Healthy air, sustainably

volution

Volution Group plc

Interim results 2021

Agenda

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- » Business Review and Strategy
- » Summary and Outlook
- » Q&A

Ronnie George
Chief Executive Officer

Andy O'Brien
Chief Financial Officer

Ronnie George – CEO

Overview

Interim results to 31 January 2021

Delivering well against our strategy, strong performance in H1

» Successfully managing challenges of Covid-19 with our dedicated employees

» Organic growth across all geographic regions

» >20% margin target achieved 6 months earlier than anticipated

» Largest acquisition to date with a pipeline that remains exciting

» “Healthy air, sustainably” – Good progress with our refreshed ESG targets

» Interim dividend of 1.90 pence per share

» Full year earnings expected to be ahead of current market expectations

H1 2021 summary

Organic revenue growth	Adjusted operating margin	Adjusted EPS growth	Operating cash flow conversion	Group's largest acquisition to date ClimaRad	Net debt to adjusted EBITDA ratio
+7.5%cc	21.1%	+23.2%	104.5%	£37.1m	1.4x

Strong revenue and profit growth, operating margin 21.1%

Sustainability KPIs

Targets and measurements H1 update

Focus area	Target	FY 2020	H1 2021	In support of the United Nations Sustainable Development Goals
Product	Target **70%** of our sales revenue from low-carbon products[1] by the end of FY2025.	**59%**	**62.1%**	3 GOOD HEALTH AND WELL-BEING; 7 AFFORDABLE AND CLEAN ENERGY; 11 SUSTAINABLE CITIES AND COMMUNITIES; 13 CLIMATE ACTION
Planet	Target **90%** of the plastic that we process in our own factories to be from recycled sources by the end of FY2025.	**56%**	**63.1%**	12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 13 CLIMATE ACTION
People	Target zero reportable accidents[2].	1	1	3 GOOD HEALTH AND WELL-BEING; 8 DECENT WORK AND ECONOMIC GROWTH

Measures

1. Low-carbon product classification based on recognised methods of assessing energy efficient products within our local countries.
2. Reportable accidents measured via local requirements of our operating companies.

Andy O'Brien – CFO

Financial Review

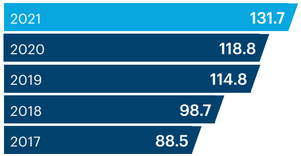
Interim results to 31 January 2021

Financial highlights

- **Revenue**
  Strong revenue growth of 10.9% (8.6% at constant currency), organic revenue growth of 9.8% (7.5% at cc) and inorganic revenue growth of 1.1% (1.1% at cc) as a result of the acquisition of ClimaRad BV in the Netherlands in December 2020.
- **Adjusted operating margins**
  Significant adjusted operating profit margin expansion of 2.8pp to 21.1% (H1 2020: 18.3%) delivering the Group's target six months earlier than anticipated.
- **Adjusted operating cash**
  Adjusted operating cash inflow of £29.6 million (H1 2020: £22.3 million) with strong cash conversion of 104.5% (H1 2020: 99.5%).
- **Leverage**
  Leverage (excluding lease liabilities) of 1.4x at 31 January 2021, post the acquisition of 75% of ClimaRad BV for £37.1 million (H1 2020: 1.3x).

