Embargoed until 07:00 on:
Wednesday 9 October 2019

VOLUTION GROUP PLC

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 JULY 2019

Strong results for the year with revenue growth of 14.6% and adjusted EPS growth of 10.3%

Volution Group plc ("Volution" or "the Group" or "the Company", LSE: FAN), a leading supplier of ventilation products to the residential and commercial construction markets, today announces its audited financial results for the 12 months ended 31 July 2019.

Financial Results	**2019**	**2018**	**Movement**
Revenue (£m)	**235.7**	205.7	14.6%
Adjusted operating profit (£m)	**42.1**	37.1	13.3%
Adjusted profit before tax (£m)	**39.9**	35.8	11.5%
Adjusted EPS (pence)	**16.0**	14.5	10.3%
Reported operating profit (£m)	**24.7**	17.5	40.8%
Reported profit before tax (£m)	**23.1**	16.7	38.3%
Reported basic EPS (pence)	**9.2**	6.7	37.3%
Adjusted operating cash flow (£m)	**36.9**	34.4	7.3%
Net debt (£m)	**74.6**	77.2	2.6
Total dividend per share (pence)	**4.90**	4.44	10.4%

The Group uses some alternative performance measures to track and assess the underlying performance of the business. These measures include adjusted operating profit, adjusted profit before tax, adjusted EPS and adjusted operating cash flow. For a definition of all the adjusted and non-GAAP measures, please see the glossary of terms in note 18. A reconciliation to reported measures is set out in note 2.

Financial highlights

- Revenue growth of 14.6% (15.7% at constant currency):
  - organic revenue growth of 2.6% (3.5% at constant currency); and
  - inorganic revenue growth of 12.0% (12.2% at constant currency).
- Adjusted operating profit increased by 13.3% to £42.1 million (14.9% at constant currency), assisted by acquisitions.
- Adjusted operating profit margin of 17.8% (2018: 18.0%), an improving trend through the year:
  - H1 17.6%, impacted by Reading and Torin-Sifan operational issues; and
  - H2 18.1%, finalised commissioning of Reading facility; strong performance in Central Europe.
- Reported profit before tax increased by £6.4 million to £23.1 million (2018: £16.7 million); exceptional costs significantly reduced to £1.8 million (2018: £6.4 million).
- Adjusted operating cash inflow of £36.9 million (2018: £34.4 million).
- Net debt of £74.6 million was £2.6 million lower than at 31 July 2018 after having spent £10.4 million on the acquisition of Ventair Pty Limited and £0.6 million of contingent consideration paid relating to Oy Pamon Ab.
- Full year dividend of 4.90 pence per share, up 10.4% (2018: 4.44 pence).

Strategic and operational highlights

Ventilation

Organic growth

- Highlights in the UK include a return to growth for the UK Public RMI sector and another period of good growth for UK New Build Residential Systems.
- As previously reported, operational difficulties at our Reading facility adversely impacted profitability in the first half of the financial year; however, there was a significant improvement in production levels and efficiency in the second half of the financial year. The Reading facility is now fully commissioned.
- Good sales of our new Xenion range of decentralised heat recovery ventilation in Germany with an associated increase in gross margin in the region.
- The launch of the first application software controlled ventilation extract fan in New Zealand, Genius, under the Manrose brand sold by our company Simx, further demonstrating our capability to launch existing Volution products in to newly accessed markets.

Acquisitions

- On 1 March 2019, we acquired Ventair Pty Limited, a market leading residential ventilation product supplier, in Australia, for an initial cash consideration of AUD$19.2 million (approximately £10.4 million). A further amount of deferred cash consideration of up to AUD$7.7 million (approximately £4.3 million) may be payable, contingent on Ventair achieving an EBITDA target in the financial year ending 31 July 2020.
- The acquisition of Ventair Pty Limited has further increased our geographic diversity, product offer and market access. The acquisition is integrating and performing well under the management of our Australasian team.
- Including the pro-forma effect of the Ventair acquisition, our revenue from customers outside the UK now represents 53.0% of total Group revenue.

OEM (Torin-Sifan)

- OEM (Torin-Sifan) has continued to see a good take-up of its new, high-efficiency, Revolution 360 range of EC fans (EC3), with further capacity investment underway to support the growth in sales.
- Operations in OEM (Torin-Sifan) were adversely impacted during the year by procurement issues which manifested in higher input costs. However, we are confident these issues have now been resolved.

Progress against strategy

This strong set of results for the year maintains our consistent track record of revenue and earnings growth in the 5 years since listing in 2014 and continues to validate our strategy:

- Organic revenue growth of 3.5% (at constant currency) in the year, an average of 3.2% over the 5 years since listing in 2014;
- Acquisition strategy delivering inorganic revenue growth of 12.2% (at constant currency) in the year, providing access to new markets, resulting in non-UK revenues increasing from 36.5% in 2014 to 53.0% on a pro-forma basis;
- Strong earnings growth; EPS increased by 82% in the 5 years since listing in 2014 (13% CAGR);
- Cumulative operating cash flow generation in the 5 years since listing in 2014 of £165.9 million; and
- Excellent track record of innovative product introductions; strong development pipeline.

UK leaving the EU

In the context of the considerable uncertainty surrounding the outcome of the Brexit process, we have analysed the potential risks and operational challenges to our business in the event of a no-deal exit from the European Union. We have reviewed potential tariffs which we do not consider to represent a significant impact, and on the supply side we have increased inventory levels of faster moving items in certain locations. We see the principal risk and potential impact to be that of a broader downturn in confidence and activity levels in the UK albeit noting that the UK does now represent just under half of Volution’s revenues.

Commenting on the Group's performance, Ronnie George, Chief Executive Officer, said:

"Our strong results this year were underpinned by improving organic revenue growth and the excellent contribution and progress achieved with the acquisitions made in the prior and current financial year. Organic growth improved in the UK as we continued to innovate and introduce new products in all of our market sectors with 5.3% organic growth from our UK residential public refurbishment market being particularly pleasing, underpinned by the new products launched in the last two years. A particular highlight was Central Europe with 9.3% (constant currency) organic growth, again underpinned by our innovation and introduction of new, market leading products.

We also completed our factory rationalisation project in the UK: consolidating two older and capacity constrained facilities in to a new, purpose built injection moulding, ducting extrusion and fan assembly facility in Reading. This new and enlarged facility will future proof our production capability to serve all of our residential markets, not just in the UK but including our ambitious growth plans in Australasia leveraging the benefits from the recent acquisition of Ventair in March 2019."

Outlook

Whilst there is major uncertainty in the UK economy caused by the current state of Brexit negotiations, we continue to focus on building on our strong financial performance and in particular the pursuit of operational excellence to further expand our operating margins.

-Ends-

For further information:

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A meeting for analysts will be held at 9.30am today, Wednesday 9 October, at the offices of Tulchan Communications, 85 Fleet Street, London EC4Y 1AE. Please contact volutiongroup@tulchangroup.com to register to attend or for instructions on how to connect to the meeting via conference facility.

A copy of this announcement and the presentation given to analysts will be available on our website www.volutiongroupplc.com from 7.00 am on Wednesday 9 October.

Certain information contained in this announcement would have constituted inside information (as defined by Article 7 of Regulation (EU) No 596/2014) prior to its release as part of this announcement.

Volution Group plc Legal Entity Identifier: 213800EPT84EQCDHO768.

Note to Editors:

Volution Group plc (LSE: FAN) is a leading supplier of ventilation products to the residential and commercial construction markets in the UK, the Nordics, Central Europe and Australasia.

The Volution Group operates through two divisions: the Ventilation Group and the OEM (Torin-Sifan) division. The Ventilation Group comprises 15 key brands - Vent-Axia, Manrose, Diffusion, National Ventilation, Airtech, Breathing Buildings, Fresh, PAX, VoltAir, Kair, Air Connection, inVENTer, Ventilair, Simx and Ventair, focused primarily on the UK, the Nordic, Central European and Australasian ventilation markets. The Ventilation Group principally supplies ventilation products for residential and commercial ventilation applications. The OEM (Torin-Sifan) division supplies motors, fans and blowers to OEMs of heating and ventilation products for both residential and commercial construction applications in Europe. For more information, please go to: www.volutiongroupplc.com

Cautionary statement regarding forward-looking statements

This document may contain forward-looking statements which are made in good faith and are based on current expectations or beliefs, as well as assumptions about future events. You can sometimes, but not always, identify these statements by the use of a date in the future or such words as "will", "anticipate", "estimate", "expect", "project", "intend", "plan", "should", "may", "assume" and other similar words. By their nature, forward-looking statements are inherently predictive and speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. You should not place undue reliance on these forward-looking statements, which are not a guarantee of future performance and are subject to factors that could cause our actual results to differ materially from those expressed or implied by these statements. The Company undertakes no obligation to update any forward-looking statements contained in this document, whether as a result of new information, future events or otherwise.

CHIEF EXECUTIVE OFFICER'S REVIEW

Overview

In our fifth full financial year since listing in June 2014 we continued to make good progress with our strategy, bringing the Group's revenue to almost double that of when we listed. We completed the acquisition of Ventair in Australia in March 2019, as well as successfully integrating the acquisitions we made in the prior year. We are now well established as the market leader for residential ventilation in the UK, with leading positions in the ventilation markets in the Nordics, Central Europe and Australasia.

As we have stated previously, the European and international ventilation market remains fragmented and we continue in our ambition to become one of the major suppliers in this market. We have established a portfolio of leading brands and more recently have been able to utilise some of these brands to launch in to new markets. In the last two years we have successfully launched the Vent-Axia brand, primarily a leading UK brand, in to the market in the Netherlands and we are now making plans to launch this brand in Australia through our newly acquired company, Ventair. We remain focused on adding other leading brands and market positions to our portfolio. As the Group has grown significantly in size and with it a much wider product range, the opportunity when acquiring access to a new market becomes more attractive.

The Group delivered revenue of over £235 million in 2019. Whilst there is an inevitable margin dilution as we acquire companies with a lower margin, we are also conscious that there has been a reduction in our underlying margin over the last two years. Our adjusted operating margin in the year was 17.8%, comprised of 17.6% in the first half of the year improving to 18.1% in the second half. We have taken action to ensure that operating margin improvement is the key focus for management and employees of the business over the coming years and we have also updated our strategy to now include a sharp focus on Operational Excellence. We believe that the Group has the potential to increase adjusted operating margins back to a level of 20% over the medium term.

Organic revenue growth improved in 2019 to 3.5% at constant currency, with the first half at 3.2% and the second half increasing to 3.8%. All of our geographies delivered organic revenue growth for the year, with the exception of our Nordic region where we had an organic revenue decline of 2.3% at constant currency. We are delighted with the performance of Oy Pamon in Finland (Pamon) though, acquired in July 2018, which delivered growth versus the year prior to our ownership of 14.5% (not defined as organic revenue growth by Volution until after twelve months of ownership).

Our project to consolidate and increase manufacturing capacity in Reading, UK was completed in the year. Our new ventilation manufacturing facility in Reading is one of the largest of its kind in Europe and whilst the project took longer than anticipated to complete, it has been operating at normal service levels during the second half of 2019. At the same time as completing this project there has been considerable innovation in new residential refurbishment products with the establishment of a new, more modular, product structure which will provide the foundation for future development of our product ranges in the years ahead. This more modular approach provides greater flexibility and scale to both injection moulding and fan assembly, an essential ingredient as we continue to grow organically in all of our markets.

We expect further political uncertainty ahead, as a consequence of the UK's scheduled departure from the European Union. However, the Group is now a truly international business with over 50% of our revenue being generated outside the UK which, coupled with our value-adding business model and clear growth strategy, gives us confidence in the long-term prospects for the Group.

UK leaving the European Union

Following the referendum outcome in June 2016 for the UK to leave the EU, the UK Government and European Commission have been negotiating the terms on which the UK would leave the EU and the framework for the future relationship. At the time of writing the continuing uncertainty in the UK parliament makes it difficult to predict an outcome; however, it remains possible that the UK will leave the EU without a deal on the 31 October 2019 or at some later date. In the absence of a ratified agreement, it is unclear what trading relationships the UK will have with the EU and other significant trading partners after the exit date.

Our UK businesses, as well as those based in Continental Europe, are substantially "domestic" suppliers of goods to their own markets with relatively limited cross border sales activity. We have reviewed the tariffs that would apply to any cross border sales of our products between UK and Europe in the event of a no-deal, and at an estimated tariff level of up to 3%, we do not believe the commerciality of these transactions would be materially impacted.

On the supply chain side, our primary non-UK supply comes from China, and so (aside from any heightened foreign exchange rate volatility) is not materially impacted. Border delays are recognised as a potential source of disruption; as such we have increased some inventories of specific faster moving products and will continue to monitor inventory levels and orders with our key suppliers in the run up to 31 October.

We have undertaken an analysis of the risks and operational challenges to our business of a no-deal exit from the European Union and consideration of these risks has been incorporated into the Group's principal risks.

With a strong direct presence in the EU, the Board believes that Volution is well placed to respond to changes to future trading arrangements between the EU and the UK. Whilst it is clear that Brexit uncertainty is impacting confidence and activity levels in the UK, our UK based revenues account for less than 50% of the Group's overall revenues. In the longer term, as an international business with good logistics capabilities and an expanding geographic presence, we consider we have greater flexibility to withstand any UK specific challenges.

We recognise that significant uncertainty will remain until any Brexit proposal is fully agreed and understood, and as such our understanding of potential risks and impacts are being regularly reviewed and assessed.

