Outlook

Edison investment research

6 March 2008

British Polythene Industries

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
12/06	414	14.0	38.5	22.0	6.4	8.9
12/07	424	11.5	32.3	22.0	7.7	8.9
12/08e	460	10.0	28.1	22.0	8.8	8.9
12/09e	460	11.5	32.4	22.0	7.6	8.9

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items

Investment summary: Durable plastic

Having focused previous research on British Polythene Industries' (BPI's) strategy and performance, this report looks at competitors and input costs as well as analysing the recent results. We conclude that there should be some relief from high input costs in the coming years though there is no immediate change to the industry structure likely. In the short term yield provides the main investment incentive.

Final results: Resilient 2007 performance

BPI reported pre-tax profits of £11.5m (£14.0m) and a maintained dividend of 22p, which was in line with our expectations. Polyethylene tonnage rose to 316 kT (308 kT), which was an underlying 1% increase. Average profit per tonne fell to £46 (£55) which is good result in the face of raw material price increases of c £115/T. Underlying cash flow was again resilient (£3m outflow), leaving net debt at £64.8m.

2008 outlook: Continued squeeze from input prices

Volumes in 2007 were better than we expected and again the outlook for 2008 does not seem to be as bad as feared. We forecast a 1%–2% fall in Europe. The input cost situation in 2008 is, however, still very poor with record polymer prices and further energy increases. While we expect most polymer increases to be passed on as usual, delays in doing so will cause further margin pressure. Management continues to take necessary restructuring steps, even we expect PTP forecasts to fall to £10m (£11.5m) for 2008. Our 2009 forecasts assume no benefit from input price falls yet.

Longer term outlook: Hope in sight

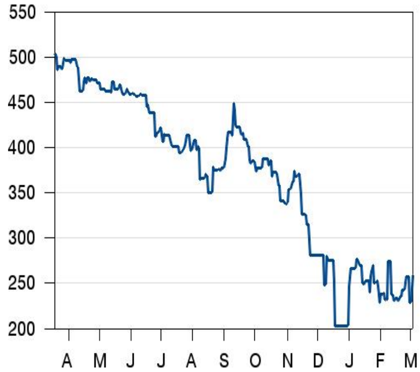
The longer term outlook for polymer input prices looks much more favourable as increases in ethylene/polyethylene capacity from 2009 should reverse the industry supply shortage, resulting in falling prices and a more beneficial environment for BPI.

Valuation: Yield remains key short term

Good underlying cash flow, reducing pension payments and the ability to flex capex, ease any pressure on the dividend payment despite the tough markets. The valuation floor is hence provided by a NAV of 239p and a yield of 8.9%. Share price appreciation is likely to be linked to a change in the pricing environment.

Price	247p
Market Cap	£64m

Share price graph



Share details

Code	BPI
Listing	FULL
Sector	General Industrial
Shares in issue	26.0m

Price

	High	Low
52 week	501p	200p

Balance Sheet

Debt/Equity (%)	104
NAV per share (p)	239
Net borrowings (£m)	64.8

Business

BPI is one of the largest manufacturers of polythene films and sheet products from polymer in Europe.

Valuation

	2007	2008e	2009e
P/E relative	54%	61%	68%
P/CF	2.9	2.9	2.9
EV/Sales	0.3	0.3	0.3
ROE	14%	14%	14%

Geography based on revenues

UK	Europe	US/Can	Other
63%	30%	5%	2%

Analyst

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British Polythene Industries is a research client of Edison Investment Research Limited

Investment summary: Demand is the driver

Company description: Polyethylene processor

BPI is one of the largest manufacturers of polythene film in Europe; with a manufacturing capacity in excess of 350,000 tonnes per annum located in UK, Belgium, the Netherlands, China and Canada. BPI is also the largest recycler of polythene waste, with techniques for processing a diverse range of scrap materials.

Short term profitability is clearly affected by the volatility of the polymer raw material prices (an oil/gas derivative), due the timing of passing on price movements. The company measures its performance on profit per tonne and in fact long term profitability is driven more by demand than supply characteristics. Demand generally lags GDP growth as customers seek to 'down-gauge' their polyethylene needs. BPI volumes have not grown materially as new capacity is more often added to increase added value rather than volume. The attraction of the business is its relatively stable performance, and good cash flow. This enables it to pay a very healthy dividend (yield 8.4%).

Final results implications

Management's comments that BPI enters 2008 facing record raw material and energy prices, imply further margin pressure in 2008. We have consequently downgraded our profit expectations from £11.5m to £10.0m in 2008. On the positive side, there does at last seem to be sight of the tight supply of raw material polymer easing in 2009. This would mean lower input prices for BPI and a potential profit recovery, although we have not yet factored this into 2009 forecasts.

