

Excellence in ventilation

Volusion Group plc
Interim Results 31 January 2020



Agenda

- **H1 2020 Headlines**
- **Financial Review**
- **Operational Review and Outlook**
- **Q&A**



Ronnie George
Chief Executive Officer



Andy O'Brien
Chief Financial Officer

H1 2020 Headlines

Financial headlines

Revenue

+5% (constant currency) to

£119m

Adjusted EPS

+6.5% to

8.2p per share

Adjusted operating margin

+0.7pp (+1.3pp organic) to

18.3%

Net debt to EBITDA

1.3X due to cash conversion of

93.0%

Operational headlines

Strong growth in Central Europe as innovation and new products capture share

UK operating profit up 5.0% driven by good RMI performance and Reading facility performing well

Challenging market conditions in UK Commercial and Nordic project businesses

Integration of Ventair in Australia progressing well with planned extension of the product range taking shape

Strategic Pillars



Organic growth in all our markets



Growth through a disciplined and value-adding acquisition strategy



Operational Excellence

H1 2020 Progress

- New products supporting good growth in UK Public RMI and particularly successful in Germany (Xenion)
- UK Commercial and Nordics projects markets subdued
- Ventair integration progressing well; focus on expanding product range
- Quiet period as expected in terms of new acquisition opportunities; market remains attractive (and fragmented)
- Operational Excellence initiatives embedded and underway across all businesses
- Good progress towards 20% adjusted operating margin target with organic margin up 1.3pp and all three segments expanding margins on an organic basis

Our business – three geographic segments

UK



- 54.3% of Group revenue (includes exports from UK)
- New build residential, RMI (Public and Private), Commercial, Export and OEM

Vent-Axia

MANROSE

DIFFUSION

NATIONAL VENTILATION

AIRTECH

Breathing Buildings

torin-sifan

Continental Europe



- 32.3% of Group revenue (includes exports)
- Nordics, Germany, Belgium and Netherlands
- New build residential, RMI and Commercial

INVENTER®

Ventilair GROUP

Vent-Axia

PAX

Fresh

VoltAir®

AIR CONNECTION

KAIR®

Australasia



- 13.4% of Group revenue
- New Zealand and Australia
- New build residential and RMI