Ventilation Group

Revenue:	£212.1 million, 90.0% of Group revenue (2018: £183.1 million, 89.0% of Group revenue)
Adjusted operating profit:	£41.5 million, 98.7% of Group adjusted operating profit (2018: £35.4 million)

Market sector revenue	**2019 £000**	Constant currency **2019 £000**	Constant currency 2018 £000	Constant currency Growth %
Ventilation Group				
UK Residential RMI	**39,355**	**39,355**	38,166	3.1
UK New Build Residential Systems	**27,795**	**27,795**	25,604	8.6
UK Commercial	**34,856**	**34,856**	33,474	4.1
UK Export	**9,924**	**9,985**	11,189	(10.8)
Nordics	**46,995**	**48,663**	36,692	32.6
Central Europe	**30,990**	**31,122**	28,466	9.3
Australasia	**22,176**	**22,456**	8,182	174.5
Total Ventilation Group	**212,091**	**214,232**	181,773	17.9
UK export Simx and Air Connection[1]	–	–	1,321	
Total Ventilation Group	**212,091**	**214,232**	183,094	17.0

[1] Sales to Simx and Air Connection in the prior year of £1.3 million have been separated to show a like-for-like comparison with FY 2018 because sales to Simx and Air Connection are now eliminated as intercompany sales.

Ventilation Group segment

The Ventilation Group's revenue grew by 15.8% (17.0% at constant currency). Organic revenue growth was 2.3% (3.4% at constant currency).

United Kingdom

Sales in our UK New Build Residential Systems sector were £27.8 million (2018: £25.6 million), showing good organic revenue growth of 8.6%, continuing an unbroken growth trend going back to 2010. We continue to benefit from regulatory drivers aimed at reducing the carbon emissions from all new residential dwellings. These regulations, not just in the UK but across all of our markets, are expected to become more supportive of our energy-efficient ventilation solutions.

The UK Residential Public RMI market performed very well in the year with total revenue of £15.6 million, up 5.3% compared to the prior year. Our growth accelerated in the year with the first half improving by 0.9% and the second half increasing by 9.6%. The considerable investment in our new product range along with a more sophisticated and improved approach to selling has helped us regain market share. Whilst the underlying spending in this sector is still constrained, we are optimistic that the actions we have taken, in particular further new product ranges recently launched or planned for launch, will help underpin further organic revenue growth in the years ahead.

The UK Residential Private RMI market revenue of £23.8 million represented an increase of 1.7% compared to the previous year. The first half of the year was broadly flat with growth increasing to 3.8% in the second half of the year, assisted by both the return to normal customer service at our Reading facility and the successful introduction of more "higher value" and "silent" ventilation ranges towards the end of the financial year. As the significant market leader for the UK Private RMI market, we remain committed to improving the customer experience, extolling the virtues of quieter, more energy efficient and more aesthetically styled products. Our three UK proprietary brands are well placed to deliver a range of good, better and best products and, through strong relationships with our distributors, we believe we are well placed to continue growing this category in the future.

UK Commercial market revenue grew by 4.1% in the year to £34.9 million (2018: £33.5 million) with growth predominantly in the first half of the year. Since the acquisition of both Diffusion and Breathing Buildings our commercial revenue is around one-third refurbishment focused and two-thirds new build market. Whilst our improvements to the natural and hybrid range of products is helping us win share in the new build school market, we noticed a marked slowdown in activity for the supply of energy-efficient fan coils in to the new office construction market. Our refurbishment product range performed very well and we are now crystallising the benefits of having one sales leadership team across our commercial market.

UK Export market sales were £9.9 million (2018 like-for-like: £11.2 million), a decline of 11.3% (10.8% at constant currency) with all of the decline occurring in the first half of the year due mainly to the one-off, large spares order from one customer in Japan that occurred in the prior year. We continue to lead in the Irish market for the supply of New Build Residential Systems and recently extended our exclusive distribution partner agreement for the supply of these products.

In the second half of the year we completed the project to establish a new, purpose-built and higher capacity facility for the injection moulding, extrusion and assembly of unitary fans. This facility in Reading is now operating at service levels equivalent to those prior to the move and, as part of our reinvigorated focus on Operational Excellence, we anticipate efficiency gains in the coming years.

We have further strengthened the UK management team: John Foley joined in May 2019 having had a long established career with the Otis Elevator Division of United Technologies. John is busy establishing his senior leadership team and is working with them to maximise the enlarged opportunity for growth now that we have fully commissioned our facility in Reading.

Nordics

Sales in the Nordics region were £47.0 million (2018: £36.7 million), an increase of 28.1% (32.6% at constant currency) compared to the previous year with an organic revenue decline of 2.3% at constant currency. Whilst the organic revenue decline in the Nordics was a disappointment, the overall progress in the region was very pleasing. Since our first acquisition of Fresh AB in October 2012 we have now established a leading position in the Swedish ventilation market and the acquisitions of Pamon in Finland and Air Connection in Denmark have helped us establish a wider position outside of Sweden. The integration of both of those acquisitions has progressed very well.

During the year we finalised the development of a new product, Intellivent SKY, further enhancing our product portfolio and our position as the leading supplier of high-end product solutions for the residential refurbishment market. We also established the first sales in Denmark and Sweden of the heat recovery ventilation system products manufactured by our business, Pamon, in Finland and have plans to accelerate this cross-selling development in 2020. Whilst the market in Sweden remains subdued there are a number of cross-selling initiatives planned for the new-year utilising the wider product capabilities from across the Group.

During the year we further upgraded our ERP system platform in the Nordics and by the end of this calendar year all companies in the Nordic region will be operating on the same ERP system.

Central Europe

Sales in Central Europe were £31.0 million, growth of 8.9% (9.3% at constant currency) compared to the previous year. Our focus on the trade distribution channel in Belgium was very successful during the year with a substantial increase in the number of outlets stocking our products. Coupled with the increasing coverage in the market we have successfully introduced a wider range of the Group's products to Belgium under the Vent-Axia brand. In the Netherlands, using the same approach as in Belgium has increased the number of trade distributors who sell our products, with further new introductions planned for the coming year.

In Germany we benefited from the success of the new range of Xenion decentralised heat recovery products. Launched in our financial year 2018 this improved, quieter and better performing range of products helped us to deliver good organic revenue growth, improving in the second half of 2019. Since acquiring inVENTer in 2014 we have made substantial improvements to the full product range and also the relationships with the sales agents that we primarily use as our route to market. Later in the financial year we had the 'soft launch' of our wirelessly connected range of decentralised heat recovery systems, with the products being made available to the market early in our new financial year 2020. Whilst the market for decentralised heat recovery systems in Germany is competitive, with a significant number of suppliers participating in the space, our ambition, as the founder of the technology in the German market, is to continuously innovate and stay ahead of the competition.

Australasia

Sales in Australasia were £22.2 million, growing by 171% (175% at constant currency) driven by a full year trading from Simx and the recent acquisition of Ventair in Australia. Organic revenue grew by 7.5% (8.8% at constant currency) with a particularly strong finish to the year. We now have a leading market position for residential ventilation in our Australasian market and have the opportunity to continue to launch many new products in both markets. With the acquisition of Ventair it is our ambition to become one of the leading providers of residential ventilation to the market in Australia, complementing our position as the market leader in the residential refurbishment trade supply market in New Zealand.

OEM (Torin-Sifan)

Revenue:	£23.6 million, 10.0% of Group revenue (2018: £22.6 million, 11.0% of Group revenue)
Adjusted operating profit:	£3.2 million, 7.6% of Group adjusted operating profit (2018: £3.8 million)

		Constant currency		
Market sector revenue	**2019 £000**	**2019 £000**	2018 £000	Growth %
Total OEM (Torin-Sifan)	**23,606**	**23,657**	22,582	4.8

Our OEM (Torin-Sifan) segment's revenue in the year was £23.6 million (2018: £22.6 million), an increase of 4.5% (4.8% at constant currency) compared to the previous year. Sales of our EC3 motor are gaining market share and have been increasingly included within our own products in our Ventilation Group segment. During the year we made several operational and logistics improvements to increase capacity to further support the growth of our EC3 motor sales. Revenue for boiler spares was weaker than anticipated with the winter weather in the UK generally milder than in previous years.

The ERP system implementation that started in 2018 was completed during the year. This caused some resulting disruption to operations, and some logistical delays resulting in spot sourcing of some electronic and other components at premium prices, mainly in the first half of the year. Those issues were resolved in the second half of the year and the ERP system is now delivering benefits across all functional areas of the business. During the year we also completed further enhancements to the business material planning and sourcing functions. These enhancements to the ERP system, our ongoing drive to improve the manufacturing operations and the improved material planning function, should deliver improved operational performance in 2020.

Strategy

We will continue to build on our core strengths and strong industry track record to gain further market share in each of our preferred markets and continue our historic growth trends in revenue and profitability. We intend to achieve our goals through a combination of organic revenue growth, selective acquisitions and a focus on Operational Excellence. To achieve this, we have identified three key strategic pillars. These three strategic pillars have recently evolved in line with the development of Volution Group and as a consequence of the successful completion of the Torin-Sifan pillar of the strategy as it was originally constituted. OEM (Torin-Sifan) remains a strategically important part of the Group but following completion of the development of the EC3 product range and the improvements in the offer to its customers we now consider that further development of our OEM business is clearly part of the larger organic growth pillar of our strategy. The refreshed strategy now emphasises an increased focus on Operational Excellence.

We made good progress with the strategy in the 2019 financial year. Some of the highlights are:

Organic growth: Organic growth improved in 2019 to 3.5% (constant currency), with the first half at 3.2% and the second half increasing to 3.8%. Our project in the UK to rationalise two older facilities in to one new purpose-built facility in Reading is now complete. This facility is one of the largest of its kind in Europe with substantial capacity headroom for injection moulding, extrusion and assembly to underpin our ambitious plans for growth.

Value-adding acquisitions: The acquisition in March 2019 of Ventair in Australia complements our existing presence in Australasia (Simx in New Zealand) whilst further broadening and strengthening the Group's market reach and geographical diversity. The four acquisitions completed in the previous year are now fully integrated and progressing in line with our expectations.

The new markets which we are entering, as well as our original core markets, continue to benefit from the favourable regulatory backdrop that focuses on reducing carbon emissions from buildings (in particular new buildings) and there is a notable increase in local market trends towards improving indoor air quality, and energy efficiency.

The ventilation market remains highly fragmented and we will continue to pursue acquisition opportunities leveraging the Group's capabilities in operations, procurement, distribution and finance.

Operational Excellence: We have re-emphasised our dedication to Operational Excellence. Now that the commissioning of the new Reading facility in the UK has been finalised we can attend, more generally, to improving the efficiency of all of our operations and processes.

Dividends

We aim to deliver shareholder value through organic and inorganic growth and a sustainable dividend policy. We paid an interim dividend of 1.60 pence per share in May 2019. On the basis of our results and financial position, the Board has proposed a final dividend of 3.30 pence per share, giving a total dividend for the financial year of 4.90 pence (2018: 4.44 pence per share), an increase of 10.4% on the previous year. As a consequence of this recommendation, the resulting adjusted earnings dividend cover for the year was 3.2x (2018: 3.3x). Subject to approval by shareholders at the Annual General Meeting on 12 December 2019, the final dividend will be paid on 18 December 2019 to shareholders who are on the register on 22 November 2019.

People

It has been another year of growth for the Group with the acquisition and integration of Ventair together with the continued integration of the four acquisitions completed during the prior financial year. Volution Group now employs over 1,600 people in its operations in the UK, the Nordics, Central Europe and Australasia and benefits significantly from the diverse nature of its workforce and their commitment to the Group's success.

Our third internal Management Development Programme concluded in November 2018. We place considerable value on this programme which, as well as helping to develop the effectiveness and scope of our people, has significantly assisted in the integration of new acquisitions as our high potential managers are made to feel part of a wider group network and assist in the formation of the overall Group culture.

I would like to welcome those employees who joined Volution Group during the year and thank all employees for their collective hard work, commitment and contribution towards the Group's success with another year of growth.

I would also like to personally thank Ian Dew who stepped down as CFO on 31 July 2019. Ian and I worked together for many years and he played an integral role in Volution Group's successful listing on the London Stock Exchange and subsequently played a key role in the completion of all our acquisitions. I would like to wish Ian a very happy retirement.

The Board was delighted to welcome Andy O'Brien to the Group. Andy joined Volution Group following nine years at Aggreko plc, a FTSE 250 global business. Andy joins Volution Group at an exciting time in its development and we look forward to working with him as we continue our journey.

Outlook

Whilst there is major uncertainty in the UK economy caused by the current state of Brexit negotiations, we continue to focus on building on our strong financial performance and in particular the pursuit of operational excellence to further expand our operating margins.

Ronnie George
Chief Executive Officer
9 October 2019

FINANCIAL REVIEW

Trading performance summary

	Reported			Adjusted[1]		
	Year ended 31 July 2019	Year ended 31 July 2018	Movement	**Year ended 31 July 2019**	Year ended 31 July 2018	Movement
Revenue (£m)	**235.7**	205.7	14.6 %	**235.7**	205.7	14.6 %
EBITDA (£m)	**44.6**	37.0	20.4 %	**46.5**	41.1	13.2 %
Operating profit (£m)	**24.7**	17.5	40.8 %	**42.1**	37.1	13.3 %
Finance costs (£m)	**2.1**	1.6	31.5 %	**2.1**	1.3	63.6 %
Profit before tax (£m)	**23.1**	16.7	38.3 %	**39.9**	35.8	11.5 %
Basic EPS (p)	**9.2**	6.7	37.3 %	**16.0**	14.5	10.3 %
Total dividend per share (p)	**4.90**	4.44	10.4 %	**4.90**	4.44	10.4 %
Operating cash flow (£m)	**34.9**	29.1	19.9 %	**36.9**	34.4	7.3 %
Net debt (£m)	**74.6**	77.2	2.6	**74.6**	77.2	2.6

Note

1. The Group uses some alternative performance measures to track and assess the underlying performance of the business. These measures include adjusted operating profit, adjusted profit before tax, adjusted EPS and adjusted operating cash flow. For a definition of all the adjusted and non-GAAP measures, please see the glossary of terms in note 18. A reconciliation to reported measures is set out in note 2.

