Norcros plc

EQUITY Development

Overlooked and undervalued

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Sentiment has not favoured stocks perceived to be cyclical for some time and Norcros' mid- to low-single digit valuation multiples belie the strength of its business model and market positions. Viewing FY24 as the earnings low point for the current cycle would, we believe, allow investors to focus on business fundamentals and consider mid-cycle prospects more fully. Based on current estimates, we see a fair value midpoint of 233p per share. Progress with strategic focus areas (including M&A activity) and stronger South African profitability could further enhance this picture.

Norcros has leading positions in its market segments built upon strong brands, new product development, channel diversity and supply chain strengths. It is seeking to drive further market share gains organically by intensifying group synergy benefits and through M&A activity.

H124 results: UK ahead y-o-y, South Africa down, guidance unchanged

An 8.3% reported group revenue decline (or -4.1% on a constant currency, LFL basis) was substantially driven by lower demand in South Africa while the UK was broadly flat y-o-y. EBIT came in 2.7% lower (unchanged in constant currency) reflecting a better UK outturn – being the net effect of exiting Norcros Adhesives and two additional month's contribution from Grant Westfield (GW) – more than offsetting adverse operational gearing in South Africa. After higher finance costs and the effect of more shares in issue (both related to acquisition of GW in May last year), EPS was down 12.4% y-o-y while the declared H1 DPS was unchanged (at 3.4p). Net debt continued to trend down from its post-GW peak and sits at c.1x EBITDA. Management reaffirmed full year guidance.

Valuation: looking beyond the low point

Having seen a 135.5p low for the year towards the end of October, the Norcros share price has picked up to 155p. This is still down 12% YTD, under-performing the FTSE All-Share Index by c.11%. At this level, conventional valuation metrics - on mid- to low-single digit multiples in all three estimate years - portray a distress/special situation scenario which we do not recognise in the company.

Norcros is profitable, strongly cash generative and moderately geared at 1x EV/EVITDA. Although we expect FY24 earnings to be lower y-o-y, we see this as the low point for the current cycle. Even based on our FY24 and FY26 estimates, our DCF approach suggests **a fair value midpoint of 233p / share** (in a range of 222p-244p) giving c. **50% upside potential on a rerating**. Clearly a stronger mid-cycle view would enhance the upper end of this range. An FY24 prospective dividend yield of 6.6% covered 3x by earnings offers a further investor attraction.

Summary financials

Year to March (£m)	2022	2023	2024E	2025E	2026E
Revenue	396.3	441.0	406.4	408.2	418.7
EBITDA - ED*	46.5	51.7	46.5	47.8	49.7
Pre-Tax Profit - company norm	**39.3**	**41.8**	**36.1**	**37.1**	**39.0**
EPS FD - company norm (p)	**38.2**	**37.4**	**30.8**	**31.6**	**33.2**
DPS (p)	**10.0**	**10.2**	**10.3**	**10.4**	**10.6**
Net cash / (debt) pre-IFRS16 basis	8.6	(49.9)	(43.6)	(32.3)	(21.2)
P/E (x)	*4.1*	*4.1*	*5.0*	*4.9*	*4.7*
EV/EBITDA (x)*	*2.6*	*3.6*	*3.9*	*3.6*	*3.2*
Dividend yield (%)	*6.5%*	*6.6%*	*6.6%*	*6.7%*	*6.8%*

Source: Company Annual Reports, Equity Development.

Company Data

EPIC	NXR
Price (last close)	155p
52 weeks Hi/Lo	228p/135p
Market cap	£138m
ED Fair Value / share	233p
Net (debt) FY24E	(£44m)
Avg. daily volume	41.6k

Share Price, p

Source: ADVFN

Description

Norcros is a leading B2B producer of branded bathroom and kitchen products for its UK, South African and selected export markets.

The portfolio of eleven operating companies (7 UK, 4 South Africa) is characterised by strong individual brands, together providing product breadth and channel diversity from a strong supply chain base.

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Investment Summary: Robust platform for expansion

Since listing in 2007, Norcros has very much stuck to its knitting as **a leading B2B producer of branded bathroom and kitchen products**. Over time, the product portfolio has grown organically through new product development and inorganically via six acquisitions made since March 2013. Operating companies retain their individual business models and brand identities, but **the benefits of a group structure have grown with its scale** especially via supply chain and distribution channel synergies. Consequently, **group revenue, profitability, margins and returns on capital employed have all been enhanced** over the last five- and ten-year strategic periods and the company has been **consistently cash-generative**.

Both of Norcros' primary geographic markets in the UK and South Africa have experienced **specific challenges over the last year** being flat economic growth and patchy sector demand in the former case with energy supply restrictions in the latter. While these issues have not concluded – and will inform a lower expected FY24 outturn for Norcros – the **group business model has demonstrated resilience** founded upon the continued delivery of new products and breadth and depth across and within its channels to market.

Targeting market share gains to drive above market growth is an established strategic focus for Norcros to consolidate and expand leading sub-sector positions in fragmented product markets. Positive performance in this regard at the low point in a cycle can sometimes only become apparent once it moves into recovery and growth phases. A relatively new Executive team is in place (James Eyre, CFO from August 2021 and Thomas Willcocks, CEO from April 2023, both appointed from senior management roles within the company) with a high-level agenda is to make progress in the following areas:

- **Portfolio development** – complementary product acquisitions
- **Organic revenue growth** – new product development, cross-business collaboration
- **Operational excellence** – driving synergies and investing in systems and facilities
- **ESG** – further develop governance and sustainability focus

Norcros has a strong M&A track record, acquiring and further improving good businesses. While the pipeline is described as well-developed, clearly executing deals will be subject to opportunity and availability. The company currently has a moderate level of gearing (at 1x EBITDA) and financial headroom including an accordion facility in excess of £100m in principle, should more than one deal come to fruition. The other three bullet points are essentially **internal workstreams** and, to a large extent, inter-related. Our sense is that the management team is aiming to provide a platform to **intensify collaborative activity** between operating companies to bring additional operational and financial benefits to the group.

Valuation

In the context of our earnings expectations[1] – an FY24 dip and low point followed by two years of progress – and selected peer group companies, Norcros sits on a very low rating in conventional terms. A **current year P/E and EV/EBITDA of 5.0x and 3.9x** respectively compress to **4.7x and 3.2x two years further out**. This implicitly factors in a more significant and excessively bearish earnings reduction than our estimates in our opinion. The potential for additional M&A activity provides scope for earnings upside over and above our estimates.

Our DCF analysis suggests **a fair value per share range of 222p to 244p** for Norcros, based on our FY24 and FY26 EBITDA estimates respectively being sustained over the cycle.

[1] After two elevated years, FY24e EPS -18% y-o-y (driven by lower local and £ translated South African profitability, higher finance costs and increased shares in issue) followed by FY25e EPS +10% and FY26e EPS +5%.

H124 results: Maintaining course

Norcros' first half performance was in line with its pre-close trading update ('reported revenue c-8%, revenue no less than £21m') while net debt was a touch better than anticipated. In underlying terms[2], UK revenue was marginally below the prior year, but margins improved, while South African was impacted by energy shortages in the early part of the six-month period which also fed through to lower revenue and profitability. The dividend declared for H124 matched that for H124 (at 3.4p) and full year earnings guidance is also unchanged. No new strategic pointers were provided by the management team at this stage.