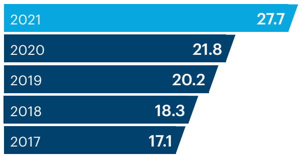
Revenue £m

£131.7m



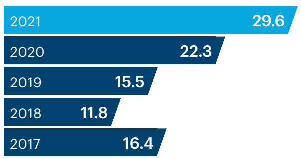
Adjusted operating profit £m

£27.7m



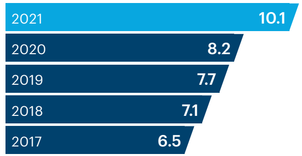
Adjusted operating cash flow £m

£29.6m



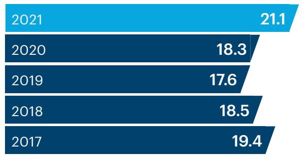
Adjusted EPS pence

10.1p



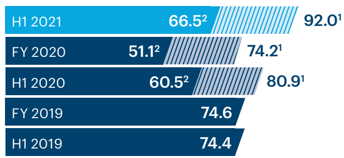
Adjusted operating profit margin %

21.1%



Net debt £m

£92.0m



1. Reported net debt.
2. Net debt (excluding lease liabilities).

Financial summary

	H1 2021	H1 2020	Movement
Revenue (£m)	**131.7**	118.8	10.9%
Revenue (cc) (£m)	**129.0**	118.8	8.6%
Gross margin (%)	**48.4**	47.8	0.6pp
Adjusted operating profit (£m)[1]	**27.7**	21.8	27.4%
Adjusted operating margin (%)[1]	**21.1**	18.3	2.8pp
Adjusted profit before tax (£m)[1]	**26.1**	20.5	27.1%
Adjusted EPS (pence)[1]	**10.1**	8.2	23.2%
Adjusted effective tax rate (%)	**23.3**	20.8	2.5pp
Reported operating profit (£m)	**15.9**	14.0	13.4%
Reported operating margin (%)	**12.1**	11.8	0.3pp
Reported profit before tax (£m)	**14.2**	11.9	18.8%
Reported basic EPS (pence)	**5.2**	4.7	10.6%
Adjusted operating cash flow (£m)[1]	**29.6**	22.3	33.1%
Reported net debt (£m)	**92.0**	80.9	11.1
Net debt (excluding lease liabilities) (£m)	**65.5**	60.5	5.0
Closing debt leverage (x)[2]	**1.4**	1.3	(0.1)
Dividend per share (pence)	**1.90**	—	—

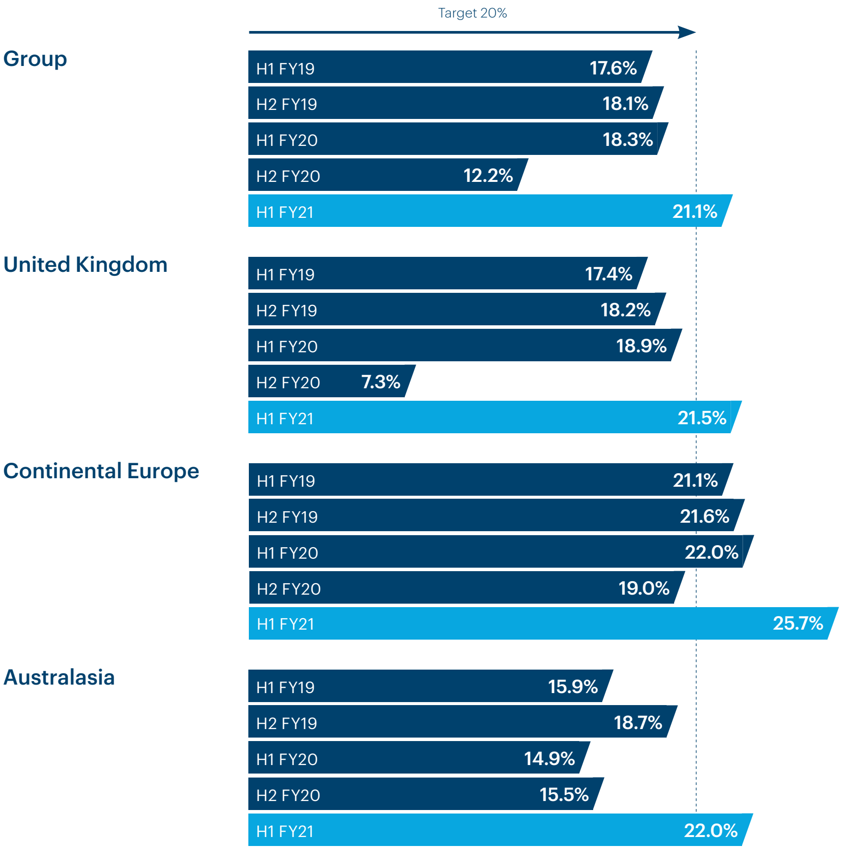
1. The Group uses some alternative performance measures to track and assess the underlying performance of the business. These measures include adjusted operating profit, adjusted profit before tax, adjusted EPS, adjusted operating cash flow and net debt. An explanation and reconciliation to reported profit before tax is shown on page 9.
2. Closing debt leverage is net debt (excluding lease liabilities) to LTM adjusted EBITDA.

