LUCECO

FULL YEAR RESULTS PRESENTATION
APRIL 2019

Agenda

Introduction and highlights	John Hornby
Financial overview	Matt Webb
Strategy, current trading & outlook	John Hornby
Questions	

Introduction

Who we are

- Luceco is a manufacturer and distributor of high quality and innovative LED lighting products, wiring accessories and portable power products for a global customer base:
  - **Luceco and Kingfisher Lighting**: energy efficient LED lighting products and associated accessories;
  - **British General**: wiring accessories (including switches, sockets), circuit protection and cable management products;
  - **Masterplug**: cable reels, extension leads, surge protection, timers and adaptor products; and
  - **Ross**: television wall mounts, audio visual accessories and other items

What we do

- Luceco operates an integrated model, which includes wholly-owned manufacturing and product development facilities in the UK and China
- This enables the Group to maintain tight control over its cost base and the quality of its products, while allowing new products to be brought to market quickly

Revenue
£163.9m
2017: £167.6m

Established
UK and International sales network

Employees
c.1,600
worldwide

5 strong brands

Integrated model
Wholly owned manufacturing and supply chain

Scalable & defensive
Business with high barriers to entry

Highlights

- Profitability rebuilt in H2 after a challenging H1:
  - Continuing strategic shift towards higher margin sales
  - Pricing amended
  - Overheads controlled
  - Loss-making US operations exited
- Strong financial position:
  - Net debt reduced
  - Currency and commodity hedging improved
  - Long-term funding secured
  - Working capital efficiency improved
  - Finance function strengthened
- Recommending that 2018 dividend of 0.6p per share is paid in full

Confident of return to historic peak margins over time

Financial overview

Income statement

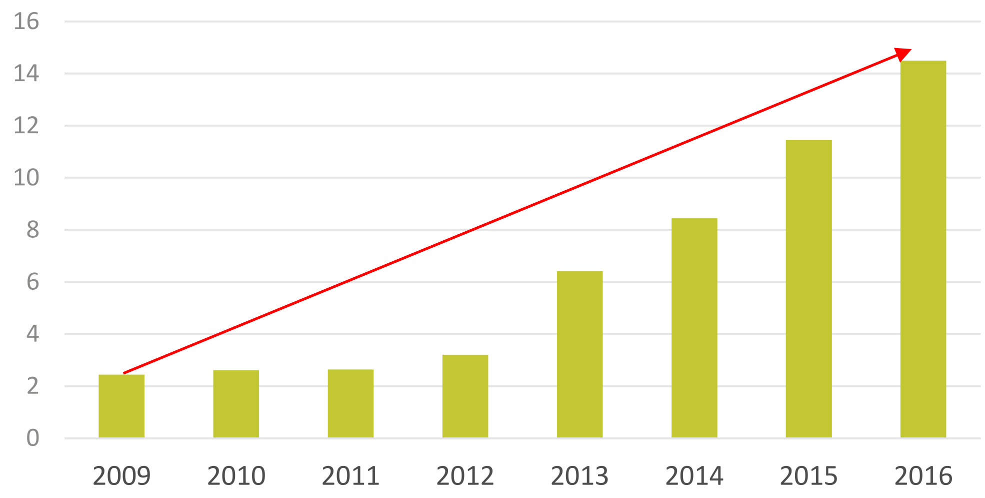
£m	Adjusted H1 2018	Adjusted H2 2018	Adjusted FY 2018	Adjusted 2017
Revenue	**75.1**	**88.8**	**163.9**	167.6
Growth / (Decline) %	***(0.3)%***	***(3.8)%***	***(2.2)%***	
Gross profit	**20.5**	**30.1**	**50.6**	48.4
GM%	***27.3%***	***33.9%***	***30.9%***	*28.9%*
Overhead costs	**(20.5)**	**(21.6)**	**(42.1)**	(33.7)
Operating profit	**-**	**8.5**	**8.5**	14.7
OM%	**-**	***9.6%***	***5.2%***	*8.8%*
Net finance expense	**(1.0)**	**(1.2)**	**(2.2)**	(1.9)
(Loss) / profit before tax	**(1.0)**	**7.3**	**6.3**	12.8
Taxation	**(0.4)**	**(1.3)**	**(1.7)**	(2.3)
(Loss) / profit for period	**(1.4)**	**6.0**	**4.6**	10.5
Basic EPS (p)	**(0.9)p**	**3.8p**	**2.9p**	6.5p