Valuation: strong support levels

With another challenging year ahead, any earnings based valuation is unlikely to show BPI in a good light. It is very unusual for an industrial to trade at asset value and, in the short term, we see the 239p NAV as a strong support level. We remain confident that the dividend of 22p will be maintained and see a yield of 8.4% as further strong support. The investment case for buying the shares relies on the view that input prices will drop dramatically in the next two years. If this is the case, margin per tonne should improve and earnings (eps) of over 40p are achievable again (P/E 6.5x). For information we provide a peer valuation table for BPI.

Sensitivities: lack of visibility short term; but long term consistency

BPI has quite low visibility on both volume and pricing trends. Indeed the speed and direction of raw material price movements have a material effect on BPI's ability to pass on prices short term. These delays result in margin squeeze. Weather also has a significant effect on silage stretch volumes. Longer term profit trends are actually much more resilient with the annual profit/tonne usually remaining in the £40–£55 range. In 2008, weakening sterling helps UK competitiveness, export pricing and translation of overseas earnings.

Financials: healthy cash flow

BPI's dividend has been 21p–22p for 10 years now and has been held through downturns in 2000 and 2004. The principal reason has been the strong underlying cash flow from a business in a mature industry. On this basis we expect only a modest increase in net debt to £69m.

Exhibit 1: Company data sheet

Operations

BPI has 25 plants located in the UK (19), Belgium(2), Netherlands, Canada(2) and China. Operations are managed as four UK businesses (250k tonnes) and one in Europe (60k tonnes). Main European competitors: RKW (Ger), Trioplast (Swe), Aspla (Spa), Manuli (Italy). Main UK competitors: Britton, Total, Amcor.

Raw material polymers are bought from multiple sources including Dow Chemicals, Exxon Mobil, Ineos & SABIC & account for c 60% of group sales.

Film

The 105k tonne operation is run from six factories in the UK, and a sales office in Ireland and combines the film and stretch film operations. Product is either sold to other parts of the group to convert into higher added value products or direct to customers. The main agricultural and horticultural markets are truly international and the recent acquisition adds c 12k tonnes capacity in Canada and grain bags as a new product. Main products are stretch-wrap and shrink-wrap (silage, packaging and food), and films for other converters.

Recycled

BPI operates five plants in the UK and one in China and is the largest re-processor of polyethylene in Europe, producing c 80k tonnes of product. The plants take waste from its operations and from customers and recycle them into products like refuse sacks or building films. The lowest grade plastic is converted into moulded products like plastic wood for street furniture, decking etc. Having a recycling operation improves the group's efficiency. It is a fragmented market and waste is increasingly going to the Far East, where labour costs for sorting are cheaper. Supply of waste polyethene is short due to high demand from the Far East (UK is 65% export).

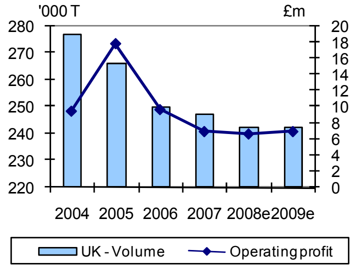
Converted Product — Industrial/Consumer

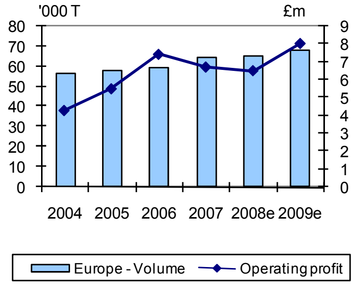
In this business, BPI makes c 70k tonnes polyethylene film into specific products by printing and converting it. In total there are eight plants and the business is run as two separate operations: industrial, which produces heavy duty sacks, large bags and pallet shrink wrap/hoods as well as short-run packaging products; and consumer, which does not extrude, but processes a wide range of printed bags for produce and the food industry. Converted products have a higher added value content than the film business.

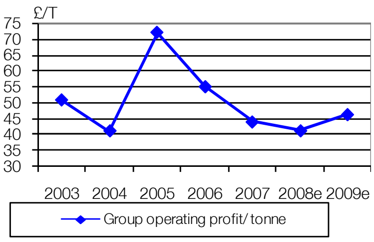
Europe

This business runs the group's one Dutch and two Belgian plants (60k tonnes). It replicates the UK Film and Converted Products operations, although it performs limited recycling. The three strongest non-UK territories for BPI are Belgium, Netherlands and France which each account for about 5% of group sales. (NB Ireland is serviced from the UK.) The main products are: silage wrap, printed film and heavy duty sacks.