Revenue
Group revenue for the year ended 31 July 2019 was £235.7 million (2018: £205.7 million), an increase of 14.6% (15.7% at constant currency). Organic growth of 2.6% (3.5% at constant currency) accelerated during the year reaching 3.1% in the second half (3.8% at constant currency) with organic growth across all market sectors except for UK Export and the Nordics. Full year trading from the four acquisitions completed in the year ended 31 July 2018 (Simx Limited in New Zealand, Air Fan B.V. in the Netherlands, Oy Pamon Ab in Finland and Air Connection ApS in Denmark), coupled with the acquisition of Ventair Pty Limited in Australia in March 2019, resulted in inorganic growth of 12.0% (12.2% at constant currency).

Profitability
The Group's underlying result, as measured by adjusted operating profit, increased by 13.3% to £42.1 million (2018: £37.1 million) at an adjusted operating margin of 17.8% (2018: 18.0%). Adjusted operating margin during the first half was adversely impacted by some operational inefficiencies at our new Reading facility (now fully commissioned), coupled with increased sourcing costs in our OEM (Torin-Sifan) segment due to spot buying of some electronic and other components at premium prices. Resolution of these issues meant our second half margins increased to 18.1% from 17.6% in the first half.

Reported profit before tax increased by £6.4 million to £23.1 million (2018: £16.7 million) compared to the £4.1 million increase in adjusted profit before tax due to:

- £4.6 million decrease in exceptional operating costs (principally relating to costs of acquisitions and the costs of the UK Ventilation re-organisation including factory relocation);
- £1.5 million write back of accrual for contingent consideration in 2018 relating to the acquisition of VoltAir System, not repeated in 2019;
- £0.8 million increase in amortisation costs relating to intangible assets (2019: £15.4 million; 2018: £14.6 million); and
- £0.8 million increase in net finance costs as a result of the higher average debt levels due to the acquisitions in the year ended 31 July 2018.

Reconciliation of statutory measures to adjusted performance measures
The Board and key management personnel use some alternative performance measures to track and assess the underlying performance of the business. These measures include adjusted operating profit, adjusted profit before tax, adjusted EPS and adjusted operating cash flow. These measures are deemed more appropriate to track underlying financial performance as they exclude income and expenditure which is not directly related to the ongoing trading of the business. A reconciliation of these measures of performance to the corresponding reported figure is shown below and is detailed in note 2 to the consolidated financial statements.

	Year ended 31 July 2019			Year ended 31 July 2018		
	Reported £000	**Adjustments £000**	**Adjusted results £000**	Reported £000	Adjustments £000	Adjusted results £000
Revenue	**235,698**	**—**	**235,698**	205,676	—	205,676
Gross profit	**111,079**	**—**	**111,079**	96,623	—	96,623
Administration and distribution costs excluding the costs listed below	**(69,027)**	**—**	**(69,027)**	(59,523)	—	(59,523)
Amortisation of intangible assets acquired through business combinations	**(15,439)**	**15,439**	**—**	(14,670)	14,670	—
Exceptional operating costs	**(1,801)**	**1,801**	**—**	(6,417)	6,417	—
CFO succession costs	**(150)**	**150**				
Release of contingent consideration	**—**	**—**	**—**	1,502	(1,502)	—
Operating profit	**24,662**	**17,390**	**42,052**	17,515	19,585	37,100
Net gain on financial instruments at fair value	**605**	**(605)**	**—**	838	(838)	—
Exceptional write off of unamortised loan issue costs upon refinancing	**—**	**—**	**—**	(320)	320	—
Other net finance costs	**(2,127)**	**—**	**(2,127)**	(1,296)	—	(1,296)
Profit before tax	**23,140**	**16,785**	**39,925**	16,737	19,067	35,804
Income tax	**(4,913)**	**(3,354)**	**(8,267)**	(3,414)	(3,598)	(7,012)
Profit after tax	**18,227**	**13,431**	**31,658**	13,323	15,469	28,792

The following are the items excluded from adjusted measures:

- **Amortisation of acquired intangibles**
  On acquisition of a business, where appropriate, we value identifiable intangible fixed assets acquired such as trademarks and customer base and recognise these assets in our consolidated statement of financial position; we then amortise these acquired intangible assets over their useful lives. In the year the amortisation charge of these intangible assets increased to £15.4 million (2018: £14.7 million) as a consequence of recent acquisitions. We exclude this accounting adjustment in the calculation of our adjusted earnings because it is a cost associated with acquisitions, not the underlying trading of the businesses.

- **Exceptional operating costs**
  Exceptional operating costs, by virtue of their size, incidence or nature, are disclosed separately in order to allow a better understanding of the underlying trading performance of the Group. During the year, exceptional operating costs were £1.8 million (2018: £6.4 million) which included costs relating to acquisitions of £0.5 million (2018: £1.4 million) and the UK Ventilation re-organisation including factory relocation of £1.3 million (2018: £5.0 million).

- **CFO succession costs**
  These costs relate to the search and recruitment process of the new CFO during the year and amounted to £0.2 million (2018: £nil).

- **Reversal of contingent consideration**
  During the year reversal of contingent consideration was £nil (2018: £1.5 million).

- **Fair value adjustments**
  At the end of each reporting period we measure the fair value of financial derivatives and recognise any gains or losses immediately in finance cost. During the year, we recognised a gain of £0.6 million (2018: gain of £0.8 million), a reduction of £0.2 million. We exclude these gains or losses from our measures of adjusted earnings because they are accounting adjustments which will reverse in future periods and do not reflect the underlying trading of the business.

- **Exceptional write off of unamortised loan issue costs upon refinancing**
  During the year exceptional write off of unamortised loan issue costs upon refinancing were £nil (2018: £0.3 million). On 15 December 2017, the Group refinanced its bank debt. As a consequence of the re-finance, unamortised loan issue costs of £0.3 million relating to the previous loans were written off in 2018.

Finance revenue and costs

Reported net finance costs were £1.5 million (2018: £0.8 million) including £0.6 million of net gains on the revaluation of financial instruments (2018: net gains of £0.8 million) and £nil related to the exceptional write off of unamortised loan issue costs upon refinancing (2018: costs of £0.3 million). Adjusted finance costs were £2.1 million (2018: £1.3 million). Adjusted finance costs increased in line with increased levels of debt following the four acquisitions made in the prior period and the one acquisition made this year.

Taxation
The UK Finance (No. 2) Act 2015, which was enacted on 18 November 2015, introduced a reduction in the UK headline rate of corporation tax to 19% and 18% from 1 April 2017 and 1 April 2020 respectively. A further reduction in the headline rate to 17% from 1 April 2020 was included in the UK Finance Act 2016, enacted on 15 September 2016.

The effective tax rate for the year was 21.2 % (2018: 20.4%).

Our underlying effective tax rate, on adjusted profit before tax, was 20.7 % (2018: 19.6%). The increase of 1.1 percentage points in our adjusted effective tax rate, over the prior year, was partly as a result of tax rate changes in the prior year that did not repeat this year as well as higher tax rates applicable to profits in recently acquired businesses in Australasia.

The Group's medium-term adjusted effective tax rate is expected to be approximately 20% of the Group's adjusted profit before tax, with the UK headline tax rate dropping to 17% being partly offset by the full year effect of profits recently acquired in countries with higher tax rates.

Operating cash flow
The Group continued to be cash generative in the year with adjusted operating cash inflow of £36.9 million (2018: £34.4 million). Whilst cash conversion remains strong at 85% (2018: 90%) our working capital has increased during the year predominately due to increased inventory levels. Some of these inventory increases are intentional as part of our preparations to mitigate the effects of the UK leaving the European Union, and the increase will be reversed once it is no longer needed; however, we do recognise an opportunity to optimise inventories across a number of our businesses and this will be an important work stream of our new focus on Operational Excellence. Capital expenditure of £5.8 million (2018: £6.3 million) included further investment in the new production facility in Reading, UK, continuing new product development and enhancements to IT systems.

See the glossary of terms in note 18 to the consolidated financial statements for a definition of adjusted operating cash flow and cash conversion.

Reconciliation of adjusted operating cash flow

	2019 £m	2018 £m
Net cash flow generated from operating activities	**31.9**	25.8
Net capital expenditure	**(5.8)**	(6.3)
UK and overseas tax paid	**9.3**	8.9
Cash flows relating to exceptional items	**1.5**	5.4
Exceptional items: fair value of inventories	**—**	0.6
Adjusted operating cash flow	**36.9**	34.4

Employee Benefit Trust
During the year £1.2 million of loans were made to the Volution Employee Benefit Trust for the exclusive purpose of purchasing shares in Volution Group plc in order to partly fulfil the Company's obligations under its share incentive plans (2018: £nil). The Volution Employee Benefit Trust acquired 650,000 shares at an average price of £1.85 per share in the period (2018: no shares acquired) and 19,981 shares (2018: 37,013) were released by the trustees with a value of £36,000 (2018: £65,000). The Volution Employee Benefit Trust has been consolidated into our results and the shares purchased have been treated as treasury shares deducted from shareholders' funds.

Net debt
Year-end net debt was £74.6 million (2018: £77.2 million), comprised of bank borrowings of £86.1 million (2018: £95.4 million), offset by cash and cash equivalents of £11.5 million (2018: £18.2 million). The net debt of £74.6 million represents leverage of 1.6x adjusted EBITDA.

Movements in net debt position for the year ended 31 July 2019

	2019 £m	2018 £m
Opening net debt at 1 August	**(77.2)**	(37.0)
Movements from normal business operations:		
Adjusted EBITDA	**46.5**	41.1
Movement in working capital	**(4.7)**	(0.9)
Share-based payments	**0.9**	0.5
Capital expenditure	**(5.8)**	(6.3)
Adjusted operating cash flow:	**36.9**	34.4
– Interest paid net of interest received	**(1.9)**	(0.9)
– Income tax paid	**(9.3)**	(8.9)
– Exceptional items	**(1.5)**	(6.0)
– Dividend paid	**(9.1)**	(8.5)
– Purchase of own shares	**(1.2)**	—
– FX on foreign currency loans/cash	**(0.1)**	1.6
– Issue costs of new borrowings	**(0.2)**	(0.9)
Movements from acquisitions:		
– Acquisition consideration net of cash acquired and debt repaid	**(11.0)**	(51.0)
Closing net debt at 31 July	**(74.6)**	(77.2)

Acquisition related costs

On 1 March 2019, we acquired Ventair Pty Limited, a market leading residential ventilation product supplier, in Australia, for an initial cash consideration of AUD$19.2 million (approximately £10.4 million). A further amount of deferred cash consideration of up to AUD$7.7 million (approximately £4.3 million) may be payable, contingent on Ventair achieving an EBITDA target in the financial year ending 31 July 2020.

Further cash consideration of £0.6 million was paid for Oy Pamon Ab, acquired in July 2018. Part of the consideration was contingent upon their earnings achieved for the year ending November 2018. A further amount of deferred cash consideration may be payable contingent on Oy Pamon Ab earnings for its year ending November 2019.

Bank facilities, refinancing and liquidity

The Group has in place a £120 million multicurrency revolving credit facility and in addition an accordion facility of up to £30 million. In December 2018, the Group exercised the option to extend this facility by a period of twelve months at a cost of £0.2 million; the maturity date is now 15 December 2022.

As at 31 July 2019, we had £33.9 million of undrawn, committed bank facilities and £11.5 million of cash and cash equivalents on the consolidated statement of financial position.

Foreign exchange

The Group is exposed to the impact of changes in the foreign currency exchange rates on transactions denominated in currencies other than the functional currency of our operating businesses. We have significant Euro income in the UK which is broadly balanced by Euro expenditure in the UK. We have little US Dollar income but significant expenditure due to our purchases from suppliers in China. We managed our transactional foreign exchange risk by purchasing the majority of our forecast US Dollar requirements for the 2019 financial year in advance, and similarly we have purchased the majority of our forecast US Dollar requirements in advance of the 2020 financial year.

We are also exposed to translational currency risk as the Group consolidates foreign currency denominated assets, liabilities, income and expenditure into Group reporting denominated in Sterling. We hedge the translation risk of the net assets in the Nordics with £24.0 million of borrowings denominated in SEK (2018: £24.5 million). We have partially hedged our risk of translation of the net assets in Belgium, the Netherlands, Germany and Finland by having Euro-denominated bank borrowings in the amount of £40.6 million as at 31 July 2019 (2018: £40.0 million). The acquisition of Ventair in Australia was financed using Sterling-denominated debt to rebalance our debt with our strong Sterling cash flow. The Sterling value of our foreign currency denominated loans and cash increased by £0.1 million in the year as a consequence of exchange rate movements. We do not hedge the translational exchange rate risk to the results of overseas subsidiaries.

During the year, movements in foreign currency exchange rates have had an unfavourable effect on the reported revenue and profitability of our business. If we had translated the full year performance of our business at our 2018 exchange rates, our reported Group revenues would have been £2.2 million or 1.1 % higher and adjusted operating profit would have been £42.3 million, £0.2 million higher.

At the end of the financial year the Sterling value of foreign currency denominated working capital increased by £0.6 million compared to the foreign exchange rates applying at the beginning of the year.

Earnings per share

Our reported basic earnings per share grew by 37.3% to 9.2 pence (2018: 6.7 pence).
Our adjusted basic earnings per share grew by 10.3% to 16.0 pence (2018: 14.5 pence).

Dividends

In May 2019 the Group paid an interim dividend of 1.60 pence per share.

