2019 Half Year Results Presentation

September 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 wiring accessories, LED lighting and portable power products for a global customer base:
  - **British General**: wiring accessories (including switches, sockets), circuit protection, cable management products, smart devices, EV chargers and office-based accessories;
  - **Luceco and Kingfisher Lighting**: energy efficient LED lighting products and associated accessories;
  - **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, whilst allowing new products to be brought to market quickly

HY Revenue
£82.7m
2018: £75.1m

Established
UK and International sales network

Employees
c.1,500
worldwide

5 strong brands

Integrated model
Wholly owned manufacturing and supply chain

Scalable & defensive
Business with high barriers to entry

Highlights

Operational improvements deliver sustained progress

- Financial highlights:
  - Strong revenue growth of 10.1% (8.1% like-for-like)
  - Excellent conversion of revenue growth into adjusted operating profit growth
  - Return to target leverage: Net debt reduced to 1.5 times LTM adjusted EBITDA
  - Dividend pay-out ratio increased from 20% to 25% - interim dividend of 0.6 pence per share

- Strategic progress:
  - Operational improvements contribute to sustained progress
  - Improved profitability from overseas businesses
  - Significant improvements at Chinese factory
  - Strengthened balance sheet gives increased capacity for investment in future growth

Financial overview

Income statement

£m	Adjusted H1 2019	Adjusted H1 2018	Adjusted FY 2018
Revenue	**82.7**	**75.1**	163.9
Growth / (Decline) %	***10.1%***	***(0.3)%***	(2.2)%
Gross profit	**28.9**	**20.5**	50.6
Gross margin %	***35.0%***	***27.3%***	*30.9%*
Overhead costs	**(21.7)**	**(20.5)**	(42.1)
Operating profit	**7.2**	**-**	8.5
Operating margin %	***8.7%***	**-**	*5.2%*
Net finance expense	**(1.1)**	**(1.0)**	(2.2)
Profit / (loss) before tax	**6.1**	**(1.0)**	6.3
Tax	**(1.2)**	**(0.4)**	(1.7)
Profit / (loss) for period	**4.9**	**(1.4)**	4.6
Basic EPS (p)	**3.1p**	**(0.9)p**	2.9p

- 10.1% revenue increase a product of:
  - 8.1% like-for-like increase
  - (1.1)% from US closure
  - 3.1% from currency movement
- Gross margin improved from 27.3% to 35.0% driven by:
  - Manufacturing efficiencies
  - Design changes to save cost
  - Price updates / mix
  - Favourable currency / commodity price movements
- Overheads increased from £20.5m to £21.7m:
  - Wage inflation and variable pay
  - China restructuring
- EPS of 3.1p, 4.0p ahead of the prior year

UK macroeconomic environment

UK GPD Growth By Quarter (%)

Source: Office for National Statistics

UK Construction Annual Growth (%)

