Press Releases

Results for the six months ended 30 June 2009

24/08/2009

Six months ended 30 June 2009

	H1 2009	H1 2008	% change at actual rates	% change at constant rates
Revenue	€552.5mn	€849.4mn	-35%	-29%
EBITDA	€50.7mn	€112.1mn	-55%	-50%
Trading Profit before Non-Trading Items	€36.7mn	€92.2mn	-60%	-55%
Operating Profit	€30.3mn	€90.1mn	-66%	-62%
Operating Margin	5.5%	10.6%		
Non-Trading Items	€3.5mn	€nil		
Earnings per Share	12.3c	41.4c	-70%	
Dividend per Share	0c	8c		
Net Debt	€230.8mn	€194.2mn		
Interest Cover	9.5 times	18 times		

Operational Highlights:

- Positive action over the last eighteen months has reduced the fixed costs base by €60mn to offset sales decline;
- Overall Insulated Panel volumes down 34%, impacted in the main by the global pullback in non-residential development;
- Solid progress in the integration of the Metecno Inc. acquisition, operating performance on plan;
- Insulation Boards produced a strong performance in the circumstances, particularly solid in Western Europe;

- Access Floor volumes increasingly under pressure, but excellent operating result in the period;
- Environmental & Renewables weak due to continued low newbuild residential activity in the UK, slower demand for solar in Germany, and warranty issues as outlined previously.

Gene Murtagh, Chief Executive Officer, commented:

"A combination of global recession and unprecedented credit restrictions delivered a general market contraction in the first half of 2009 not experienced in the lifetime of this business. Throughout the period and beforehand, Kingspan has responded quickly and decisively to reorder its cost base appropriately. Nevertheless, our strategy has remained unchanged – to be at the forefront globally of efforts to drive deeper market penetration of sustainable, low energy building solutions.

The focus for now continues to be on cash generation and making further progress on debt reduction ensuring the Group has the balance sheet strength to consider opportunities which will present themselves beyond the global contraction."

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Interim Management Report

- Turnover down 35% to €552.5mn,
  - down 29% on a constant currency basis
- EBITDA down 55% to €50.7mn,
  - down 50% on a constant currency basis;
- Operating Profit down 66% to €30.3mn,
  - down 62% on a constant currency basis,
- Basic Earnings 12.3c per share versus 41.4c in 2008;
- Net Debt €230.8mn, down from €299.6mn in the second half of 2008;
- Interest Cover 9.5 times; net debt/EBITDA 1.64 times, representing a well capitalised balance sheet;
- Total investment in capex of €28.0mn;

- The UK accounted for 46% of sales, Mainland Europe 31%, North America 13%, Ireland 7% and others 3%.

The global economic turmoil, now a full 18 months into its cycle, continued apace during the first half of 2009, and has hit the UK and Ireland particularly severely, where GDP reductions in the period broke all records. As the UK in particular is a key market for Kingspan, this clearly represented a hostile environment for the business, but one that the organisation had prepared for through 2008. Virtually all economies in Western and Central Europe also declined, although less steeply, while North America was also affected by the same lack of confidence and credit issues.

Volume output suffered hefty reductions in the six months, as did order intake, which would point towards a pattern of ongoing weak volume levels for the latter part of 2009. Operating performance in the second half is, however, likely to be more stable than in the earlier part of the year, and further significant declines in the Group's larger businesses are not expected. Annualised fixed cost reductions from peak now stand at €60mn. This operational leanness, combined with a sharpened focus on cash management resulted in a €68.8mn reduction in net debt. This was achieved despite investing a further €28mn in capex, a figure that will reduce further in the second half and into the next year.

Insulated Panels

Representing 51% of Group turnover, sales in this segment were €284.0mn in the period, down 32% on prior year. Excluding acquisitions, but incorporating the metal façade business in both periods, sales were down 42%.

Against this back drop of such a dramatic fall off in volumes, the Group had to take significant action to ensure that profitability was maintained. Since Insulated Panels has the highest operational leverage, this division was bound to suffer most from the drop in volume and also had to change from growth mode to one of consolidation, without damaging the future of the business in both product and market development. Timely action in reducing fixed costs, enabled the division to deliver an operating margin of 4.3% in the period. Inefficiencies at the cost of manufacturing level as a result of the drop off in volumes, were largely avoided through improved efficiency resulting mainly from the capital investment incurred through 2007 and 2008. This was offset somewhat from inefficient manufacturing, particularly in Canada, where the total manufacturing processes are being revamped. This will not be completed until first quarter 2010.

In the UK, newbuild non-residential activity declined sharply on 2008 levels, and Insulated Panels volumes were consequently down by 39%. The order book is down 43%, however the project pipeline has remained broadly steady over the past nine months, which would support an expectation of stable sales volumes at current levels in the second half. Metal façades have now been integrated into Insulated Panels, and are part of the formula to drive Insulated Panels into the high-end, enhanced value added market in the UK and Ireland. Across all geographic markets, Kingspan intends to focus more sharply on developing a leading position within this niche for the Group.

Sales in Ireland dropped by 67% on top of what had been a significant decline in 2008. This is a reflection of the severity of the recession, which ranks as the worst in Western Europe. It is anticipated that any recovery is some years away, and local operations have been sized accordingly.

Activity in the Western European markets was comparatively better than the UK and Ireland, although down 18% on prior year. The pace of reduction in the second quarter was greater than in the first, and construction activity and volumes in the second half are likely to reduce further.

Although similar pressure exists in Central Europe, markets such as Germany performed relatively well for Kingspan, reflective of some market share gains. Turkey and the Middle East region also performed at similar levels to 2008 and order intake was up 5%, while in India a small number of sizable contracts were won.