The definition of "Adjusted" metrics can be found in the Appendix

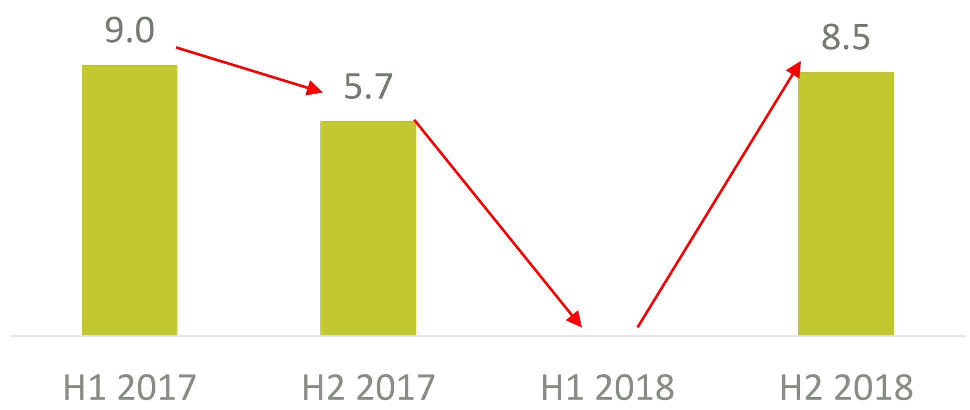
- (2.2)% revenue decline a product of:
  - (4.7)% like-for-like decline
  - 5.1% from acquisitions
  - (0.8)% from US closure
  - (1.8)% from currency movement
- Gross margin improved from 28.9% to 30.9%
  - Significant decline in H1
  - Significant recovery in H2, as forecast
- Overheads increased from £33.7m to £42.1m:
  - Full year effect of 2017 additions / acquisition
  - Investment in support functions
- Operating profit declined from £14.7m to £8.5m
  - £(9.0)m decline in H1
  - Profitability restored in H2: - £2.8m OP growth, 9.6% OM%
- Effective tax rate increased from 18.0% to 27.0%
  - One-off benefits in 2017 (worth 2.3%)
  - High effective tax rate overseas now more dominant
  - Expect 20-25% going forward

Recent results in context

Adjusted Operating Profit 2009 to 2016 (£m)



Adjusted Operating Profit 2017 to 2018 (£m)



The definition of "Adjusted" metrics can be found in the Appendix

- Up until 2016:
  - Continuous, rapid profit growth
  - Market share gains
  - Margin expansion
- 2017 & 2018:
  - UK consumer-facing retail destocking
  - Adverse and unhedged FX/commodity movements
  - Invested too quickly due to incorrect profit baseline
  - Resulting in breakeven result in H1 2018
- Profitability rebuilt in H2 2018:
  - Pricing amendments
  - Favourable and hedged FX/commodity movements
  - Overhead reductions
  - Achieved despite soft UK demand
  - In line with half year guidance

Building a simple and sustainable model

Examples	Past	Present / Future
Growth strategy	Broad Product driven	Profit focused Customer & product driven Continued diversification
Corporate support functions	Lagging growth	Leading growth Best in class
Financing	High leverage for a plc Short term Invoice financing added liquidity risk	Conservative leverage & clear capital structure policy 3 year term (then longer) Less invoice financing, more traditional lending
Inventory	Growth driven	Efficiency driven
Suppliers	Maximise payment terms Supply and funding risk	Balance pricing with payment terms