Source: Office for National Statistics / Construction Products Association

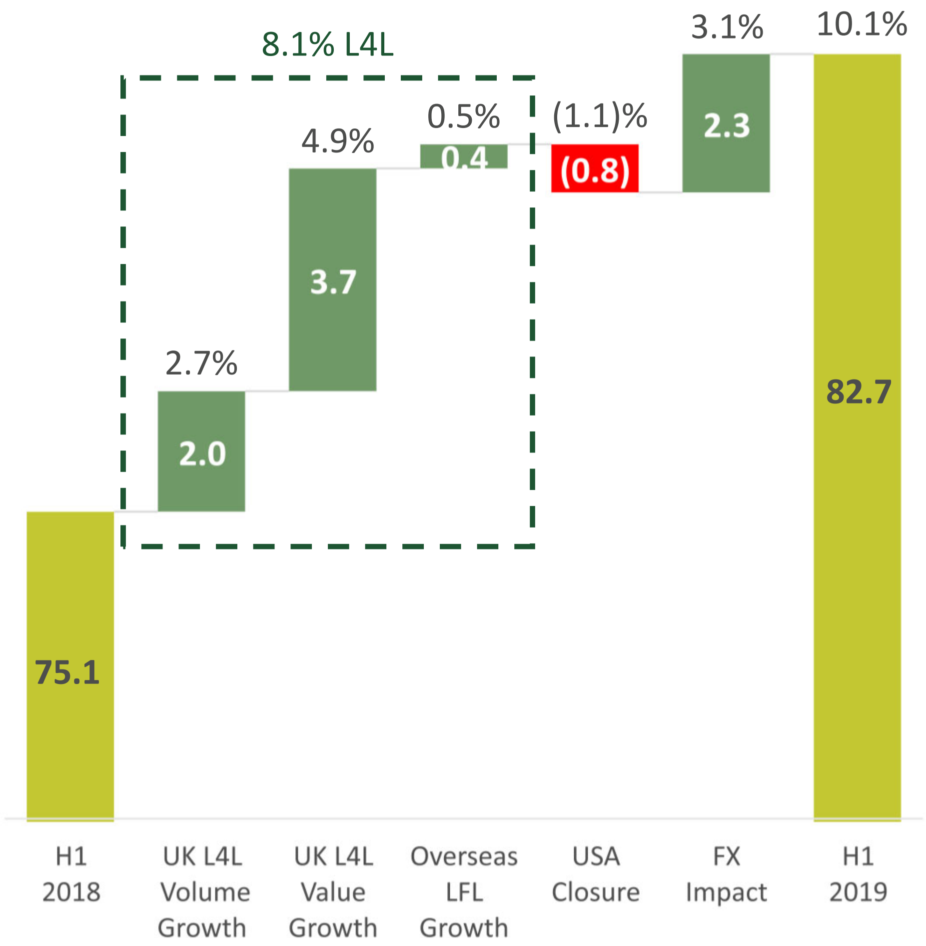
UK Business Confidence Index

Source: ICAEW Business Confidence Monitor

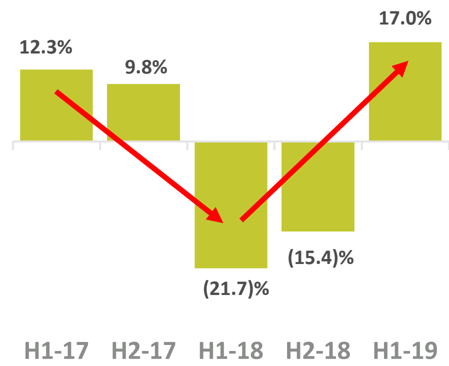
- UK revenue is 80% of Group total
- Group performance has improved versus last year in tougher market conditions:
  - Brexit uncertainty continues to limit business investment
  - Lack of house price growth is constraining discretionary residential investment
  - Some structural shifts in activity e.g. new build retail
- Conditions likely to remain challenging in the near-term until the political landscape is clarified

Revenue

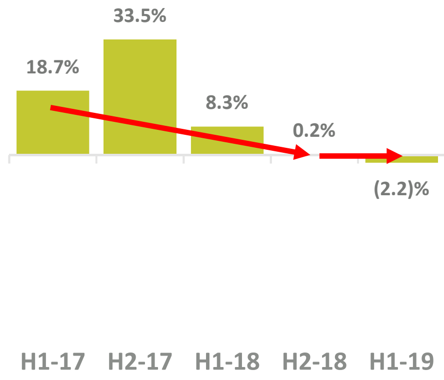
Revenue bridge (£m)