Norcros: Interim and divisional splits

Mar y/e £m	H123	H223	FY23	H124	H124 v H123 % change		
					Reported	CER	CER LFL[1]
Group Revenue	**219.9**	**221.1**	**441.0**	**201.6**	***-8.3%***	***-2.9%***	***-4.1%***
UK	142.8	153.0	295.8	143.9	*0.8%*	*0.8%*	*-0.8%*
South Africa	77.1	68.1	145.2	57.7	*-25.2%*	*-11.0%*	*-11.0%*
Group EBIT	**22.0**	**25.3**	**47.3**	**21.4**	***-2.7%***	*0.0%*	*N/A*
UK	16.3	20.8	37.2	18.7	*14.7%*	*14.7%*	*N/A*
South Africa	5.7	4.5	10.1	2.7	*-52.6%*	*-47.1%*	*N/A*
£/ZAR	*20.00*		*20.40*	*23.50*	*-14.8%*		
Group EBIT margin %	***10.0%***	***11.4%***	***10.7%***	***10.6%***	***+60bp***		
UK	*11.4%*	*13.6%*	*12.6%*	*13.0%*	*+160bp*		
South Africa	*7.3%*	*6.5%*	*7.0%*	*4.7%*	*-260bp*		

Source: Company. [1]CER = constant exchange rate, LFL = like-for-like.

UK (H124 % group: revenue 71%, EBIT 87%) The largest UK businesses (ie Triton, Merlyn, Grant Westfield) all performed strongly with each launching new products into their respective channels. As the newest group company, Grant Westfield likely also benefitted from access to previously unserved customers. These companies are understood to generate above average divisional margins, they would have been the primary mix driver behind an improvement in the underlying UK EBIT margin. Their progress was clearly sufficient to offset a slower start to the year for Vado and lower sales at Johnson Tiles (where operating capacity is to be reduced, as flagged at the pre-close stage.

A broadly flat revenue performance y-o-y appears to support management comments regarding market share gains; volume reductions among housebuilders have been well flagged and recent updates from merchants and DIY retailers have also been patchy. The relative revenue performance would also have been boosted by sales into export markets (c.12% divisional sales) in H1.

South Africa (H124 % group: revenue 29%, EBIT 13%) Country-level energy rationing ('loadshedding') that escalated as FY23 progressed continued into the early part of H124. Though the position has improved latterly, project ramifications are still being felt. While Norcros' operations have energy resilience, the impact is felt across the end customer segments that they serve. TAL, an adhesives business with the largest commercial/project-based exposure did relatively well due to share gains, while the House of Plumbing merchanting network held its own against the prior year. Residential and especially newbuild exposure did have an impact on both Tile Africa (TAF) and Johnson Tiles; parallels here are unsurprising given that TAF is a significant customer for Johnson Tiles' products. As these two businesses have relatively high fixed cost bases, a greater downward impact on profitability versus that for revenue is to be expected.

[2] Underlying refers to ongoing business (stripping out the exited norcros Adhesives in FY23 figures and annualising the impact of Grant Westfield, acquired 31 May 2022) on a constant currency basis.

Net debt nudging down, facilities available for growth

End H124 pre-IFRS 16 net debt came in at £46.6m - slightly better that pre-close guidance of 'approximately c £48m' – after a £4.3m net cash inflow for the six-month period, partly offset by a small adverse translation effect on South African cash balances. On a rolling 12-month basis, end September gearing stood at c.1x EBITDA. By the year end, we expect net debt and gearing to have nudged down slightly. By way of context, Norcros has £200m banking facilities (including a £70m accordion) in place to 2026. For the record, Norcros also had £22.3m of lease finance on its balance sheet at the period end.

Positive working capital movement contributes to H124 cash inflow

In our analysis, we treat lease costs as an operating item. Hence, some of the following commentary may differ from the financial statement presentation, though differences are definitional only and, of course, wash out at the net cash flow level.

- **EBITDA** (adjusted for lease costs) was 5% below the prior year at **£22.6m**
- A **working capital inflow of £1.3m** was the net result of notable favourable inventory and receivables movements, largely offset by payables in the opposite direction. It is more typical for Norcros to report a H1 working capital outflow reflecting relative activity levels at the year and half-year stages. The movement in this six-month period was driven by good cash management as well as unwinding year end capital tied up in Norcros Adhesives. (Note that the H123 £11m outflow was also atypically large, reflecting a still buoyant post Covid market at that point coupled with supply chain buffering.)
- **Other, non-underlying cash costs** (ie pension cash contributions and exceptional items) were lower than H123 at **£3.4m**.

The above items gave rise to **Cash generated from operations** (adjusted for lease costs) **of £20.5m**

- Further down the P&L, increased **bank interest** costs (from higher average net debt and cost of finance versus H123) and **lower cash tax** payments (prior year timing and lower South African profitability) meant that the **combined outflow was modestly lower** than the prior year overall at **£5.1m.**
- **Capex** of **£4.2m** was ahead of last year, slightly below our FY24 full year expected run rate but still more than double owned asset depreciation in the period. A breakdown was not separately disclosed, but some spend on intangible assets (including new product development and rolling IT development across operating companies) is likely to be included within this figure we believe.

The resulting **free cash flow inflow** (adjusted for lease costs) **of £11.2m** compared to a marginal outflow in H123. The primary difference between the two trading periods then occurred in the working capital line.

Dividend payments (ie the FY23 final, £6.1m) plus treasury share purchases (£0.8m) explained the remaining cash movements – with no M&A cash outflows - netting down to an **overall group cash inflow of £4.3m**, as noted earlier.

Earnings to settle lower this year then, like dividends, progress steadily

Discussion of Norcros' historic financial performance and our estimates can be found in the Financials section of this report, with Financials Summary tables follow showing our trading expectations out to FY26. In broad terms, we anticipate a similar profit outturn in the second half of FY24 compared to that seen in the first half. This generates an EPS outcome similar to that achieved in FY21 which was largely unaffected by Covid/post-Covid effects (initially negative then strongly positive). Thereafter, we currently factor in steady earnings progression (+c.4% two years CAGR) and dividend growth (+c.2% two years CAGR). In the event that no further acquisitions are made – which we consider unlikely – we would expect pre-IFRS 16 net debt to continue to trend down to c £21m by the end of FY26 (or 0.4x EBITDA in that year).

Company Overview: Strategy, synergy, continuity

Norcros is a market leading multi-channel B2B supplier of bathroom and kitchen products in the UK, South Africa and selected export markets. It comprises eleven individual companies – with a range of operating models and products – that benefit from group supply chain, product development and distribution synergies.

Business development: strategic market focus shapes group progress

The product (tile, shower and adhesive) and retail operations of Norcros generated the majority of group revenue and profitability in FY07 (ie £157m and £16.1m EBIT) as the company joined the Full List later that calendar year. A post-global financial crisis revenue and EBIT trough occurred in FY09 (ie £147m and £7.2m respectively, with South Africa loss-making), before recovering to revenue £210.7m and EBIT of £13m by FY13. Management change occurred during this period, as Nick Kelsall moved from CFO to CEO, and new CFO Martin Payne and soon to be Chairman Martin Towers both joined in H112 also.