Capital structure policy

DIVIDENDS

20-30% payout
Progressive

CAPEX

3-4% of annual revenue
Product development
Manufacturing capacity

Conservative leverage

1.0x – 2.0x
Adjusted EBITDA

Averaging 1.5x

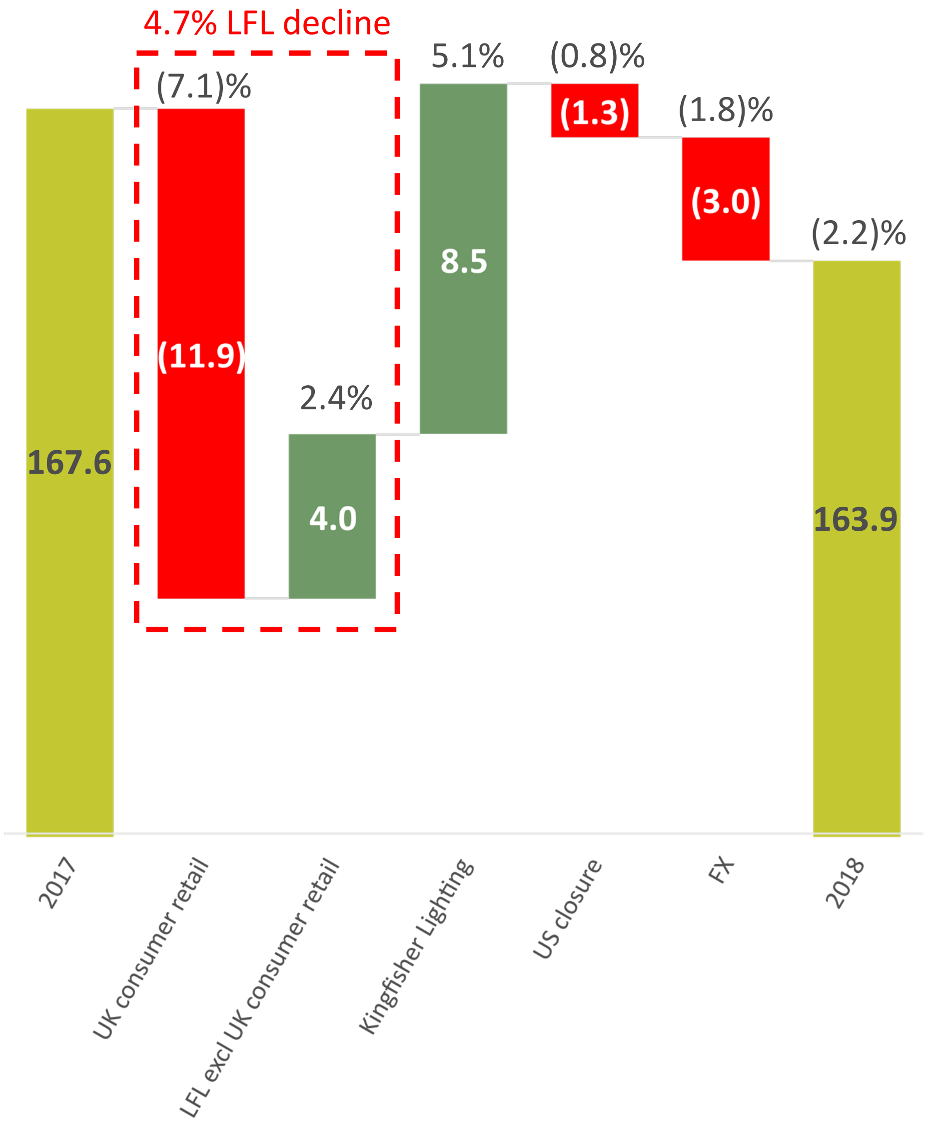
M & A

Product adjacency
Market share consolidation
Clear synergy (e.g. product insourcing)
Dependent on availability

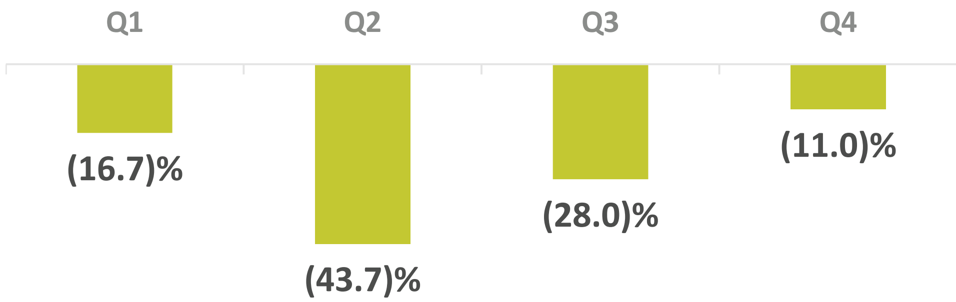
BUYBACKS / SPECIAL DIVIDENDS

Revenue

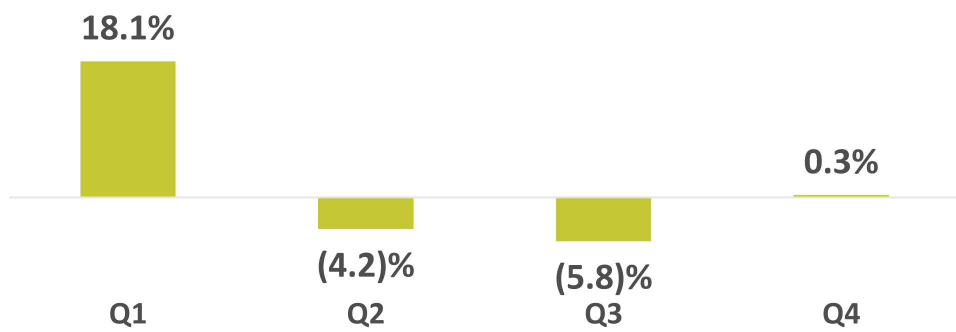
Group revenue bridge (£m)