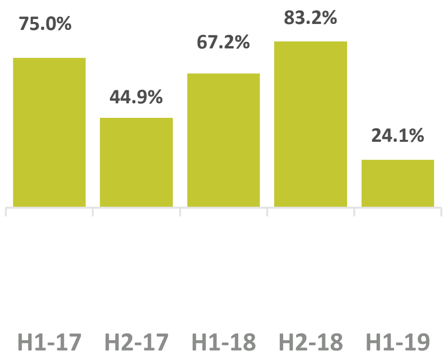
UK Retail Growth* %



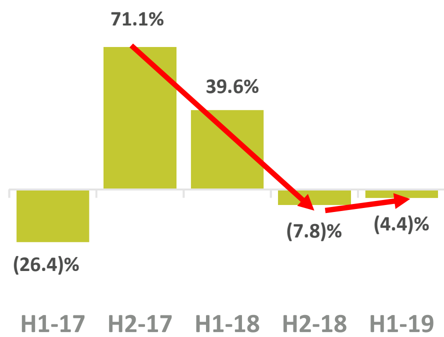
UK Professional Growth* %



Europe Growth* %



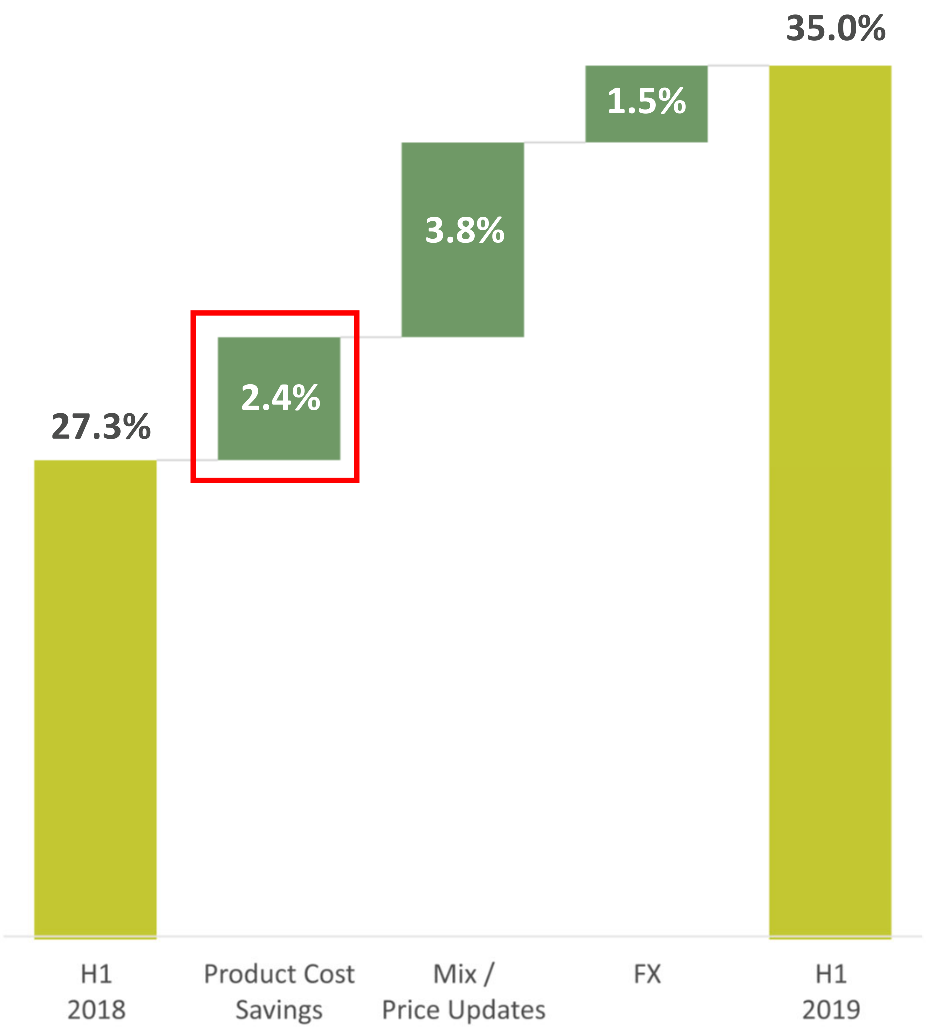
Rest of World Growth* %



** Like-for-like growth ("L4L") rates at constant currency*

Gross margin bridge (%)