At the end of FY13, a five-year strategic plan aimed to double revenue and sustain ROCE in the 12-15% range. A maiden, post-IPO acquisition was made at the end of FY13 (ie Vado) and a further three were added (Croydex, Abode and Merlyn) all in the core UK bathroom and kitchen products space during the 2013-2018 strategic phase. Over the five-year period, we estimate that:

- **Group revenue and EBIT increased[3] by 76% and c.160% respectively,**
- One quarter of this top line growth came from ongoing operations organically (ie South African progress, partly diluted by Johnson Tiles' contraction in the UK). The acquired companies' contribution split broadly 75:25 between pre-acquisition revenue and growth under Norcros' ownership.
- Ongoing UK profitability declined (with Triton progress offset by Johnson Tiles' loss) while UK acquisitions (including progress under Norcros' ownership) and South African operations contributed broadly equally to the above five-year EBIT uplift.
- **Group ROCE rose from 12.6% in FY13 to 18% in FY18.**

An FY19 strategic update (2023 Vision) raised the group revenue target to £600m and ROCE to 15%+ over the cycle. An acquisition at the beginning of FY20 (ie House of Plumbing in South Africa) continued the twin organic and inorganic revenue growth track but the global Covid outbreak in the final quarter of that year effectively disrupted trading progress in that year and the first half of FY21. As a result, the target revenue horizon was extended to FY25. The UK acquisition of Grant Westfield (GW) completed in H123. For the record, we estimate[4] that FY23:

- **Group revenue was c.47% higher than FY18 levels with EBIT ahead by c.61%** on the same basis; just over half of the revenue and c.70% of the EBIT uplift came in the UK,
- UK - revenue +36%, EBIT +71%: organic revenue up c.15% and GW drove the top line. We believe the EBIT uplift was broadly equally due to organic progress and GW. Hence, underlying EBIT margins improved over the period, despite a sizeable loss from the now exited Norcros Adhesives in FY23,
- South Africa - revenue +72%, EBIT +35%: organic progress and House of Plumbing contributed broadly equally here. Prior to the impact of loadshedding on FY23 trading, we believe that underlying EBIT margins were stable overall though ended the five-year period slightly lower than in FY18.

Also, **ROCE was 18.5% in FY23**; it exceeded the 15% threshold target in all five years (range 16.4% to 23.9%, marking the Covid low and post Covid boost years respectively).

[3] Constant currency, FY18 Merlyn annualised (acquired 23 November 2017)
[4] Constant currency, FY23 Grant Westfield annualised (acquired 31 May 2022)

While it is fair to note that Norcros fell short of ambitious revenue targets in both strategic periods, a significant increase in scale has occurred. Ex-Covid disruption, two good-sized acquisitions – no larger than those seen to date – would have seen the original £600m annualised group revenue run rate being achieved in our view. Referencing solely ROCE, an improvement in the quality of group earnings has also been achieved we believe. Even with a slightly subdued end to FY23, the group EBIT margin at 10.7% was still above every other year in the previous ten, 450bp up from FY13 and 160bp higher than FY18. Norcros has acquired good businesses and improved them. Investors should be reassured that financial and operational discipline takes precedence. Strategic revenue targets are there as an indication of scale ambition.

Group synergies enhance the sum of the parts

Norcros has a well-established business model built on combining organic and acquisitive growth. At company-level, Norcros is a curated collection of individual businesses (seven in the UK, four in South Africa) all focused on B2B supply of leading branded products into the bathroom and kitchen sub-sectors.

Group companies are most obviously largely differentiated by product type but also by a range of production processes. Addressing multiple distribution channels in aggregate brings the opportunity for individual companies to broaden their own routes to market and, where appropriate, use shared supply chain expertise. As well as common group functional support (eg finance, HR), these are the high-level group synergies benefitting essentially autonomous operating companies.

Each company has an embedded new product development ethos to support brand position and target market share gains. (One quarter of FY23 group revenue was generated from products launched in the preceding three years). Over time and product cycles, synergistic opportunities should be greater; a re-engineered, lower cost new product selling into a wider sales network potentially offers both scale and margin benefits compared to a stand-alone business. This is a key consideration in M&A activity, where adding complementary businesses in common sectors can bring both immediate and progressive gains and enhance returns. We discuss group strategy later but note here that increasing synergies from existing operations and the inorganic addition of new businesses both form part of management's growth agenda.

Management continuity amidst change

The Norcros senior management team has been notably stable. A recently completed board-level transition[5] might appear to contradict this but the business DNA remains embedded we believe. James Eyre became CFO in 2021 (previously Corporate Development & Strategy director since 2014, succeeding Shaun Smith 2016-2021) and Thomas Willcocks moved to CEO at the start of FY23 (previously UK MD from 2021 and South Africa MD 2009-2021 - succeeding Nick Kelsall). Hence, both executives have had senior roles with Norcros for an extended period informing group strategy development and M&A activity.

They are supported by UK MD-elect Helene Roberts from 1 January 2024 and South African MD Kevin Swan, both of whom being new to the group on becoming MD and each following Thomas Willcocks in the role. Having divisional MDs streamlines executive reporting and provides bandwidth at both Board and regional level to assess, complete and integrate M&A targets. At company-level, three MDs have been in post for thirteen years or more (Johnson Tiles, Merlyn, House of Plumbing), Triton has changed only once (now an eight-year tenure in the role) and three of the other acquired UK companies have also only changed MD once post-acquisition, their replacements coming from within each of the respective companies. In our view, orderly management succession and stability at all levels is a positive reflection of internal culture at Norcros and an important marker for potential business vendors who may join the group in future.

The following pages provide a brief description of Norcros' operating companies, their scale and revenue development plus product and market channel comparisons, all in a group context.

[5] Including NEDs Chairman Steve Good (2023), SID Allison Littley (2019) and Stefan Allanson (2023) who collectively bring strong international manufacturing, supply chain and Plc experience to the Board.

Norcros: Group development & divisional breakdown

Group

March y/e £m	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	**218.7**	**222.1**	**235.9**	**271.2**	**300.1**	**331.0**	**342.0**	**324.2**	**396.3**	**441.0**
Operating Profit	**16.1**	**17.0**	**21.3**	**23.8**	**27.4**	**34.4**	**32.3**	**33.7**	**41.8**	**47.3**
Margin %	*7.4%*	*7.7%*	*10.6%*	*9.5%*	*9.3%*	*11.6%*	*10.8%*	*12.2%*	*12.0%*	*12.6%*
ROCE %	*15.0%*	*16.3%*	*18.3%*	*18.4%*	*18.0%*	*18.2%*	*16.4%*	*18.2%*	*23.9%*	*18.5%*

Group revenue & EBIT margins (FY14-FY23)

Group revenue split (FY23) — UK; South Africa

Group EBIT split (FY23) — UK; South Africa

UK Division

£m	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	**148.0**	**149.1**	**163.0**	**182.3**	**200.6**	**228.1**	**225.4**	**220.2**	**256.7**	**295.8**
Operating Profit	**14.2**	**13.8**	**17.2**	**17.4**	**18.6**	**26.5**	**24.4**	**26.8**	**30.9**	**37.2**
Margin %	*9.6%*	*9.3%*	*10.6%*	*9.5%*	*9.3%*	*11.6%*	*10.8%*	*12.2%*	*12.0%*	*12.6%*

Figures: **revenue £m**

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Triton Showers	**51.9**	**52.1**	**50.6**	**48.7**	**52.8**	**56.6**	**48.6**	**54.5**	**60.1**	**63.7**
Johnson Tiles	**61.7**	**59.7**	**54.1**	**53.2**	**47.1**	**41.4**	**41.7**	**32.8**	**34.2**	**35.3**
Vado	**29.1**	**30.5**	**33.1**	**37.2**	**42.9**	**41.4**	**42.3**	**38.2**	**43.9**	**42.3**
Croydex	**--**	**--**	**17.2**	**24.7**	**24.2**	**21.7**	**23.7**	**24.1**	**27.0**	**25.5**
Abode	**--**	**--**	**--**	**10.6**	**12.8**	**16.2**	**14.8**	**15.0**	**18.9**	**17.7**
Merlyn	**--**	**--**	**--**	**--**	**11.7**	**39.5**	**42.5**	**43.3**	**58.3**	**57.5**
Grant Westfield	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**39.5**

Triton Showers: UK market leader and supplier of electric and mixer/power shower products, kits and compact water heaters. International component supply chain, assembled Nuneaton, UK for domestic & export markets.