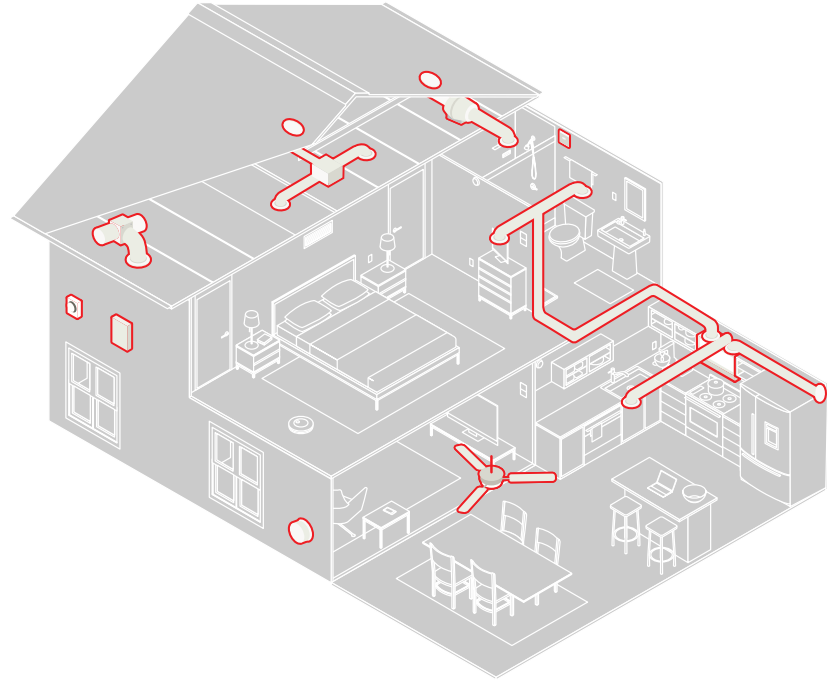
Simx

ventair. THE AIR MOVEMENT SPECIALISTS

Andy O'Brien – CFO

Financial Review

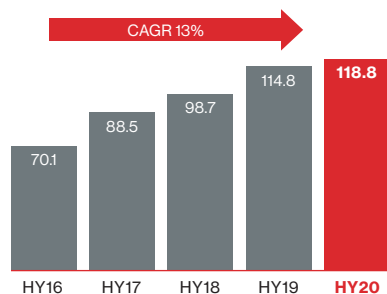
Interim results to 31 January 2020



Financial KPIs

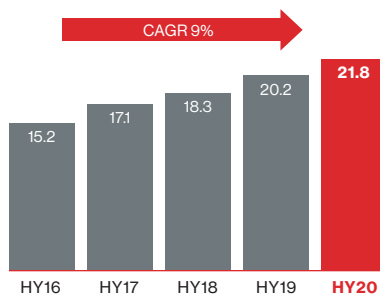
Revenue £m

£118.8m



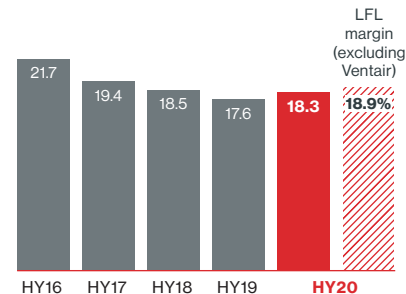
Adjusted operating profit £m

£21.8m



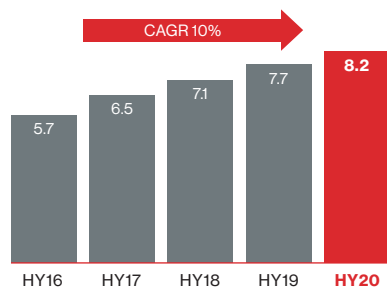
Adjusted operating profit margin %

18.3%



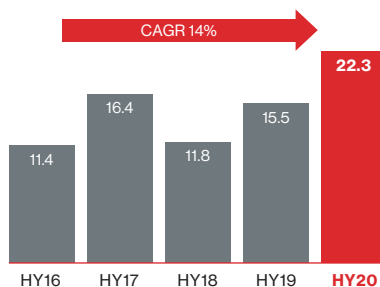
Adjusted EPS p

8.2p



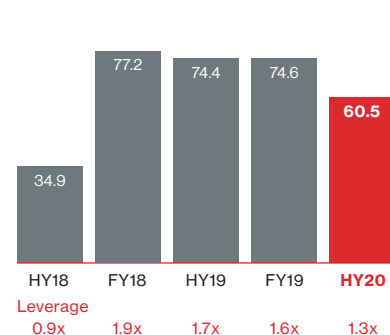
Adjusted operating cash flow £m

£22.3m (highest since listing)



Net debt (IAS 17 basis) £m

£60.5m



Financial summary

Results in line with expectations; good progress on operating margin expansion and cash generation

	H1 2020	H1 2019	Movement	Movement cc
Revenue (£m)	118.8	114.8	3.4%	5.0%
Adjusted operating profit (£m) ¹	21.8	20.2	7.6%	9.1%
Adjusted operating margin (%) ¹	18.3%	17.6%	0.7pp	0.7pp
Adjusted profit before tax (£m) ¹	20.5	19.1	7.2%	—
Adjusted EPS (pence) ¹	8.2	7.7	6.5%	—
Reported operating profit (£m)	14.0	11.3	24.4%	—
Reported operating margin (%)	11.7%	9.8%	1.9pp	—
Reported profit before tax (£m)	11.9	10.2	16.7%	—
Reported basic EPS (pence)	4.7	4.1	14.6%	—
Adjusted operating cash flow (£m) ¹	22.3	15.5	43.5%	—
Reported net debt (£m)	(80.9)	(74.4)	6.5	—
Like-for-like net debt (IAS 17 basis) (£m)	(60.5)	(74.4)	13.9	—
Closing debt leverage (x) ²	1.3	1.7	0.4	—
Interim dividend per share (pence)	1.71	1.60	6.9%	—

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 basic and diluted EPS and adjusted operating cash flow. An explanation and reconciliation to reported profit before tax is shown on page 8.

