FINANCIAL REVIEW

EXCELLENT PERFORMANCE DELIVERED WITH DISCIPLINE

CHRIS DAVIES
CHIEF FINANCIAL OFFICER

The Group reports under UK-adopted International Accounting Standards and references alternative performance measures where the Board believes that they help to effectively monitor the performance of the Group and support readers of the Financial Statements in drawing comparisons with past performance. Certain alternative performance measures are also relevant in calculating a meaningful element of Executive Directors' variable remuneration and our debt covenants. Alternative performance measures are not considered to be a substitute for, or superior to, IFRS measures. These are detailed in note 28 to the Consolidated Financial Statements.

In FY23, the Group has again demonstrated progress against all elements of our financial model.

Excellent financial performance

	FY23	Model
Organic growth is our first priority	**8%**	5%
Total revenue accelerated by quality acquisitions	**19%**	10%
Value-add drives strong operating margins	**19.7%**	17%+
Compounding EPS growth	**18%**	double-digit

Delivered with discipline

	FY23	Model
Capital-light business model drives strong cash conversion	**100%**	90%+
Capital stewardship focused on strong ROATCE	**18.1%**	High teens
Balance sheet discipline maintains prudent leverage	**0.9x**	<2.0x
Return to shareholders with a progressive dividend	**5%**	5%

SUMMARY INCOME STATEMENT

Our diversified portfolio and growth strategy drive strong, sustainable revenue growth, and our value-add service propositions drive consistently high margins.

	Year ended 30 September 2023			Year ended 30 September 2022		
	Adjusted £m	Adjustments £m	Total £m	Adjusted £m	Adjustments £m	Total £m
Revenue	**1,200.3**	**–**	**1,200.3**	1,012.8	–	1,012.8
Operating expenses	**(963.3)**	**(53.7)**	**(1,017.0)**	(821.6)	(46.9)	(868.5)
Operating profit	**237.0**	**(53.7)**	**183.3**	191.2	(46.9)	144.3
Financial expense, net	**(20.4)**	**(7.3)**	**(27.7)**	(11.6)	(3.2)	(14.8)
Profit before tax	**216.6**	**(61.0)**	**155.6**	179.6	(50.1)	129.5
Tax expense	**(52.0)**	**14.7**	**(37.3)**	(45.0)	10.9	(34.1)
Profit for the year	**164.6**	**(46.3)**	**118.3**	134.6	(39.2)	95.4
Earnings per share (p)						
Adjusted/Basic	**126.5p**		**90.8**	107.5p		76.1

Reported revenue increased by 19% to £1,200.3m (2022: £1,012.8m), consisting of organic growth of 8%, an 8% net contribution from acquisitions and disposals, and a 3% benefit from foreign exchange translation. During the year, the Group disposed of Hawco, which contributed £15.1m to Group revenues in FY23 (2022: £30.7m).

Adjusted operating profit increased by 24% to £237.0m (2022: £191.2m) as the operational leverage from the increased revenue, disciplined cost management and accretive acquisitions drove an 80bps year-on-year improvement in the adjusted operating margin to 19.7% (2022: 18.9%).

Statutory operating profit increased 27% to £183.3m (2022: £144.3m), benefitting from a £12.2m profit on disposal of Hawco, compared with a net gain on disposal of £7.3m in the prior year relating to the disposal of Kentek and a1-envirosciences.

Net adjusted finance expense increased to £20.4m (2022: £11.6m), principally due to the impact of higher interest rates, in particular in the second half of the year. Average gross debt remained broadly consistent with prior year with the proceeds from the equity raise in March being utilised, as intended, to finance acquisitions during the year. The all-in, blended cost of bank debt increased to 5.6% (2022: 2.8%).