Johnson Tiles: Only scale UK manufacturer of wall & floor tiles from two firing kilns in Stoke-on-Trent to in-house design. UK product range and service offer is enhanced through third party imports.

Vado: Premium tap design, sourcing and distribution of proprietary branded bathroom and kitchen tap ranges (& complementary products). Strong commercial focus and exports from its Cheddar, UK base. (2013)

Croydex: Supplier of functional bathroom products using proprietary fixings (eg mirrors, cabinets, seats, rails) and showering accessories sourced overseas to own designs and distributed from a base in Andover. (2015)

Abode: Design and supply of premium branded and own brand kitchen taps and sinks (including specialist hot water and filter products) and ranged bathroom taps & shower fittings. Located in Barnsley. (2016)

Merlyn: Market leading specialist supplier of a broad range of mid to high end shower enclosures, screens & trays, sourced internationally to proprietary designs from a base in Kilkenny.

Grant Westfield: Edinburgh-based manufacturer of Multipanel, a leading brand of premium laminated decorative bathroom panels with a patented locking design. Also supplies luxury vinyl flooring and ceiling panels. (May 2022)

South Africa Division

£m	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	**70.7**	**73.0**	**72.9**	**88.9**	**99.5**	**102.9**	**116.6**	**104.0**	**139.6**	**145.2**
Operating Profit	**1.9**	**3.2**	**4.1**	**6.4**	**8.8**	**7.9**	**7.9**	**6.9**	**10.9**	**10.1**
Margin %	*2.7%*	*4.4%*	*5.6%*	*7.2%*	*8.8%*	*7.7%*	*6.8%*	*6.6%*	*7.8%*	*7.0%*
£ / ZAR - period average	*15.97*	*17.82*	*20.50*	*18.23*	*17.32*	*17.95*	*18.97*	*21.00*	*20.28*	*20.40*
ZAR m										
Revenue*	1,130	1,301	1,495	1,619	1,724	1,848	2,209	2,185	2,831	2,962
Operating Profit*	30	57	84	117	152	143	150	144	221	207

*Approximated using reported UK results and period average £/ZAR rates

Figures: **revenue £m** / ZAR m

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Tile Africa	**43.0**	**45.5**	**45.2**	**57.0**	**62.7**	**63.9**	**56.8**	**54.9**	**75.5**	**75.5**
(TAF)	688	811	927	1038	1086	1147	1074	1153	1531	1541
Johnson Tiles South Africa	**10.6**	**10.3**	**9.8**	**10.8**	**12.6**	**15.0**	**14.0**	**12.5**	**16.5**	**17.9**
(JTSA)	168	183	201	197	219	269	265	262	334	365
TAL Adhesives	**17.1**	**17.2**	**17.9**	**21.1**	**24.2**	**24.0**	**22.1**	**19.2**	**22.5**	**22.5**
(TAL)	274	307	368	385	419	432	418	403	456	459
House of Plumbing	**--**	**--**	**--**	**--**	**--**	**--**	**23.7**	**17.5**	**25.1**	**29.3**
	--	--	--	--	--	--	450	368	510	598

Tile Africa (TAF): Full range retailer of bathroom (and some kitchen) products - sourced from other group companies and third parties - trading from 32 branches (all owned) in major conurbations across South Africa.

Johnson Tiles South Africa (JTSA): Sister company to Johnson Tiles in the UK and the second largest manufacturer of ceramic tiles in South Africa (based in Olifantsfontein, Johannesburg). Range offer is supplemented with imported products.

TAL Adhesives (TAL): Manufacturer and supplier of flooring system fixing & maintenance products (including tile adhesives, grouts, floor screed, sealers, cleaners & coatings) from production plants in Olifantsfontein and Durban.

House of Plumbing: Plumbing merchant specialist serving the commercial, specification and residential building sectors from 7 branches carrying widely sourced pipes, fittings, pumps, valves and fitted products. (2019)

Source: Company, Equity Development. NB Norcros Adhesives (exited FY23) is not shown separately but is included in the UK division and Group figures shown. (Years) in brackets in descriptions are year of acquisition, where relevant.

Norcros: Product focus and channel exposure by operating company

Products (Primary = dark green; Secondary = light green)

	Product types	Abode	Croydex	G.Westfield	J.Tiles	Merlyn	Triton	Vado	J.Tiles SA	H.of Plumbing	Tile Africa	TAL
Bathroom/Wetroom												
Shower units	Electric showers, mixer units, digital showers, thermostatic valves	Secondary					Primary	Secondary			Primary	
Shower areas	Enclosures, screens, trays					Primary	Secondary				Primary	
Taps	Ranges for baths (including shower mixer), basins and bidets	Primary					Secondary	Primary			Primary	
Wall/floor coverings	Composite panels, luxury vinyl tiles, ceramic tiles, mats, fixing systems		Secondary	Primary	Primary				Primary		Primary	Primary
Accessories	Cabinets, rails, mirrors, cabinets/storage, curtains, seats, rails, holders, hooks, flush plates, shower heads/hoses, kits, risers, shelving, waste kits, water heaters	Secondary	Primary			Secondary	Primary	Secondary			Primary	
Other	Sanitaryware									Primary	Primary	
	Plumbing pipes, fittings, valves & pumps									Primary		
Kitchen / Utility												
Taps	Conventional (monobloc, mixer styles) & Pronteau (instant hot water)	Primary									Primary	
Other	Water heaters, sinks, filters	Secondary					Secondary					
Wall/floor coverings	Composite panels, luxury vinyl tiles, ceramic tiles, fixing systems			Primary	Primary						Primary	Primary

Distribution channels (Primary = dark green; Secondary = light green)

	Trade/Commercial	Retail	Other
Abode	Secondary	Primary	
Croydex	Secondary	Primary	Secondary
Grant Westfield	Primary	Secondary	
Johnson Tiles	Primary	Primary	
Merlyn	Primary	Primary	
Triton	Primary	Primary	Secondary
Vado	Primary		Secondary
JTSA	Primary	Primary	
House of Plumbing	Primary	Secondary	
Tile Africa	Secondary	Primary	
TAL	Primary	Secondary	Secondary

Source: Company, Equity Development

Strategy: Enhancing market positions and share gains

As described earlier, it is comparatively early days under this management team in their current roles. Unsurprisingly, no radical change of strategy has been flagged thus far. We suggest that it is reasonable to expect fuller strategy refresh at some point, logically in the coming year. Ahead of that the extended FY18 strategy (from FY23 to FY25) targets of £600m revenue, 50% of revenues derived from overseas and sustainable ROCE of >15% stand as our best current financial benchmarks. As shown in the later financials section, our current FY25 revenue estimate is c.£420m (effectively c.£460m at FY18 average exchange rates). Management has summarised its strategic priorities as follows:

- **Portfolio development** – complementary product acquisitions
- **Organic revenue growth** – new product development, cross-business collaboration
- **Operational excellence** – driving synergies and investing in systems and facilities
- **ESG** – further develop governance and sustainability focus

No acquisitions are assumed at this stage as the timing, scale and financial impact are all unknowns at present. It is worth pointing out that any M&A will be assessed through the lens of the other factors above. We suggest that the early indications are for greater intensity to be brought to internal collaboration to amplify group benefits (under Organic growth and Operational excellence). In addition, separately calling out ESG signifies a more elevated consideration of these aspects at group and, by implication, operating company level. We now consider these aspects in the following sections.

