INTERIM RESULTS – SIX MONTHS ENDED 31 OCTOBER 2016

JANUARY 2017

PRESENTING TEAM

Peter Cheung
Executive Chairman

Steve Crossley
Chief Executive Officer

James Flude
Chief Financial Officer

OVERVIEW

OVERVIEW

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IPO
raised £63.5m

- Successful IPO on 10 June 2016, raising £63.5m
- Net debt since flotation has reduced by £3.2m to £19.9m with IPO deal fees at £1,971k

8.8%
growth in revenue

- Trading in line with our expectations and progress against our strategic goals
- October and November revenues record months
- Revenues for the six months grew 8.8% or £5.2m to £63.9m - continued growth of Private Label into the Discounters

50%
share of discount market

- Our share of the growing discount sector has increased to circa 50% through organic growth with existing customers and the previously advised Lidl contract

>£10m
early indications of Lidl revenues

- Lidl contract launched in Oct 16:
  - Early indications are that revenues will be more than the £10m pa announced
  - Launch included exclusive new soft premium tissue NTT (New Tissue Technology)

25k te
increase in capacity

- New Leyland site progress on target with production starting end of January 2017
- When fully operational, this will take our total capacity to 143k te or c. £160m - £180m pa

OVERVIEW (CONTINUED)

7
senior heads recruited

- Family transition complete
- Fully functioning Operating Board
- Recruited key roles – Manufacturing, Supply Chain, HR, Procurement and Engineering

1.1%
improvement in gross margin

- Significant hedging pre and post EU referendum together with securing parent reel prices at FY16 exit levels delivered a c. 1.1% improvement in gross margin

2p
interim dividend

- As indicated at IPO, interim dividend of 2p per share, to be paid 3 February 2017

4
plc boards

- Four plc board meetings since listing together with our inaugural AGM on 30 September with all resolutions passed

KEY PRIORITIES

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GROW THE TOP LINE

	Objective	Progress
Discounters	▪ Organic growth through Discounters	▪ Our share now circa 50% (35% at IPO) ▪ Fastest growing segment (c. 10% pa) ▪ Quality products at good prices offering great value
	▪ New contract wins – Discounters	▪ Lidl £10m (Oct 16), Booker £6.5m (Apr 16) Poundstretcher £5.0m (May 16) ▪ Early indications are Lidl sales expected to be more than £10m
Multiples	▪ Increase share through Multiples – Private Label	▪ Focus on private label - continuing to take share from brand ▪ Relationships continue to be strong with Multiples who want to see new capacity installed in Leyland ▪ Enhancing category management resource ▪ Use of New tissue technology – “NTT”

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GROW THE BOTTOM LINE

	Objective	Progress
Operations	▪ Improve utilisation of existing capabilities ▪ Continued investment in plant and machinery ▪ Supply chain optimisation ▪ Investment in people	▪ Manufacturing Optimisation Programme ▪ Leyland operational January 2017 ▪ Capability reviewed and a future proofed plan worked up ▪ Recruitment of key management roles including Manufacturing, Supply Chain, HR, Procurement and Engineering
Raw material sourcing	▪ Continue to source parent reels at competitive prices from around the world	▪ Offset 6% weakening of £ vs $ in FY16 vs FY15 against parent reel prices negotiated ▪ Offset similar weakening of £ vs $ in H1 FY17 vs H1 FY16 (hedging required to limit the £:$ weakening to 6%)

KEY PRIORITIES (CONTINUED)

GROW THE BOTTOM LINE

	Objective	Progress
Price rises	▪ Recovery of gross margin lost through unprecedented weakening in £ vs US$	▪ Price recovery discussions ongoing with all customers ▪ We expect rising inflation to further accelerate Discounter growth – we are well placed to take advantage given relationships but may require further investment in capacity
Cost reduction programme	▪ Review of all costs within the business	▪ Optimised packaging usage and procurement ▪ Headcount review underway

KEY PRIORITIES (CONTINUED)

