

Chief Executive Officer's review

Joe Vorih, Chief Executive Officer

Our Results: Progress in the face of challenge



I am pleased to report that the Group has delivered growth in annual underlying profit performance, against a prior year of strong comparatives with revenue from continuing operations 4.7% higher than prior year at £622.2m (2021: £594.3m), underlying operating profit 3.0% higher than prior year at £98.2m (2021: £95.3m) and underlying basic earnings per share 0.7% higher than prior year at 30.8 pence (2021: 30.6 pence), despite the impact of increased financing costs.

This was a year of considerable macroeconomic and political uncertainty with continued levels of high inflation in materials, energy and labour costs, constraints in the supply of key components (affecting us both directly, and indirectly through the supply chains of our customers) and with an isolated cyber incident in April 2022. I am proud of how our teams responded to all these challenges to deliver these results and I would like to thank them for their dedication and hard work.

As we committed last year, we have improved our commercial excellence and pricing responsiveness in the face of significant inflation. Several robust market-leading price increases throughout the year with shortened implementation periods, combined with

trimming the cost base and boosting operational efficiency to help offset inflation and somewhat weaker demand in the second half. We have also prioritised higher margin business, exiting some less profitable product lines during the year. The tougher trading conditions in the latter part of the year precluded any normal Autumn seasonal uplift – especially in RMI activity – and subdued trading continued until the end of the year.

Our underlying operating margin of 15.8% (2021: 16.0%) was the result of improved pricing realisation from the second quarter largely offsetting the increase in material costs, costs of the cyber incident and constrained boiler supply. We have focused on a more streamlined organisation that will realise synergies, better positioning us for 2023 as profit margins improved to 16.8% for the second half.

We remain a highly cash-generative business, and even after significant capital investment to upgrade our manufacturing and invest in growth, we generated £62.6m cash (2021: £57.2m). Accordingly, the Board has approved a final dividend of 8.2 pence (2021: 8.2 pence).

REVENUE	2022 £m	2021 £m	Change %	LFL Change %
Residential Systems	394.3	372.9	5.7	5.0
Commercial and Infrastructure Systems	227.9	221.4	2.9	0.5
	622.2	594.3	4.7	3.1

UNDERLYING OPERATING PROFIT	2022 £m	ROS %	2021 £m	ROS %	Change %
Residential Systems	79.1	20.1	73.1	19.6	8.2
Commercial and Infrastructure Systems	19.1	8.4	22.2	10.0	(14.0)
	98.2	15.8	95.3	16.0	3.0

Chief Executive Officer's review continued



Robust financial performance achieved in a year of considerable macroeconomic and political uncertainty with continued levels of high inflation and constraints in supply chain.

Our customers: long term climate tailwinds, short term market turbulence

Although we are in a period of short-term turbulence, the Group continues to focus on segments that benefit from secular trends and growth drivers. The transition to low carbon and more efficient heating and cooling, the need to provide the built environment with resilience to the impacts of climate change, and the increasing demands from our customers to help them reduce the carbon content of their supply chains, all provide tailwinds that will drive above market growth in the medium term. Even now, some of these tailwinds are helping us to grow despite subdued markets. Our Nu-Heat underfloor heating and heat pump-based solutions, for example, have grown 21.0% compared to prior year as customers are attracted to the combination of more sustainable products and lower energy bills. The policy landscape also continues to provide tailwinds, with Parts L&F of the Building Regulations, as well as the roll out of the Flood and Water Management Act, all helping to increase adoption of our products through the changes in specification and design. Reducing the carbon equivalent content of our products is fundamental to how we make our business more sustainable, and increasingly it is a

source of competitive advantage as our customers recognise that their purchasing decisions are a key driver of their own Scope 3 impacts.

Housing supply remains a key issue facing the UK. Although developers have reacted to the short-term issues around interest rates, affordability, and the resultant dip in reservation rates by slowing their site opening and starts, we still see a structural housing shortage as being a medium-term growth driver. Despite the Government's declared target of 300,000 units per annum, 2022 was only the second year since 2007 that saw over 200,000 units completed (Source: CPA), and despite the forecast of a dip in 2023, the sector is expected to return to growth in the latter part of the year.

Extreme weather events continue to occur with increasing frequency, and designers and engineers now need to cater for this in terms of greater rainfall and its associated impact on drainage and surface water management. Similarly, our summers are getting hotter, and the need for sustainable cooling solutions has never been greater. We continue to develop innovative solutions across all our businesses to address climate adaptation challenges and improve built environment resilience.

Our strategy: Sustainable Solutions for Growth

At our Capital Markets Day in November, we introduced the strategic evolution of Genuit with our Sustainable Solutions for Growth strategy following a thorough review and refocusing of our strategic plans. The key elements of this new strategy – which has been well-received by both markets and, importantly, our own employees – are as follows:

First, we will focus on higher growth sustainability driven markets. While the broader construction market is expected to grow at low single digits through the cycle, climate-driven investment should drive outperformance in our strategic segments including energy-efficient heating, green urbanisation, and stormwater management.