Leveraging the benefits of group - collaboration and agility

Norcros and its operating companies have consistently targeted leading positions and share gains in the sub-sectors served, with management highlighting the fragmented nature of its active product market segments. Behind this headline strategy, we believe that there are two primary elements which have contributed to the company's success here:

- **New product development**; around one quarter of FY23 revenue was generated from products launched in the latest three-year period. A product offer that does not stand still through introducing new design features, improved functional performance and contemporary aesthetics generates customer and end buyer interest and also serves to reinforce business IP and know how.
- **Distribution channel breadth;** most obviously, addressing multiple sales channels broadens the accessible market with scale benefits for operating companies. In addition, offering multiple product types provides the opportunity to access a bigger share of project or customer spend (a so-called, 'one-stop shop' approach).

Bear in mind that **Norcros is a portfolio of companies** characterised by different processes and levels of capital intensity, but new product development and channel diversity are common business features. Collectively they are underpinned by supply chain excellence together with a focus on product availability and service and the benefits of group occurs in areas of overlap.

The graphic on the previous page ('Product focus and channel exposure by operating company') provides an overview of each operating company's

- **product overlap** with others in the group (in the upper panel)
- **primary/secondary market channels** and aggregate divisional exposure (lower panel).

It serves as a useful visual guide for where commonalities exist but also a reference point for who one might expect to collaborate with whom. For example, Norcros' supply chain sourcing presence in China is of

potential mutual benefit for UK companies purchasing metal fittings (ie most of them, save for Grant Westfield, Johnson Tiles), brassware (Triton, Abode, Vado) or injection-moulded parts (Croydex, Triton). Moreover, Tile Africa is a full line bathroom products retailer and has sourced products for sale such as brassware and accessories using group supply contacts. As well as identifying reliable quality supply partners, a collective approach should deliver better buying power in purchasing and logistics to lower unit costs. There are risks of course associated with long offshore supply chains and over-dependence on a narrow supply base, but Norcros appears to have managed these issues well. It is notable that supply chain strengths were of particular value to the group when dealing with initial disruptions at the outbreak of Covid and then during the demand surge that followed putting strains on product and transport availability globally.

Returning to distribution channel breadth, the clearest examples of collaboration have been seen when acquired companies have been introduced to existing group customers whom they previously hadn't accessed. Merlyn is a particular case in point and now supplies many of the leading UK housebuilders while Grant Westfield is also at the beginning of this journey. End market segments grow at differing rates and channels to market evolve over time. Having a broad product offering and customer exposure enables Norcros companies to target faster-growing segments at any point in time which is a de facto way to gain market share. In addition, we believe that it has successfully achieved this by targeting the faster-growing companies within segments. This adaptation to channel dynamics – or 'winning with the winners' - has enabled the UK division to grow revenues with independent, specialist and online retailers to 16% of the UK divisional total from 3% ten years earlier (an uplift of over £40m in value terms) and also grow with online trade platforms (such as Screwfix and Toolstation). These effects have more than compensated for a reduced presence with DIY retailers over the same period.

ESG and sustainability: an operational perspective

In FY23, Norcros formally introduced its updated strategy to embed sustainability across the group and set a 2040 Net Zero carbon reduction target for the first time. We note that Group FY23 carbon emissions were substantially generated from Scope 3 activities and make the following observations:

- **Scope 1** (internally generated) **and Scope 2** (indirect, purchased energy) – **8% of total emissions**

A c.34% reduction is targeted by 2028 versus 2023. Save for tile production, company operations are relatively low-intensity energy users (including tertiary, light assembly, and packaging activities) but operates multi-outlet branch networks in South Africa. Company-level initiatives are being executed to roll out electric fleet vehicles and install low-energy lighting. In FY23, 38 % of electricity used came from renewable sources. In addition, 40% of packaging used was made from recycled materials.

- **92% Scope 3** (indirect upstream and downstream value chain) – **92% of total emissions**

A c.20% reduction is targeted by 2028 versus 2023. The downstream value chain (dominated by product usage) accounts for over two thirds of Scope 3 emissions and upstream activities (led by purchased goods and services) the remaining 30%. Interestingly, inbound and outbound transportation emissions together only account for 4% of the group total. At the product level, only c £10m revenue was attributed to low carbon products in FY23. As far as we are aware, the recycled content of products overall has not been reported upon (with ad hoc exceptions) nor has the recyclable nature of Norcros group products. We expect their metals, plastics, glass, and electrical components all to fall within established recycling waste streams.

Our high-level view of the operational aspects highlighted above points to downstream product usage and purchased goods and services as the key focus for reducing group carbon emissions. We suggest that this places an additional onus on new product development focusing on efficiency of energy and water usage as a potential facilitator here. With around one quarter of revenues coming from products three or less years from launch, the opportunity to do so is clear.

A fuller exposition of Norcros' Sustainability agenda can be found in the FY23 Annual Report, pp46-77.

Financials: Organic and acquisitive growth

The increased scale of the group in both revenue and profit over the last five years coupled with stable, positive cash metrics and attractive underlying returns on capital employed are indicative of a robust operating model and growth platform in our view.

Group financial performance in this period should be viewed in a macro-economic context which created significant operational challenges, particularly in supply chain management. The latest five years trading period was characterised by:

- a stuttering pre-Brexit UK economy initially, followed by
- global market dislocation from Covid closely followed by an equally unprecedented growth/recovery phase and then,
- FY23 impacted by economic uncertainty and rising interest rates in the UK and the South African economy experienced a deteriorating energy supply environment.

Norcros: Five-year trading record (FY19-FY23)

March y/e £m	2019	2020	2021	2022	2023	FY23 v FY18	Comments
Revenue	331.0	342.0	324.2	396.3	441.0	47%	15% organic plus HoP (FY20) and Grant Westfield (FY23)
EBIT	34.4	32.3	33.7	41.8	47.3	73%	
Pre-Tax Profit*	**30.9**	**27.1**	**29.0**	**37.4**	**39.3**	**61%**	Higher finance costs; GW consideration, rising interest rates
EPS* p	**31.7**	**28.2**	**31.1**	**38.2**	**37.4**	**27%**	Merlyn (FY18) & GW (FY23), part equity funded
DPS p	**8.40**	**3.10**	**8.20**	**10.00**	**10.20**	**31%**	
EBIT margin %	*10.4*	*9.4*	*10.4*	*10.6*	*10.7*		*House of Plumbing (HoP)< average, GW/Merlyn> average*
ROCE %	*18.2*	*16.4*	*18.2*	*23.9*	*18.5*		*18%+ mid-point, amongst Covid-influenced years*

*Source: Company, Equity Development *Company norm*

UK: favourable growth/margin mix, action in underperforming operations

Three of the ongoing UK operating companies grew revenue strongly in the period shown including Triton (+21%), Abode (+38%) and Merlyn (+87% LFL). Generating above average margins, this drove divisional margin expansion and Grant Westfield's ten-month contribution in FY23 had a similar effect. Croydex and Vado saw flatter revenue profiles, partly due to variability in export markets. Johnson Tiles diluted divisional revenue progress (down 25%), largely concentrated in the earlier years following a loss of DIY retail market share. We note that Norcros has flagged reduced production here in H224. While Norcros Adhesives did grow revenues to £14.3m, the decision to cease this activity was taken at the end of FY23 based on a sub-scale market position and a significant loss in the year (reported as £2.7m).