EXPANSION INTO NEW MARKETS

	Objective	Progress
UK & European acquisitions	▪ Multiple & EBITDA enhancing ▪ UK would provide further consolidation ▪ Overseas would provide a natural currency hedge	▪ Management evaluating options

FINANCIALS

INCOME STATEMENT

	H1 FY17 £m	H1 FY16 £m	VAR £m	VAR %
Revenue	63.9	58.7	5.2	8.8%
Adjusted Gross profit[1]	18.2	16.0	2.2	13.8%
Adjusted Gross Margin[1]	*28.4%*	*27.3%*	*1.1%*	
Adjusted overheads[2]	13.0	10.9	2.1	19.3%
Adjusted EBITDA[3]	7.1	7.0	0.1	1.5%
Operating profit	3.9	6.1	(2.2)	(36.0%)
Finance costs	0.8	2.4	1.6	67.0%
Adjusted profit before tax[4]	5.4	3.8	1.6	43.6%
Adjusted profit after tax[4]	4.7	2.8	1.9	67.7%

- Hedge accounting applied from May 2016 – any movements in financial instruments taken through balance sheet rather than income statement
- Revenues increased 8.8% mainly due to organic growth and recently advised new contracts with Booker, Poundstretcher and Lidl
- Adjusted gross margin increased 1.1% mainly due to significant hedging on currency contracts and prices negotiated on parent reels – US$ exchange rate decreased by 6% vs US$/te decreasing by 7%
- Adjusted overheads increased by £2.1m mainly due to £0.9m re distribution costs (higher sales & destination mix change) and £1.2m re admin costs (£0.4m due to strengthening management team & £0.2m plc costs)
- Finance costs decreased significantly following the restructuring of the debt at IPO - £0.5m of the £0.8m H1 FY17 charge relates to the pre-IPO debt structure
- Adjusted profit before tax increased 43.6% or £1.7m with adjusted profit after tax increasing by 67.7% or £1.9m

Note 1 – excludes impact of unrealised gains / losses on foreign currency contracts in prior period
Note 2 – excludes exceptional items
Note 3 – Adjusted EBITDA, which is defined as profit before finance costs, tax, depreciation, amortisation, gain / (loss) on derivative financial instruments and exceptional items
Note 4 – excludes amortisation, gain / (loss) on derivative financial instruments

CASH FLOW AND NET DEBT

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Cash flow - extract	*H1 FY17*	*H1 FY16*	*VAR*
	£m	*£m*	*£m*
Operating profit	**3.9**	**6.1**	**(2.2)**
Depreciation & amortisation	2.0	1.9	0.1
Exceptional items	1.0	-	1.0
Loss/(gain) on derivative financial instruments	-	(1.2)	1.2
Adjusted operating profit	**6.9**	**6.8**	**0.1**
Movement in working capital	(1.0)	(6.0)	5.0
Cash generated from operations	**5.9**	**0.8**	**5.1**
Tax paid	(1.0)	(0.5)	(0.5)
Interest paid	(3.8)	(4.5)	0.7
Net cash flows from operating activities	**1.1**	**(4.2)**	**5.3**
Purchase of property, plant and equipment	(0.7)	(0.1)	(0.6)
Net cash flow from operating activities less capex	**0.4**	**(4.3)**	**4.7**
Operating cash / adjusted EBITDA	*85%*	*12%*	

- Operating cash to adjusted EBITDA at 85%
- Stock and debtors at similar levels to Oct 15 with an increase in trade creditors due to taking favourable credit terms on paper
- Tax paid in the period has increased as the historical profits have increased year on year
- Interest paid in the current year and the prior includes loan note interest (CY = £3.6m & PY = £4.1m)

Net debt	*H1 FY17*	*H1 FY16*	*VAR*
	£m	*£m*	*£m*
Revolving credit facility	12.8	-	12.8
Bank loan facility	-	4.6	(4.6)
Factoring facility	6.7	12.1	(5.4)
Shareholder loan notes	-	40.5	(40.5)
Finance leases	0.4	9.5	(9.1)
Borrowings	**19.9**	**66.7**	**(46.8)**
Cash and cash equivalents	-	(0.5)	0.5
Net debt	**19.9**	**66.2**	**(46.3)**