2. Closing debt leverage is net debt to LTM adjusted EBITDA.

- Adverse FX impact of £1.8m on revenue and £0.3m on adjusted operating profit compared to prior period
- 5.0% constant currency revenue growth driven by Continental Europe and Australasia
- Operating margin of 18.3%, up 1.3pp on an organic basis (excluding Ventair)
- Adjusted operating cash inflow of £22.3m with a strong cash conversion of 99.5% (93.0% on a like-for-like basis under IAS 17)
- Leverage on a like-for-like basis under IAS 17 reduced to 1.3x

Reconciliation of adjusted to reported profit

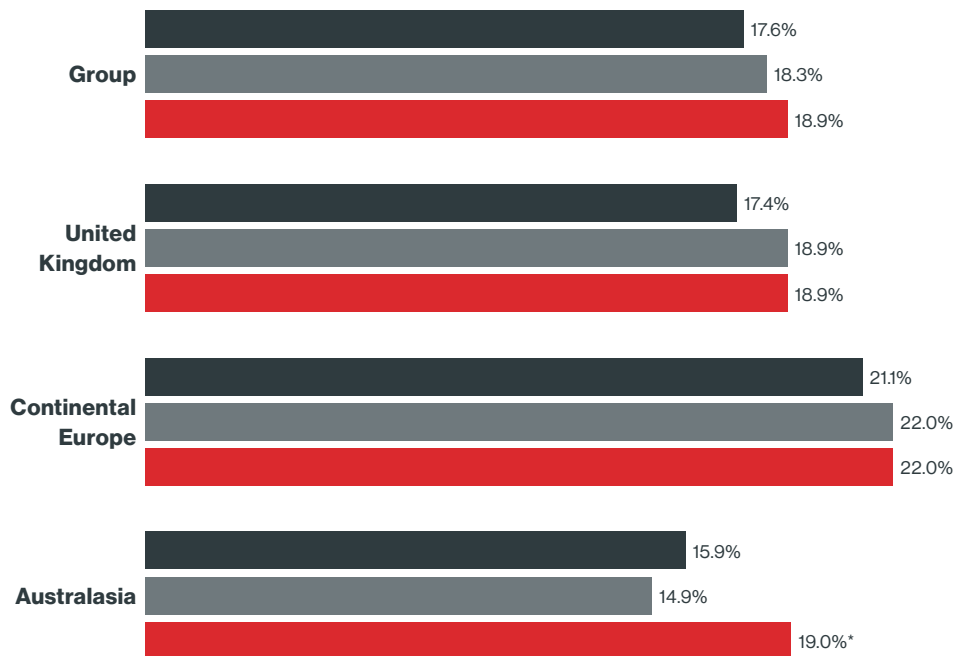
	H1 2020 £m	H1 2019 £m	Movement £m
Adjusted profit before tax	20.5	19.1	1.4
Items excluded from adjusted measures:			
Exceptional operating costs	—	(1.2)	1.2
CFO succession costs	(0.2)	—	(0.2)
Net loss on financial instruments at fair value	(0.9)	—	(0.9)
Amortisation of acquired intangibles	(7.5)	(7.7)	0.2
Reported profit before tax	11.9	10.2	1.7

	H1 2020 £m	H1 2019 £m	Movement £m
Exceptional operating costs:			
Acquisition-related costs	—	0.1	(0.1)
Factory relocation	—	1.1	(1.1)
Exceptional operating costs	—	1.2	(1.2)

- No exceptional operating costs in period (H1 2019: £1.2m)
- Loss of £0.9m (H1 2019: £nil) on fair value of financial instruments
- Reported profit before tax up 16.7%

Operating margin

Good organic margin improvement across all geographies



■ H1 2019 ■ H1 2020 ■ H1 2020 organic

* 18.0% on a IAS17 basis.

