Financial Review

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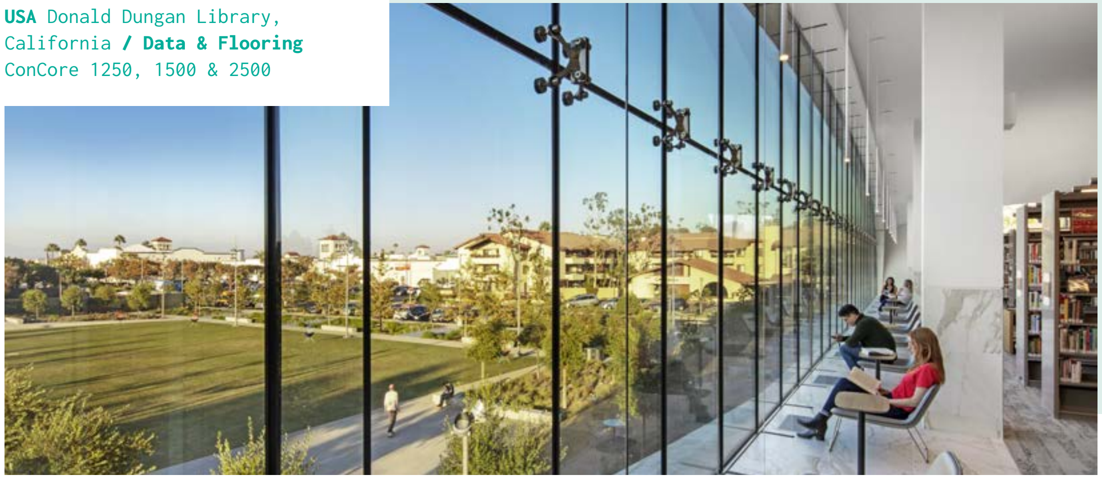
The Financial Review provides an overview of the Group's financial performance for the year ended 31 December 2020 and of the Group's financial position at that date.

Overview of results

Group revenue decreased by 2% to €4.6bn (2019: €4.7bn) and trading profit increased by 2% to €508.2m (2019: €497.1m) with an increase of 40 basis points in the Group's trading profit margin to 11.1% (2019: 10.7%). Basic EPS for the year was 206.2 cent (2019: 204.6 cent), representing an increase of 1%.

The Group's underlying sales and trading profit growth by division are set out adjacent:

USA Donald Dungan Library, California **/ Data & Flooring** ConCore 1250, 1500 & 2500



Sales	Underlying	Currency	Acquisition	Total
Insulated Panels	-6%	-3%	+5%	-4%
Insulation Boards	-9%	-1%	-	-10%
Light & Air	-8%	-1%	+45%	+36%
Water & Energy	-3%	-2%	+2%	-3%
Data & Flooring	-3%	-1%	+8%	+4%
Group	-7%	-2%	+7%	-2%

The Group's trading profit measure is earnings before interest, tax and amortisation of intangibles:

Trading Profit	Underlying	Currency	Acquisition	Total
Insulated Panels	+1%	-4%	+5%	+2%
Insulation Boards	-5%	-1%	-	-6%
Light & Air	-31%	-	+55%	+24%
Water & Energy	+14%	-2%	+3%	+15%
Data & Flooring	+16%	-2%	+6%	+20%
Group	-1%	-3%	+6%	+2%

The key drivers of sales and trading profit performance in each division are set out in the Business Review.

Finance costs (net)

Finance costs for the year increased by €4.2m to €25.0m (2019: €20.8m). A net non-cash charge of €2.0m (2019: charge of €0.1m) was recorded in respect of swaps on the Group's USD private placement notes. The Group's net interest expense on borrowings (bank and loan notes net of interest receivable) was €19.3m (2019: €16.7m). This increase reflects higher average gross debt levels in 2020 as well as a negative return on Euro denominated cash balances. Lease interest of €3.6m (2019: €3.8m) was recorded for the year. €0.1m (2019: €0.1m) was recorded in respect of a non-cash finance charge on the Group's defined benefit pension schemes.

Taxation

The tax charge for the year was €74.9m (2019: €76.6m) which represents an effective tax rate of 16.3% (2019: 16.9%). The decrease in the effective rate reflects, primarily, the change in the geographical mix of earnings year on year.

Dividends

The Board has proposed a final dividend of 20.6 cent per ordinary share payable on 7 May 2021 to shareholders registered on the record date of 26 March 2021. No interim dividend (2019: 13.0 cent) was declared during the year given the uncertain backdrop for much of 2020. The final dividend proposed for 2019 of 33.5 cent was subsequently cancelled in order to preserve cash at the outset of the pandemic. In summary, therefore, the total dividend for 2020 is 20.6 cent compared to 13.0 cent for 2019 (as adjusted for the cancellation).