Adjusted profit before tax increased 21% to £216.6m (2022: £179.6m). Statutory profit before tax was £155.6m (2022: £129.5m) and is stated after charging acquisition and other related charges, and acquisition related finance charges. Acquisition and other related charges of £53.7m (2022: £46.9m) principally comprise of the amortisation of acquisition related intangible assets of £52.9m (2022: £42.4m), £6.3m of acquisition related expenses (2022: £10.5m), £5.9m of fair value adjustments to inventory acquired through acquisition recognised in cost of inventories sold (2022: £nil) and partly offset by a net gain of £12.2m (2022: £7.3m) from the disposal of Hawco in the year. Acquisition related finance charges of £7.3m (2022: £3.2m) principally comprise of fair value remeasurement of put options for future minority purchases of £1.8m (2022: £1.4m) and amortisation and write-off of capitalised borrowing fees on acquisition related borrowings of £5.9m (2022: £1.4m).

We are committed to being a responsible taxpayer and our approach is to comply with tax laws in the countries in which we operate and to pay our fair share of tax. The Group's tax strategy was approved by the Board and is published on our website. The Group's adjusted effective rate of tax on adjusted profit before tax was 24.0% (2022: 25.0%) reduced from the year ended 30 September 2022 largely due to non-recurring items from the prior year.

Adjusted earnings per share increased by 18% to 126.5p (2022: 107.5p). Basic earnings per share increased by 19% to 90.8p (2022: 76.1p). An equity raise was completed in March 2023, resulting in a 7.5% increase (9,350,965 new shares) in the issued ordinary share capital. As at 30 September 2023, the average number of ordinary shares (which includes any potentially dilutive shares) was 130,260,868 (2022: 124,855,007) and the weighted average number of ordinary shares in issue was 129,675,581 (2022: 124,533,060).

RECOMMENDED DIVIDEND

The Board has a progressive dividend policy that aims to increase the dividend each year by 5%. In determining the dividend, the Board considers a number of factors which include the free cash flow generated by the Group, the future cash commitments and investment needed to sustain the Group's long-term growth strategy and the target level of dividend cover.

For FY23, the Board has recommended a final dividend of 40.0p per share, making the proposed full year dividend 56.5p (2022: 53.8p). This represents a 5% increase in the full year dividend per share with a dividend cover of 2.2x EPS, continuing the Group's progressive dividend track record.

CASH FLOW

Our capital-light business model, coupled with balance sheet and capital discipline drives strong and consistent cash conversion and ROATCE and maintains prudent leverage.

Free cash flow increased by 36% to £163.8m (2022:£120.4m). Statutory cash flow from operating activities increased by 42% to £257.3m (2022: £180.6m). Free cash flow conversion for the year was 100% (2022: 90%), ahead of our targeted 90%+ model, demonstrating the highly cash-generative qualities of our businesses and the results of targeted inventory reductions.

	Year ended 30 Sep 2023 £m	Year ended 30 Sep 2022 £m
Funds flow		
Adjusted operating profit	**237.0**	191.2
Depreciation and other non-cash items	**30.5**	24.6
Working capital movement	**(4.2)**	(25.5)
Interest paid, net (excluding borrowing fees)	**(17.9)**	(8.9)
Tax paid	**(41.4)**	(39.2)
Capital expenditure, net of disposal proceeds	**(21.6)**	(5.5)
Lease repayments	**(16.7)**	(13.5)
Notional purchase of own shares on exercise of options	**(1.9)**	(2.8)
Free cash flow	**163.8**	120.4
Acquisition and disposals[1]	**(255.3)**	(177.5)
Proceeds from issue of share capital (net of fees)	**231.9**	-
Acquisition of minority interests	**-**	(0.3)
Dividends paid to shareholders and minority interests	**(70.8)**	(56.4)
Foreign exchange and other non cash movements	**4.6**	(33.7)
Net funds flow	**74.2**	(147.5)
Net debt	**(254.7)**	(328.9)

1 Net of cash acquired/disposed and including acquisition expenses, deferred consideration, and payments of pre-acquisition debt-like items.