H1 drivers:

- Reading efficiency
- Value Engineering
- Australasia integration

H2 and FY 2021 levers:

- Reading/Torin-Sifan optimisation
- Value Engineering
- Procurement
- Indirect cost/ERP efficiencies
- New product launches
- Pricing/mix optimisation

Strong cash conversion bringing leverage on a like-for-like basis under IAS 17 down to 1.3x

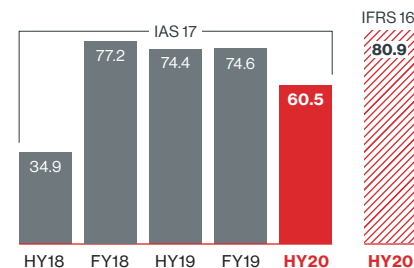
	H12020 £m	H12019 £m	Movement £m	Movement %
Adjusted EBITA (A)	22.4	20.8	1.6	7.6%
Depreciation	3.2	1.6	1.6	
Adjusted EBITDA	25.6	22.4	3.2	14.0%
Change in net working capital	(0.9)	(3.5)	2.6	
Net investment in fixed assets	(2.4)	(3.4)	1.0	
Adjusted operating cash flow (B)	22.3	15.5	6.8	43.8%
Cash conversion (B/A)	99.5%	74.5%	25.0%	
Interest paid on debt	(1.1)	(0.9)	(0.2)	
Tax paid	(2.8)	(4.5)	1.7	
Dividends	(6.5)	(5.9)	(0.6)	
Free cash flow	11.9	4.2	7.7	182.9%
Changes in investments	—	(0.6)	0.6	
Purchase of shares	(0.8)	(1.2)	0.4	
Exceptional operating costs	—	(1.0)	1.0	
Finance costs paid	—	(0.2)	0.2	
CFO succession costs	(0.2)	—	(0.2)	
IFRS 16 long-term lease liabilities adjustment	(20.4)	—	(20.4)	
IFRS 16 payments of lease liabilities	(1.4)	—	(1.4)	
Cash flow before financing	(10.9)	1.2	(12.1)	988.4%

Opening net debt	(74.6)	(77.2)	2.6	
Cash (inflow)/outflow	(10.9)	1.2	(12.1)	
FX on foreign currency loans/cash	4.6	1.6	3.0	
Closing net debt	(80.9)	(74.4)	(6.5)	-8.7%
Closing debt leverage (net debt to adjusted EBITDA)	1.6x	1.7x	0.1x	

Like-for-like net debt (IAS 17 basis)	(60.5)	(74.4)	13.9	18.7%
Closing debt leverage (net debt to adjusted EBITDA)	1.3x	1.7x	0.4x	