The Board has proposed a final dividend of 3.30 pence per share. Subject to approval at our Annual General Meeting of shareholders on 12 December 2019, the recommended final dividend will be paid on 18 December 2019 to shareholders who are on the register on 22 November 2019.

Andy O'Brien
Chief Financial Officer
9 October 2019

Consolidated Statement of Comprehensive Income

For the year ended 31 July 2019

	Notes	**2019** **£000**	2018 £000
Revenue from contracts with customers	3	**235,698**	205,676
Cost of sales		**(124,619)**	(109,053)
Gross profit		**111,079**	96,623
Administrative and distribution expenses		**(84,616)**	(74,193)
Operating profit before exceptional items		**26,463**	22,430
Exceptional operating costs	5	**(1,801)**	(6,417)
Release of contingent consideration	5	**—**	1,502
Operating profit		**24,662**	17,515
Finance revenue	6	**621**	852
Finance costs	5, 6	**(2,143)**	(1,630)
Profit before tax		**23,140**	16,737
Income tax	7	**(4,913)**	(3,414)
Profit for the year		**18,227**	13,323
Other comprehensive income/(expense)			
Items that may subsequently be reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**2,303**	(2,075)
(Loss)/gain on hedge of net investment in foreign operations		**(303)**	1,691
Other comprehensive income/(expense) for the year		**2,000**	(384)
Total comprehensive income for the year		**20,227**	12,939
Earnings per share			
Basic earnings per share	8	**9.2p**	6.7p
Diluted earnings per share	8	**9.2p**	6.7p

Consolidated Statement of Financial Position

At 31 July 2019

	Notes	2019 £000	2018 £000
Non-current assets			
Property, plant and equipment		**23,758**	22,611
Intangible assets – goodwill	9	**118,183**	112,682
Intangible assets – others	10	**95,126**	104,124
		237,067	239,417
Current assets			
Inventories		**35,585**	30,136
Right of return assets	3	**430**	—
Trade and other receivables		**42,199**	38,873
Other financial assets		**907**	302
Cash and short-term deposits		**11,547**	18,221
		90,668	87,532
Total assets		**327,735**	326,949
Current liabilities			
Trade and other payables		**(38,807)**	(45,689)
Refund liabilities	3	**(7,529)**	—
Income tax		**(279)**	(1,410)
Other financial liabilities		**(318)**	—
Provisions		**(1,398)**	(1,004)
		(48,331)	(48,103)
Non-current liabilities			
Interest-bearing loans and borrowings	13	**(85,391)**	(94,605)
Other financial liabilities		**(1,501)**	(1,144)
Provisions		**(384)**	(384)
Deferred tax liabilities	14	**(16,019)**	(17,500)
		(103,295)	(113,633)
Total liabilities		**(151,626)**	(161,736)
Net assets		**176,109**	165,213
Capital and reserves			
Share capital		**2,000**	2,000
Share premium		**11,527**	11,527
Treasury shares		**(2,030)**	(1,962)
Capital reserve		**93,855**	93,855
Share-based payment reserve		**1,745**	1,836
Foreign currency translation reserve		**3,507**	1,507
Retained earnings		**65,505**	56,450
Total equity		**176,109**	165,213

The consolidated financial statements of Volution Group plc (registered number: 09041571) were approved by the Board of Directors and authorised for issue on 9 October 2019.

On behalf of the Board

Ronnie George	**Andy O'Brien**
Chief Executive Officer	***Chief Financial Officer***

Consolidated Statement of Changes in Equity

For the year ended 31 July 2019

	Share capital £000	Share premium £000	Treasury shares £000	Capital reserve £000	Share-based payment reserve £000	Foreign currency translation reserve £000	Retained earnings £000	Total £000
At 1 August 2017	2,000	11,527	(2,027)	93,855	1,289	1,891	51,598	160,133
Profit for the year	—	—	—	—	—	—	13,323	13,323
Other comprehensive expense	—	—	—	—	—	(384)	—	(384)
Total comprehensive income	—	—	—	—	—	(384)	13,323	12,939
Share-based payment including tax	—	—	65	—	547	—	—	612
Dividends paid	—	—	—	—	—	—	(8,471)	(8,471)
At 31 July 2018	2,000	11,527	(1,962)	93,855	1,836	1,507	56,450	165,213
Profit for the year	—	—	—	—	—	—	**18,227**	**18,227**
Other comprehensive expense	—	—	—	—	—	**2,000**	—	**2,000**
Total comprehensive income	—	—	—	—	—	**2,000**	**18,227**	**20,227**
Purchase of own shares	—	—	**(1,199)**	—	—	—	—	**(1,199)**
Vesting of shares	—	—	**1,131**	—	**(1,043)**	—	**(88)**	—
Share-based payment including tax	—	—	—	—	**952**	—	—	**952**
Dividends paid	—	—	—	—	—	—	**(9,084)**	**(9,084)**
At 31 July 2019	**2,000**	**11,527**	**(2,030)**	**93,855**	**1,745**	**3,507**	**65,505**	**176,109**

Treasury shares
The treasury shares reserve represents the cost of shares in Volution Group plc purchased in the market and held by the Volution Employee Benefit Trust to satisfy obligations under the Group's share incentive schemes.

Capital reserve
The capital reserve is the difference in share capital and reserves arising from the use of the pooling of interest method for preparation of the financial statements in 2014. This is a non-distributable reserve.

Share-based payment reserve
The share-based payment reserve is used to recognise the value of equity-settled share-based payments provided to key management personnel, as part of their remuneration.

Foreign currency translation reserve
Exchange differences arising on translation of the Group's foreign subsidiaries into GBP are included in the foreign currency translation reserve. The Group hedges some of its exposure to its net investment in foreign operations; foreign exchange gains and losses relating to the effective portion of the net investment hedge are accounted for by entries made to other comprehensive income. No hedge ineffectiveness has been recognised in the statement of comprehensive income for any of the periods presented.

Retained earnings
The parent company of the Group, Volution Group plc, had distributable retained earnings at 31 July 2019 of £82,335,000 (2018: £72,214,000).

Consolidated Statement of Cash Flows

For the year ended 31 July 2019

	Notes	2019 £000	2018 £000
Operating activities			
Profit for the year after tax		**18,227**	13,323
Adjustments to reconcile profit for the year to net cash flow from operating activities:			
Income tax		**4,913**	3,414
(Gain)/loss on disposal of property, plant and equipment		**(76)**	218
Exceptional items	5	**1,801**	6,417
Release of contingent consideration		**—**	(1,502)
Cash flows relating to exceptional items		**(1,486)**	(5,368)
Finance revenue	6	**(621)**	(852)
Finance costs	6	**2,143**	1,310
Exceptional write off of unamortised loan issue costs upon refinancing	5, 6	**—**	320
Share-based payment expense		**895**	475
Depreciation of property, plant and equipment		**3,272**	3,031
Amortisation of intangible assets	10	**16,594**	15,605
Working capital adjustments:			
Decrease in trade receivables and other assets		**10**	1,104
Increase in inventories		**(2,756)**	(2,193)
Exceptional items: fair value of inventories		**—**	(616)
(Decrease)/increase in trade and other payables		**(1,955)**	887
Movement in provisions		**221**	(905)
Cash generated by operations		**41,182**	34,668
UK income tax paid		**(3,900)**	(4,952)
Overseas income tax paid		**(5,422)**	(3,956)
Net cash flow generated from operating activities		**31,860**	25,760
Investing activities			
Payments to acquire intangible assets	10	**(1,836)**	(1,898)
Purchase of property, plant and equipment		**(4,180)**	(4,635)
Proceeds from disposal of property, plant and equipment		**218**	256
Acquisition of subsidiaries, net of cash acquired	12	**(8,417)**	(40,985)
Interest received		**16**	14
Net cash flow used in investing activities		**(14,199)**	(47,248)
Financing activities			
Repayment of interest-bearing loans and borrowings		**(29,609)**	(67,869)
Proceeds from new borrowings		**17,500**	103,474
Issue costs of new borrowings		**(180)**	(954)
Interest paid		**(1,913)**	(843)
Dividends paid		**(9,084)**	(8,471)
Purchase of own shares		**(1,199)**	—
Net cash flow (used in)/generated from financing activities		**(24,485)**	25,337
Net (decrease)/increase in cash and cash equivalents		**(6,824)**	3,849
Cash and cash equivalents at the start of the year		**18,221**	14,499
Effect of exchange rates on cash and cash equivalents		**150**	(127)
Cash and cash equivalents at the end of the year		**11,547**	18,221

Volution Group plc (the Company) is a public limited company and is incorporated and domiciled in the UK (registered number: 09041571). The share capital of the Company is listed on the London Stock Exchange. The address of its registered office is Fleming Way, Crawley, West Sussex RH10 9YX.

Notes to the Consolidated Financial Statements

For the year ended 31 July 2019

The preliminary results were authorised for issue by the Board of Directors on 9 October 2019. The financial information set out herein does not constitute the Group's statutory consolidated financial statements for the years ended 31 July 2019 or 2018, but is derived from those accounts. Statutory consolidated financial statements for 2018 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditors have reported on those accounts; their report was unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

1. Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union and the Companies Act 2006. The consolidated financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies under the relevant notes.

The preparation of the consolidated financial information in conformity with IFRS requires the use of certain critical accounting estimates and requires management to exercise judgement in the process of applying the Group's accounting policies. Accounting policies, including critical accounting judgements and estimates used in the preparation of the financial statements, are described in the specific note to which they relate.

The consolidated financial statements are presented in GBP and all values are rounded to the nearest thousand (£000), except as otherwise indicated.

The financial information includes all subsidiaries. The results of subsidiaries are included from the date on which effective control is acquired up to the date control ceases to exist.

Subsidiaries are controlled by the parent (in each relevant period) regardless of the amount of shares owned. Control exists when the parent has the power, either directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

The financial statements of subsidiaries are prepared for the same reporting periods using consistent accounting policies. All intercompany transactions and balances, including unrealised profits arising from intra-group transactions, have been eliminated on consolidation.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence in the foreseeable future, for the period not less than twelve months from the date of this report.

In December 2018, the Group exercised the option to extend its multicurrency revolving credit facility by a period of twelve months at a cost of £0.2 million; the maturity date is now 15 December 2022.

Foreign currencies

The individual financial statements of each subsidiary are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the Group financial statements, the results and financial position of each entity are expressed in GBP (£000), which is the functional currency of the Company and the presentational currency of the Group.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rate of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rate prevailing at the end of the reporting period.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date the fair value was determined.

For the purpose of presenting consolidated financial information, the assets and liabilities of the Group's foreign operations are expressed in GBP using exchange rates prevailing at the end of the reporting period. Income and expenses are translated at the average exchange rate for the period. Exchange differences arising are classified as other comprehensive income and are transferred to the foreign currency translation reserve. All other translation differences are taken to profit and loss with the exception of differences on foreign currency borrowings to the extent that they are used to finance or provide a hedge against Group equity investments in foreign operations, in which case they are taken to other comprehensive income together with the exchange difference on the net investment in these operations.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The significant judgements, estimates and assumptions made in these financial statements relate to: Exceptional items (note 5), Intangible assets – goodwill (note 9), Intangible assets – other (note 10), Impairment assessment of goodwill (note 11) and Refund liabilities arising from retrospective volume rebates (note 3).

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year are described under the relevant notes.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2019

1. Basis of preparation (continued)

Critical accounting judgements and key sources of estimation uncertainty (continued)

The Group based its assumptions and estimates on parameters available when these financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

New standards and interpretations

The following standards and interpretations are new or amended and have been effective for the first time in the year ended 31 July 2019.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments was issued in July 2014 and replaces IAS 39 Financial Instruments: Recognition and Measurement.

The Group applied IFRS 9 prospectively, with an initial application date of 1 August 2018. The Group has not restated the comparative information, which continues to be reported under IAS 39. Differences arising from the adoption of IFRS 9 were not material therefore no adjustment has been made to opening retained earnings or other components of equity.

IFRS 9 has introduced changes to the accounting for impairment of financial assets, which has resulted in the Group moving away from an incurred loss model to an expected credit loss (ECL) model. The revised standard has impacted the way in which the Group calculates the ECL, however the impact is not material.

IFRS 9 has also impacted the classification of the Group's Trade receivables. Trade receivables classified as loans and receivables as at 31 July 2018 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as debt instruments at amortised cost beginning 1 August 2018.

The adoption of IFRS 9 has not had a material impact on the Group's consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted IFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 August 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the standard only to contracts that are not completed as at 1 August 2018.

The cumulative effect of initially applying IFRS 15 is recognised at the date of initial application as an adjustment to the opening balance of retained earnings, however as the affect was not material no adjustment has been made. Therefore, the comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related Interpretations.

The effect of adopting IFRS 15 as at 1 August 2018 was as follows:

	Reference	Increase/ (decrease)
Assets		
Right of return assets	a)	430
Trade and other receivables	a)	660
Total		1,090
Liabilities		
Refund liabilities	a)	6,854
Trade and other payables	a)	(5,764)
Total		1,090
Total adjustments on equity		
Retained earnings	a)	–

Set out below are the amounts by which each financial statement line item is affected as at and for the year ended 31 July 2019 as a result of the adoption of IFRS 15. The adoption of IFRS 15 did not have any impact on OCI or the Group's operating, investing and financing cash flows. The first column shows amounts prepared under IFRS 15 and the second column shows what the amounts would have been had IFRS 15 not been adopted.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2019

1. Basis of preparation (continued)

New standards and interpretations (continued)

		Amounts prepared under		
	Reference	**IFRS 15 £000**	Previous IFRS £000	Increase/ (decrease) £000
Sale of goods	b)	**233,612**	231,332	**2,280**
Installation services	b)	**2,086**	4,366	**(2,280)**
Total revenue from contracts with customers		**235,698**	235,698	–

Consolidated statement of financial position as at 31 July 2019:

		Amounts prepared under		
	Reference	**IFRS 15 £000**	Previous IFRS £000	Increase/ (decrease) £000
Current assets				
Right of return assets	a)	**430**	–	430
Trade and other receivables	a)	**42,199**	41,582	617
Total current assets		**90,668**	89,621	1,047
Current liabilities				
Refund liabilities	a)	**7,529**	–	7,529
Trade and other payables	a)	**38,807**	45,289	(6,482)
Total current liabilities		**48,331**	47,284	1,047
Net assets		**176,109**	176,109	–
Total equity		**176,109**	176,109	–

(a) Sale of equipment with variable consideration

Some contracts for the sale of equipment provide customers with a right of return and volume rebates. Before adopting IFRS 15, the Group recognised revenue from the sale of goods measured at the fair value of the consideration received or receivable net of volume rebates. If revenue could not be reliably measured, the Group deferred recognition of revenue until the uncertainty was resolved. Under IFRS 15, rights of return and volume rebates give rise to variable consideration.