Depreciation and other non-cash items includes £28.6m (2022: £23.9m) of depreciation and amortisation of tangible, intangible and right of use assets and £1.9m (2022: £0.7m) of other non-cash items, primarily share-based payments expense.

Working capital increased by only £4.2m despite a 19% increase in revenue. This was largely driven by a £10.8m decrease in inventory as a result of strategic focus in this area as supply chain constraints have eased.

Interest payments increased by £9.0m to £17.9m (2022: £8.9m) in line with increased interest charges. Tax payments increased by £2.2m to £41.4m (2022: £39.2m) with the cash tax rate reducing to 19% (2022: 22%) due to the timing of tax payments. Our effective cash tax rate remains lower than our Group effective tax rate, mainly due to acquisition goodwill which is deductible for US tax purposes.

Capital expenditure increased by £16.1m, largely driven by scaling investments in Shoal Group, Hercules Aftermarket and R&G. FY22 benefitted from £9.9m of proceeds from disposal of property, plant and equipment.

The Group funded the Company's Employee Benefit Trust with £1.9m (2022: £2.8m) in connection with the Company's long term incentive plan.

The Group received net proceeds of £231.9m from an equity raise completed in March 2023, to enable the refinancing of the acquisition of T.I.E., and provide greater flexibility to execute further acquisitions. Dividends of £70.8m (2022: £56.4m) were paid to ordinary and minority interest shareholders.

This strong free cash generation has allowed the Group to deleverage more quickly than expected. At 30 September 2023, the Group's Net Debt (excluding IFRS 16 lease liabilities) stood at £254.7m (2022: £328.9m).

ACQUISITIONS ACCELERATE GROWTH

In fragmented markets, we deploy capital selectively and with discipline, to acquire quality businesses which accelerate strategic execution; build scale; broaden our portfolio; and accelerate organic growth.

Net cash flow from acquisitions and disposals of £255.3m, which includes £6.0m of acquisition fees, comprises the spend for DICSA of £159.7m and T.I.E. of £75.1m; £23.7m principally relating to ten smaller bolt-on businesses; and £12.3m of deferred consideration relating to previous acquisitions; partly offset by net proceeds of £21.5m from the disposal of Hawco, a lower growth, lower margin business.

The Group's acquisition liabilities to shareholders of acquired businesses at 30 September 2023 reduced to £22.6m (2022: £31.4m) and comprised both put options to purchase outstanding minority shareholdings and deferred consideration payable to vendors of businesses acquired during the current and prior years.

- The liability to acquire minority shareholdings outstanding relates to a 10% interest held in M Seals, 5% interest in Techsil, a 2% interest in R&G and a 5% interest in Pennine Pneumatic Services. These options are valued at £9.2m (2022: £7.4m), based on the latest estimate of EBIT when these options crystallise.
- The liability for deferred consideration payable at 30 September 2023 was £13.4m (2022: £24.0m). This liability represents the best estimate of any outstanding payments based on the expected performance of these relevant businesses during the measurement period. The reduction in the year is primarily due to the revaluation and settlement of deferred consideration for Kungshusen and R&G.

Goodwill at 30 September 2023 was £439.1m (2022: £372.3m). Goodwill is assessed each year to determine whether there has been any impairment in the carrying value. It was confirmed that there was significant headroom on the valuation of this goodwill, compared with the carrying value at the year end.

ATTRACTIVE RETURNS

ROATCE is a key metric used to measure our success in creating value for shareholders. It is a metric that drives ongoing capital and operating discipline, adding back amortised intangibles and other factors such as any impaired goodwill such that any improvement must be driven by true economic factors. As at 30 September 2023, the Group's ROATCE increased by 80 basis points to 18.1% (2022: 17.3%). This increase was primarily driven by strong operating profit growth from the existing businesses, but was supplemented by the bolt-on acquisitions completed during the year which generate year 1 returns of 20%. This increase in ROATCE was delivered despite the dilutive impact of the DICSA and T.I.E. acquisitions which, when acquired with a combined 9× EBIT multiple, naturally constrain year one returns. We expect both of these acquisitions to reach 20% returns over the medium term.