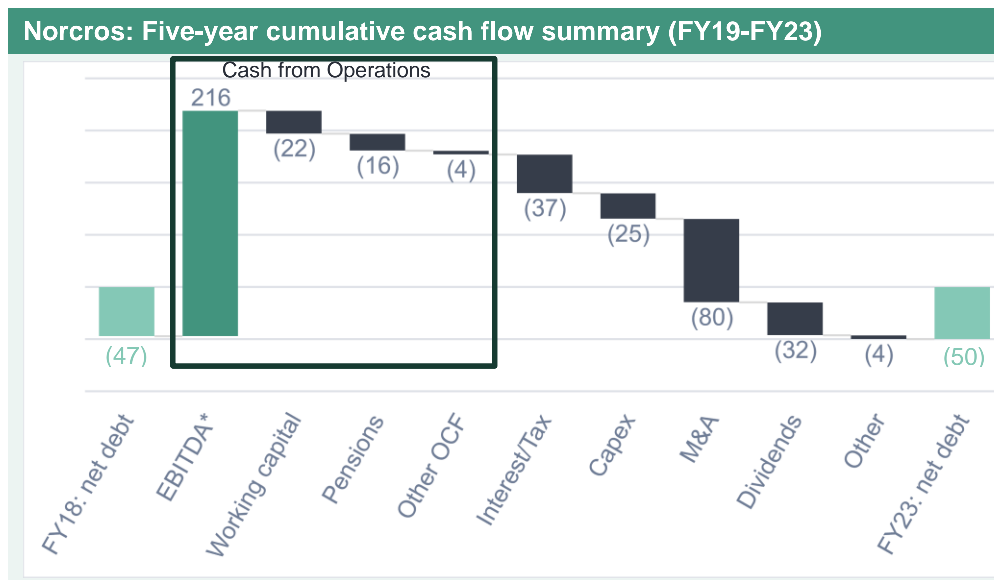
SA: growth across the board, partly offset by adverse FX translation

In local currency terms, divisional revenue expanded by c.72%, of which half was organic, the remainder contributed by House of Plumbing (acquired at the beginning of FY20). There was also a c.18% adverse £/ZAR translation effect over the period. At operating company level, Tile Africa and Johnson Tiles SA both grew revenue strongly (+42% and +67%, benefitting from store refurbishment/range expansion and residential newbuild/commercial projects success respectively). Market leader TAL also continued its growth trends but at a more moderate rate (+10%) with patchier end market conditions, especially exports. We estimate that House of Plumbing revenues have increased by around a half since joining Norcros, partly due to having operated additional branches. Divisional profitability improved, albeit at a slower rate than revenue, driven by Tile Africa and House of Plumbing we believe, though the latter's margin is below the divisional average.

Cash generative, cash control and clear capital allocation approach

Norcros has generated c. £43m EBITDA after lease costs on average over the last five years (including Covid-affected lows of £38m and FY23's record £52m). We calculate that underlying cash conversion has averaged approaching 90% over this period with a further c.8% absorbed by pension deficit recovery payments over the period. Product availability and service is an important part of Norcros companies' offering; we note that working capital intensity (defined as year-end inventory plus trade payables less trade receivables as a percentage of annual revenue) has been very stable at c.28% across this five-year period. The cumulative Cash from Operations figures are shown boxed in the following chart, with other observations made below.

Norcros: Five-year cumulative cash flow summary (FY19-FY23)



Source: Equity Development. EBITDA adjusted, after lease costs*

- **Capex** above has run at £5m p.a. overall which is slightly below depreciation (owned assets) which has been almost £1m higher on the same basis. We note that the shortfall effectively occurred at the beginning of the five-year period and in the last three years capex has been 1x depreciation.
- **Free cash flow** (c.£112m cumulatively, just over half of EBITDA) has in effect been applied in full to:
  - **M&A** – only Grant Westfield was acquired in the period. (The M&A block includes other costs and other deferred remuneration and is shown <u>after</u> c £18m new equity which part funded the GW transaction.)
  - **Cash dividends of £32m**, covered c.3.6x by FCF (per-acquisition spending)

As a result, end FY23 net debt was broadly in line with the level at the beginning of the five-year period and equivalent to 1x EBITDA for FY23 itself.

Pensions: context – material but not onerous, trending towards full funding

Cash payments for the defined benefit pension scheme deficit recovery have increased over time (and were £3.8m in FY23, under an agreed schedule following the March 2021 Triennial review). However, they have consistently been c.8% of EBITDA as mentioned above since FY14. During this time period, an accounting (ie balance sheet) deficit has become a surplus; this did reduce modestly with a sharp increase in discount rates during FY23 but was still c.£15m at that year end. In actuarial terms, the scheme deficit halved from £74m at the start of FY15 to £36m six years later. (The last Triennial valuation date was 31 March 2021 and the next is scheduled for the end of the current year.) Management of the scheme does appear to have been robust despite market turbulence and we see the funding position as stable.

Valuation: Earnings resilience to turn sentiment

Even in the context of a sector seen as cyclical and out of favour, Norcros looks to be a valuation outlier. Although our FY24 estimates are below reported FY23 earnings, we see this as the earnings low point for the current cycle. The company's rating, however, appears to factor in a more bearish outlook. A successful strategy of gaining market share has the effect increasing resilience in downcycles and amplifying upcycles which should support relative trading outperformance generally. Even without factoring in acquisitions, **Norcros is currently being valued on mid to low single-digit earnings multiples** on our estimates and, with yield crossover, also offers **income attractions**. Earnings downside risk is over-exaggerated in our view and investors should not lose sight of the company's mid-cycle earnings capability.

We have seen that Norcros has an established track record of growing revenue and profitability through organic growth and acquisitions. This has been done while maintaining clear focus on its core bathroom and kitchen markets in its primary UK and South African markets and selected export territories. The UK building and construction market is seen as relatively mature, exhibiting cyclicality with underlying growth drivers from RMI (repair, maintenance, and improvement) and population growth. With a comparable population, South Africa is expected to grow more quickly due to faster population growth and urbanisation. In both cases, Norcros' sub-sectors are seen as fragmented and offering market share growth supported by new product development.

Excessively bearish mid to low single-digit earnings multiples

Facing flat UK economic growth and patchy building and construction sub-sectors as well as elevated energy supply concerns in South Africa currently, the near-term outlook is for lower earnings for Norcros in FY24, followed by steady progression thereafter under our estimates. Looking at conventional valuation metrics, Norcros is currently trading on:

- **Current year P/E of just 5.0x,** declining to **4.7x by FY26;** these multiples are more commonly associated with companies that investors are discounting a substantial fall in earnings and/or financial distress, neither of which apply to Norcros in our opinion,
- **EV/EBITDA of 3.9x reducing to 3.2x** two years out. As this is effectively a cash-based multiple, we also look at an adjusted measure, taking recurring pension recovery cash payments from EBITDA (eg c.£4m for Norcros in FY24, rising by annual inflation thereafter, capped at 5%). This generates equivalent pension-adjusted multiples of 4.3x and 3.5x for the current and FY26 years respectively.
- **A prospective FY24 dividend yield of 6.6%**, covered 3x by earnings.

Consequently, the current ratings appear to reflect a significantly larger reduction in base profitability than we have factored in for FY24 in our view. We note that EPS has only been lower than the prior year once in the last ten years which was due to the temporary impact of Covid impacting the end of FY20. Hence, we contend that the company's business model and base profitability is more robust than the current rating is discounting, albeit we acknowledge short-term headwinds.

DCF analysis suggests value from earnings resilience

Using reverse DCF methodology[6] confirms our above assertion of a share price discounting significantly lower profitability. Specifically:

- **A per share DCF value equivalent to the current share price is consistent with c.£30m long-term flat pension-adjusted EBITDA.** (Absent pension recovery cash payments, the required EBITDA is £20m).

[6] Applying our FY24-FY26 estimates and assuming flat EBITDA over the remaining DCF period and recurring pension recovery cash payments (plus 0% terminal growth and a WACC of 10.8%).