- Rights of return

When a contract provides a customer with a right to return the goods within a specified period, the Group previously estimated expected returns using a probability-weighted average amount approach similar to the expected value method under IFRS 15. Before the adoption of IFRS 15, the gross margin impact related to the expected returns was deferred and recognised in the statement of financial position within trade and other payables with a corresponding adjustment to cost of sales. No adjustment was made to inventories to account for the potential return assets. Under IFRS 15, the consideration received from the customer is variable because the contract allows the customer to return the products. The Group used the expected value method to estimate the goods that will not be returned. For goods expected to be returned, the Group presented revenue net of the expected returns with a corresponding adjustment to cost of sales, a refund liability and an asset for the right to recover products from a customer separately in the statement of financial position.

Upon adoption of IFRS 15, the Group reclassified provisions of £660,000, which were previously offset against trade and other receivables, to refund liabilities as at 1 August 2018. In addition, the remeasurement resulted in additional refund liabilities of £430,000 and right of return assets of £430,000 as at 1 August 2018.

As at 31 July 2019, IFRS 15 increased right of return assets, trade and other receivables and refund liabilities by £430,000, £617,000 and £1,047,000 respectively.

- Volume rebates

Before adoption of IFRS 15, the Group estimated the expected volume rebates using the probability-weighted average amount of rebates approach and included an allowance for rebates in trade and other payables.

Under IFRS 15, retrospective volume rebates give rise to variable consideration. To estimate the variable consideration to which it will be entitled, the Group applied the ‘expected value method’ for contracts with more than one volume threshold. Upon adoption of IFRS 15, the Group recognised refund liabilities of £5,764,000 for the expected future rebates payable as at 1 August 2018 and removed the corresponding provision previously included in trade and other payables.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2019

1. Basis of preparation (continued)

New standards and interpretations (continued)

As at 31 July 2019, IFRS 15 increased Refund liabilities by £6,482,000 and decreased Trade and other payables by a corresponding amount.

(b) Bundled sales of equipment and installation services

Before the adoption of IFRS 15, the Group accounted for the equipment and installation service as non-separable deliverables within bundled sales and disclosed the total revenue generated as revenue from rendering of services.

Under IFRS 15, the Group assessed that there were two performance obligations in a contract for bundled sales of equipment and installation services and performed a re-allocation of the transaction price based on their relative stand-alone selling prices for the equipment and the cost plus margin approach for the installation services, which decreased the amount allocated to installation services.

For the year ended 31 July 2019 the adoption of IFRS 15 increased revenue from the sale of goods by £2,280,000 and decreased revenue from installation services by a corresponding amount.

The following standards and interpretations have an effective date after the date of these financial statements.

IFRS 16 Leases

IFRS 16 Leases was issued in January 2017 to replace IAS 17 Leases. The standard is effective for accounting periods beginning on or after 1 January 2019 and will be adopted by the Group on 1 August 2019.

IFRS 16 will result in almost all leases being recognised on the balance sheet as the distinction between operating leases and finance leases is removed. Under the new standard, a right-of-use asset and a financial liability for the future lease payments are recognised.

The Group will apply the standard from 1 August 2019 and will apply the modified retrospective transition approach. We will adopt some of the available practical expedients which are:

- "grandfather" our previous assessment of which existing contracts are, or contain, leases; and
- not applying the new lessee accounting model to short-term or low-value leases, for which we will continue to recognise the related lease payments as an expense on a straight line basis over the lease.

When applying IFRS 16 using the modified retrospective approach, we will not restate comparative information. Instead, we will recognise the cumulative effect of initially applying the standard as an adjustment to equity at the date of initial application, 1 August 2019. Under the modified retrospective approach we will recognise the right-of-use (ROU) asset and the lease liability as follows:

- For leases currently classified as operating leases:
    - ROU asset – as if IFRS 16 had always been applied (but using the incremental borrowing rate, applicable to the lease, at the date of initial application).
    - Lease liability – present value of remaining lease payments using the incremental borrowing rate, applicable to the lease, at the date of initial application.

Impact of adoption of IFRS 16 Leases

Statement of financial position

Upon transition on 1 August 2019, the Group will recognise a right-of-use lease asset in the range of £17.6 million to £22.9 million and lease liabilities in the range of £19.1 million (non-current £17.2 million; current £1.9 million) to £23.7 million (non-current £21.2 million; current £2.5 million), there is an impact on deferred tax due to the temporary difference arising, although this is not expected to be material. A transition adjustment in the range of £1.5 million to £0.8 million will be recognised as a debit to retained earnings. The Group will not capitalise low-value leases on transition, or those which expire before 31 July 2020. The right-of-use asset principally consists of property.

Statement of comprehensive income

Under IFRS 16 the Group will see a different pattern of expense within the statement of comprehensive income, as the IAS 17 operating lease expense is replaced by depreciation and interest charges. In the financial year to 31 July 2020 the Group's EBITDA will improve by an estimated £2.9 million. However, the new finance costs together with the depreciation expense have a negative impact on the Group's profit before tax such that the underlying earnings are in the range of £0.3 million to £0.1 million lower.

Statement of cash flows

The change in presentation as a result of the adoption of IFRS 16 will see an improvement in cash flows generated from operating activities, offset by a corresponding decline in cash flow generated from financing activities. There is no overall cash flow impact from the adoption of the new standard.

Other new standards or interpretations in issue, but not yet effective, are not expected to have a material impact on the Group's net assets or results.

2. Adjusted earnings

The Board and key management personnel use some alternative performance measures to track and assess the underlying performance of the business. These measures include adjusted operating profit and adjusted profit before tax. These measures are deemed more appropriate as they remove income and expenditure which is not directly related to the ongoing trading of the business. Such alternative performance measures are not defined terms under IFRS and may not be comparable with similar measures disclosed by other companies. Likewise, these measures are not a substitute for IFRS measures of profit. A reconciliation of these measures of performance to the corresponding reported figure is shown below.

	2019 £000	2018 £000
Profit after tax	**18,227**	13,323
Add back:		
Exceptional operating costs (note 5)	**1,801**	6,417
CFO succession costs	**150**	—
Reversal of contingent consideration (note 5)	**—**	(1,502)
Net (gain)/loss on financial instruments at fair value	**(605)**	(838)
Exceptional write off of unamortised loan issue costs upon refinance (note 6)	**—**	320
Amortisation and impairment of intangible assets acquired through business combinations	**15,439**	14,670
Tax effect of the above	**(3,354)**	(3,598)
Adjusted profit after tax	**31,658**	28,792
Add back:		
Adjusted tax charge	**8,267**	7,012
Adjusted profit before tax	**39,925**	35,804
Add back:		
Interest payable on bank loans and amortisation of financing costs	**2,143**	1,310
Finance revenue	**(16)**	(14)
Adjusted operating profit	**42,052**	37,100
Add back:		
Depreciation of property, plant and equipment	**3,272**	3,031
Amortisation of development costs, software and patents	**1,155**	935
Adjusted EBITDA	**46,479**	41,066

For definitions of terms referred to above see note 18, Glossary of terms.

3. Revenue from contracts with customers

Accounting policy

Revenue from contracts with customers is recognised when the control of goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods and services.

Sale of ventilation products

Revenue from the sale of ventilation products is recognised at the point in time when control of the asset is transferred to the buyer, usually on the delivery of the goods.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties and volume rebates). In determining the transaction price for the sale of ventilation products, the Group considers the effects of variable consideration (if any).

Volume rebates

The Group provides retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. To estimate the variable consideration for the expected future rebates, the Group applies the expected value method for contracts with more than one volume threshold. The Group then applies the requirements on constraining estimates of variable consideration and recognises a liability for the expected future rebates.

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are not constrained, other than with respect to volume rebates, based on its historical experience, business forecast and the current economic conditions. In addition, the uncertainty on the variable consideration will be resolved within a short time frame.

Warranty obligations

The Group typically provides warranties for general repairs of defects that existed at the time of sale. These assurance-type warranties are accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets

Installation services

The Group provides installation services that are bundled together with the sale of equipment to a customer.

Contracts for bundled sales of equipment and installation services are comprised of two performance obligations because the promises to transfer equipment and provide installation services are capable of being distinct and separately identifiable. Accordingly, the Group allocates the transaction price based on the relative stand-alone selling prices of the equipment and the cost plus margin approach for installation services.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2019

3. Revenue from contracts with customers (continued)

The Group recognises revenue from installation services at a point in time after the service has been performed, this is because installation of the ventilation equipment is generally over a small timeframe. Revenue from the sale of the ventilation equipment is recognised at a point in time, generally upon delivery of the equipment.

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods and services transferred to the customer. A contract asset is recognised when the Group transfers goods or services to the customer before the customer pays consideration. There is no contract asset included within the Statement of Financial Position as revenue is recognised at a point in time, after installation. Consideration is recognised immediately as a receivable and is unconditional (only the passage of time is required before payment of consideration is due).

Contract liabilities

There are no contract liabilities recognised in the comparative period or in the financial year ending 31 July 2019.

Revenue recognised in the statement of comprehensive income is analysed below:

	2019 £000	2018 £000
Sale of goods	**233,612**	200,665
Installation services	**2,086**	5,011
Total revenue from contracts with customers	**235,698**	205,676

Market sectors	**2019 £000**	2018 £000
Ventilation Group		
UK Residential RMI	**39,356**	38,166
UK Residential New Build	**27,795**	25,604
UK Commercial	**34,856**	33,474
UK Export	**9,924**	12,510
Nordics	**46,995**	36,692
Central Europe	**30,990**	28,466
Australasia	**22,176**	8,182
Total Ventilation Group	**212,092**	183,094
Original Equipment Manufacturer (Torin-Sifan)		
OEM (Torin-Sifan)	**23,606**	22,582
Total revenue from contracts with customers	**235,698**	205,676

Right of return assets and refund liabilities	**2019 £000**	2018 £000
Right of return assets	**430**	–
Refund liabilities		
Arising from retrospective volume rebates	**6,482**	–
Arising from rights of return	**1,047**	–
	7,529	–

4. Segmental analysis

Accounting policy

The method of identifying reporting segments is based on internal management reporting information that is regularly reviewed by the chief operating decision maker, which is considered to be the Chief Executive Officer of the Group.

In identifying its operating segments, management follows the Group's market sectors. These are Ventilation UK, Ventilation Nordics, Ventilation Central Europe, Ventilation Australasia and OEM (Torin-Sifan). Operating segments that provide ventilation services have been aggregated as they have similar economic characteristics, assessed by reference to the gross margins of the segments. In addition, the segments are similar in relation to the nature of products, services and production processes, type of customer, method for distribution and regulatory environment. The Group is considered to have two reportable segments: Ventilation Group and OEM (Torin-Sifan).

The measure of revenue reported to the chief operating decision maker to assess performance is total revenue for each operating segment. The measure of profit reported to the chief operating decision maker to assess performance is adjusted operating profit (see note 18 for definition) for each operating segment. Gross profit and the analysis below segment profit is additional voluntary information and not "segment information" prepared in accordance with IFRS 8.

Finance revenue and costs are not allocated to individual operating segments as the underlying instruments are managed on a Group basis.

Total assets and liabilities are not disclosed as this information is not provided by operating segment to the chief operating decision maker on a regular basis.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2019

4. Segmental analysis (continued)

Transfer prices between operating segments are on an arm's length basis on terms similar to transactions with third parties.