IMPROVED FUNDING

On 17 July 2023, the Group entered into a new committed multi-currency revolving credit facility agreement (RCF) with an aggregate principal amount of £555.0m. The RCF is due to expire in July 2028 with an option to extend for two further 12 month periods. The RCF replaced the Group's previous debt facility agreement which as at 30 September 2022 comprised an RCF with an aggregate principal amount of £359.7m, an amortising term loan for an aggregate principal amount of £114.2m ($127.5m), a bullet term loan for an aggregate principal amount of £59.1m ($66.0m) and a further bullet term loan for an aggregate principal amount of £45.3m.

At 30 September 2023, net debt of £254.7m (2022: £328.9m) represented leverage of 0.9× (2022: 1.4×) against a banking covenant of 3.5× (2022: 3.0×). The Group maintains strong liquidity, with year end headroom (comprised of undrawn committed facilities and cash funds) of £297m (2022: £204m).

The table below outlines the composition of the Group's net debt at 30 September 2023:

TYPE	CURRENCY	AMOUNT	GBP EQUIVALENT	INTEREST RATE EXPOSURE
RCF	USD	$200.0m	£163.9m	SOFR fixed at 3%
RCF	EUR	€181.0m	£157.0m	Floating
Overdraft facilities			£0.3m	Floating
Capitalised debt fees net of accrued interest			£(4.1)m	
Gross debt drawn at 30 September 2023			**£317.1m**	
Cash & equivalents at year end			£(62.4)m	
Net debt at 30 September 2023			**£254.7m**	

PENSIONS

The Group maintains a legacy closed defined benefit pension scheme in the UK. In the year, the Group funded this scheme with cash contributions of £0.6m (2022: £0.6m) which increases annually on 1 October by 2%. In Switzerland, local law requires our Kubo business to provide a contribution-based pension for all employees, which is funded by employer and employee contributions. The cash contribution to the scheme was £0.5m (2022: £0.5m). Both schemes are accounted for in accordance with IAS 19. At 30 September 2023, the UK defined benefit scheme was in a surplus position of £6.8m (30 September 2022: £6.4m) reflecting a slight rise in corporate bond yields and a slight fall in the market's expectation of future inflation. The Kubo scheme is not material.

EXCHANGE RATES

A significant proportion of the Group's revenue (ca.80%) is derived from businesses located outside the UK, principally in the US, Canada, Australia and continental Europe. Compared with FY22, the average Sterling exchange rate is weaker against the US dollar and the Euro, while stronger against the Canadian and Australian dollars. The impact from translating the results of the Group's overseas businesses into UK sterling has led to an increase in Group revenues of £17.5m; an increase in the Group's adjusted operating profit of £4.1m; and a reduction in net debt of £14.9m, compared with the same period last year.

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in this announcement and further detailed in the Annual Report & Accounts, which also includes an assessment of the Group's longer term viability.

The Directors have undertaken a comprehensive review of going concern, taking into account the updated financing of the Group against a number of economic scenarios, to consider whether there is a risk that the Group could breach either its facility headroom or financial covenants.

The Group has modelled a base case and downside case in its assessment of going concern. The base case is driven off the Group's detailed budget which is built up on a business by business case and considers both the micro and macroeconomic factors which could impact performance in the industries and geographies in which that business operates. The downside case models steep declines in revenues and operating margins resulting in materially adverse cash flows. These sensitivities factor in a continued unfavourable impact from a prolonged downturn in the economy. Both scenarios indicate that the Group has significant liquidity and covenant headroom on its borrowing facilities to continue in operational existence for the foreseeable future.

Accordingly, the Directors continue to have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and continue to adopt the going concern basis in preparing the Annual Report & Accounts.