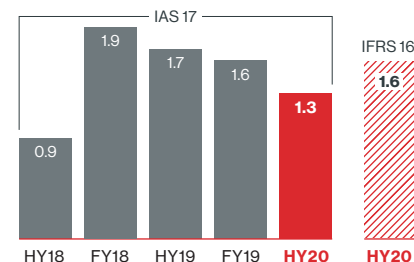
Net debt £m

£60.5m



Leverage x

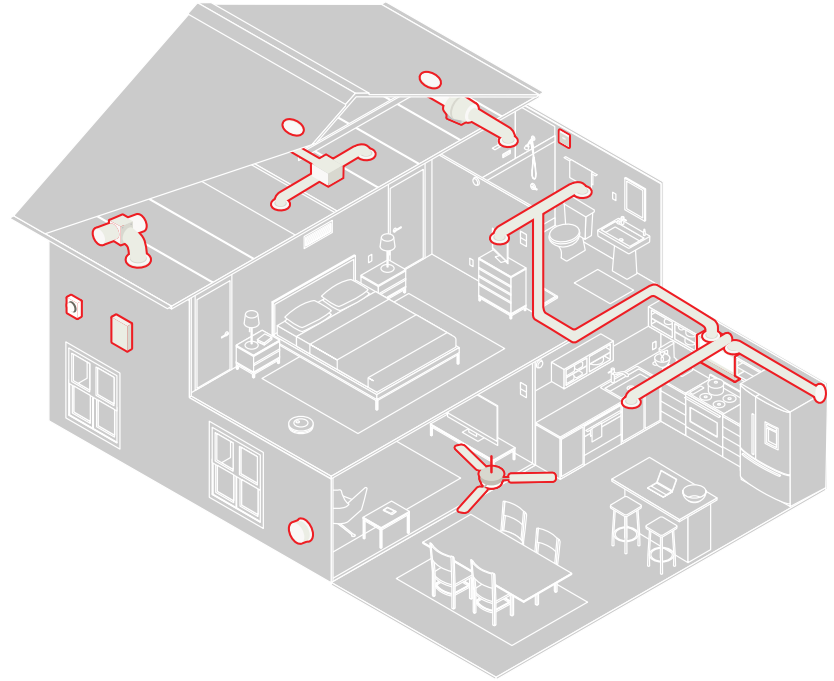
1.3x



Ronnie George – CEO

Operational Review and Outlook

Interim results to 31 January 2020



New operating segments

UK



Continental Europe



Australasia



% of Volition Group revenue (by segment)



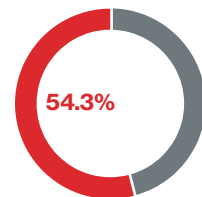
Solid progress in Residential; challenging market conditions in Commercial. 1.5pp expansion in operating profit margin

	H1 2020 £m	H1 2020 (cc) £m	H1 2019 £m	Total growth %	Total growth (cc) %
UK revenue	64.5	64.7	66.6	(3.3)%	(3.0)%
Residential RMI	20.0	20.0	19.7	1.4%	1.4%
Residential New Build	13.1	13.1	13.1	—	—
Commercial	15.3	15.3	17.3	(11.6)%	(11.6)%
Export	4.8	4.9	4.5	5.4%	7.4%
OEM	11.3	11.4	12.0	(6.0)%	(5.2)%
Adjusted operating profit	12.2	12.2	11.6	5.0%	5.0%
Adjusted operating profit margin %	18.9%	18.9%	17.4%	1.5pp	1.5pp

- **RMI** up 1.4%. Public RMI up 4.5% as we benefit from the investments over the past two years as we have completely refreshed and improved the performance, quietness and aesthetics of our product range in this market.
- **New Build** flat with marked slowdown in activity leading up to the UK General Election in December 2019. Drivers (energy efficiency, airtight homes, indoor air quality awareness) remain strong. We continue to innovate to bring market-leading heat recovery and system ventilation products to market.
- **Commercial** down 11.6%, exclusively in the new build market for fan coils and in the new school build market.

- **Export** up 5.4% (7.4% at cc) driven by new products introduced to our export customers, and favourable regulations for the residential new build market in Eire.
- **OEM** down 6.0% (5.2% at cc), with the mild, wet winter in the UK reducing the demand for boiler spares.
- **Adjusted operating profit margin** up 1.5pp to 18.9%, assisted by the operational and efficiency improvements in our Reading facility as well as other initiatives to reduce both our product cost and indirect cost efficiency.

% of Volusion Group revenue



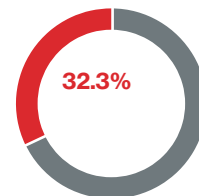
Continental Europe

Adjusted operating profit up 3.6%. Central Europe growth offsets challenging market conditions in Nordics

	H1 2020 £m	H1 2020 (cc) £m	H1 2019 £m	Total growth %	Total growth (cc) %
Continental Europe revenue	38.4	39.7	40.0	(3.8)%	(0.5)%
Nordics	21.4	22.3	25.4	(15.5)%	(12.0)%
Central Europe	17.0	17.4	14.6	16.6%	19.3%
Adjusted operating profit	8.4	8.7	8.4	—	3.6%
Adjusted operating profit margin %	22.0%	21.9%	21.1%	0.9pp	0.8pp

- **Nordics** down 15.5% (12.0% at cc), due to contraction in Swedish and Finnish new build and project markets.
- The Nordics trade and DIY distribution revenue were broadly flat with stronger performance in Norway and Finland and slightly weaker in Sweden.
- Sales of the Intellivent Sky continue to develop very well and there has been a good response to the introduction of higher added value "kitting" solutions.
- **Central Europe** up 16.6% (19.3% at cc), as we continue to make strong progress with our strategy in Central Europe.
- Our inVENTer brand in Germany has made significant share gains in the period capitalising from the previous launch of our Xenion product range.
- In both Belgium and the Netherlands our ongoing strategy to increase coverage of the wholesale and distributor market is working well.
- **Adjusted operating profit margin** increased by 0.9pp to 22.0%, as a result of an improved mix of sales and ongoing Operational Excellence initiatives reducing product costs.