Year ended 31 July 2019	Ventilation Group £000	OEM £000	Unallocated £000	Total £000	Eliminations £000	Consolidated £000
Revenue from contracts with customers						
External customers	**212,092**	**23,606**	**—**	**235,698**	**—**	**235,698**
Inter-segment	**22,282**	**1,625**	**—**	**23,907**	**(23,907)**	**—**
Total revenue from contracts with customers	**234,374**	**25,231**	**—**	**259,605**	**(23,907)**	**235,698**
Gross profit	**104,991**	**6,088**	**—**	**111,079**	**—**	**111,079**
Results						
Adjusted segment EBITDA	**44,661**	**3,871**	**(2,053)**	**46,479**	**—**	**46,479**
Depreciation and amortisation of development costs, software and patents	**(3,168)**	**(662)**	**(597)**	**(4,427)**	**—**	**(4,427)**
Adjusted operating profit/(loss)	**41,493**	**3,209**	**(2,650)**	**42,052**	**—**	**42,052**
Amortisation of intangible assets acquired through business combinations	**(14,081)**	**(1,358)**	**—**	**(15,439)**	**—**	**(15,439)**
Exceptional items	**(1,801)**	**—**	**—**	**(1,801)**	**—**	**(1,801)**
CFO succession costs	**—**	**—**	**(150)**	**(150)**	**—**	**(150)**
Operating profit/(loss)	**25,611**	**1,851**	**(2,800)**	**24,662**	**—**	**24,662**
Unallocated expenses						
Net finance cost	**—**	**—**	**(1,522)**	**(1,522)**	**—**	**(1,522)**
Profit/(loss) before tax	**25,611**	**1,851**	**(4,322)**	**23,140**	**—**	**23,140**

Year ended 31 July 2018	Ventilation Group £000	OEM £000	Unallocated £000	Total £000	Eliminations £000	Consolidated £000
Revenue						
External customers	183,094	22,582	—	205,676	—	205,676
Inter-segment	19,332	1,403	—	20,735	(20,735)	—
Total revenue	202,426	23,985	—	226,411	(20,735)	205,676
Gross profit	89,741	6,882	—	96,623	—	96,623
Results						
Adjusted segment EBITDA	38,168	4,454	(1,556)	41,066	—	41,066
Depreciation and amortisation of development costs, software and patents	(2,814)	(607)	(545)	(3,966)	—	(3,966)
Adjusted operating profit/(loss)	35,354	3,847	(2,101)	37,100	—	37,100
Amortisation of intangible assets acquired through business combinations	(13,312)	(1,358)	—	(14,670)	—	(14,670)
Exceptional items	(4,915)	—	—	(4,915)	—	(4,915)
Operating profit/(loss)	17,127	2,489	(2,101)	17,515	—	17,515
Unallocated expenses						
Net finance cost	—	—	(458)	(458)	—	(458)
Exceptional write off of unamortised loan issue costs upon refinancing of our bank facility	—	—	(320)	(320)	—	(320)
Profit/(loss) before tax	17,127	2,489	(2,879)	16,737	—	16,737

Geographic information

Revenue from external customers by customer destination	2019 £000	2018 £000
United Kingdom	**114,017**	108,133
Europe (excluding United Kingdom and Sweden)	**71,912**	59,239
Sweden	**22,929**	26,003
Australasia	**22,375**	8,906
Rest of the world	**4,465**	3,395
Total revenue from contracts with customers	**235,698**	205,676

Non-current assets excluding deferred tax	2019 £000	2018 £000
United Kingdom	**158,611**	142,859
Europe (excluding United Kingdom and Nordics)	**13,578**	26,698
Nordics	**26,028**	33,227
Australasia	**38,850**	36,633
Total	**237,067**	239,417

Information about major customers

Annual revenue from no individual customer accounts for more than 10% of Group revenue in either the current or prior year.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2019

5. Exceptional items

Accounting policy

The Group discloses exceptional items by virtue of their nature, size or incidence to allow a better understanding of the underlying trading performance of the Group. Exceptional items include, but are not limited to, significant restructuring costs, acquisition and related integration and earn-out costs, fair value adjustments as a result of acquisitions and material gains or losses on disposal of property, plant and equipment.

Critical accounting judgements and key sources of estimation uncertainty

The Group identifies an item of expense or income as exceptional when, in management's judgement, the underlying event giving rise to the exceptional item is deemed to be non-recurring in its nature, size or incidence such that Group results would be distorted without specific reference to the event in question. To enable the full impact of an exceptional item to be understood, the tax impact is disclosed and it is presented separately in the statement of cash flows.

Exceptional items	**2019 £000**	2018 £000
Acquisition-related costs, including inventory fair value adjustments	**546**	1,451
UK Ventilation re-organisation including factory relocation costs	**1,255**	4,966
Exceptional operating costs	**1,801**	6,417
Reversal of contingent consideration	**—**	(1,502)
	1,801	4,915
Total tax relating to exceptional items for the year	**(375)**	(832)
	1,426	4,083

Acquisition-related costs, including inventory fair value adjustments

Professional fees incurred in respect of acquisitions totalled £230,000 and £316,000 contingent consideration for the acquisition of Oy Pamon Ab. Professional fees incurred in respect of acquisitions in the prior year totalled £835,000, other fees incurred in respect of acquisitions in the prior year totalled £616,000.

UK Ventilation re-organisation including factory relocation costs

We have previously reported the cost of a factory relocation project, which related to rationalising of some of our manufacturing capacity in the UK and commenced in 2017, as exceptional. The affected UK manufacturing locations are Reading, Slough and Lasham. During FY2018 we extended the factory relocation project to be a wider re-organisation and management rationalisation of our UK Ventilation business.

A breakdown of the costs is as follows:

	2019 £000	2018 £000
Legal and professional fees	**301**	359
Project manager	**45**	153
Redundancy-related costs	**—**	121
Stock write off	**—**	76
Fixed asset write off	**—**	85
Site clearance and closure	**—**	627
Dual running costs	**89**	1,015
Start-up costs	**820**	2,530
Total	**1,255**	4,966

Start-up costs include costs and production variances incurred as a result of the disruption during the transition period when machinery, inventory and people were in the process of relocating to the new factory and were therefore not operating efficiently.

Legal and professional fees include fees paid to consultants to minimise disruption during the transition period and fees payable for professional advice in relation to the wider re-organisation and management rationalisation.

Dual running costs include the duplicate costs as a result of operating three factories and a temporary warehousing facility whilst machinery, inventories and people were moving from the two existing facilities to the single new factory.

Reversal of contingent consideration

During the year reversal of contingent consideration was £nil (2018: £1.5 million).

It was deemed that the items allowable for or chargeable to tax were approximately £1,729,000 (2018: £4,378,000), with a tax benefit of £375,000 (2018: £832,000).

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2019

6. Finance revenue and costs

Accounting policy

Finance revenue

Finance revenue is recognised as interest accrues using the effective interest method. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

Net financing costs

Net financing costs comprise interest income on funds invested, gains/losses on the disposal of financial instruments, changes in the fair value of financial instruments, interest expense on borrowings and foreign exchange gains/losses. Interest income and expense is recognised as it accrues in the statement of comprehensive income using the effective interest method.

	2019 £000	2018 £000
Finance revenue		
Net gain on financial instruments at fair value	**605**	838
Interest receivable	**16**	14
Total finance revenue	**621**	852
Finance costs		
Interest payable on bank loans	**(1,875)**	(1,017)
Amortisation of finance costs	**(230)**	(236)
Exceptional write off of unamortised loan issue costs upon refinancing of our bank facility	**—**	(320)
Other interest	**(38)**	(57)
Total interest expense	**(2,143)**	(1,630)
Total finance costs	**(2,143)**	(1,630)
Net finance costs	**(1,522)**	(778)

The net loss or gain on financial instruments at each year-end date relates to the measurement of fair value of the financial derivatives and the Group recognises any finance losses or gains immediately within net finance costs.

7. Income tax

Accounting policy

Current income tax assets and liabilities are measured at the amount expected to be recovered from, or payable to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted at the reporting date.

The Group's deferred tax policy can be found in note 14.

(a) Income tax charges against profit for the year

	2019 £000	2018 £000
Current income tax		
Current UK income tax expense	**3,286**	2,948
Current foreign income tax expense	**4,605**	3,605
Tax credit relating to the prior year	**(153)**	(26)
Total current tax	**7,738**	6,527
Deferred tax		
Origination and reversal of temporary differences	**(2,770)**	(3,031)
Effect of changes in the tax rate	**(115)**	(108)
Tax charge relating to the prior year	**60**	26
Total deferred tax	**(2,825)**	(3,113)
Net tax charge reported in the consolidated statement of comprehensive income	**4,913**	3,414

(b) Income tax recognised in equity for the year

	2019 £000	2018 £000
Increase in deferred tax asset on share-based payments	**(57)**	(162)
Net tax credit reported in equity	**(57)**	(162)

7. Income tax (continued)

(c) Reconciliation of total tax

	2019 £000	2018 £000
Profit before tax	**23,140**	16,737
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	**4,396**	3,180
Adjustment in respect of previous years	**(93)**	1
Expenses not deductible for tax purposes	**309**	380
Effect of changes in the tax rate (see explanation below)	**(115)**	(108)
Non-taxable income	**(244)**	(357)
Higher overseas tax rate	**892**	588
Patent box	**(230)**	(205)
Other	**(2)**	(65)
Net tax charge reported in the consolidated statement of comprehensive income	**4,913**	3,414

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2015 (on 26 October 2015) and Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes in respect of UK taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

The higher overseas tax rates relate to the Group's profits from subsidiaries which are subject to tax jurisdictions with a higher rate of tax compared to the standard rate of corporation tax in the UK.

8. Earnings per share (EPS)

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of any dilutive potential ordinary shares into ordinary shares. There are 551,467 dilutive potential ordinary shares at 31 July 2019 (2018: 413,555).

The following reflects the income and share data used in the basic and diluted earnings per share computations:

Year ended 31 July	2019 £000	2018 £000
Profit attributable to ordinary equity holders	**18,227**	13,323

	Number	Number
Weighted average number of ordinary shares for basic earnings per share	**198,386,893**	198,847,087
Weighted average number of ordinary shares for diluted earnings per share	**198,938,360**	199,144,705
Earnings per share		
Basic	**9.2p**	6.7p
Diluted	**9.2p**	6.7p

Year ended 31 July	2019 £000	2018 £000
Adjusted profit attributable to ordinary equity holders	**31,658**	28,792

	Number	Number
Weighted average number of ordinary shares for adjusted basic earnings per share	**198,386,893**	198,847,087
Weighted average number of ordinary shares for adjusted diluted earnings per share	**198,938,360**	199,144,705
Adjusted earnings per share		
Basic	**16.0p**	14.5p
Diluted	**15.9p**	14.5p

The weighted average number of ordinary shares has declined as a result of treasury shares held by the Volution Employee Benefit Trust (EBT) during the year. The shares are excluded when calculating the reported and adjusted EPS. Adjusted profit attributable to ordinary equity holders has been reconciled in note 2, Adjusted earnings.

See note 18, Glossary of terms, for an explanation of the adjusted basic and diluted earnings per share calculation.

9. Intangible assets – goodwill

Accounting policy

Goodwill

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units.

Goodwill is reviewed for impairment annually or more frequently if there is an indication of impairment. Impairment of goodwill is determined by assessing the recoverable amount of the cash generating unit to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than the carrying value of the cash generating unit to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Goodwill	£000
Cost and net book value	
At 1 August 2017	81,584
On acquisition of Simx Limited	23,457
On acquisition of AirFan B.V.	289
On acquisition of Oy Pamon Ab	6,418
On acquisition of Air Connection ApS	1,956
Net foreign currency exchange differences	(1,022)
At 31 July 2018	112,682
On acquisition of Ventair Pty Limited	4,230
Net foreign currency exchange differences	1,271
At 31 July 2019	**118,183**

10. Intangible assets – other

Accounting policy

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

The fair value of patents, trademarks and customer base acquired and recognised as part of a business combination is determined using the relief-from-royalty method or multi-period excess earnings method.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses.

Research and development

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset when the Company can demonstrate: the technical feasibility of completing the intangible asset so that it will be available for use or sale; its intention to complete and its ability to use or sell the asset; how the asset will generate future economic benefits; the availability of resources to complete the asset; and the ability to reliably measure the expenditure during development.

Subsequent measurement of intangible assets

Intangible assets with a finite life are amortised on a straight line basis over their estimated useful lives as follows:

Development costs	–	10 years
Software costs	–	5–10 years
Customer base	–	5–15 years
Trademarks	–	15–25 years
Patents/technology	–	5–25 years
Other	–	5 years

The estimated useful life and amortisation methods are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Critical accounting judgements and key sources of estimation uncertainty

Impairment of tangible and intangible assets excluding goodwill

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

10. Intangible assets – other (continued)

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. Impairment losses are immediately recognised in the statement of comprehensive income.

Impairment of other intangible assets

The Group's accounting policy for impairment of other intangible assets is set out above. The Group records all assets and liabilities acquired in business combinations at fair value. Intangible assets are reviewed for impairment annually if events or changes in circumstances indicate that the carrying amount may not be recoverable.

2019	**Development costs £000**	**Software costs £000**	**Customer base £000**	**Trademarks £000**	**Patents/ technology £000**	**Other £000**	**Total £000**
Cost							
At 1 August 2018	**3,472**	**7,729**	**128,932**	**44,238**	**3,520**	**1,118**	**189,009**
Additions	**1,189**	**630**	**—**	**—**	**17**	**—**	**1,836**
On acquisitions	**—**	**80**	**2,872**	**2,032**	**—**	**—**	**4,984**
Disposals	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Transfer from tangible assets	**180**	**337**	**—**	**—**	**—**	**—**	**517**
Net foreign currency exchange differences	**(30)**	**81**	**646**	**111**	**8**	**45**	**861**
At 31 July 2019	**4,811**	**8,857**	**132,450**	**46,381**	**3,545**	**1,163**	**197,207**
Amortisation							
At 1 August 2018	**630**	**2,820**	**69,286**	**10,615**	**627**	**907**	**84,885**
Charge for the year	**381**	**772**	**12,789**	**2,048**	**356**	**248**	**16,594**
Disposals	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Transfer from tangible assets	**9**	**205**	**—**	**—**	**—**	**—**	**214**
Net foreign currency exchange differences	**1**	**83**	**269**	**19**	**8**	**8**	**388**
At 31 July 2019	**1,021**	**3,880**	**82,344**	**12,682**	**991**	**1,163**	**102,081**
Net book value							
At 31 July 2019	**3,790**	**4,977**	**50,106**	**33,699**	**2,554**	**—**	**95,126**

Computer software assets and developments costs in relation to computer software have been transferred from tangible fixed assets and are now included within intangible fixed assets.

Included in software costs are assets under construction of £105,000 (2018: £nil), which are not amortised. Included in development costs are assets under construction of £1,235,000 (2018: £420,000), which are not amortised.