Second, we will strengthen our current position by becoming the lowest carbon choice supplier for our customers. As our customers implement their net zero commitments, access to the lowest embedded-carbon solutions – an area we already lead – will become increasingly important.

Third, we will simplify the business – making it more focused, agile and profitable. By retaining a decentralised operating model while realising more internal synergy and efficiency with our Business Units, we can invest more in our future growth and improve our profitability.

Fourth, we have committed to creating increasing value for all our stakeholders as we develop and embed the Genuit Business System in all that we do. A relentless focus on improving customer service, simplifying our operations and engendering creative problem-solving with all our people will unlock the full potential of our businesses.

Fifth, we will use this stronger platform to make disciplined and strategic M&A – when the time is right. Our Group will continue to add solution-enhancing, accretive acquisitions while maintaining appropriate levels of leverage and cash generation.

To put this strategy into action and make progress clear, we have reorganised the business into three Business Units – Climate Management Solutions (CMS), Water Management Solutions (WMS) and Sustainable Building Solutions (SBS) – each of good scale and with clear long-term green revenue drivers.

CMS is focused on solving the challenges of low-carbon heating, energy efficiency and clean, healthy air – and includes Nuaire, Nu-Heat, Surestop and Adey.

WMS has the most upward margin potential. It includes some of our compelling blue-green roof and storm water attenuation businesses with the potential to offer more complete solutions and move upstream in the design and specification cycle. Polypipe Civils and Green Urbanisation, Permavoid, Plura and Alderburgh (with our latest Keytec services acquisition) form part of this Business Unit.

Of course, SBS is Genuit's strong core – including Polypipe Building Products, Manthorpe and Polypipe Building Services businesses. With this strong market position, these businesses have the potential to continue to drive share as the lowest carbon choice for the construction industry.

We believe that this structure will leverage our larger scale and lower our cost base, while providing greater strategic alignment and clear focus on growth. Further, we will make this our reporting structure from 2023 onward – transparency that should help our own people and investors alike track the results of our strategy.

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As we take Genuit through this transition, we have set ambitious but achievable mid-term targets. We will work to outperform the UK construction market by 2 to 4% through the cycle – organically. We intend to drive operating margin expansion to 20% and beyond – from self-help, continuous improvement, and operating leverage. We will return to, and then maintain, at least 90% operating cash conversion, and will drive our return on capital to 15% or greater. Of course, we will keep to our net zero and Science-Based Targets (SBTs) commitments and invest in our people – with a measurable goal of achieving The 5% Club Gold membership status.



Well positioned for key secular trends and growth drivers.

Our path to net zero: leading the way

We submitted our SBTs for verification in August 2022. This followed work with a leading consultancy to conduct a thorough carbon inventory so that we are now fully informed on the key components of our carbon impact. Our SBTs are initially based upon improvements by 2027, at which point we will re-calibrate and set targets for the following five years. This first phase of SBTs build upon the 2025 targets which we previously published and put us on a trajectory for being net zero by 2050.

Our Science-Based Targets as submitted are:

- Reduction of the Group's absolute Scopes 1 and 2 GHG emissions by 30% by 2027 from a 2021 base year.
- Commitment that 84% of the Group-wide supplier base, covering purchased goods and services, will have submitted SBTs by 2027.

We are also committed to a reduction of absolute Scope 3 GHG emissions by 13% for our purchased goods and services by 2027 from a 2021 base year.

Our sustainability targets are already a key component of Executive and senior management remuneration, and we are now also adding an annual measure of carbon reduction into the annual bonus arrangements for a wider cohort of our managers to ensure reward is fully aligned with our strategic priorities.

In 2022, we reduced our Scopes 1 and 2 carbon intensity by 3.6% versus prior year. Given the reduction in production volumes in 2022, it is pleasing to report that we still managed to achieve this despite the inherent pressure on efficiencies, and the increased relevance of our base load energy consumption. Since we began to measure ourselves in this way, we have reduced our carbon intensity by 50.2%.

Our use of recycled polymers was broadly similar to the prior year at 48.7% of our total tonnage (2021: 49.4%). Progress was hampered by product mix issues, particularly as housing starts slowed in the second half, and in general we are more able to utilise recyclate in below ground applications rather than, for example, above ground plumbing and heating pipes. We were also slightly delayed in implementing some of the product change projects which form the pathway to our 62% target but expect this to be rectified during 2023.

The proportion of our employees that are in structured training programmes (e.g. apprenticeships, formal graduate programs or sponsored students) reached 3.5% (2021: 3.2%). The share of our net revenue sales derived from products developed in the last five years (Vitality Index) rose to 24.7% (2021: 20.2%).