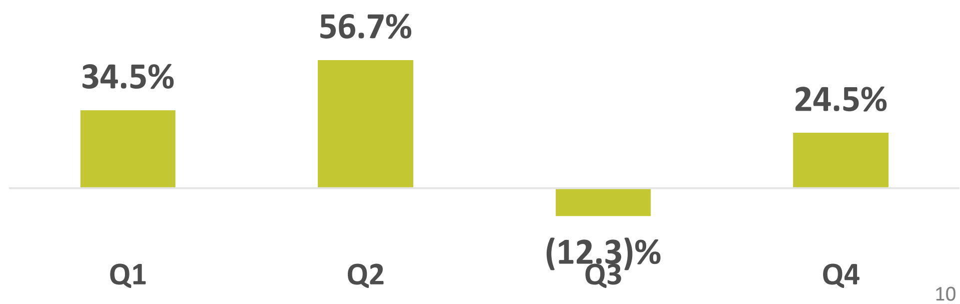
LFL UK Consumer Retail growth %



LFL UK Professional growth %



LFL Overseas growth %



Gross margin

Adjusted Gross Margin % by half year

	H1 2017	H2 2017	H1 2018	H2 2018
Adjusted Gross Margin %	31.9%	26.4%	27.3%	33.9%
FX:				
USD : GBP	1.26	1.32	1.37	1.31
RMB : GBP	8.70	8.79	8.74	8.88
Copper price ($/tn)	5,740	6,462	6,919	6,258

The definition of "Adjusted" metrics can be found in the Appendix

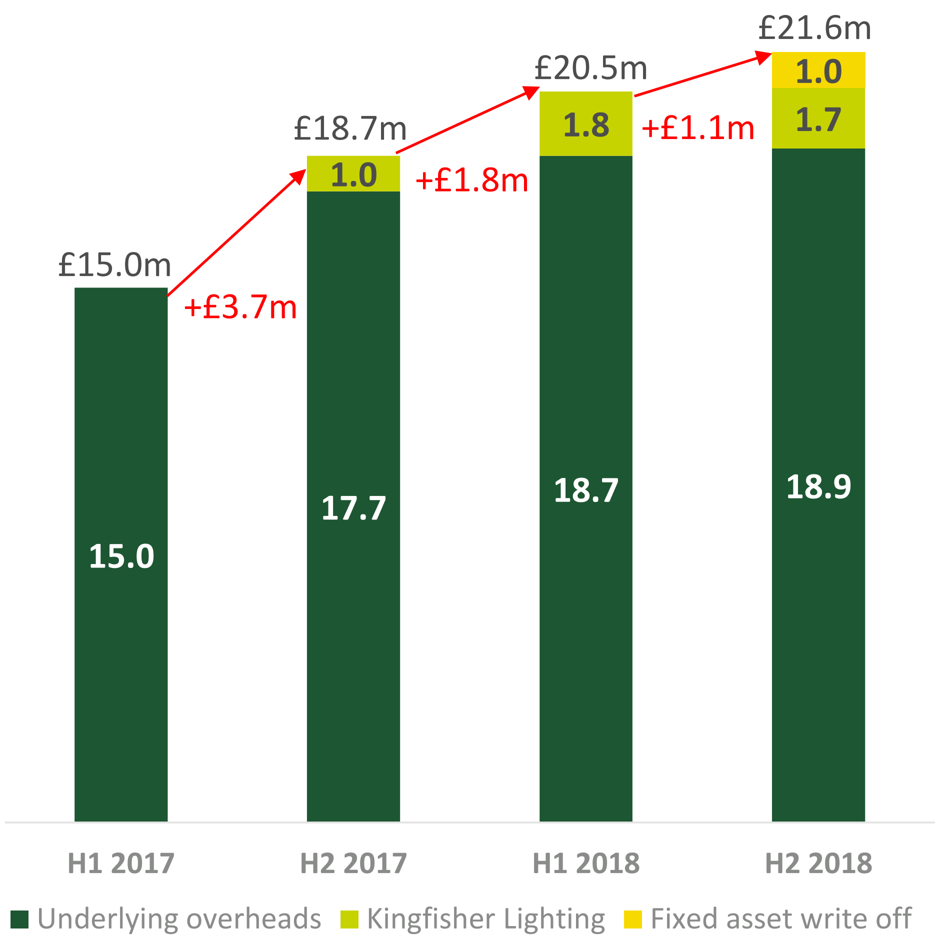
FX Hedging

	USD	RMB
Annual inflow/(outflow) (LC'm)	67.0	(779.1)
FX rates:		
H1 2019	1.32	9.00
H2 2019	1.30	8.87
Hedge %:		
H1 2019	98%	100%
H2 2019	72%	74%