2018	Development costs £000	Software costs £000	Customer base £000	Trademarks £000	Patents/ technology £000	Other £000	Total £000
Cost							
At 1 August 2017	2,626	6,985	116,117	42,168	2,291	896	171,083
Additions	925	949	—	3	21	—	1,898
On acquisitions	—	59	13,525	2,422	1,222	249	17,477
Disposals	—	(281)	—	—	—	—	(281)
Net foreign currency exchange differences	(79)	17	(710)	(355)	(14)	(27)	(1,168)
At 31 July 2018	3,472	7,729	128,932	44,238	3,520	1,118	189,009
Amortisation							
At 1 August 2017	379	2,424	57,697	8,806	258	513	70,077
Charge for the year	264	647	12,021	1,897	371	405	15,605
Disposal	—	(281)	—	—	—	—	(281)
Net foreign currency exchange differences	(13)	30	(432)	(88)	(2)	(11)	(516)
At 31 July 2018	630	2,820	69,286	10,615	627	907	84,885
Net book value							
At 31 July 2018	2,842	4,909	59,646	33,623	2,893	211	104,124

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2019

10. Intangible assets – other (continued)

The remaining amortisation periods for acquired intangible assets at 31 July 2019 are as follows:

	Customer base	Trademark	Patent/ technology
Volution Holdings Limited and its subsidiaries	3 years	18 years	—
Fresh AB and its subsidiaries	—	13 years	—
PAX AB and PAX Norge AS	2 years	14 years	—
inVENTer GmbH	4 years	15 years	15 years
Brüggemann Energiekonzepte GmbH	1 year	—	—
Ventilair Group International BVBA and its subsidiaries	4 years	6 years	—
Energy Technique Limited and its subsidiaries	5 years	17 years	—
Weland Luftbehandling AB	1 year	—	—
NVA Services Limited and its subsidiaries	7 years	12 years	—
Breathing Buildings Limited	7 years	12 years	2 years
VoltAir System AB	13 years	13 years	3 years
Simx Limited	14 years	24 years	—
Oy Pamon Ab	9 years	19 years	9 years
Air Connection ApS	9 years	—	—
Ventair Pty Limited	10 years	20 years	—

11. Impairment assessment of goodwill

Accounting policy

Intangible assets, including goodwill, that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, where the recoverable amount is the higher of the asset's fair value less costs of disposal and value in use.

Goodwill acquired through business combinations has been allocated, for impairment testing purposes, to a group of cash generating units (CGUs). These grouped CGUs are: UK Ventilation, Central Europe, Nordics, Australasia and OEM. This is also the level at which management is monitoring the value of goodwill for internal management purposes.

Critical accounting judgements and key sources of estimation uncertainty

Impairment of goodwill

The Group's impairment test for goodwill is based on a value in use calculation using a discounted cash flow model. The test aims to ensure that goodwill is not carried at a value greater than the recoverable amount, which is considered to be the higher of fair value less costs of disposal and value in use.

The cash flows are derived from the business plan for the following three years. The recoverable amount is very sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

The identification of the Group's cash generating units (CGUs) used for impairment testing involves a degree of judgement. Management has reviewed the Group's assets and cash inflows and identified the lowest aggregation of assets that generate largely independent cash inflows.

31 July 2019	**UK Ventilation £000**	**OEM (Torin-Sifan) £000**	**Nordics £000**	**Central Europe £000**	**Australasia £000**
Carrying value of goodwill	**55,899**	**5,101**	**16,586**	**12,273**	**28,324**
CGU value in use headroom[1]	**126,585**	**20,937**	**70,070**	**31,000**	**13,199**

As at 31 July 2018 calculated headroom was:

31 July 2018	UK Ventilation £000	OEM (Torin-Sifan) £000	Nordics £000	Central Europe £000	Australasia £000
Carrying value of goodwill	55,899	5,101	16,577	12,041	23,064
CGU value in use headroom[1]	135,759	32,165	66,844	25,529	3,649

Note

1. Headroom is calculated by comparing the value in use (VIU) of a group of CGUs to the carrying amount of its asset, which includes the net book value of fixed assets (tangible and intangible), goodwill and operating working capital (current assets and liabilities).

Impairment review

Under IAS 36 Impairment of Assets, the Group is required to complete a full impairment review of goodwill, which has been performed using a value in use calculation. A discounted cash flow (DCF) model was used, taking a period of five years, which has been established using pre-tax discount rates of 12.1% to 13.5% over that period. In all CGUs it was concluded that the carrying amount was in excess of the value in use and all CGUs had positive headroom.

11. Impairment assessment of goodwill (continued)

Key assumptions in the value in use calculation

The calculation of value in use for all CGUs is most sensitive to the following assumptions:

- Specific growth rates have been used for each of the CGUs for the five-year forecast period based on historical growth rates and market expectations;
- Long-term growth rates of 2% (2018: 2%) for all CGU's has been applied to the period beyond which budgets and forecasts do not exist, based on historical macroeconomic performance and projections for the geographies in which the CGU's operate, and
- Discount rates reflect the current market assessment of the risks specific to each operation. The pre-tax discount rates used for each CGU are: UK Ventilation: 12.1% (2018: 11.4%), OEM (Torin-Sifan): 13.2% (2018:12.3%), Nordics: 12.5% (2018: 12.5%), Central Europe: 14.0% (2018: 13.1%) and Australasia: 13.5% (2018:13.5%).

The value in use headroom, for each cash generating unit, has been set out above. We have tested the sensitivity of our headroom calculations in relation to the above key assumptions and in all cases an adverse movement of more than 10% would be required to cause the carrying value of the cash generating units to materially exceed their recoverable value.

12. Business combinations

Accounting policy

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at fair value on the date of acquisition. There have been no non-controlling interests in the business combinations to date. Acquisition costs incurred are expensed and included in exceptional items.

When the Group acquires a business it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date.

Contingent consideration resulting from business combinations is accounted for at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently re-measured to fair value at each reporting date, with changes in fair value recognised either in profit or loss or as a change in other comprehensive income (OCI). The determination of fair value is based on discounted cash flows. The key assumptions used in determining the discounted cash flows take into consideration the probability of meeting each performance target and a discount factor.

Goodwill is initially recognised at cost, being the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units (CGUs) that are expected to benefit from the combination, irrespective of whether assets or liabilities of the acquisition are assigned to those units.

12. Business combinations (continued)

Acquisitions in the year ended 31 July 2019

Ventair Pty Limited

On 1 March 2019, Volution Group plc, through one of its wholly owned subsidiaries, Woomera Pty Limited, acquired the entire issued share capital of Ventair Pty Limited, a company based in Australia. The acquisition was on a debt free basis, funded from the Group's existing cash and banking facilities. The acquisition of Ventair is in line with the Group's strategy to grow by selectively acquiring value-adding businesses in new and existing markets and geographies, across the residential ventilation market and, where appropriate, in the commercial ventilation market. The integration of Ventair into the Volution Group will provide an opportunity for further growth in the Australasian region and the combination of its product portfolio with that of Simx (New Zealand) will enable us to enhance our offer in both the Australian and New Zealand markets.

Total consideration for the transaction was AUD17,895,000 (£9,713,000), comprised of cash consideration of AUD16,138,000 (£8,760,000) and contingent consideration with a fair value of AUD1,757,000 (£952,000),The contingent consideration is based on the level of EBITDA achieved during the twelve months to 31 July 2020. There is a minimum level of EBITDA which must be achieved otherwise no contingent consideration is payable; the maximum amount of contingent consideration payable is AUD7,700,000. The contingent consideration has been recognised in line with management's best estimate of the level of EBITDA expected to be achieved during the earn-out period. Whilst the level of EBITDA to be achieved is as yet unobservable, management's estimate has been based on the 2020 budget. The contingent consideration has not been discounted as the impact is considered to be immaterial.

Transaction costs associated with the acquisition on the year ended 31 July 2019 were £173,000 and have been expensed.

The provisional fair value of the net assets acquired is set out below:

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	161	4,823	4,984
Deferred tax asset	—	218	218
Property, plant and equipment	543	—	543
Inventory	3,077	(250)	2,827
Trade and other receivables	2,649	—	2,649
Trade and other payables	(2,355)	(324)	(2,679)
Bank debt	(2,542)	—	(2,542)
Deferred tax liabilities	—	(1,447)	(1,447)
Cash and cash equivalents	930	—	930
Total identifiable net assets	**2,463**	**3,020**	**5,483**
Goodwill on acquisition			4,230
			9,713
Discharged by:			
Consideration satisfied in cash			8,761
Contingent consideration			952

Goodwill of £4,230,000 reflects certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies arising from the acquisition and the experience and skill of the acquired workforce. The fair value of the acquired tradename and customer base was identified and included in intangible assets.

The gross amount of trade and other receivables is £2,770,000. The amounts for trade and other receivables not expected to be collected are £121,000.

Ventair Pty Limited generated revenue of £4,043,000 and generated a profit after tax of £170,000 in the period from acquisition to 31 July 2019 that is included in the consolidated statement of comprehensive income for this reporting period.

If the combination had taken place at 1 August 2018, the Group's revenue would have been £243,483,000 and the profit before tax from continuing operations would have been £23,891,000.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2019

12. Business combinations (continued)

Acquisitions in the year ended 31 July 2018

Simx Limited

On 19 March 2018, Volution Group plc, through one of its wholly owned subsidiaries, Chinook Limited, acquired the entire issued share capital of Simx Limited, a company based in New Zealand. The transaction was funded from the Group's existing revolving credit facility. The acquisition of Simx is in line with the Group's strategy to grow by selectively acquiring value-adding businesses in new and existing markets and geographies across the residential ventilation market and, where appropriate, in the commercial ventilation market.

Total consideration for the transaction was cash consideration of NZD54,508,000 (£28,651,000).

Transaction costs associated with the acquisition in the year ended 31 July 2018 were £332,000 and have been expensed.

The fair value of the net assets acquired is set out below:

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	3,849	8,246	12,095
Deferred tax asset	111	377	488
Property, plant and equipment	1,777	(63)	1,714
Inventory	4,136	(282)	3,854
Trade and other receivables	2,702	—	2,702
Trade and other payables	(2,443)	(456)	(2,899)
Bank debt	(9,806)	—	(9,806)
Deferred tax liabilities	—	(3,370)	(3,370)
Cash and cash equivalents	416	—	416
Total identifiable net assets	742	4,452	5,194
Goodwill on acquisition			23,457
			28,651
Discharged by:			
Consideration satisfied in cash			28,651

Goodwill of £23,457,000 reflects certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies arising from the acquisition and the experience and skill of the acquired workforce. The fair value of the acquired tradename and customer base was identified and included in intangible assets.

The gross amount of trade and other receivables is £2,702,000. The amounts for trade and other receivables not expected to be collected are £nil.

Simx Limited generated revenue of £8,182,000 and generated a profit after tax of £1,384,000 in the period from acquisition to 31 July 2018 that is included in the consolidated statement of comprehensive income for this reporting period.

If the combination had taken place at 1 August 2017, the Group's revenue would have been £216,339,000 and the profit before tax from continuing operations would have been £18,161,000.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2019

12. Business combinations (continued)

AirFan B.V.

On 1 May 2018, Volution Group plc, through one of its wholly owned subsidiaries, Ventilair Group Netherlands B.V., acquired the entire issued share capital of AirFan B.V. The transaction was funded from the Group's cash reserves.

Total consideration for the transaction was cash consideration of €300,000 (£264,000).

Transaction costs associated with the acquisition in the year ended 31 July 2018 were £29,000 and have been expensed.

The fair value of the net assets acquired is set out below:

	Book value £000	Fair value adjustments £000	Fair value £000
Property, plant and equipment	16	—	16
Inventory	124	(22)	102
Trade and other receivables	162	—	162
Trade and other payables	(305)	—	(305)
Total identifiable net assets	(3)	(22)	(25)
Goodwill on acquisition			289
			264
Discharged by:			
Consideration satisfied in cash			264

Goodwill of £289,000 reflects certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies arising from the acquisition and the experience and skill of the acquired workforce.

The gross amount of trade and other receivables is £162,000. The amounts for trade and other receivables not expected to be collected are £nil.

12. Business combinations (continued)

Oy Pamon Ab

On 5 July 2018, Volution Group plc, through one of its wholly owned subsidiaries, Volution Holdings Sweden AB, acquired the entire issued share capital of Oy Pamon Ab. The transaction was funded from the Group's existing revolving credit facility. The acquisition of Oy Pamon Ab is in line with the Group's strategy to grow by selectively acquiring value-adding businesses in new and existing markets and geographies across the residential ventilation market and, where appropriate, in the commercial ventilation market.

Total consideration for the transaction was €12,908,000 (£11,429,000), comprised of cash consideration of €12,258,000 (£10,854,000) and contingent consideration with a fair value of €650,000 (£575,000). The contingent consideration is based on the level of EBITDA achieved during the two years to 30 November 2018 and 2019. There is a minimum level of EBITDA which must be achieved otherwise no contingent consideration is payable; the maximum amount of contingent consideration payable is €2,000,000. The contingent consideration has been recognised in line with management's best estimate of the level of EBITDA expected to be achieved during the earn-out period. Whilst the level of EBITDA to be achieved is as yet unobservable, management's estimate has been based on the 2018 budget and 2019 forecast. The contingent consideration has not been discounted as the impact is considered to be immaterial. Contingent consideration relating to the year ended 30 November 2018 was finalised and paid during FY2019 with further consideration yet to be determined relating to the year ended 30 November 2019.

Transaction costs associated with the acquisition in the year ended 31 July 2018 were £290,000 and have been expensed.