- In context, **£42.5m is our comparable FY24 EBITDA estimate** – we expect to this be the low point for the current cycle – **which generates a 222p per share valuation.** (Excluding pensions cash, these figures become £46.5m and 262p per share respectively).
- **Applying our FY26 EBITDA estimate of £45.3m, generates a 244p per share value** (pensions adjusted basis).

Sitting on significant valuation discounts to peer group companies

To provide additional context, we now look at market ratings attributed to selected peer groups of UK-listed companies[7].

Group 1 - Nearest peers: These three companies (Howden, Stelrad and Volution) are more associated with Norcros' core bathroom and kitchen markets with a core UK and differing international exposures. Although the sample size is small, we note that **Norcros sits on c.55-60% P/E and EBITDA discounts compared to this group.**

Group 2 - Other building products manufacturers: These six companies' products have less in common functionally and in situ but have significant exposure to UK RMI markets (noting also that Genuit and Marshalls have greater commercial exposure, while Tyman has a more international sales profile) The overall average valuation metrics for this group are below those of Group 1, though two (Genuit and Marshalls) are more aligned with the Group 1 averages. Nevertheless, **Norcros is also on a c. 40-50% P/E discount and c. 40% EV/EBITDA discount** to average valuations for these companies.

We note that Norcos offers a significant prospective **dividend yield premium** to the two larger Group 1 peers (the exception being Stelrad which has a yield above Norcros) and also to Group 2's average dividend yield (c.28% premium).

Norcros: Peer group comparison

Name	Market Cap £m	P/E (x) FY1	P/E (x) FY2	P/E (x) FY3	EV/EBITDA (x) FY1	EV/EBITDA (x) FY2	Div Yield (%) FY1
Norcros	**138**	**5.0**	**4.9**	**4.7**	**3.9**	**3.6**	**6.6**
Average - Group 1 (3)		12.6	11.6	10.5	8.4	7.9	4.3
Average - Group 2 (6)		9.9	9.0	8.0	6.0	5.7	5.2
Group 1							
Howden Joinery Group	3736	14.6	13.7	12.3	9.1	8.7	2.9
Stelrad Group	122	7.2	5.9	5.0	5.0	4.5	8.0
Volution Group	819	16.0	15.1	14.3	11.1	10.6	2.0
Group 2							
The Alumasc Group	55	6.3	6.0	5.7	4.1	4.0	6.9
Epwin Group	98	7.2	6.7	6.3	5.0	4.9	7.0
Eurocell	129	9.7	8.7	7.3	4.9	4.6	4.8
Genuit Group	724	12.2	11.3	10.1	7.9	7.4	4.0
Marshalls	564	14.2	12.3	10.5	7.5	6.9	3.5
Tyman	535	9.8	8.9	8.0	6.8	6.3	5.0

Source: Koyfin (non-Norcros), Equity Development (Norcros). Prices at 15 November.

[7] Note: the majority of the companies shown have a December year end; in a broadly rising earnings scenario, Norcros would naturally sit on a small ratings discount to these peers, other things being equal. We have not adjusted for year-end differences in order to generate the metrics shown.

Financial Summary

Norcros: Income Statement											
Year end: March	**£m**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024E**	**2025E**	**2026E**
					IFRS16	IFRS16	IFRS16	IFRS16	IFRS16	IFRS16	IFRS16
Revenue		**271.2**	**300.1**	**331.0**	**342.0**	**324.2**	**396.3**	**441.0**	**406.4**	**408.2**	**418.7**
Gross Profit		99.5	109.7	124.2	124.5	118.4	140.8	169.3	156.0	156.7	160.7
EBITDA - pre IFRS16 & SBP		31.6	34.7	42.5	39.0	40.1	48.1	53.5	48.4	49.7	51.6
EBITDA - company		30.2	33.8	41.3	38.6	37.9	45.4	50.5	45.3	46.6	48.5
EBIT - company norm		**23.8**	**27.4**	**34.4**	**32.3**	**33.7**	**41.8**	**47.3**	**42.9**	**43.9**	**45.6**
Net Bank Interest		(0.9)	(1.1)	(1.8)	(1.6)	(1.5)	(0.8)	(3.7)	(5.0)	(5.0)	(4.8)
IFRS16 Interest		0.0	0.0	0.0	(1.9)	(1.7)	(1.7)	(1.8)	(1.8)	(1.8)	(1.8)
Other financial		(2.2)	(1.9)	(1.7)	(1.7)	(1.6)	(1.9)	(2.5)	(1.9)	(1.9)	(1.9)
Profit Before Tax (ED norm)*		**20.7**	**24.4**	**30.9**	**27.1**	**29.0**	**37.4**	**39.3**	**34.2**	**35.2**	**37.1**
Profit Before Tax (company norm)		**22.9**	**26.3**	**32.6**	**28.8**	**30.6**	**39.3**	**41.8**	**36.1**	**37.1**	**39.0**
Intangible Amortisation		(1.2)	(2.2)	(3.5)	(3.7)	(3.7)	(3.7)	(6.2)	(6.6)	(6.6)	(6.6)
Other Non-Underlying Items		(3.8)	(4.2)	(4.3)	(9.3)	(3.8)	(0.2)	(12.0)	(4.3)	(2.9)	(1.9)
Profit Before Tax (reported)		11.5	13.5	25.4	15.0	18.5	33.0	21.7	25.2	27.6	30.5
Tax		(3.0)	(3.6)	(6.0)	(4.1)	(3.5)	(7.3)	(4.9)	(8.2)	(8.5)	(8.9)
Other		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit After Tax (reported)		**8.5**	**9.9**	**19.4**	**10.9**	**15.0**	**25.7**	**16.8**	**17.0**	**19.2**	**21.6**
EPS FD - ED norm (p)		**24.4**	**26.8**	**29.6**	**26.1**	**29.6**	**35.9**	**34.6**	**28.7**	**29.5**	**31.1**
EPS FD - company norm (p)		**27.8**	**29.5**	**31.7**	**28.2**	**31.1**	**38.2**	**37.4**	**30.8**	**31.6**	**33.2**
EPS FD - reported (p)		**13.4**	**14.1**	**23.9**	**13.5**	**18.6**	**31.2**	**18.8**	**18.7**	**21.1**	**23.9**
Dividend per share (p)		**7.2**	**7.8**	**8.4**	**3.1**	**8.2**	**10.0**	**10.2**	**10.3**	**10.4**	**10.6**
Shares - Avge (m)		61.1	68.0	80.2	80.3	80.6	80.9	88.1	89.3	89.3	89.3
Shares - Period End (m)		61.7	80.2	80.9	80.6	80.8	81.0	89.3	89.3	89.3	89.3
Margins (%)											
Gross Profit		***36.7***	***36.5***	***37.5***	***36.4***	***36.5***	***35.5***	***38.4***	***38.4***	***38.4***	***38.4***
EBITDA - pre IFRS16 & SBP		*11.7*	*11.6*	*12.8*	*11.4*	*12.4*	*12.1*	*12.1*	*11.9*	*12.2*	*12.3*
EBITDA - company		*11.1*	*11.3*	*12.5*	*11.3*	*11.7*	*11.5*	*11.5*	*11.1*	*11.4*	*11.6*
EBIT company norm		***8.8***	***9.1***	***10.4***	***9.4***	***10.4***	***10.6***	***10.7***	***10.6***	***10.8***	***10.9***

Source: Company, Equity Development (ED). ED norm includes IAS19R administration & other finance costs

FY23 represented record group revenue, EBIT and EBIT margin for Norcros with a particularly strong second half in the UK, though South Africa did see a rising impact from national loadshedding across its operations. With market challenges and subdued demand, we currently project:

- modest UK revenue growth across our estimate period (or c.2% underlying CAGR, excluding Norcros Adhesives) and slightly better EBIT margins arising from a better divisional mix.
- In South Africa, our estimates assume modest revenue declines in local currency (CAGR -2.3% driven by Tile Africa and JTSA) and associated volume and energy-related margin pressures, though with some incremental margin recovery beyond FY24 which we believe will be most affected by these factors. At current levels, the £/ZAR represents a c 14% translation headwind versus FY23.