% of Volution Group revenue



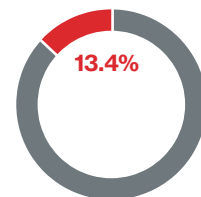
Australasia

Good organic revenue growth and margin expansion, supplemented by the acquisition of Ventair in March 2019

	H1 2020 £m	H1 2020 (cc) £m	H1 2019 £m	Total growth %	Organic growth (cc) %	Inorganic growth (cc) %	Total growth (cc) %
Australasia revenue	15.9	16.2	8.2	92.7%	7.4%	90.2%	97.6%
Adjusted operating profit	2.3	2.4	1.3	1.0%	23.1%	53.8%	84.7%
Adjusted operating profit margin %	14.9%	14.9%	15.9%	(1.0)pp	3.1pp	(4.1)pp	(1.0)pp

- **Australasia** organic revenue grew by 6.1% (7.4% at cc) with a particularly strong finish to the period.
- We now have a leading market position for residential ventilation in our Australasian market and have the opportunity to continue to launch new Group 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.
- **Adjusted operating profit margin** declined by 1.0pp to 14.9%, solely as a result of the acquisition of Ventair in March 2019, our organic adjusted operating profit margin increasing by 3.1pp to 19.0%.

% of Volution Group revenue



Ventilation growth drivers

HEALTH AND WELLBEING



Indoor air quality



Mould and condensation control



Air-tight, insulated buildings temperature control

...DRIVING INCREASING REGULATION



Legislation, regulation and guidance

Continental Europe

The EU Energy Performance of Buildings Directive continues to improve insulation and air tightness in buildings across Europe with each country legislating ever more stringent mechanical ventilation requirements.

UK

In the UK, the Future Homes Standard will lead to enhanced standards in ventilation.

Australasia

Similar programmes in Australasia will continue to tighten the requirements with New Zealand now requiring mechanical ventilation in all new build and rental properties.

CONSUMER PREFERENCE



Quietness

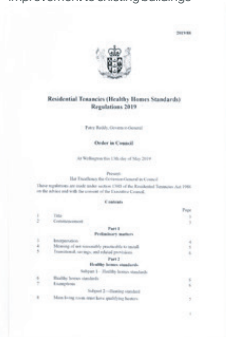


Reducing energy bills through efficiency

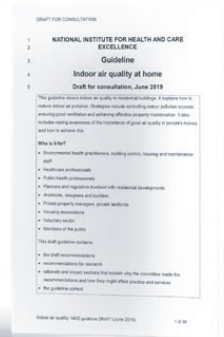


Connectivity and control

In October 2018, the All-Party Parliamentary Group for Healthy Homes and Buildings issued a white paper urging improvement to existing buildings



Healthy Homes Standards in New Zealand mandates extract fans in rental properties from June 2021



In June 2019 the National Institute for Care and Health Excellence issued draft guidance on Indoor Air Quality in homes



Summary and outlook

- Delivered earnings in line with expectations despite weak macroeconomic backdrop
 - Adjusted operating profit up 9.1% on constant currency basis
 - Adjusted operating profit margin improved by 0.7pp
 - Cash conversion at 99.5% (93% on a like-for-like basis under IAS 17)
- Second half has started in similar fashion to first half performance
- We expect continued progress on Operational Excellence and margin expansion
- Excellent cash generation gives us substantial firepower to continue to invest in innovation and for future acquisitions
- Market fundamentals remain strong and medium term regulatory drivers support demand for energy efficient ventilation solutions
- Coronavirus (COVID-19) pandemic has clear potential for adverse impacts on the broader economic activity, our direct risks around supply chain are managed and under control