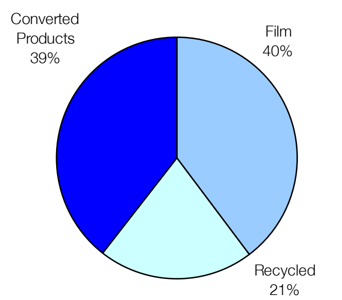
Performance





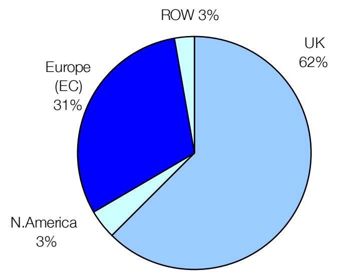


Process breakdown



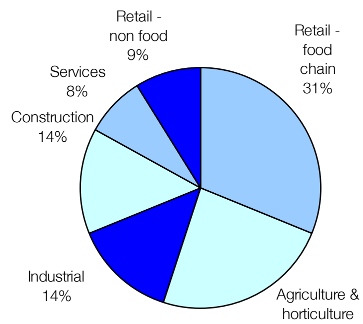
Based on 2007sales. European operations are also split into these 3 groups

Geographic breakdown



Based on proforma 2007 sales by destination

End-user market breakdown



Based on 2007 sales

Source: Edison Investment Research

2007 results: Margin squeeze

Despite a squeeze on operating margins from 4.1% to 3.3%, BPI has maintained a fundamentally strong business. Underlying volumes were stable and profit per tonne only fell £9 despite a £117 raw material price increase during the year. The maintained dividend reflects this outcome.

Key figures

BPI reported pre-tax profits of £11.5m (£14.0m) and a maintained dividend of 22p, which was in line with our expectations. Polyethylene tonnage rose to 316,000T (308,000T), which was an underlying 1% increase. Average profit per tonne fell to £46 (£55) which is good result in the face of raw material price increases of £117/T. Underlying cash flow was again resilient (£3m outflow), leaving net debt at £64.8m.

Exhibit 2: Group volume and price expectations

	2004	2005	2006	2007	2008e
Volume ('000T)	333	324	308	316	319
Underlying change (%)	*(0.6)*	*(2.9)*	*(4.8)*	*1.0*	*(1.0)*
Price at YE (£/T)	870	780	778	895	920
Price – average (£/T)	678	790	836	866	950
Change (%)	*25*	*17*	*6*	*4*	*10*

Source: Edison Investment Research

European operations: overcoming price pressures

Profit only fell slightly to £6.7m in the group's European operations due to a strong volume performance offsetting some of the pressure from rising prices and a 30% increase in energy costs. Overall volumes rose 8% to 64kT and the business is now running at full capacity. The strong silage season across the whole of Europe which continued right into October resulted in a 20% increase in sales of silage stretch. Further penetration of German, Polish and Russian markets helped extend the group's European coverage.

UK operations: worst hit by price and volume

Profit dropped from £9.7m to £7m as the price squeeze and weak volumes in some sectors hit margins. Silage volumes rose 10% and volume in construction markets actually rose, but overall the volumes declined modestly to 247kT (249kT). Silage margins across Europe were hit by the late start to the season, competition as well as raw material prices.

Underlying operating efficiencies improved in the UK, after the restructuring earlier in the year and a healthy recovery in recycling volume, including more output from the agricultural waste plant.

Other operations: steady progress

Management has already taken steps to target new markets for the Chinese operation following anti-dumping tariffs imposed in Europe on Far East suppliers. It has new customers in Australasia, the Middle East and North America as well as addressing the domestic market.

The new Canadian acquisition contributed a small profit (£0.2m) on 5kT of product. We expect a modest improvement on a full year's volume of 12kT. Introduction of new products in this facility will be the major step forward and this is not likely until 2009.

2008 outlook: Another challenging year

Volume outlook: Modest underlying volume decline

BPI offered some reassurance on volume in 2008, as UK volumes have been solid so far this year and its market exposure presents a resilient pattern. Even the 15% construction exposure is split between builders' merchants, aggregates and brick makers and it is only really the last of these sectors that is really exposed to new house build. Other large sectors like retail/food (31%) and public sector (8%) should be largely unaffected by downturn, while agriculture is more weather dependent than on the economy.

With Europe capacity constrained for much of 2008 until the new stretch line in Belgium comes on stream (4kT), we expect a modest underlying volume decline. Full contribution from Canada will, however, show a net increase in group volumes. We expect further steps to restructure capacity in the UK. We see the emphasis remaining on high added value areas, while cuts in traditional commodity areas are possible. We note that most restructuring has been funded by site sales but there can be a short term cash or profit impact.

Price outlook: Price pressure remains

Current polymer prices are about 15% higher than last year's average and show no immediate sign of easing. A sharper increase in Q1 should be largely passed on quite promptly by BPI in the next few months, but a 20% rise in UK energy prices year on year is harder to pass on to customers. We see a continued price squeeze and estimate that profit per tonne overall is likely to drop to c £41 (£46 in 2007).