Reconciliation of adjusted to reported profit

	H1 2021 £m	H1 2020 £m	Movement £m
Adjusted profit before tax	**26.1**	20.5	5.6
Items excluded from adjusted measures:			
Acquisition-related costs:			
Professional fees	**(0.4)**	—	(0.4)
Amortisation of acquired inventory fair value adjustments	**(0.6)**	—	(0.6)
Contingent consideration	**(2.4)**	—	(2.4)
CFO succession costs	**—**	(0.2)	0.2
Net gain on financial instruments at fair value	**(0.1)**	(0.8)	0.7
Amortisation of acquired intangibles	**(8.4)**	(7.6)	(0.8)
Reported profit before tax	**14.2**	11.9	2.3

- Acquisition-related costs:
  - £0.4 million (H1 2020: £nil) of professional fees for the acquisition of 75% of ClimaRad BV in December 2020.
  - £0.6 million (H1 2020: £nil) amortisation of acquired inventory fair value adjustments.
- £2.4 million (H1 2020: £nil) for remeasurement of Ventair contingent consideration.
- Loss of £0.1 million (H1 2020: loss of £0.8 million) on fair value of financial instruments.
- £8.4 million (H1 2020: £7.6 million) in respect of amortisation of intangible assets.

>20% operating margin



- **GROUP** margins **+2.8pp** to 21.1%.

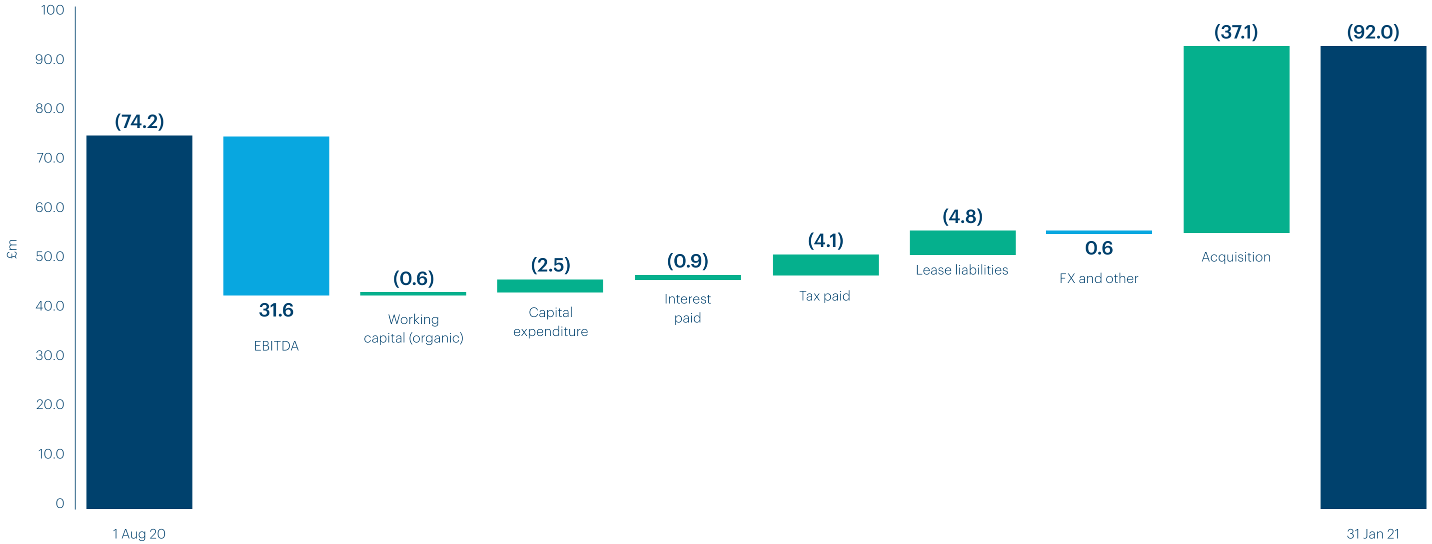
- **UK** margins **+2.6pp** to 21.5% supported by streamlining programme in H2 FY20.