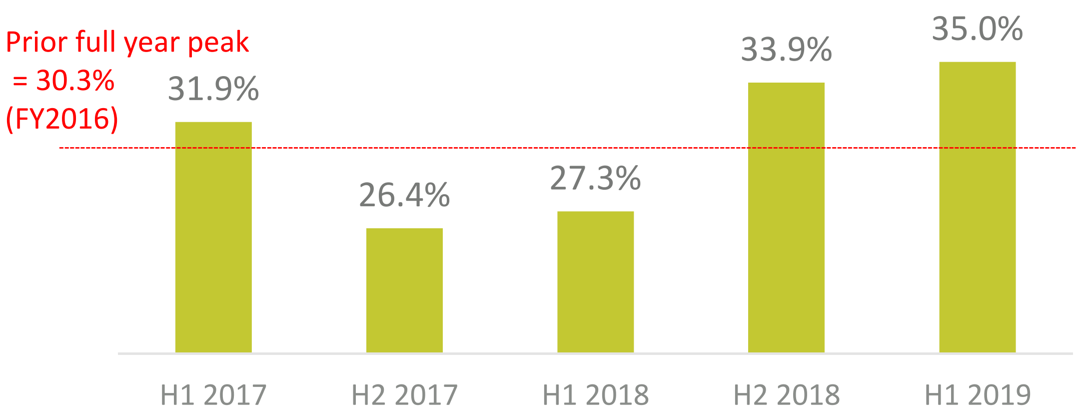
Adjusted gross margin bridge (%)



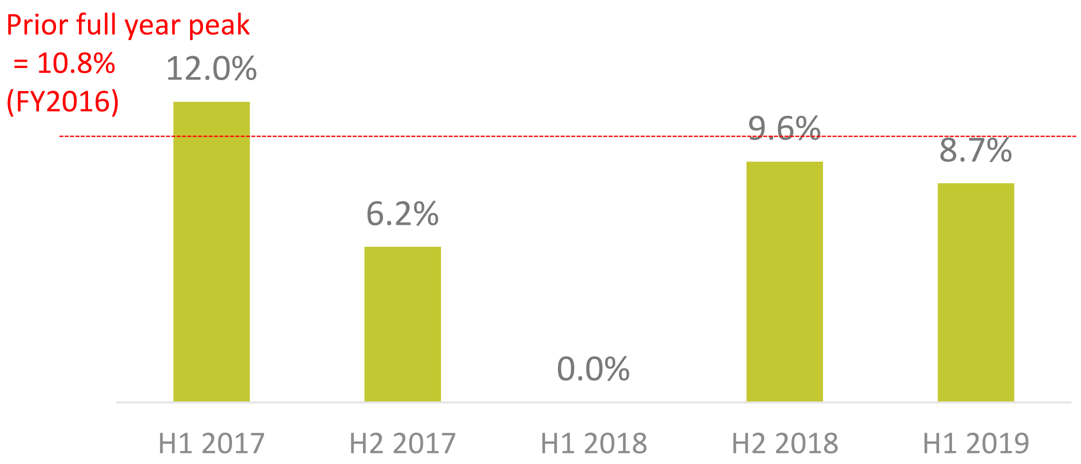
- Gross margin recovery against a weak comparative
- Gross margin of 35.0%:
  - 7.7% better than H1 2018
  - 1.1% better than H2 2018
- Important benefit from product cost savings:
  - Factory headcount reduced by 8.2% (average YOY)
  - Design changes focused on cost savings
- Product cost savings should continue to sustain margins despite sterling weakness

Profitability rebuilt in challenging market conditions

Adjusted gross margin 2017 to 2019 (%)



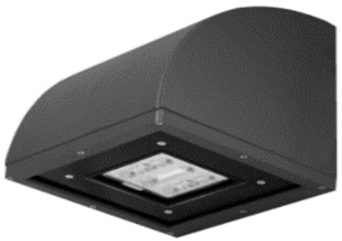
Adjusted operating margin 2017 to 2019 (%)