Our people and culture: purpose-driven performance

Genuit's success is founded on our great people. We are investing in the three key areas of talent, engagement and culture to unlock the full potential of the business and secure Genuit's position as a premium employee brand – crucial to attracting and retaining the best talent.

During 2022, we have strengthened our executive team with the promotion of Matthew Webber as Managing Director of CMS, and by welcoming Steve Currier as Managing Director of SBS. We have launched the Genuit Leadership Team – the seventy or so top leaders across the Group and have made key additions to this team including talent development, lean leadership and financial management.

We have rolled out a new talent development process and created a Group-wide talent pipeline. This includes expanding our commitment to graduate schemes and apprenticeships and strengthening our accredited learning programmes – which have always been important at Genuit. We are investing in technology to benefit our people – we are implementing Workday as our human resources platform, Peakon as our engagement platform and have already deployed Workplace by Meta to communicate and connect with our people.

Building a high-performance culture takes time, but I am encouraged by our progress following my first ever Group-wide leadership conference. We are focusing on the things that matter most – transparency and respect, encouraging a growth-mindset and continuous improvement, and elevating diversity and inclusion as key to our future; something I am very passionate about.

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Outlook

This year has started well and has traded in line with expectations, although we expect challenging and uncertain market conditions to continue into 2023 amongst macroeconomic uncertainty, with continued lower volumes as seen in the second half of 2022. Our expectations for the year have been based upon the CPA Winter Forecast. If there are any deviations from this forecast, the business has proven resilience and agility to adapt in those conditions. However, the actions taken on pricing and the other self-help measures started last year, including further simplification of the business, will maintain the Group's resilience and enhance our capability to respond to improvements in the market.

Through reinvesting these synergies in our people and growth initiatives and keeping a continual focus on margins and cash flow, we are confident that we will start to make measurable progress towards our mid-term commitments. Further, our focus on climate-driven growth, leadership in sustainable materials and enhancing the power of our people through the Genuit Business System, will position us well for the long term. Most importantly, we are building a strong team, with a single sustainable purpose, and look forward to the next chapter in our Sustainable Solutions for Growth strategy.

Joe Vorih
Chief Executive Officer
14 March 2023



Q&A

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Chief Executive Officer

You launched a new strategy last year which underscores your commitment to driving higher growth in sustainability driven markets. Can you explain how you will differentiate and deliver?

We will invest in higher-growth markets that benefit from climate investment. Climate Management Solutions – already a leading UK ventilation and heating business – is well-positioned to deliver solutions that will be needed for the homes and offices of the future. Water Management Solutions already provides a range of stormwater management products and installation services, as well as blue-green roof technology to help adapt to increasingly unpredictable rain and storms. We also committed to strengthening our leadership position in recycling – becoming the lowest embedded carbon choice for our customers. By expanding these solutions – through innovation and acquisition – we are committed to enabling climate-friendly construction to deliver.

How has Genuit Group continued to adapt to the changing conditions in the last year?

2022 was memorable, in the challenging sense – the highest inflation we've seen in decades, an uncertain political stage at home and in Europe, and unsettled financial markets. We reacted quickly by improving our pricing agility and leveraging Genuit purchasing scale Group-wide. We are shifting from 20 or so independent businesses to three strategically-focused platforms that have already begun to drive structural cost synergies. These self-help measures will enable us to return to and exceed historical margin performance. Most importantly, we've kicked off our lean journey and are deploying the Genuit Business System – a source of value creation for years to come.

Climate issues are key areas of focus globally. How is Genuit leveraging the opportunity?

Climate change definitely grabbed headlines in 2022. I believe we've reached a tipping point, and that business is beginning to lead the way to develop the solutions that will enable us to meaningfully mitigate and adapt to climate change. We are well-positioned, having built our climate management and stormwater solutions businesses over the last ten years through acquisitions to be the Genuit we are today. And we are industry leaders in the use of recycled plastics – ready as our customers begin to ask for lower embedded carbon products to meet their net zero commitments.

Can you explain how you are developing Genuit's talent, culture, diversity and inclusion?

Great companies are built by great teams and investing in those teams must remain our top priority. We've created our own Group-wide talent development process, recruited and promoted key leaders for the future and defined a new Group-wide Genuit Leadership Team to drive a high-performance culture, implement our purpose and strategy, and role-model inclusive and diverse leadership that will yield benefits for years to come.

What do you see as your main priorities for 2023?

Our key priorities for 2023 are to embed our Sustainable Solutions for Growth strategy, and to get every one of us at Genuit aligned to deliver for our customers. We will unlock unrealised synergies and redeploy those resources to invest in our future solutions. This is the best way to improve our margins in the face of uncertain market conditions, while we create the high-performance culture and embed the Genuit Business System and lean mindset into absolutely everything we do. I'm more positive than ever about the Group's purpose and growth opportunities, and looking forward to working with our team to realise our full potential.