Prices could begin to fall in H2 as the long awaited effect of new polymer capacity reduces the undersupply in Europe, though this is more likely in 2009 and our forecasts do not yet reflect it. We discuss this issue in more detail in the section: *Focus on input costs.*

Forecast changes: 13% reduction in PTP

Our revised higher revenue forecasts in 2008 reflect the higher pricing environment prevalent in 2008. This and the higher energy prices are likely to extend the price squeeze and we have consequently trimmed our PTP forecasts by £1.5m to £10m. Anticipation of a reduction in input prices in 2009 encourages us to forecast the beginning of an extended profit recovery. Despite reduced profitability we expect cash flow to remain fairly neutral as we believe BPI has less need to pay such high pension payments and has the ability to flex capital expenditure (see also *Financials* section).

Competitive issues

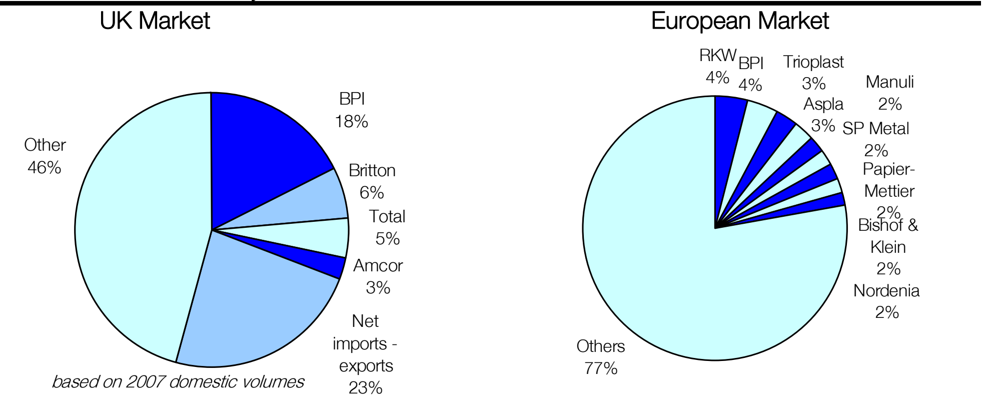
Analysis of BPI's direct European competitors suggests that most leading players are adopting similar customer-focused strategies to maximise higher technology added value products and processes. To date the European market has been orderly and dominated by a series of local champions. There does not appear any short term likelihood of the consolidation needed to improve the industry's weak pricing power.

Industry handicapped by fragmented structure

The polyethylene processing industry in Europe remains highly fragmented. Together the top five producers account for only 15% of volumes. For the processors, like BPI, this structure is a handicap for profit margins. Even the large players are relatively small and in the face of large multi-national suppliers, like Dow Chemicals, Exxon, and Sabic, and strong domestic customers, like the supermarket chains, there is a continued risk of price 'squeeze'. In fact the brunt of the recent industry cost price squeeze seems to have been on this part of the supply chain, with the consumer noticing very little impact and raw materials suppliers actually extending margins.

The textbook solution is industry consolidation. On the surface this looks a real possibility with very little threat from competition laws likely due to the fragmented and localised spread of the industry. In practice, however, we fear this is likely to be only a long term solution. None of the main individual players, which are all privately run, has the financial muscle to mount an acquisitive strategy, while outside industry consolidators like the venture capital industry are likely to remain on the sidelines while the credit crisis bites.

Exhibit 3: Market share in major markets



Source: UK: Edison estimates, Europe: AMI

Competitor comparisons

A detailed comparison of a sector that is largely in private hands is quite difficult. It is clear, however, that the main differentiating factor between the largest businesses is their geographic exposure. There is only modest overlap of geographic territories. Within the product sectors, there is extensive overlap, though we imagine each serves the domestic customers in that field, eg supermarket chains. RKW and Trioplast seem to have a higher exposure to hygiene and medical sectors, while Manuli focuses entirely on stretch wrap. RKW and Papier Mettier also have exposure to related packaging fields of non-wovens, and paper bags respectively.

There appears no evidence that one particular company has the winning strategy and in fact most seem to be offering similar things. If anything, Manuli appears the more aggressive with plans to increase revenues and expand into North America and Russian markets. In performance terms we found information only on Manuli, which made similar operating margins to BPI in 2006 at 4.4%.

The processing industry has been entirely focused on keeping up with input price movements. While volumes remain fairly stable in Europe, we do not expect any competitive pricing threat. The main competitive threat to BPI, whose domestic market accounts for over 60% of revenues, is perhaps from imports, however the weakening of sterling is likely to make this less of a threat in the coming year, and will also make exports (BPI exports c £50m product) more competitive.