Norcros: Cash Flow Statement											
Year end: March	**£m**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024E**	**2025E**	**2026E**
					IFRS16	IFRS16	IFRS16	IFRS16	IFRS16	IFRS16	IFRS16
EBITDA pre IFRS16 & SBP		31.6	34.7	42.5	39.0	40.1	48.1	53.5	48.4	49.7	51.6
Change in working capital		(1.8)	(2.8)	(2.1)	(4.8)	21.8	(23.6)	(13.3)	(0.2)	(0.6)	(3.3)
Other		(4.3)	(8.4)	(5.1)	0.6	(1.9)	(1.2)	(2.5)	(2.9)	(0.7)	0.1
Operating Cash Flow		**25.5**	**23.5**	**35.3**	**34.8**	**60.0**	**23.3**	**37.7**	**45.4**	**48.4**	**48.4**
Tax paid		(1.9)	(4.9)	(4.6)	(5.3)	(3.5)	(6.5)	(7.7)	(7.0)	(7.6)	(8.0)
Investing Activities		**(10.7)**	**(66.8)**	**(7.6)**	**(14.0)**	**(2.8)**	**(5.4)**	**(84.3)**	**(9.8)**	**(8.0)**	**(8.0)**
Income from associates & JVs		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tangible Fixed Assets purchased		(8.0)	(7.7)	(5.6)	(4.8)	(2.8)	(5.4)	(6.0)	(9.8)	(8.0)	(8.0)
Tangible Fixed Assets disposed		0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Intangibles		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Acquisition consideration		(2.7)	(59.1)	(2.1)	(9.2)	0.0	0.0	(78.3)	0.0	0.0	0.0
Disposal proceeds		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other business investments		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing Activities		**(5.1)**	**23.4**	**(9.3)**	**(15.1)**	**(7.2)**	**(16.2)**	**(1.2)**	**(21.3)**	**(21.4)**	**(21.3)**
Net finance income (cost)		(0.9)	(1.1)	(1.8)	(1.7)	(1.4)	(0.8)	(3.7)	(5.0)	(5.0)	(4.8)
IFRS16 interest		0.0	0.0	0.0	(1.8)	(1.8)	(1.7)	(1.8)	(1.8)	(1.8)	(1.8)
IFRS16 lease capital repayments		0.0	0.0	0.0	(3.8)	(4.3)	(4.7)	(4.6)	(4.6)	(4.6)	(4.6)
Equity Issued		0.0	30.1	(0.9)	(0.8)	0.3	0.1	18.1	(0.8)	(0.8)	(0.8)
Dividends paid		(4.2)	(5.0)	(6.4)	(7.0)	0.0	(9.1)	(9.2)	(9.1)	(9.2)	(9.3)
Other		0.0	(0.6)	(0.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Cash Flow		**7.9**	**(24.8)**	**13.8**	**0.4**	**46.5**	**(4.8)**	**(55.5)**	**7.3**	**11.4**	**11.1**
Opening cash/(net debt) pre IFRS16		**(32.5)**	**(23.2)**	**(47.1)**	**(35.0)**	**(36.4)**	**10.5**	**8.6**	**(49.9)**	**(43.6)**	**(32.3)**
Change in Net Cash		7.9	(24.8)	13.8	0.4	46.5	(4.8)	(55.5)	7.3	11.4	11.1
Other		1.4	0.9	(1.7)	(1.8)	0.4	2.9	(3.0)	(1.0)	0.0	0.0
Closing cash/(net debt) pre IFRS16		**(23.2)**	**(47.1)**	**(35.0)**	**(36.4)**	**10.5**	**8.6**	**(49.9)**	**(43.6)**	**(32.3)**	**(21.2)**
IFRS16 lease liabilities					**(25.1)**	**(24.2)**	**(24.0)**	**(24.7)**	**(22.3)**	**(22.3)**	**(22.3)**

Source: Company, Equity Development

Norcros: Balance Sheet											
Year end: March	**£m**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024E**	**2025E**	**2026E**
					IFRS16	IFRS16	IFRS16	IFRS16	IFRS16	IFRS16	IFRS16
Non-Current Assets		**98.8**	**147.9**	**138.0**	**150.8**	**141.2**	**158.8**	**226.8**	**224.1**	**225.0**	**225.9**
Intangible Assets		44.8	98.9	94.9	96.5	93.6	90.3	167.1	160.8	154.2	147.6
Tangible Assets - Owned		43.0	45.0	42.3	29.0	28.0	29.0	24.8	27.7	31.3	34.6
Tangible Assets - RoU		0.0	0.0	0.0	20.6	19.6	19.9	20.0	17.9	17.9	17.9
Other Fixed Assets		11.0	4.0	0.8	4.7	0.0	19.6	14.9	17.7	21.7	25.9
Current Assets		**165.3**	**165.1**	**169.5**	**188.7**	**171.0**	**200.7**	**216.2**	**214.3**	**226.5**	**242.0**
Inventory		70.3	74.9	79.5	78.9	78.1	100.6	103.9	97.2	97.7	100.2
Trade Receivables		53.5	58.5	57.8	56.1	60.4	66.9	78.7	75.5	75.9	77.8
Other Debtors		74.3	5.9	5.0	6.4	4.2	5.8	4.6	6.0	6.0	6.0
Cash		37.5	25.8	27.2	47.3	28.3	27.4	29.0	35.6	46.9	58.0
Current Liabilities		**(105.7)**	**(89.8)**	**(85.1)**	**(79.2)**	**(104.1)**	**(110.8)**	**(112.7)**	**(97.9)**	**(102.7)**	**(108.5)**
Trade Payables		(42.6)	(41.1)	(44.6)	(41.2)	(49.5)	(56.6)	(50.8)	(43.8)	(44.0)	(45.1)
Other Creditors		(32.2)	(40.2)	(36.7)	(32.7)	(49.2)	(48.5)	(55.8)	(47.8)	(52.4)	(57.1)
IFRS16 Lease Liabilities					(5.2)	(5.4)	(5.7)	(6.1)	(6.3)	(6.3)	(6.3)
Short-term Debt		(30.9)	(8.5)	(3.8)	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0
Non-Current Liabilities		**(101.8)**	**(118.6)**	**(96.7)**	**(155.9)**	**(59.7)**	**(48.4)**	**(119.9)**	**(118.5)**	**(117.6)**	**(116.8)**
Long-term Debt		(29.8)	(64.4)	(58.4)	(83.6)	(17.8)	(18.8)	(78.9)	(79.2)	(79.2)	(79.2)
IFRS16 Lease Liabilities					(19.9)	(18.8)	(18.3)	(18.6)	(16.0)	(16.0)	(16.0)
Other Long-term Liabilities		(72.0)	(54.2)	(38.3)	(52.4)	(23.1)	(11.3)	(22.4)	(23.3)	(22.4)	(21.6)
Net Assets		**56.6**	**104.6**	**125.7**	**104.4**	**148.4**	**200.3**	**210.4**	**222.0**	**231.2**	**242.7**

Source: Company, Equity Development

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