- Gross margin:
  - Recovery underlines strength of our market position
  - On track to deliver a new full year peak
  - Margin expansion will be an important source of profit growth until the UK market improves
  - Further expansion targeted for H2
- Operating margin:
  - H1 operating margin typically 1-2% lower than H2 due to seasonality
  - Consensus is for near double-digit full year operating margin

Product cost savings

Example Product Cost Savings



-67%

Quarto

-42%

Alfresco

-25%

Deco

-52%

Hellvellyn

-37%

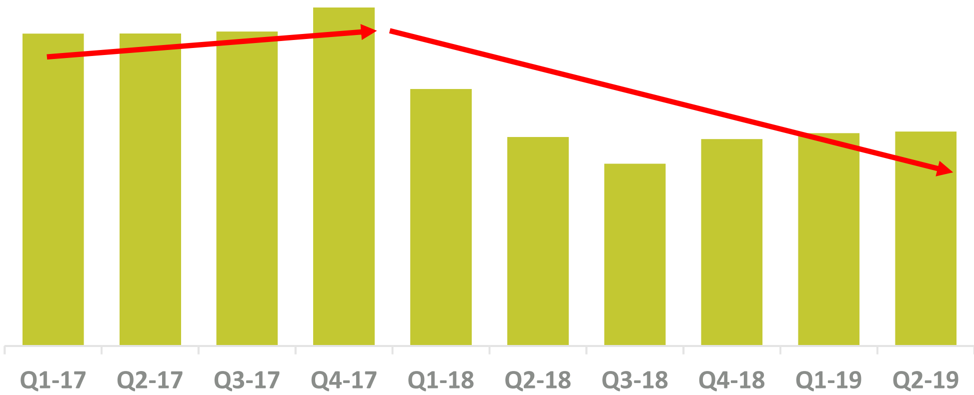
Fortis

-£500k pa

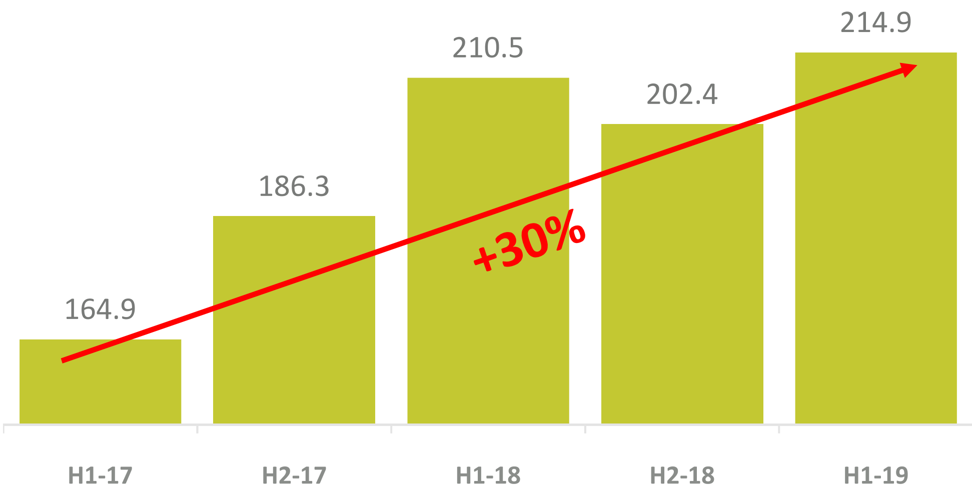
Packaging

Chinese factory efficiencies

China Headcount



Production Output Per Head (RMB 000s)



- Chinese factory produces circa 50% of products sold – a key driver of Group profitability
- Downturn in Group performance in 2018 used as the catalyst for a step change in factory efficiency: 30% improvement in 2 years
- Key drivers:
  - Focusing on efficiency rather than capacity expansion
  - Focusing on a narrower range made better
  - Designed for production
- Recent management changes are expected to sustain improvement