- Two successive halves of weak gross margin
- Rebuilt by end of 2018:
  - Sales mix
  - Pricing changes
  - Improved and hedged FX / commodities
  - Manufacturing efficiency
  - Product engineering improvements
- 2019:
  - FX benefits retained for H1, more challenging rates for H2 but risk is modest
  - Copper slightly higher
  - Competitive pricing environment

Overheads

Adjusted Overheads by half year (£m)



The definition of "Adjusted" metrics can be found in the Appendix

- Significant investment in overheads in 2017 against incorrect profit baseline:
  - Sales and marketing
  - Product development / R&D amortisation
  - Kingfisher Lighting acquisition
- Full impact in H1 2018
- Cost reductions in H1 2018 benefit H2 2018:
  - US closure
  - UK headcount reduction
- Cost reductions benefiting H2 2018 used to fund:
  - £1.0m write off of tooling assets
  - £0.7m underlying increase in depreciation & amortisation
  - Investment in finance function
- Overheads remain under tight control in 2019

Segmental results

	2018			2017[2]
	H1	H2	FY	FY
LED Lighting				
Revenue	**24.2**	**27.6**	**51.8**	44.8
Growth %	***39.1%***	***0.7%***	***15.6%***	
Operating Profit[1]	**(1.4)**	**1.9**	**0.5**	(1.0)
OM %[1]	**(5.8)%**	**6.9%**	**1.0%**	(2.2)%
Wiring Accessories				
Revenue	**31.4**	**34.4**	**65.8**	71.8
Growth %	***(10.5)%***	***(6.3)%***	***(8.4)%***	
Operating Profit[1]	**2.0**	**4.5**	**6.5**	12.1
OM %[1]	**6.4%**	**13.1%**	**9.9%**	16.9%
Portable Power				
Revenue	**16.9**	**24.2**	**41.1**	45.2
Growth %	***(14.6)%***	***(4.7)%***	***(9.1)%***	
Operating Profit[1]	**(0.5)**	**2.0**	**1.5**	4.1
OM %[1]	**(3.0)%**	**8.3%**	**3.6%**	9.1%
Ross / Other				
Revenue	**2.6**	**2.6**	**5.2**	5.8
Growth %	***(13.3)%***	***(7.1)%***	***(10.3)%***	
Operating Profit[1]	**(0.1)**	**0.1**	**nil**	(0.5)
OM %[1]	**(3.8)%**	**3.8%**	**n/a**	(8.6)%

1. Shown on an Adjusted basis. Further details on adjusting items by segment are given in note 2 to the 2018 Full Year Results Announcement.
2. The methodology used to segment the business has changed and comparatives have been restated accordingly. Further details are given in note 1a to the 2018 Full Year Results Announcement.

- All segments experienced a difficult H1 2018
- Portable Power significantly impacted due to highest exposure to retail, currency and copper
- All segments benefited from the turnaround in H2 2018
- All segments profitable
- Lower margin in Portable Power compensated by low capital investment
- LED Lighting returns should improve as investments fully leveraged, subject to conditions in the professional market

Balance sheet

£m	2018	2017[1]	Change
Non-current assets			
Intangible assets	23.3	23.7	(0.4)
Tangible assets	21.5	23.5	(2.0)
	44.8	47.2	(2.4)
Current assets			
Inventory	32.8	44.2	(11.4)
Debtors	41.8	45.3	(3.5)
Cash	4.2	5.6	(1.4)
	78.8	95.1	(16.3)
Creditors			
Trade creditors	(26.7)	(39.0)	12.3
Other creditors	(34.4)	(61.6)	28.0
Creditors < 1 year	(61.1)	(100.6)	40.3
Creditors > 1 year	(21.3)	(1.7)	(20.4)
Net assets	41.2	40.0	1.2
Non-recourse debt factoring	**12.4**	**9.0**	**3.4**
Return on capital invested (%)	**9.9%**	**18.4%**	**(8.5)%**
Inventory days	**112**	**135**	**(23)**
Debtor days[2]	**91**	**87**	**4**
Creditor days	**88**	**111**	**(23)**
Net debt	**32.2**	**37.2**	**(5.0)**

1. The reported comparatives have been restated to reflect reclassifications detailed in note 1a to the 2018 Full Year Results Announcement.
2. Debtor days have been redefined in the period. It is now calculated with non-recourse factoring added back to trade debtors, with the comparative restated accordingly.