Thank you

Q&A



Appendix



Impact of adopting IFRS16

6 months to 31 January 2020

	Old 'IAS 17' Basis £m	IFRS 16 impact £m	Reported IFRS 16 basis £m
Adjusted operating profit	21.6	0.2	21.8
Adjusted operating profit margin	18.2%	0.1%	18.3%
Depreciation of PPE	1.7	1.5	3.2
Adjusted EBITDA	23.9	1.7	25.6
Adjusted PBT	20.6	(0.1)	20.5
Adjusted EPS	8.2	—	8.2
Net debt	60.5	20.4	80.9
Adjusted operating cash flow	20.6	1.7	22.3
Cash conversion	93.0%	6.5%	99.5%

- Adopted by Volution Group plc on 1 August 2019, replacing IAS 17
- Recognises all leases on the balance sheet as the distinction between operating lease and finance lease is removed
- Previously, payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease. These payments have been replaced with a depreciation expense and interest cost
- Volution have adopted the modified retrospective method of transition, therefore the comparative information for 2019 is not restated

6 months to 31 January 2020

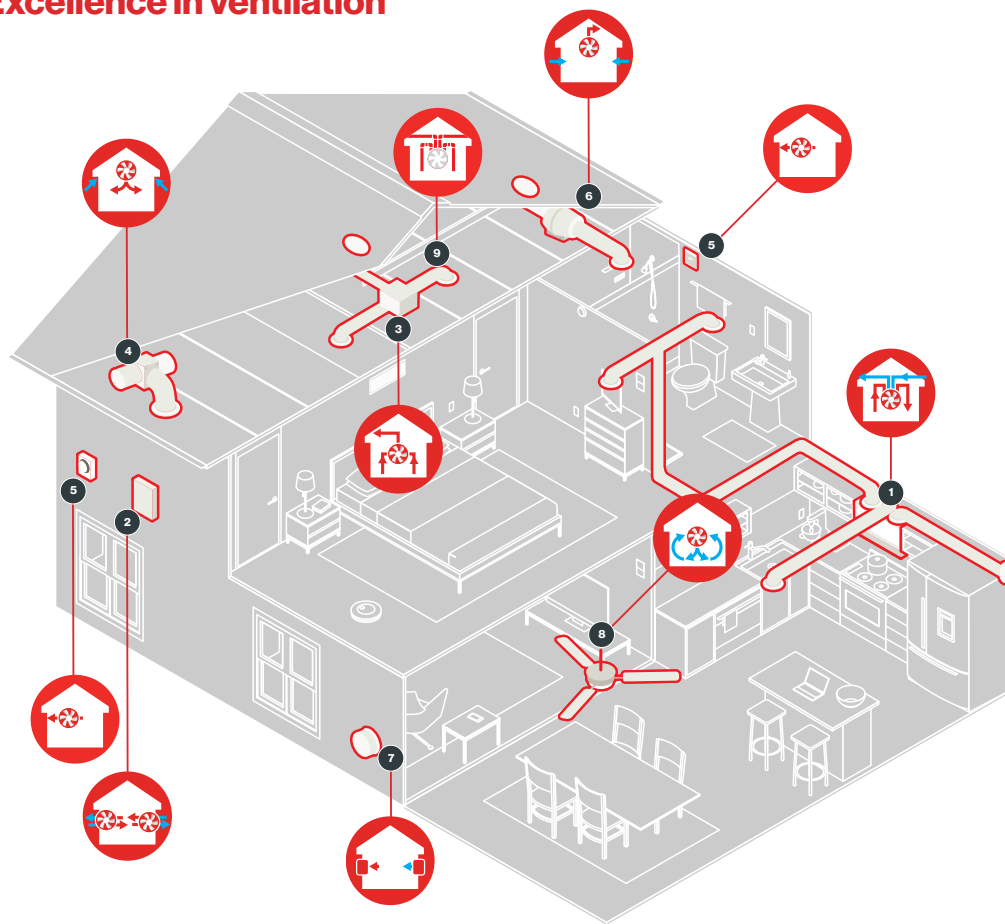
	Old 'IAS 17' Basis %	IFRS 16 impact %	Reported IFRS 16 basis %
Adjusted operating profit margin impact by segment (cc)			
UK	18.8%	0.1%	18.9%
Continental Europe	21.9%	0.0%	21.9%
Australasia	14.3%	0.6%	14.9%
Australasia organic	18.0%	1.0%	19.0%