Exhibit 4: Competitor comparison

Company	Sales (£m)	Ownership	Volume (000 T)	Sites/ staff	Locations	Sectors: Hygiene/ Medical	Ind. & Const.	Agric.	Cons.	Other
BPI	425	quoted	310	25 / 2900	UK, Bel, NL, Can, China		x	x	x	Recycling
RKW	500	private	325	18/ 2500	Ger, Fra, Spa, Scan	x	x	x	x	Non wovens
TrioPlast	290	private (family)	228	11/ 1300	Swe, Den, Fra	x	x		x	
Aspla	n/a	private	210	7	Spain		x	x	x	
Manuli Stretch *	235	private	175	3	Ger, Ita, US		x	x		
Papier Mettler	n/A	private	160	3	Ger				x	Paper bags

Source: Company webpages * US not included in tonnage & sales

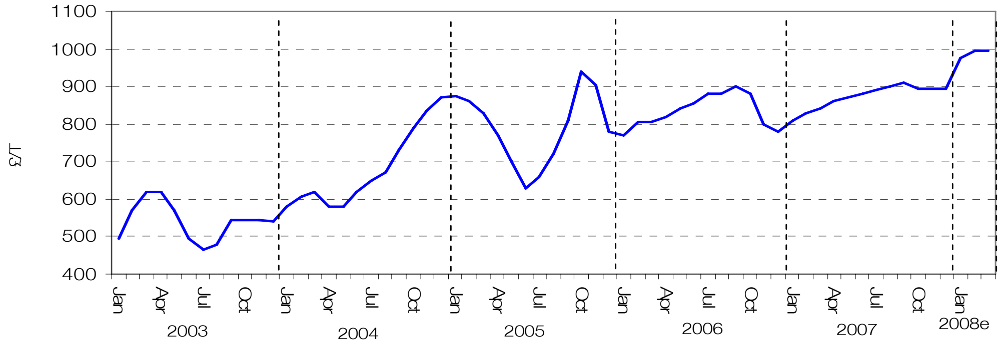
Focus on input costs

Raw material polymers account for c 60% of group sales and the movement in their price has a major impact on the group's margins. The current scenario of record high prices implies a structural change in the industry. In this section we have looked at the supply chain and we conclude that bottlenecks in ethylene/polyethylene production are causing a bigger impact than high oil and gas prices. Industry estimates suggest these bottlenecks will be removed during 2009 and 2010, presenting a much more beneficial pricing environment for BPI.

Input price impact on BPI

As a polymer processor BPI works from a 'margin per tonne' model. As Exhibit 1 shows this has been between £40–£55/T in four of the last five years (£46 in 2007) and is likely to remain in this range over the long term. However, in the short term the scale and speed of price movements affect profit margins. The impact of various pricing scenarios is analysed in the *Sensitivities* section.

Exhibit 5: Polymer prices: Polyethylene LD Platts



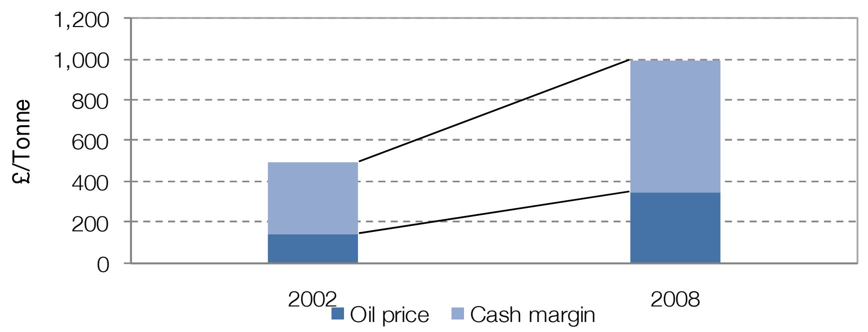
Source: Company data

Polymer produced from ethylene

Polythene or Polyethylene is produced by the polymerisation of ethylene. Polyethylene granules are bought from multiple sources including Dow Chemicals, Exxon Mobil, Ineos and SABIC. Ethylene, in turn, is generally produced by the steam cracking of naphtha, a fraction of crude oil or steam cracking of ethane, separated out of natural gas. Hence BPI's feedstock is derivative of either oil or natural gas. In fact the majority of ethylene is produced from a natural gas route and 50%–60% is used to produce polyethylene polymer. These price increases in the commodity raw materials (oil and gas) have pushed the base polyethylene price up significantly, however this does not tell the whole story.

The major impact on pricing of polyethylene polymer is the bottlenecks within the supply chain. For the last few years there has been a severe shortage of supply from ethylene plant in Europe and Asia (this being despite excess capacity in the US resulting in a 10% reduction here in the early part of the decade).

Exhibit 6: The impact of oil on polyethylene price increases



Source: BPI

We estimate that the impact of oil and gas prices alone would have pushed the polyethylene price up by only £200/tonne. European polyethylene prices have risen to such a premium due to the supply shortage, which has meant suppliers have extended their cash margin way above the impact of rising oil prices. While this is bad news in the short term, it does mean that there is potential for polyethylene prices to fall back £300/T if the supply constraints are removed.