The Board carried out a review of the Group's dividend policy during the year. The outgoing policy guidance was to pay out approximately 25% of earnings. In assessing a revised policy a key objective was to afford the Group appropriate development capital to invest in the business over time as well as to preserve the strength of the balance sheet. On that basis the revised dividend policy for 2021 and for the foreseeable future is to pay out approximately 15% of earnings. The policy will be reviewed periodically to ensure it remains appropriate over time having regard to the capital needs of the business.

Retirement benefits

The primary method of pension provision for current employees is by way of defined contribution arrangements. The Group has three legacy defined benefit schemes in the UK which are closed to new members and to future accrual. In addition, the Group has a number of smaller defined benefit pension liabilities in Mainland Europe. The Group assumed €10.5m of net pension obligations in April 2020 on the acquisition of Colt Group. The net pension liability in respect of all defined benefit schemes was €45.9m (2019: €15.1m) as at 31 December 2020 with the increase reflecting both the new acquisition during the year and the impact of reduced interest rates on liabilities.

Intangible assets and goodwill

Intangible assets and goodwill decreased during the year by €38.6m to €1,561.5m (2019: €1,600.1m). Intangible assets and goodwill of €57.3m were recorded in the year relating to acquisitions completed by the Group. A decrease of €72.4m arose due to year-end exchange rates used to translate intangible assets and goodwill other than those denominated in euro. There was an annual amortisation charge of €23.5m (2019: €21.9m).

Financial key performance indicators

The Group has a set of financial key performance indicators (KPIs) which are presented in the table adjacent. These KPIs are used to measure the financial and operational performance of the Group and to track ongoing progress and also in achieving medium and long term targets to maximise shareholder return.

Key performance indicators	2020	2019
Basic EPS growth	1%	11%
Sales performance	-2%	7%
Trading margin	11.1%	10.7%
Free cashflow (€m)	479.7	337.1
Return on capital employed	18.4%	17.3%
Net debt/EBITDA	0.4x	1.1x

(a) Basic EPS growth. The growth in EPS is accounted for primarily by a 2% increase in trading profit partially offset by an increase in minority interest. The minority interest amount increased year on year due to a strong performance at the Group's operations which have minority stakeholders, leading to a basic EPS increase of 1%.

(b) Sales performance of -2% (2019: 7%) was driven by a 7% decrease in underlying sales, a 2% decrease due to the effect of currency translation and a 7% contribution from acquisitions. The decrease in underlying sales reflected in particular a difficult period in the first wave of restrictions from the end of March through to mid summer 2020.

(c) Trading margin by division is set out below:

	2020	2019
Insulated Panels	11.0%	10.4%
Insulation Boards	14.0%	13.4%
Light & Air	7.0%	7.7%
Water & Energy	8.0%	6.8%
Data & Flooring	13.1%	11.4%

The Insulated Panels division trading margin advanced year on year reflecting ongoing progress in sales of QuadCore™, the market mix of sales as well as some short term curtailment of overhead due to the pandemic. The trading margin improvement in the Insulation Boards division reflects, in the main, a positive lag effect on raw material price reductions in the first half of the year and short term overhead curtailment. The reduced trading margin in Light & Air reflects the market mix of sales. The Water & Energy trading margin improvement reflects the category mix and overhead curtailment. The increase in trading margin in Data & Flooring reflects the geographic market and product mix of sales year on year.

(d) **Free cashflow** is an important indicator and it reflects the amount of internally generated capital available for re-investment in the business or for distribution to shareholders.

Free cashflow	2020	2019
	€m	€m
EBITDA[1]	596.5	579.8
Movement in working capital[2]	107.7	5.6
Movement in provisions	(2.1)	1.7
Net capital expenditure	(126.1)	(154.3)
Net interest paid	(21.6)	(16.7)
Income taxes paid	(89.7)	(87.2)
Other including non-cash items	15.0	8.2
Free cashflow	479.7	337.1

1 Earnings before finance costs, income taxes, depreciation, amortisation and the impact of IFRS 16
2 Excludes working capital on acquisition but includes working capital movements since that point

Working capital at year-end was €450.8m (2019: €582.8m) and represents 8.8% (2019: 11.9%) of annualised sales based on fourth quarter sales. This metric is closely managed and monitored throughout the year and is subject to a certain amount of seasonal variability associated with trading patterns and the timing of significant purchases of steel and chemicals. Working capital levels in the business were unusually low for much of the second half of the year with reduced inventory levels in particular as our inbound supply chain continued to ramp up from subdued production earlier in the year. The working capital % is expected to increase in the first half of 2021 reflecting more normal inventory levels as well as inflation of some key inputs.

(e) **Return on capital employed**, calculated as operating profit divided by total equity plus net debt, was 18.4% in 2020 (2019: 17.3%). The creation of shareholder value through the delivery of long term returns well in excess of the Group's cost of capital is a core principle of Kingspan's financial strategy. The increase in profitability together with the deployment of further capital has enhanced returns on capital during the year.