- Capex constrained throughout the year
- Significant reduction in inventory
- Cash proceeds used to normalise supplier payment terms
- Net debt and leverage reduced in H2
- Funding restructured to better meet our needs
- Aim to reduce non-recourse debt factoring in 2019

Cash flow

£m	2018	2017	Change
Adjusted operating profit	**8.5**	14.7	**(6.2)**
Adjusted depreciation and amortisation	**6.5**	4.4	**2.1**
Adjusted EBITDA	**15.0**	19.1	**(4.1)**
Adjusted changes in working capital	**1.3**	2.1	**(0.8)**
Other adjustments	**(0.4)**	(0.7)	**0.3**
Adjusted cash generated from operations	**15.9**	20.5	**(4.6)**
Operating cash conversion	***106%***	*107%*	***(1.0)%***
Cash flow from Adjustments	**(2.3)**	(0.2)	**(2.1)**
Net capital expenditure	**(4.7)**	(10.0)	**5.3**
Interest paid	**(2.2)**	(1.9)	**(0.3)**
Tax paid	**(1.3)**	(3.1)	**1.8**
Free cash flow	**5.4**	5.3	**0.1**

The definition of "Adjusted" metrics can be found in the Appendix

- Strong operating cash generation
- Facilitated £9.2m reduction in net debt in H2 2018
- Refinancing:

	At 31 Dec 2017	At 31 Dec 2018
Facility size (£m):		
RCF	20	30
Invoice financing	30	20
Total	50	50
Maturity	June 2019	December 2021
Leverage – actual	1.95x	1.95x
Leverage – covenant	2.50x	Q4 2018: 2.95x Q1/Q2 2019: 2.75x Q3 2019+: 2.50x

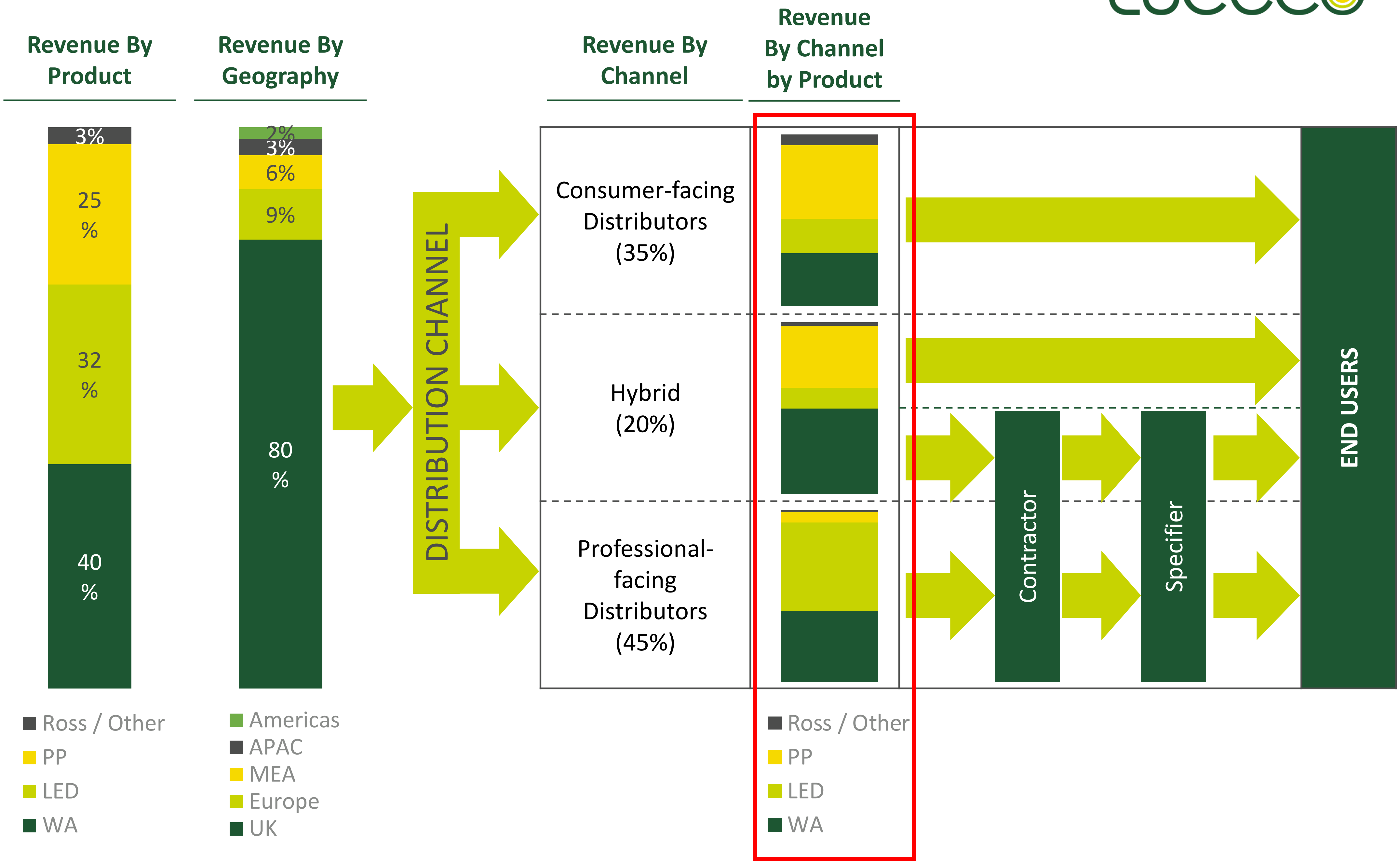
- Propose that 2018 dividend paid in full
- Further deleveraging expected in 2019 to middle of 1.0x-2.0x EBITDA policy range
- Capex normalised after rapid investment in 2017