The impact of new polyethylene and ethylene capacity

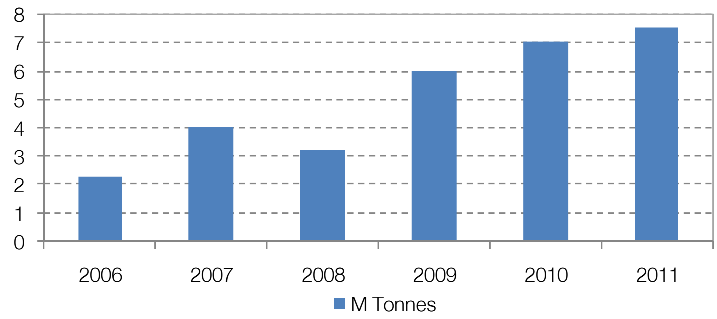
Worldwide ethylene capacity was estimated at between 109m–110m tonnes in 2006 (source: Chemical Business Insight, Petrochemical news). With demand estimated to be c 110m tonnes, this assumes capacity utilisation over 90%. Demand for ethylene is forecast to grow at 4.3% per annum for the next five years (source: CMAI, Chemical Market Associates Inc), with virtually all the growth coming from Asia. This strong demand in Asia and high capacity utilisation have exaggerated the price spike from rising feedstock prices and pushed polymer prices to new highs (£995/tonne).

The situation is expected to sharply reverse over the next few years. By 2011, CMAI expects global capacity to rise to 156m tonnes with nearly all of the increase expected in Asia (13mT) and the Middle East. A 20m tonne increase in the Middle East includes new plants in Saudi (7.7mT), Iran (6.0mT), Qatar (2.4mT). Of this the capacity increase in 2008 is 9.5mT.

Polyethylene capacity is often installed with ethylene capacity and a further 23mT is expected to come on stream in the next three years compared to an installed base of 70mT.

Planned capacity increases hence have been expected for some time to move the industry from under-supply to over-supply and help dampen prices. Unfortunately, much of the early hopes relied on Iran, where a reliance on its own engineers has caused extensive delays. Introductions in other Mid Eastern countries look more reliable along with planned capacity in China, Singapore, India and Taiwan.

Exhibit 7: Planned capacity increases for BPI's raw material, polyethylene



Source: BPI

A more positive long term outlook for BPI's input prices

CMAI predicts an oversupply of ethylene by the end of 2008, with the largest amounts of capacity coming on stream in 2010 and 2011. The longer term implications for BPI are positive. For the last four years it has been caught in the price squeeze. By 2009, there seems to be a good case that this structural problem will be removed.

Sensitivities

Many of the trends that affect profitability for BPI are short-term ones and the management team has an excellent track record of managing internal efficiency and dampening these short term cycles. The divisional management team has on average 15 years service at BPI.

Earnings visibility

While BPI has long term supply relationships with most of its customers, weekly call-off volumes depend entirely on customer's demand. It hence has quite low visibility on volume trends. In mitigation the majority of like retail/food (31%) and public sector (8%) should be largely unaffected by downturn, while agriculture is more weather dependent than on the economy and even construction is well spread and not just a new house build story. Pricing also remains hard to predict driven by supply demand characteristics of the ethylene and polyethylene supply chain.

The high volatility of polymer input prices

Generally high polymer prices deter customers, having a negative effect on volume, which in turn dampens margins, while lower prices encourage demand. Gradual price increases are harder to pass on quickly as customers resist multiple changes. So the delay in passing on increases hits margins. Margin can be restored more quickly on larger increases. The most beneficial environment for BPI is a gradual decline or a very volatile market. The graph below shows that underlying high level and gradual increases in 2008 are the worst case scenarios for BPI in the short term.

Weather – always an uncertainty

It is hard to envisage a structural change in the weather, which would have a permanent effect on BPI, but horticulture, silage and to certain degree retail are affected by the weather. Last year the long warm wet summer across Europe was a major benefit for silage markets. Generally hot weather can encourage greater sale of soft drinks (and hence packaging).

Environmental issues

BPI always explains how plastic package reduces the amount of damaged produce and is actually a net benefit to the environment. While its customers fully understand this and work with BPI to reduce and improve the properties of packaging, the environmental lobby frequently see plastic packaging as an evil. Moves to phase out carrier bags are actually good news for BPI, as it does not make them (in Europe), and any reduction in this 5% of polyethylene demand will ease the supply/demand balance. Also demand is likely to rise in refuse/bin liners that BPI does produce.

Solid financial health

With a valuation dependent on a dividend yield it is important to understand that BPI and indeed the rest of the industry are naturally strong cash generators. BPI has a modern asset base which requires little new capacity additions and with tight control of working capital we expect gearing to remain at around current levels (c 100%).

Valuation

With another challenging year ahead any earnings based valuation is unlikely to show BPI in a good light. It is very unusual for an industrial to trade at asset value and, in the short term, we see the 239p NAV as a strong support level. We remain confident that the dividend of 22p will be maintained and see a yield of 8.4% as further strong support. The investment case for buying the shares relies on the view that input prices will drop dramatically in the next two years. If this is the case margin per tonne should improve and earnings (eps) of over 40p are achievable again (P/E 6.5x). For information we provide a peer valuation table for BPI.