- Bank loan facility, shareholder loan notes and majority of finance leases repaid at IPO
- Factoring facility £5m lower year on year
- Net debt on flotation was £23.1m representing a reduction of £3.2m

BALANCE SHEET

	H1 FY17 £m	*H1 FY16 £m*
Non-current assets	**54.9**	**54.7**
Inventories	13.3	12.9
Trade and other receivables	22.9	22.2
Trade and other payables	(16.6)	(14.9)
Working Capital	**19.6**	**20.2**
Cash and cash equivalents	-	0.5
Borrowings	(19.9)	(66.7)
Net Debt	**(19.9)**	**(66.2)**
Other assets / (liabilities)		
Derivative financial instruments	4.9	(0.3)
Income taxes payable	(0.8)	(1.0)
Deferred tax liabilities	(4.3)	(5.0)
Net Assets	**54.4**	**2.4**
Share capital	**0.1**	**-**
Share premium	**41.6**	**0.1**
Hedging reserve	**5.1**	**-**
Retained earnings	**7.6**	**2.3**
Total equity shareholders funds	**54.4**	**2.4**

- AIM flotation has lead to:
  - Net debt reducing by £46.3m mainly due to repayment of loan notes and finance leases
  - Change in capital structure – increase in share capital and share premium
  - Majority of the flotation costs allocated to share premium (c. £1.6m in share premium)
- Hedge accounting applied since 1 May 2016 with any movements on the revaluation of currency contracts taken to the hedging reserve rather than income statement
- First covenant test in October 2016 – all test passed with significant headroom

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EU REFERENDUM

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Parent reel pricing FY15 and FY16

- £ weakened c. 6% vs US$ between FY15 and FY16
- To counter this we leveraged the excess global over-supply of both pulp and paper and secured a 9% price reduction in parent reel pricing
- This protected the income statement, delivering a gain in FY16 of c. 1.3% of gross margin

Parent reel pricing FY16 and H1 FY17

- £ has weakened by unprecedented levels against the US$ following the EU referendum – c. 15%
- Actions to mitigate included:
  - Hedged significantly pre and post referendum – this has limited the decrease in the £:US$ exchange rate to 6% from H1 FY16 to H1 FY17
  - We have negotiated parent reel prices to a similar level to the FY16 exit run rate – this delivered a 7% reduction in parent reel prices from H1 FY16 to H1 FY1
  - This delivered a gain in H1 FY17 of c. 1.1% of gross margin

EU REFERENDUM (CONTINUED)

Parent Reel Pricing Post H1 FY17

- Excess global over-supply of both pulp and parent reels is expected to continue with additional capacity being laid down through to 2019
- Leveraging the above, parent reel pricing locked down until April 2017
- We have doubled our foreign currency hedging facility allowing us to hedge over a longer period

OUTLOOK

OUTLOOK

- Confident in the outlook for FY17 underpinned by our hedging position and paper price agreements
- Period of higher inflation will likely see more shoppers moving into the Discount sector and Private Label
    - We have strong relationships in the discount sector supporting a circa 50% market share
    - May require additional investment in capacity (space at Leyland for 4 more converting lines)
- Key focus in the second half of the financial year will be:
    - Increase selling prices
    - Continued drive to improve efficiencies in manufacturing and the supply chain
    - Getting our new manufacturing site fully operational
    - Embedding our new hires into our organisation
    - Delivering the cost savings identified in the cost reduction programme
- Committed to progressive dividend policy – intention to pay interim and final dividend in aggregate at 6% of IPO placing price
- Consider acquisition opportunities – UK and European

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Accrol Group Holdings plc
Roman Road Industrial Estate
Davyfield Rd
Blackburn
BB1 2LU

London Office
41 Conduit Street
London W1S 2YQ
0203 829 5000

Manchester Office
82 King Street
Manchester M2 4WQ
0161 831 1512