Strategy and outlook

Reflections on strategy

Strengths	Areas for development
High UK market share / UK channel access particularly retail / barrier to entry	Continued expansion of UK professional / International
Sales execution / greenfield market share gains	Maximising profitable growth / prioritising growth opportunities
Product focus / new product development	Customer service focus / responding to evolving customer needs
Rapidly expanded manufacturing capacity	Optimising manufacturing efficiency & effectiveness
Potential for synergistic acquisitions in fragmented markets	Maximise cash generated by the core business to acquire or return capital

Distribution Map

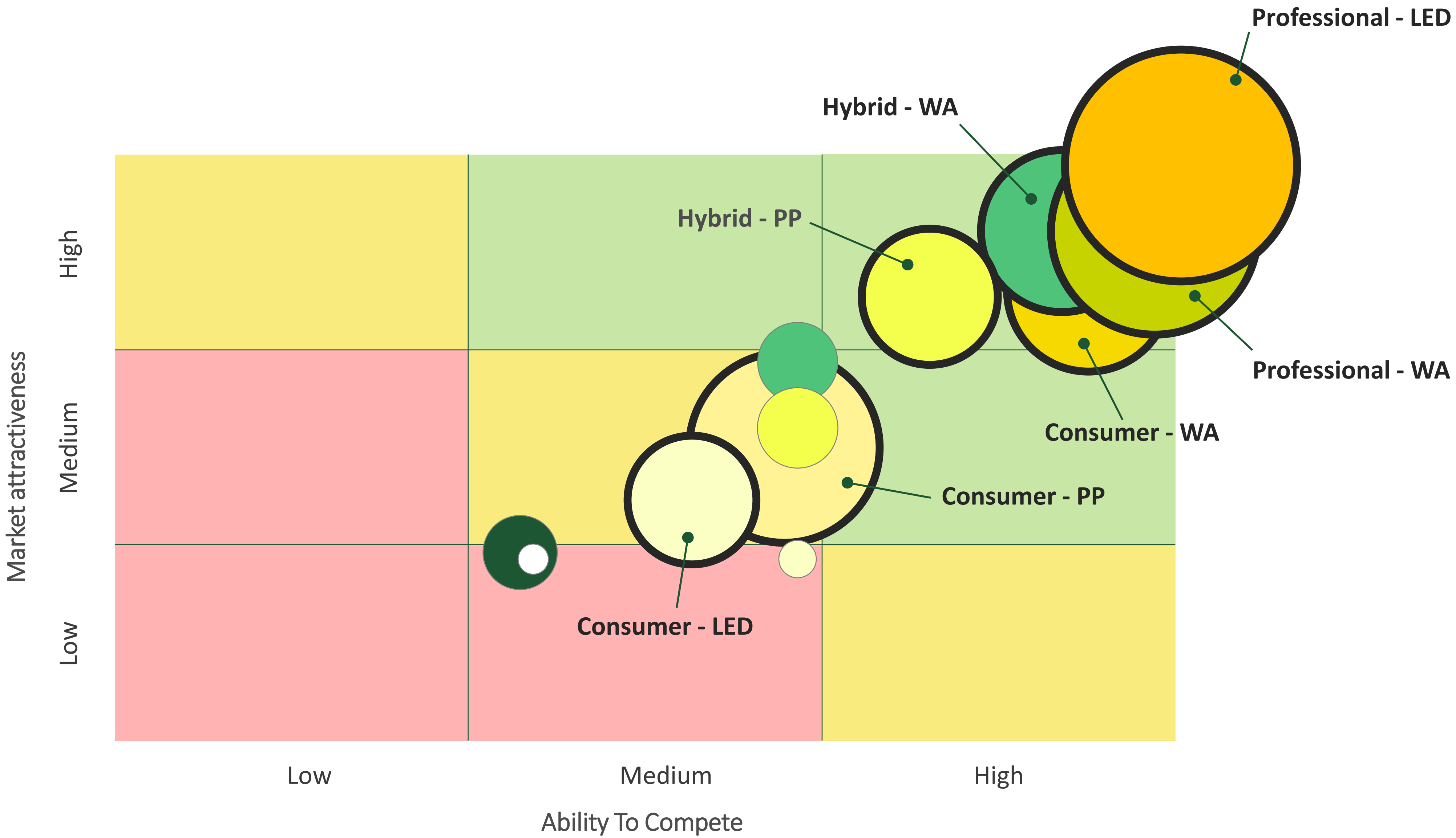


Attractiveness varies

Assessing attractiveness of product / channel segments

Market attractiveness	Ability to compete
Market size	Synergy with existing products
Market growth	Synergy with existing sales channels
Profitability of participants	Synergy with existing fulfilment capability
Barriers to entry	Importance of price vs performance
Market fragmentation	Ability to offer products as part of a solution
Macro-economic risk	Speed to market

Applying to the portfolio



Current trading & outlook

Current trading:

- Strong order book
- Revenue in line with expectations

Outlook:

- Important learnings turned to our advantage
- Stronger and more profitable than we were 12 months ago:
  - Operationally and financially
  - Simpler and more sustainable
  - More focused
- Sound platform for future profitable growth
- Mindful of the current macroeconomic uncertainty
