the Group's largest customers. Whilst disappointing, the Group believes that this situation arose from company-specific factors. Customer bad debt metrics more broadly remain in line with management's expectations.

The improved operating performance and profitability, allied with good working capital management, means that the Group expects to report positive free cash flow for the year of c£12m, and year-end gross cash balances of £131m (2021: £145m). The movement in cash balances in the year reflects previously reported cash outflows on M&A, as well as the positive free cash flow. The Group's revolving credit facility ("RCF") was increased in November 2022 from £50m to £90m and remained undrawn as at 31 December 2022.

The Group expects to report net debt as at 31 December 2022 of c£440m on a post IFRS 16 basis (2021: £365m), and c£159m on a pre IFRS 16 basis (2021: £129m). The movement in post IFRS 16 net debt is due mainly to increase in lease liabilities of c£45m, driven by timing of lease renewals and investments in new branches, and a currency movement of c£17m on bond debt. Leverage continued to come down towards the Group's medium-term targets, and finished the year at 2.8x and 1.8x on post and pre IFRS 16 bases respectively. The Group's pre IFRS 16 debt consists almost wholly of a€300m bond at a fixed rate of 5.25%. The bond, and the currently undrawn RCF, both mature in 2026.

Trading performance

The Group continues to benefit from a balanced geographic spread of country revenues, with 58% of revenues derived from the EU in FY22, and 42% from the UK.

FY22 LFL revenues grew 17% compared to prior year. Reported Group revenues were 20% higher in the year, including c4% from acquisitions, slightly offset by c1% adverse currency movements.

Group revenue growth rates across most geographies moderated in H2 compared to H1 primarily due to the impact of lower rates of input cost inflation, following the annualisation of significant rises in H2 21, and some broadly based softening in market demand. Pass through of input cost inflation added to the top line in all geographies. We estimate the impact on revenue for the full year to be around 17-18%.

LFL sales growth 2022 vs 2021	**H1**	**H2**	**FY**	***FY 2022 sales £m***
UK Interiors	24%	22%	23%	701
UK Exteriors	13%	1%	7%	446
UK	**19%**	**12%**	**15%**	**1,147**
France Interiors	13%	12%	12%	218
France Exteriors	18%	11%	15%	465

Germany	17%	15%	16%	458
Poland	44%	16%	28%	231
Benelux	20%	31%	25%	116
Ireland	55%	2%	24%	108
EU	**23%**	**14%**	**18%**	**1,596**
Group	**21%**	**13%**	**17%**	**2,743**

In the UK Interiors business, the strategic and operational changes made since mid-2020 continue to drive the business's return towards its previous market position and performance. In UK Exteriors, volumes were down, more notably in H2, in line with weaker market conditions and against particularly strong 2021 comparators. Recent UK acquisitions, including Miers Construction Products acquired in July 2022, are performing well.

In the EU, FY growth of 18% reflected solid trading across all our businesses, including some incremental market share gains, and H2 growth remained robust at 14%. Performance remains strong in our French businesses. Our German business is benefiting from the new, experienced leadership put in place in the second half of 2021. Benelux's performance is improving, with progress to date on the top line. Poland's growth normalised in H2 after the exceptional growth seen in H1, and sales in Ireland reflected some weaker market conditions in H2.

CEO Transition

As previously announced, Gavin Slark will join as Group CEO on 1 February 2023. Gavin joins SIG with a long track record of success in the pan-European construction distribution industry, including most recently as CEO of Grafton Group plc for 11 years. Steve Francis steps down as CEO following the Group's successful turnaround and return to profitability.

Steve Francis, CEO, commented:

"SIG's performance in 2022 demonstrated the resilience, flexibility and diversity of its pan-European business. Thanks to strong employee and customer engagement, the Group has continued to drive strong profit growth, even as market conditions became increasingly challenging as the year progressed. SIG now has strong foundations for the future, and the Group remains well-positioned to benefit from the need for governments and end-customers to increase the sustainability and energy efficiency of buildings over time. Gavin and I are now completing a very smooth leadership handover, and I am confident that Gavin and the team will build on the progress made in the last three years."

FY 22 Results date, and Outlook

We will publish our full FY22 results on 8 March 2023, and will hold a presentation and conference call for analysts and investors at 10.00am (GMT) on that date. We will provide a more detailed outlook on 2023 at that time.

The numbers in this update remain subject to final close procedures and to audit.

1. *Like-for-like is defined as sales per working day in constant currency, excluding completed acquisitions and disposals*
2. *Underlying represents the results before Other items. Other items relate to the amortisation of acquired intangibles, impairment charges, profits and losses on agreed sale or closure of non-core businesses and associated impairment charges, net operating profits and losses attributable to businesses identified as non-core, net restructuring costs, and other non-underlying profits or losses.*
3. *Free cash flow is defined as all cash flows excluding M&A transactions, dividend payments, and financing transactions.*

Contacts

SIG plc **+44 (0) 114 285 6300**

Ian Ashton Chief Financial Officer

Sarah Ogilvie Head of Investor Relations

FTI Consulting **+44 (0) 20 3727 1340**

Richard Mountain

Peel Hunt LLP - Joint broker to SIG **+44 (0) 20 7418 8900**

Mike Bell / Charles Batten

Investec Bank plc - Joint broker to SIG **+44 (0) 20 7597 5970**

Bruce Garrow / David Anderson

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