Consolidated statement of financial position summary

	31 January 2020 £m	Effect of IFRS 16 £m	31 January 2020 £m	31 July 2019 £m
Non-current assets				
Property, plant and equipment	22.7	22.0	44.7	23.8
Intangible asset – goodwill	113.4	—	113.4	118.2
Intangible assets – other	86.1	—	86.1	95.1
Non-current assets	222.2	22.0	244.2	237.1
Current assets				
Inventories	34.5	—	34.5	36.0
Trade and other receivables	38.3	—	38.3	43.1
Cash	14.3	—	14.3	11.5
Current assets	87.1	—	87.1	90.6
Total assets	309.3	22.0	331.3	327.7
Current liabilities				
Payables and other liabilities	(45.7)	(2.7)	(48.4)	(48.3)
Current liabilities	(45.7)	(2.7)	(48.4)	(48.3)
Non-current liabilities				
Loans and borrowings	(74.8)	(20.4)	(95.2)	(86.1)
Unamortised finance costs	0.7	—	0.7	0.7
Other liabilities	(0.8)	—	(0.8)	(1.9)
Deferred tax	(14.3)	0.2	(14.1)	(16.0)
Non-current liabilities	(89.2)	(20.2)	(109.4)	(103.3)
Total liabilities	(134.9)	(22.9)	(157.8)	(151.6)
Net assets	174.4	(0.9)	173.5	176.1
Total equity	174.4	(0.9)	173.5	176.1

- Right-of-use assets – measured at their carrying amount, discounted using an incremental borrowing rate are recognised within PPE on the statement of financial position
- Lease liabilities – the present value of the remaining lease payments discounted using an incremental borrowing rate is recognised within trade and other payables and loans & borrowings
- The comparative information for 2019 has not been restated
- No net impact to cash flow – only classification changes in the cash flow statement
- Bank covenants remain on previous GAAP and therefore no impact from IFRS 16

Excellence in ventilation



-  **1. MVHR** (Mechanical Ventilation with Heat Recovery)
-  **2. dMVHR** (Decentralised Mechanical Ventilation with Heat Recovery)
-  **3. MEV** (Mechanical Extract Ventilation)
-  **4. PIV** (Positive Input Ventilation)
-  **5. Single Room Extract Fans**
-  **6. Inline Fans**
-  **7. Passive Ventilation**
-  **8. Thermal Destratification**
-  **9. Ducting**

Our investment case

Why invest in Volution

Operational

	Market leadership	In many of our markets we have leading brands, products and sales channel access. Our business model helps develop substantial customer loyalty and barriers to entry.	15 market leading brands in ten countries
	Growth	Organic revenue growth from a focused sales strategy. Strong track record of acquiring and integrating value-adding businesses into the Group, leveraging our sales channels and our expertise in product development, manufacturing and supply chains.	13% five-year revenue CAGR
	Diversification	We service both residential and commercial sectors, in both public and private new build and refurbishment applications in the UK, Continental Europe and Australasia.	54.1% of our revenue is from non-UK customers
	Strong, consistent development in financial performance	Consistent organic revenue growth and successful integration of acquisitions have driven growth in profitability and operating cash flows.	9% adjusted operating profit, five-year CAGR 14% operating cash flow, five-year CAGR
	Innovation	We are constantly investing in our product range to ensure our customers have the best, highly specified and cost effective solutions to meet their indoor air quality requirements and carbon efficiency goals.	2.2% of revenue invested in product development and enhancement

Structural

	Growing focus on indoor air quality	There is increasing global focus on indoor air quality. There will be increasing demand for ventilation systems which help to provide healthy indoor environments across our markets.
	Legislative tailwinds	European directives and local building regulations continue to provide new minimums for energy efficiency and performance of ventilation which has a positive impact on the value of ventilation. Volution Group is strongly positioned to develop customer solutions ahead of the legislation and has a history of being first to market with new ideas.

Business model

Creating sustainable value



Cautionary statement

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.

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