Exhibit 8: Peer company valuations

		Price	Mkt Cap.	Calendar 2008			Calendar 2009		
		(p)	(£m)	P/E	EV/Sales	Yield	P/E	EV/Sales	Yield
BPI	Polyethylene film	242	68	8.8	0.26	8.9%	7.6	0.26	8.9%
Peer Industrial companies									
Acertec	Reinforcing bar, body panels	46	23	6.2	0.20	8.8%	5.1	0.19	8.8%
Castings	Foundry & machining	281	123	11.2	1.00	3.6%	10.5	0.96	3.7%
Fenner	Reinforced polymer belts	255	404	14.3	1.01	2.6%	12.6	0.94	2.9%
Hill & Smith	Metal barriers	329	248	11.6	0.56	2.9%	11.0	0.53	3.0%
Metalrax Group	Specialist steel products	30	35	14.8	0.36	6.8%	8.9	0.39	6.8%
Renold	Chain, gears & couplings	80	56	8.4	0.50	1.5%	7.4	0.48	2.4%
RPC	Plastic packaging	199	197	9.2	0.49	4.6%	8.7	0.48	5.0%
Senior	Stainless steel fabrications	102	399	12.1	0.94	2.4%	11.3	0.89	2.5%
Titan Europe	Wheel s, undercarriages	145	120	5.7	0.62	4.8%	5.4	0.60	5.2%
Average				10.3		4.6%	8.9		4.9%

Source: Edison Investment Research, Hemscott. Prices taken on 3 March 2008.

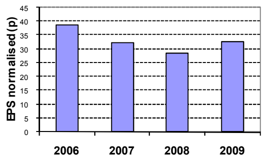
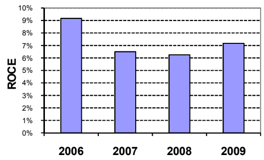
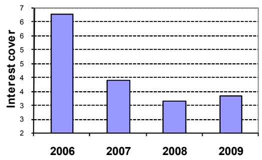
Financials: solid cash flow maintained

BPI's dividend has been 21p–22p for 10 years now and has been held through downturns in 2000 and 2004. The principle reason has been the strong underlying cash flow from a business in a mature industry. In the current year we expect a reduction in extra pension contributions to balance any impact from rising prices on working capital. Other major cash costs like capital expenditure, dividend, interest and tax are likely to remain largely unchanged. On this basis we expect only a modest increase in net debt to £68m. In 2007, BPI purchased the last lease on a plant and it now owns all manufacturing plants, which are generally well invested and ahead of industry standards of technology. With virtually no goodwill and now a greatly reduced net pension deficit of £13m (£38m two years ago), the NAV of 239p per share is a realistic number.