The fair value of the net assets acquired is set out below:

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	64	4,514	4,578
Deferred tax asset	—	91	91
Property, plant and equipment	130	—	130
Inventory	935	(307)	628
Trade and other receivables	604	(107)	497
Trade and other payables	(1,209)	(44)	(1,253)
Deferred tax liabilities	—	(903)	(903)
Cash and cash equivalents	1,243	—	1,243
Total identifiable net assets	1,767	3,244	5,011
Goodwill on acquisition			6,418
			11,429
Discharged by:			
Consideration satisfied in cash			10,854
Contingent consideration			575
Total consideration			11,429

Goodwill of £6,418,000 reflects certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies arising from the acquisition and the experience and skill of the acquired workforce. The fair value of the acquired tradename, customer base, technology and order book was identified and included in intangible assets.

The gross amount of trade and other receivables is £604,000. The amounts for trade and other receivables not expected to be collected are £107,000.

Oy Pamon Ab generated revenue of £703,000 and generated a profit after tax of £160,000 in the period from acquisition to 31 July 2018 that is included in the consolidated statement of comprehensive income for this reporting period.

If the combination had taken place at 1 August 2017, the Group's revenue would have been £213,607,000 and the profit before tax from continuing operations would have been £17,613,000.

12. Business combinations (continued)

Air Connection ApS

On 16 July 2018, Volution Group plc, through one of its wholly owned subsidiaries, Volution Holdings Sweden AB, acquired the entire issued share capital of Air Connection ApS. The transaction was funded from the Group's existing revolving credit facility. The Group's acquisition of Air Connection ApS is in line with the Group's strategy to grow by selectively acquiring value-adding businesses in new and existing markets and geographies across the residential ventilation market and, where appropriate, in the commercial ventilation market.

Total consideration for the transaction was DKK30,000,000 (£3,572,000), comprised of cash consideration of DKK25,800,000 (£3,072,000) and contingent consideration with a fair value of DKK4,200,000 (£500,000). The contingent consideration is based on the level of EBITDA achieved during the twelve months to 31 July 2021. There is a minimum level of EBITDA which must be achieved otherwise no contingent consideration is payable; the maximum amount of contingent consideration payable is DKK4,200,000. The contingent consideration has been recognised in line with management's best estimate of the level of EBITDA expected to be achieved during the earn-out period. Whilst the level of EBITDA to be achieved is as yet unobservable, management's estimate has been based on the forecast for the year to 31 July 2021. The contingent consideration has not been discounted as the impact is considered to be immaterial. The contingent consideration is expected to be finalised and paid during FY2022.

Transaction costs associated with the acquisition in the year ended 31 July 2018 were £41,000 and have been expensed.

The fair value of the net assets acquired is set out below:

	Book value £000	Fair value adjustments £000	Fair value £000
Intangible assets	—	804	804
Property, plant and equipment	197	—	197
Inventory	833	—	833
Trade and other receivables	648	—	648
Trade and other payables	(868)	—	(868)
Deferred tax liabilities	(18)	(177)	(195)
Cash and cash equivalents	197	—	197
Total identifiable net assets	989	627	1,616
Goodwill on acquisition			1,956
			3,572
Discharged by:			
Consideration satisfied in cash			3,072
Contingent consideration			500
Total consideration			3,572

Goodwill of £1,956,000 reflects certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies arising from the acquisition and the experience and skill of the acquired workforce. The fair value of the acquired customer base was identified and included in intangible assets.

The gross amount of trade and other receivables is £648,000.

Air Connection ApS generated revenue of £94,000 and generated a profit after tax of £20,000 in the period from acquisition to 31 July 2018 that is included in the consolidated statement of comprehensive income for this reporting period.

If the combination had taken place at 1 August 2017, the Group's revenue would have been £209,819,000 and the profit before tax from continuing operations would have been £17,040,000.

Cash outflows arising from business combinations are as follows:

	2019 £000	2018 £000
Ventair Pty Limited		
Cash consideration	**8,761**	—
Less: cash acquired with the business	**(930)**	—
Simx Limited		
Cash consideration	—	28,651
Less: cash acquired with the business	—	(416)
AirFan B.V.		
Cash consideration	—	264
Less: cash acquired with the business	—	—
Oy Pamon Ab		
Cash consideration	**586**	10,854
Less: cash acquired with the business	—	(1,243)
Air Connection ApS		
Cash consideration	—	3,072
Less: cash acquired with the business	—	(197)
	8,417	40,985

13. Interest-bearing loans and borrowings

Accounting policy

Borrowings and other financial liabilities, including loans, are initially measured at fair value, net of transaction costs.

Borrowings and other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period.

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

	2019		2018	
	Current £000	**Non-current £000**	Current £000	Non-current £000
Unsecured – at amortised cost				
Borrowings under the revolving credit facility (maturing 2022)	**—**	**86,146**	—	95,410
Cost of arranging bank loan	**—**	**(755)**	—	(805)
	—	**85,391**	—	94,605

In December 2018, the Group exercised the option to extend its multicurrency revolving credit facility by a period of twelve months at a cost of £0.2 million; the maturity date is now 15 December 2022.

Bank loans at 31 July 2019 comprised a revolving credit facility from Danske Bank A/S, HSBC and the Royal Bank of Scotland with HSBC acting as agent and are governed by a facilities agreement. The outstanding loans are set out in the table below. No security was provided under the facility.

Revolving credit facility – at 31 July 2019

Currency	Amount outstanding £000	Termination date	Repayment frequency	Rate %
GBP	21,500	15 December 2022	One payment	Libor + margin%
Euro	40,640	15 December 2022	One payment	Euribor + margin%
Swedish Krona	24,006	15 December 2022	One payment	Stibor + margin%
Total	**86,146**			

Revolving credit facility – at 31 July 2018

Currency	Amount outstanding £000	Termination date	Repayment frequency	Rate %
GBP	31,000	15 December 2021	One payment	Libor + margin%
Euro	39,943	15 December 2021	One payment	Euribor + margin%
Swedish Krona	24,467	15 December 2021	One payment	Stibor + margin%
Total	**95,410**			

The consolidated leverage level fell below 1.0:1 for the year ended 31 July 2017 and therefore the margin for the first half of the year ended 31 July 2018 was 1.00%. On refinancing in December 2017, the margin was reduced to 0.9%, the consolidated leverage continued to be below 1.0:1 and therefore the margin continued to be 0.9% under the new facility. For the second half of the year ended 31 July 2018 the margin increased to 1.40% due to the acquisition of Simx Limited which increased leverage to 1.7:1; this rate has continued throughout the year ended 31 July 2019.

At 31 July 2019, the Group had £33,854,000 (2018: £24,590,000) of its multicurrency revolving credit facility unutilised.

Reconciliation of movement of financial liabilities

	2019 £000	2018 £000
At 1 August	**95,410**	51,490
Additional loans	**17,500**	103,474
Loans acquired on acquisition	**2,542**	10,007
Repayment of loans	**(29,609)**	(67,869)
Interest charge	**1,913**	1,017
Interest paid	**(1,913)**	(1,017)
Foreign exchange	**303**	(1,692)
At 31 July	**86,146**	95,410

14. Deferred tax

Accounting policy

Deferred tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary differences arise from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised only to the extent that the Directors consider it is probable that there will be taxable profits from which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred tax assets and liabilities are measured on an undiscounted basis at tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities and there is an intention to settle the balances on a net basis.

The carrying amount of deferred tax assets is reviewed at each reporting date. Deferred tax assets and liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred taxes relate to the same taxation authority and that authority permits the Group to make a single net payment.

Deferred tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, deferred tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity.

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded.

At 31 July 2019, the Group had not recognised a deferred tax asset in respect of gross tax losses of £5,195,000 (2018: £5,195,000) relating to management expenses, capital losses of £3,975,000 (2018: £3,975,000) arising in UK subsidiaries and gross tax losses of £407,000 (2018: £407,000) arising in overseas entities as there is insufficient evidence that the losses will be utilised. These losses are available to be carried indefinitely.

At 31 July 2019, the Group had no deferred tax liability (2018: £nil) to recognise for taxes that would be payable on the remittance of certain of the Group's overseas subsidiaries' unremitted earnings. Deferred tax liabilities have not been recognised as the Group has determined that there are no undistributed profits in overseas subsidiaries where an additional tax charge would arise on distribution.

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

2019	1 August 2018 £000	Credited/ (charged) to income £000	Credited to equity £000	Translation difference £000	On acquisition £000	31 July 2019 £000
Temporary differences						
Depreciation in advance of capital allowances	**(798)**	**(245)**	**—**	**—**	**—**	**(1,043)**
Fair value movements of derivative financial instruments	**(3)**	**(112)**	**—**	**—**	**—**	**(115)**
Customer base, trademark and patent	**(18,089)**	**3,094**	**—**	**(227)**	**(1,447)**	**(16,669)**
Losses	**285**	**—**	**—**	**—**	**—**	**285**
Untaxed reserves	**507**	**(13)**	**—**	**56**	**218**	**768**
Other temporary differences	**598**	**101**	**57**	**(1)**	**—**	**755**
Deferred tax liability	**(17,500)**	**2,825**	**57**	**(172)**	**(1,229)**	**(16,019)**

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2019

14. Deferred tax (continued)

2018	1 August 2017 £000	Credited/ (charged) to income £000	Credited to equity £000	Translation difference £000	On acquisition £000	31 July 2018 £000
Temporary differences						
Depreciation in advance of capital allowances	(745)	(53)	—	—	—	(798)
Fair value movements of derivative financial instruments	146	(149)	—	—	—	(3)
Customer base, trademark and patent	(16,673)	2,915	—	137	(4,468)	(18,089)
Losses	298	(12)	—	(1)	—	285
Untaxed reserves	(447)	447	—	32	475	507
Other temporary differences	475	(37)	160	—	—	598
	(16,946)	3,111	160	168	(3,993)	(17,500)
Deferred tax asset	810	(810)	—	—	—	—
Deferred tax liability	(17,756)	3,921	160	168	(3,993)	(17,500)
	(16,946)	3,111	160	168	(3,993)	(17,500)

15. Dividends paid and proposed

Accounting policy

Dividends are recognised when they meet the criteria for recognition as a liability. In relation to final dividends, this is when the dividend is approved by the Directors in the general meeting, and in relation to interim dividends, when paid.

	2019 £000	2018 £000
Cash dividends on ordinary shares declared and paid		
Interim dividend for 2019: 1.60 pence per share (2018: 1.46 pence)	**3,172**	2,903
Proposed dividends on ordinary shares		
Final dividend for 2019: 3.30 pence per share (2018: 2.98 pence)	**6,541**	5,926

The interim dividend payment of £3,172,000 is included in the consolidated statement of cash flows.

The proposed final dividend on ordinary shares is subject to approval at the Annual General Meeting and is not recognised as a liability at 31 July 2019.

16. Related party transactions

Transactions between Volution Group plc and its subsidiaries, and transactions between subsidiaries, are eliminated on consolidation and are not disclosed in this note. A breakdown of transactions between the Group and its related parties is disclosed below.

No related party loan note balances exist at 31 July 2019 or 31 July 2018.

There were no material transactions or balances between the Company and its key management personnel or members of their close family. At the end of the period, key management personnel did not owe the Company any amounts.

The Companies Act 2006 and the Directors' Remuneration Report Regulations 2013 require certain disclosures of Directors' remuneration. The details of the Directors' total remuneration are provided in the Directors' Remuneration Report.

Compensation of key management personnel

	2019 £000	2018 £000
Short-term employee benefits	**2,816**	2,806
Share-based payment change	**834**	461
Total	**3,650**	3,267

Key management personnel is defined as the CEO, the CFO and the ten (2018: ten) individuals who report directly to the CEO.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 July 2019

17. Events after the reporting period

There have been no material events between 31 July 2019 and the date of authorisation of the consolidated financial statements that would require adjustments of the consolidated financial statements or disclosure.

18. Glossary of terms

Adjusted basic and diluted EPS: calculated by dividing the adjusted profit/(loss) for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share amounts are calculated by dividing the adjusted net profit/(loss) attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of any dilutive potential ordinary shares into ordinary shares. There are 551,467 dilutive potential ordinary shares at 31 July 2019 (2018: 413,555).

Adjusted EBITDA: adjusted operating profit before depreciation and amortisation.

Adjusted finance costs: finance costs before net gains or losses on financial instruments at fair value and the exceptional write off of unamortised loan issue costs upon refinancing.

Adjusted operating cash flow: adjusted EBITDA plus or minus movements in operating working capital, less net investments in property, plant and equipment and intangible assets.

Adjusted operating profit: operating profit before exceptional operating costs, release of contingent consideration and amortisation of assets acquired through business combinations.

Adjusted profit after tax: profit after tax before exceptional operating costs, release of contingent consideration, exceptional write off of unamortised loan issue costs upon refinancing, net gains or losses on financial instruments at fair value, amortisation of assets acquired through business combinations and the tax effect on these items.

Adjusted profit before tax: profit before tax before exceptional operating costs, release of contingent consideration, exceptional write off of unamortised loan issue costs upon refinancing, net gains or losses on financial instruments at fair value and amortisation of assets acquired through business combinations.

Adjusted tax charge: the reported tax charge less the tax effect on the adjusted items.

CAGR: compound annual growth rate.

Cash conversion: is calculated by dividing adjusted operating cash flow by adjusted EBITA.

Constant currency: to determine values expressed as being at constant currency we have converted the income statement of our foreign operating companies for the year ended 31 July 2019 at the average exchange rate for the period ended 31 July 2018. In addition, we have converted the UK operating companies' sale and purchase transactions in the year ended 31 July 2019, which were denominated in foreign currencies, at the average exchange rates for the year ended 31 July 2018.

EBITDA: profit before net finance costs, tax, depreciation and amortisation.

Net debt: bank borrowings less cash and cash equivalents.

Operating cash flow: EBITDA plus or minus movements in operating working capital, less share-based payment expense, less net investments in property, plant and equipment and intangible assets.