In Canada, much of the emphasis was on commissioning new and upgraded facilities in Toronto and Vancouver respectively which progressed well and on schedule. The market however deteriorated during the first half, and the operations were dogged by legacy inefficiencies that will be addressed by the new facility later in the year. Although the year as a whole will be down on 2008, the second half is likely to show a slight volume improvement on the first. This is also the case in the US, where our initial focus has been on the integration of the Metecno businesses and its reorganisation. Volumes are broadly in line with plan, although margins were squeezed by high steel inventory costs relative to current steel rates. That pressure will be alleviated in the second half.

In general, whilst the trading backdrop is not encouraging, management's energy throughout the Insulated Panel businesses is focused on bringing even more efficient products to market with the primary goal of driving conversion over the long haul.

Insulation

Representing 19% of Group turnover, sales in this segment were €106.9mn in the period, down 45% on prior year. These figures include that part of Off-site & Structural that relates to timber framing which has now been transferred to Insulation Boards. The fall-off in sales in Insulation Boards was 31% and in timber framing was 78%.

Overall operating margins increased from 6.8% in the first half of 2008 to 8.5% in the first half of 2009. Despite the dramatic fall of 78% in timber framing sales, its profitability improved. This was achieved by consolidation of sites, reductions in overheads and by increasing the value added in the product offering.

The underlying operating margin in insulation products fell by only circa two percentage points. This was achieved by overhead reductions, improved manufacturing efficiency and a continuing move by the market to highest performing insulation products.

This business serves a broad base of end markets, ranging right across the spectrum from office and residential to schools and hospitals. It also serves the refurbishment sector, which has strong medium to longer term growth potential, and includes an unrivalled range of different high performance ‘healthy’ insulation technologies. The wide mix of products and end-uses has provided a cushion against the worst effects of the economic downturn, and this versatility is the cornerstone of its strategy into the future.

In the period, UK volumes were down 33% as all sectors of the construction industry shrank, and in Ireland volumes were down 40%. Greater focus on refurbishment and a positive product mix resulted in the business outperforming the construction sector in general.

Western and Central Europe performed well, with volumes down just 9% on prior year. The business built market share and made inroads into the German refurbishment and Polish newbuild segments. In support of this platform, a new phenolic insulation plant has been commissioned in the Netherlands which will begin production in the early part of quarter three.

Although the results clearly reflect the market pressures that exist, again overall stability in volumes is expected well into the second half with weaker demand in Ireland compensated for by more robust demand in Continental Europe.

Access Floors

Representing 15% of Group turnover, sales in this segment were €80.0mn in the period, down 18% on prior year.

Office construction activity in all markets has been gradually reducing over the past nine months or so. This sector is late cycle and many of the projects are in the later stages of work that, having been commenced in better economic times, are now nearing completion. For the time being therefore, activity has continued, albeit that volume globally is down 29%. Data available on office starts, combined with quotation levels suggests that in the run up to year end sales will decline further in this business, possibly bottoming out during 2010. The impact of the economic contraction on current orders for office construction is being partly offset by a relatively robust data centre market

Margins were a very healthy 15.9% during the first half, arising from a combination of firm pricing and lower input costs, mainly steel. Steel prices are likely to rise later in the year, although fundamental demand levels would tend not to support such a move.

Environmental & Renewables

Representing 15% of Group turnover in the period, sales in this segment were €81.6mn, down 42% on prior year (-32% excluding the impact of the disposal of a UK injection moulding business).

Weak residential demand has impacted this business so far in 2009, with slowing sales of storage and treatment products, as well as Solarthermal products, dominating the first half.

Whilst the market has been weak, this business has been significantly re-organised, resulting in the relocation of a number of smaller sites into two main manufacturing facilities, one in Ireland and one in the UK. This has already yielded the planned operational efficiencies, however their impact is largely masked by the overall market contraction and the continued warranty expenses that burden this business segment. As noted in the past, legal action was commenced during the period against the supplier of the raw materials, which is likely to run well into 2010.

Having performed strongly in 2008, activity in Solarthermal sales also declined, owing in the main to contraction in the German market. This weakness is not likely to subside in the short term, although this product will undoubtedly benefit longer term as construction recommences and the shift towards renewables accelerates. Near term, the building blocks for future growth are being put in place, with the establishment of a presence in both Continental Europe and North America. Operational efficiency will also benefit from the sizeable plant upgrade and relocation that will be completed by the end of the current year.

Looking Ahead

The Group’s end markets remain markedly less buoyant than in 2008. However, absolute demand for most product categories has stabilised over recent months and the year on year gap in output has been closing steadily. The project pipeline for Insulated Panels and Insulation has displayed a degree of consistency over the past nine months that should underpin a more stable performance for the remainder of the year, notwithstanding that activity will be significantly down on a year earlier. The Environmental & Renewables business should experience a similar pattern but the Access Floors business is expected to continue to fall off in line with office construction over the coming eighteen months or so.

Visibility through 2010 in the broader construction area is less certain, although the level of planning applications internationally would indicate any improvement in activity is unlikely in the near term. Against this anticipated backdrop, management remains focused on cash and cost containment to ensure the balance sheet strength necessary to enable Kingspan to take full advantage of the opportunities that will undoubtedly arise during these times.

Longer term, and despite the depth of the current recession, Kingspan is steadfast in its ambition to play a leading global role in what will inevitably evolve into a low energy buildings environment. Combined organic expansion and select acquisitions will cement this strategy ongoing.