Segmental results

£m	Adjusted H1 2019	Adjusted H1 2018[1]
Wiring Accessories		
Revenue	**34.1**	31.2
Growth %	***9.3%***	
Operating profit	**5.9**	1.1
Operating margin %	***17.3%***	*3.5%*
LED Lighting		
Revenue	**25.6**	25.2
Growth %	***1.6%***	
Operating profit/(loss)	**0.4**	(0.9)
Operating margin %	***1.6%***	*(3.6%)*
Portable Power		
Revenue	**20.5**	16.8
Growth %	***22.0%***	
Operating profit/(loss)	**0.9**	(0.1)
Operating margin %	***4.4%***	*(0.6%)*
Ross / Other		
Revenue	**2.5**	1.9
Growth %	***31.6%***	
Operating profit/(loss)	**-**	(0.1)
Operating margin %	*-*	*(5.3%)*

1 The methodology used to segment the business changed at the end of 2018. Comparatives have been restated accordingly.

- Performance improvement across all segments
- Wiring Accessories:
  - Established, high quality business generating the majority of the Group's profits
  - Renewed UK retail demand drives strong revenue growth
  - Largest improvement in segmental gross margin
- LED Lighting:
  - Slower growth than previous periods due to more hesitant UK LED Project demand & a gradual exit from commodity lines
  - Better mix & product sourcing yields higher gross margin
  - Better operating margin will follow as UK macro picture improves and overseas investments pay back
- Portable Power:
  - UK Retail demand / price updates / commodity deflation drives healthy recovery
  - Lower than average operating margin compensated by lower capital intensity than other segments

Balance sheet

£m	H1 2019	H1 2018	FY 2018	Change vs FY 2018
Intangible assets	**23.1**	23.8	23.3	**(0.2)**
Tangible assets	**22.3**	23.8	21.5	**0.8**
Non-current assets	**45.4**	**47.6**	**44.8**	**0.6**
Inventory	**34.5**	41.5	32.8	**1.7**
Debtors	**41.2**	33.8	41.8	**(0.6)**
Cash	**5.2**	4.1	4.2	**1.0**
Current assets	**80.9**	**79.4**	**78.8**	**2.1**
Trade creditors	**(24.6)**	(32.7)	(26.7)	**2.1**
Other creditors	**(18.0)**	(54.4)	(34.4)	**16.4**
Creditors < 1 year	**(42.6)**	(87.1)	(61.1)	**18.5**
Creditors > 1 year	**(42.0)**	(4.6)	(21.3)	**(20.7)**
Net assets	**41.7**	35.3	41.2	**0.5**
Non-recourse debt factoring	**9.4**	6.9	12.4	**(3.0)**
Return on capital invested (%)[3]	**18.3%**	7.3%	9.9%	**8.4%**
Net working capital[1]	**48.2**	43.5	45.8	**2.4**
Inventory days	**114**	142	112	**2**
Debtor days[2]	**95**	95	91	**4**
Creditor days	**79**	100	88	**(9)**
Net debt	**36.4**	41.4	32.2	**4.2**

- Capex spend remains modest:
  - Ample factory capacity
  - Competitive product range
- Working capital remains under tight control:
  - Inventory days stable around last year end position
  - Slight reduction in creditor days since last year end due to Christmas shut down effect
- Net debt reduced by £1.4m in underlying terms:
  - Reported net debt increases from £32.2m to £36.4m
  - But this includes £2.6m due to IFRS 16 adoption and £3.0m due to reduced non-recourse debt factoring

1. Net working capital comprises inventory, trade debtors and trade creditors.
2. Debtor days are calculated with non-recourse factoring added back to trade debtors
3. Return on capital invested comprises adjusted operating profit for the 12 months ended for the period of review divided into the sum of net assets, net debt, and non-recourse debt factoring (averaged for the opening and closing period)