Exhibit 9: Financial information

£m	2004	2005	2006	2007	2008e	2009e
31-December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue	359.4	410.2	414.2	424.1	460.0	460.0
Cost of Sales	(300.5)	(338.7)	(352.4)	(363.5)	(398.9)	(390.1)
Gross Profit	58.9	71.5	61.8	60.6	61.2	69.9
EBITDA	26.8	36.6	29.8	26.6	26.3	28.1
Operating Profit (before GW and except.)	13.7	23.3	17.1	13.9	13.2	15.0
Goodwill Amortisation	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.2	(0.4)	(0.3)	1.2	1.0	1.0
Operating Profit	13.9	22.9	16.7	15.1	14.2	16.0
Net Interest	(2.9)	(3.2)	(2.7)	(3.6)	(4.2)	(4.5)
Profit Before Tax (norm)	11.0	19.7	14.0	11.5	10.0	11.5
Profit Before Tax (FRS 3)	11.0	19.7	14.0	11.5	10.0	11.5
Tax	(2.9)	(5.4)	(3.9)	(3.0)	(2.6)	(3.0)
Profit After Tax (norm)	8.1	14.3	10.1	8.5	7.4	8.5
Profit After Tax (FRS3)	8.1	14.3	10.1	8.5	7.4	8.5
Average Number of Shares Outstanding (m)	25.7	25.7	26.0	26.2	26.5	26.5
EPS - normalised (p)	31.5	54.3	38.5	32.3	28.1	32.4
EPS - FRS 3 (p)	31.5	55.3	38.8	32.4	27.9	32.1
Dividend per share (p)	21.0	22.0	22.0	22.0	22.0	22.0
Gross Margin (%)	16.4	17.4	14.9	14.3	13.3	15.2
EBITDA Margin (%)	7.5	8.9	7.2	6.3	5.7	6.1
Operating Margin (before GW and except.) (%)	3.8	5.7	4.1	3.3	2.9	3.3
BALANCE SHEET						
Fixed Assets	90.7	93.5	85.4	86.6	88.4	88.9
Intangible Assets	2.6	2.0	2.1	2.1	2.3	2.3
Tangible Assets	79.4	79.2	77.3	82.5	84.0	84.5
Investment/tax credits	8.7	12.3	6.0	2.0	2.1	2.1
Current Assets	121.3	119.4	120.5	127.8	137.5	139.5
Stocks	58.4	55.3	59.5	62.1	67.4	67.4
Debtors	61.9	63.2	60.5	65.1	69.2	70.2
Cash	1.0	0.9	0.5	0.6	1.0	2.0
Current Liabilities	(104.9)	(75.5)	(68.3)	(81.4)	(87.0)	(90.5)
Creditors	(70.4)	(68.7)	(60.9)	(63.5)	(69.1)	(72.6)
Short term borrowings	(34.5)	(6.8)	(7.4)	(17.9)	(17.9)	(17.9)
Long Term Liabilities	(71.0)	(100.2)	(83.2)	(70.6)	(74.9)	(70.9)
Long term borrowings	(23.2)	(41.2)	(45.1)	(47.5)	(52.1)	(50.1)
Other long term liabilities	(47.8)	(59.0)	(38.1)	(23.1)	(22.8)	(20.8)
Net Assets	36.1	37.2	54.4	62.4	64.0	67.0
CASH FLOW						
Operating Cash Flow	16.4	33.8	19.4	22.0	22.3	28.1
Net Interest	(3.0)	(3.2)	(2.8)	(3.6)	(4.2)	(4.5)
Tax	(3.2)	(4.0)	(5.6)	(2.2)	(2.6)	(3.0)
Capex	(13.0)	(11.6)	(11.6)	(13.2)	(13.3)	(13.0)
Acquisitions/disposals	0.0	0.0	0.0	(6.5)	0.0	0.0
Financing	(0.2)	0.0	1.4	(3.5)	(0.7)	1.1
Dividends	(5.4)	(5.4)	(5.7)	(5.8)	(5.7)	(5.7)
Net Cash Flow	(8.4)	9.6	(4.9)	(12.8)	(4.2)	3.0
Opening net debt/(cash)	48.3	56.7	47.1	52.0	64.8	69.0
HP finance leases initiated	0.0	0.0	0.0	0.0	0.0	0.0
Other	(0.0)	(0.0)	0.0	0.0	(0.0)	0.0
Closing net debt/(cash)	56.7	47.1	52.0	64.8	69.0	66.0

Source: Company accounts/Edison Investment Research

Growth	Profitability	Balance sheet strength	Sensitivities evaluation	
			Litigation/regulatory	○
			Pensions	◐
			Currency	○
			Stock overhang	○
			Interest rates	○
			Oil/commodity prices	●

Growth metrics	%	Profitability metrics	%	Balance sheet metrics		Company details	
EPS CAGR 04-08e	(12.2)	ROCE 08e (post tax)	6.7	Gearing 08e	108	Address:	
EPS CAGR 06-08e	0.1	Avg ROCE 04-08e	10.4	Interest cover 08e	3.1	96 Port Glasgow Road, Greenock, PA15 2UL	
EBITDA CAGR 04-08e	(6.4)	ROE 08e	11.6	CA/CL 08e	1.6		
EBITDA CAGR 06-08e	2.8	Gross margin 08e	13.3	Stock turn 08e	53.4	Phone	01475 501000
Sales CAGR 04-08e	2.9	Operating margin 08e	2.9	Debtor days 08e	54.9	Fax	01475 743143
Sales CAGR 06-08e	4.2	Gr mgn / Op mgn 08e	4.6x	Creditor days 08e	54.9	www.bpipoly.com	

Principal shareholders	%
Aberforth Partners	16.9
Aberdeen Asset Management	9.0
Legal & general Investment Management	5.4
Axa Investment Management	5.2

Forthcoming announcements/catalysts	Date *
AGM	May 2008
Trading update *	June 2008
Interim results *	September 2008
*Note: * = estimated*	

Management team
Chairman: Cameron McLatchie
Cameron joined the Board in 1983, on the acquisition of Anaplast where he had been Chairman and Managing Director since 1975, becoming Group Chairman and Chief Executive in 1988. He relinquished the role of Chief Executive in May 2003
CEO: John Langlands
John joined the group in 1994 as Group Finance Director from Eclipse Blinds plc where he was also Finance Director. He was previously Finance Director at Scottish Enterprise and United Wire Limited. Appointed Chief Operating Officer in May 2002 and Chief Executive in May 2003.
CFO: Anne Thorburn
Anne joined BPI in 1996 and has had several senior financial roles in the Group. She was previously Group Finance Director of Clyde Blowers PLC and a Senior Manager in KPMG Corporate Finance. She was appointed to the Board in 2003.

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