(f) **Net debt to EBITDA** measures the ratio of net debt to earnings and at 0.4x (2019: 1.1x) is comfortably less than the Group's banking covenant of 3.5x in both 2020 and 2019. The calculation is pre-IFRS 16 which is consistent with the Group's banking covenant.

Acquisitions and capital expenditure

During the period the Group made a number of acquisitions for a total upfront cash consideration of €46.1m.

On 17 April 2020, the Group completed the purchase of 100% of the Colt Group for an initial cash amount of €41m. In addition to the cash consideration for the Colt Group, the Group assumed a net pension liability of €10.5m.

The Group also made a number of smaller acquisitions during the year for a combined cash consideration of €5.1m.

COVID-19 Pandemic

The Group took a number of steps to protect its financial position at the outset of the global pandemic in the first quarter of the year. Many construction markets were severely impacted at the early stage of the virus albeit most experienced some element of recovery through the year. The Group received €17m in COVID-19 related furlough benefits although full repayment was accounted for in December 2020 given the better than expected trading performance than was initially anticipated.

Working capital management has been an ongoing area of focus over time and this was emphasised further still during the year. Working capital levels in the business were 8.8% at 31 December 2020 reflecting in particular a lower than normal level of inventories. We expect working capital to increase to more normal levels over the course of the first half of 2021. A further area of focus was on the more discretionary overhead items, particularly in the early stage of the pandemic, where more variable cost headings were curtailed. Many of these costs had returned to more normal levels by the end of the third quarter. The Group's finance systems and processes seamlessly accommodated greater levels of remote working during 2020 without a reduction in service levels or information flow within the business.

Capital structure and Group financing

The Group funds itself through a combination of equity and debt. Debt is funded through syndicated and bilateral bank facilities and private placement loan notes.

The primary bank debt facility is a €451m revolving credit facility, which was undrawn at year-end and which matures in June 2022. In June 2019 an additional 3 year bank facility of €300m was arranged, which was undrawn at year-end. As at 31 December 2020, the Group also had private placement loan note funding net of related derivatives totalling €1,508.3m including a €750m Green Private Placement arranged in September 2020. These new notes had a weighted average coupon of 1.78% and a weighted average term of 9.75 years. On 20 February 2020 the Group arranged a bilateral Green Loan of €50m to fund the Group's Planet Passionate initiatives. The weighted average term, as at 31 December 2020, of all drawn debt was 6.3 years (31 December 2019: 4.5 years).

The Group had significant committed available undrawn facilities and cash balances which, in aggregate, were €2.1bn at 31 December 2020.

Net debt

Net debt decreased by €397m during 2020 to €236.2m (2019: €633.2m). This is analysed in the table adjacent:

Movement in net debt	2020	2019
	€m	€m
Free cashflow	479.7	337.1
Acquisitions	(46.1)	(142.2)
Deferred consideration paid	-	(59.7)
Share issues	-	0.1
Repurchase of treasury shares	-	(0.6)
Dividends paid	-	(77.6)
Dividends paid to non-controlling interests	(1.2)	(0.4)
Cashflow movement	432.4	56.7
Exchange movements on translation	(35.4)	8.4
Deferred consideration	-	30.0
Movement in net debt	397.0	95.1
Net debt at start of year	(633.2)	(728.3)
Net debt at end of year	(236.2)	(633.2)

Key financial covenants

The majority of Group borrowings are subject to primary financial covenants calculated in accordance with lenders' facility agreements which exclude the impact of IFRS 16:

- A maximum net debt to EBITDA ratio of 3.5 times; and
- A minimum EBITDA to net interest coverage of 4 times.

The performance against these covenants in the current and comparative year is set out below:

		2020	2019
	Covenant	Times	Times
Net debt/ EBITDA	Maximum 3.5	0.4	1.1
EBITDA/ Net interest	Minimum 4.0	27.9	34.1

Belgium Attent Gifts **/ Insulated Panels**
JI Wall 1000SF PIR &
JI 106-250-750

Investor relations

Kingspan is committed to interacting with the international financial community to ensure a full understanding of the Group's strategic plans and its performance against these plans. During the year, the executive management and investor team presented at four capital market conferences and conducted 439 institutional one-on-one and group meetings.

Share price and market capitalisation

The Company's shares traded in the range of €37.44 to €84.55 during the year. The share price at 31 December 2020 was €57.40 (31 December 2019: €54.45) giving a market capitalisation at that date of €10.4bn (2019: €9.9bn). Total shareholder return for 2020 was 5.4%.

Financial risk management

The Group operates a centralised treasury function governed by a treasury policy approved by the Group Board. This policy primarily covers foreign exchange risk, credit risk, liquidity risk and interest rate risk. The principal objective of the policy is to minimise financial risk at reasonable cost. Adherence to the policy is monitored by the CFO and the Internal Audit function. The Group does not engage in speculative trading of derivatives or related financial instruments.

Geoff Doherty
Chief Financial Officer
19 February 2021

Germany WINX Tower, Frankfurt
/ Light & Air Smoke Pressure System (SPS)