Polypipe

CHAIRMAN'S INTRODUCTION

OVERVIEW

I am delighted to present the Polypipe 2017 Annual Report and Accounts following another excellent year for the Group. Despite the continued economic and political uncertainty that has prevailed since the EU Referendum and a mixed UK construction market performance, our end markets continue to perform well, with the Group growing UK revenue significantly ahead of the UK construction market. As well as managing this growth, the Group has also seen a number of key leadership changes during the year, including the retirement of David Hall in October 2017 following 12 years as CEO, and the promotion of Martin Payne from CFO to CEO following David's retirement. Glen Sabin was promoted to the role of Chief Operating Officer and appointed to the Board in October 2017, and the Company Secretarial function was also brought in-house following the appointment of Emma Versluys as Company Secretary. Paul James joined the Company and Board as Chief Financial Officer on 5 March 2018, and I believe that the executive management team is now at full complement following this period of change and well placed to drive the Group's strategy forwards.

In this regard, the Group announced on 31 January 2018 that it had entered into advanced negotiations to dispose of its French subsidiary following a review of the strategic overlap between the UK and French business. Given the French business operates in lower margin product areas, it was agreed to dispose of the business. Completion is expected in the first half of 2018 and, once completed, will allow the Group to focus on its higher margin product areas.

RESULTS

Performance throughout 2017 has been very strong, with a 6.3% increase in revenue to £411.7m and a 6.0% increase in underlying operating profit at £72.6m. UK revenue growth of 8.1% was ahead of the market, primarily as a result of strong growth in the UK residential sector driven by new housebuilds. Underlying operating margin was robust at 17.6%, despite continued input cost inflation, and underlying diluted earnings per share increased by 10.1% to 27.2p per share. Net debt continued to reduce to 1.6 times EBITDA compared with 1.9 times for the prior year.

DIVIDEND

We have again maintained our dividend policy and I am pleased to report that the Board recommends a final dividend of 7.5 pence per share, giving a full year dividend of 11.1 pence per share for the year ended 31 December 2017, a 9.9% increase on the prior year.

STRATEGY

During 2017, the key objectives of the Board included:

- Investigating and prioritising selected development and acquisition opportunities, while the Group continued to reduce leverage.
- Targeting investment to support the continued growth of our key businesses.
- Investigation and development of new export markets.

Good progress was made against these objectives during 2017.

In addition to our ongoing initiatives, in 2018 our attention will be focused upon:

- Continuing to develop our core manufacturing capabilities by investing in further new capacity and automation to help grow both revenues and profit organically.
- Continued progression of the Group's M&A agenda.

PEOPLE

The exceptional effort and ongoing commitment of our employees continues to be a key driver of the Company's strong performance. In 2017, the Board and I spent time visiting our sites both in the UK and France, and continue to be impressed by the knowledge, enthusiasm and commitment of our employees across the Group. Effective and efficient management of our key facilities is critical to the Group's ongoing success, and strong leadership in each business unit by experienced and dedicated management teams is a key differentiator.

In November 2017, the first Save As You Earn (SAYE) options granted in 2014 matured, and employees across the Group were able to benefit from their hard work in driving the Group's growth over the last three years and have the option of becoming shareholders in the Company. The Company issued invitations to join a third SAYE scheme during the year, resulting in 600 (24%) of eligible employees choosing to participate. Across the Group, we now have 30.7% of all employees currently contributing to one or more schemes.

David Hall retired in October 2017 having been CEO during the Company's prior ownership and through its transformation into a public company. I would like to record both the Board's and my own personal thanks to David for his enormous contribution to making Polypipe the successful Group that it is today, and wish him well in his retirement. Martin Payne was appointed as Group CEO following David's retirement and both I and my Board colleagues have been impressed and encouraged by the significant impact he has made since his appointment while continuing to have responsibility for the CFO function in the period before Paul James joined us. The Board changes have been well received within the Group as well as with advisers and shareholders, and the motivation and enthusiasm of our employees has been unaffected throughout this period of change. The Board and I look forward to the next chapter in the Group's growth story under the stewardship of the new executive management team.

SUMMARY

Once again, the Group has made significant progress during 2017. The strong performance in the year is testament to the strength of the growth drivers on which the Group's strategy is based, namely legacy material substitution, tailwinds from both water management and carbon reduction legislation, and development of selective export markets. With a continued focus on investment into engineered solutions to meet those needs, an experienced and dedicated senior management team, committed workforce, and a clear strategy, I am confident that the Group will continue to thrive during 2018.

Ron Marsh
Chairman