- But confident of reporting 2019 Adjusted Operating Profit comfortably ahead of current market expectations

Appendices

Income statement – adjusted vs reported

£m	Adjusted 2018	Adjustments	**Reported 2018**	Adjusted 2017	Adjustments	**Reported 2017**
Revenue	163.9	-	**163.9**	167.6	-	**167.6**
Growth %	*(2.2)%*	-	***(2.2)%***			
Gross profit	50.6	(1.0)	**49.6**	48.4	-	**48.4**
GM %	*30.9%*	*(0.6)%*	***30.3%***	*28.9%*	-	***28.9%***
Overheads	(42.1)	(2.6)	**(44.7)**	(33.7)	(0.5)	**(34.2)**
Operating profit	8.5	(3.6)	**4.9**	14.7	(0.5)	**14.2**
OM %	*5.2%*	*(2.2)%*	***3.0%***	*8.8%*	*(0.3)%*	***8.5%***
Net finance expense	(2.2)	0.3	**(1.9)**	(1.9)	-	**(1.9)**
Profit before tax	6.3	(3.3)	**3.0**	12.8	(0.5)	**12.3**
Tax	(1.7)	0.2	**(1.5)**	(2.3)	-	**(2.3)**
Profit for the year	4.6	(3.1)	**1.5**	10.5	(0.5)	**10.0**
Profit %	*2.8%*	*(1.9)%*	***0.9%***	*6.3%*	*(0.3)%*	***6.0%***
Basic EPS (pence)	2.9p	(2.0)p	**0.9p**	6.5p	(0.3)p	**6.2p**
EBITDA	15.0	(2.9)	**12.1**	19.1	(0.5)	**18.6**
Covenant EBITDA[1]	16.5			19.1		

1. EBITDA as defined within the Group's loan agreements. For 2018, equal to Adjusted EBITDA excluding proforma losses from closed US operations of £1.5m.

- 2018 PBT Adjustments:
  - US closure costs - £(2.0)m
  - Restructuring costs - £(0.8)m
  - Amortisation of acquired intangibles & acquisition costs - £(0.8)m
  - Mark-to-market adjustment re. FX hedges - £0.3m
- 2017 PBT Adjustments:
  - Restructuring costs - £(0.2)m
  - Acquisition costs - £(0.3)m

Disclaimer

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