Cash flow

£m	H1 2019	H1 2018	Change
Adjusted operating profit	**7.2**	-	**7.2**
Adjusted depreciation and amortisation	**3.4**	2.4	**1.0**
Adjusted EBITDA	**10.6**	**2.4**	**8.2**
Adjusted changes in working capital	**(4.2)**	(0.1)	**(4.1)**
Other items	**-**	(0.2)	**0.2**
Adjusted cash generated from operations	**6.4**	**2.1**	**4.3**
Operating cash conversion	***60%***	*88%*	***(28%)***
Cash flow from Adjustments	**-**	(0.8)	**0.8**
Net capital expenditure	**(1.4)**	(3.1)	**1.7**
Interest paid	**(1.2)**	(0.8)	**(0.4)**
Tax paid	**(1.7)**	(1.4)	**(0.3)**
Free cash flow	**2.1**	(4.0)	**6.1**
Proceeds from new loans	**2.7**	2.5	0.2
Dividends paid	**(0.9)**	-	(0.9)
Treasury shares purchased	**(2.3)**	-	(2.3)
Lease Liabilities	**(0.6)**	0.2	(0.8)
Net increase/(decrease) in cash	**1.0**	**(1.3)**	**2.3**

- Operating cash conversion reduced by repayment of non-recourse debt factoring – underlying cash conversion of 90%
- Net capital expenditure equal to 1.7% of revenue – below target range of 3-4% - some pick up expected in H2
- Accelerated EBT share purchase of £2.3m in the period
- Net debt to Adjusted EBITDA ratio at 1.5 which is around the mid point of our target range of 1.0 to 2.0 times
- Dividend pay-out increased from 20% to 25%
- Greater capacity for investment in future growth

Strategy and outlook

Strategy update

1. Increase sales to professional customers	2. Increase sales to international customers & improve international profitability	3. Enter new markets that are synergistic with our existing business
Increased share of a challenging UK market	Overseas business contributes first net profit	Smart Devices
Simplified pricing structure that rewards customer loyalty	European Retail: strong growth in H1, more repeat business	EV chargers
Sales force training, particularly LED	European Professional: investment in sales team	USB-C sockets
Increased contractor engagement	French management team successfully restructured & operating costs reduced	Office Electrics
Improved customer intelligence & marketing		3-Phase Circuit Protection
Investment in KFL sales function		
Investment in UK fulfilment		
Developing B2B online capability		

4. Maximise manufacturing efficiency	5. Maximise shareholder returns, maintain capital discipline, seek targeted acquisitions	6. Maintain best practice corporate governance
New management team in China	Leverage reduced to 1.5x EBITDA	Ongoing investment in compliance functions
Step change in factory efficiency delivered	Less reliance on non-course debt factoring	Ongoing investment in finance systems / IT
Intelligent use of outsourcing – factory now more focused on a narrower range	Dividend pay-out increased to 25%	Closer functional integration across the Group (e.g. Finance, HR, IT)
Clear opportunity for further improvement	M&A team created	Investment in the Group Board

Current trading & outlook

Current trading:

- Low single digit revenue growth
- Further gross margin expansion
- Overheads well controlled
- Early Q4 order book now visible, but order conversion will be affected by Brexit

Outlook:

- Good H1 numbers reflect a range of operational improvements
- These will sustain our progress as revenue growth slows in H2 as we face tougher comparatives
- Group trading well and has started H2 ahead of expectations
- Maintaining guidance, conscious of UK economic risks posed by a potentially disruptive Brexit

Questions

Disclaimer

This presentation and information communicated verbally to you may contain certain projections and other forward-looking statements with respect to the financial condition, results of operations, businesses and prospects of Luceco plc. These statements are based on current expectations and involve risk and uncertainty because they relate to events and depend upon circumstances that may or may not occur in the future. There are a number of factors which could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements.

Any of the assumptions underlying these forward-looking statements could prove inaccurate or incorrect and therefore any results contemplated in the forward-looking statements may not actually be achieved. Nothing contained in this presentation or communicated verbally should be construed as a profit forecast or profit estimate. Investors or other recipients are cautioned not to place undue reliance on any forward-looking statements contained herein. Luceco plc undertakes no obligation to update or revise (publicly or otherwise) any forward-looking statement, whether as a result of new information, future events or other circumstances. Neither this presentation nor any verbal communication shall constitute an invitation or inducement to any person to subscribe for or otherwise acquire securities in Luceco plc.