- **CONTINENTAL EUROPE** margins **+3.7pp** to 25.7%. All businesses expanded margins, strongest gains in the Nordics.

- **AUSTRALASIA** margins **+7.1pp** to 22.0% driven by operating leverage on strong volume growth, coupled with improved product mix.

Net debt and cash flow

Net debt bridge



Cash conversion 104.5%, leverage 1.4x, available liquidity £114.5 million

Ronnie George – CEO

Business Review and Strategy

Interim results to 31 January 2021

Operating segments

United Kingdom

Continental Europe

Australasia

% of Volution Group revenue (by segment)

United Kingdom (50.5%)

£66.5m (up 3% cc)

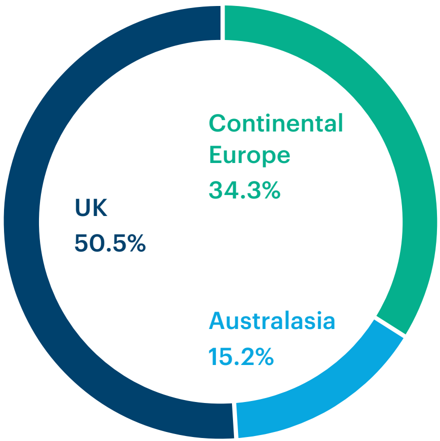
Continental Europe (34.3%)

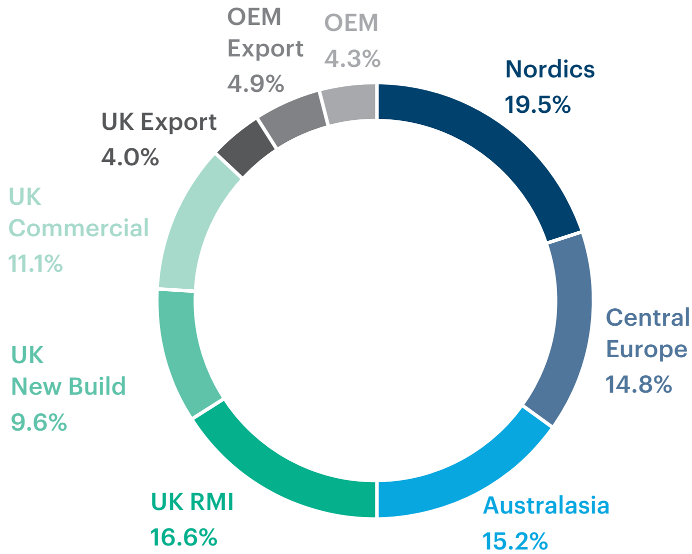
£45.1m (up 12% cc)

Australasia (15.2%)

£20.1m (up 24% cc)

Geographic market diversification





UK

	H1 2021 £m	H1 2020 £m	Total growth (cc) %
UK revenue	**66.5**	64.5	2.7%
Residential RMI	**21.8**	20.0	9.3%
Residential New Build	**12.6**	13.1	(3.5)%
Commercial	**14.7**	15.3	(4.1)%
Export	**5.3**	4.8	7.1%
OEM	**12.1**	11.3	5.7%
Adjusted operating profit	**14.3**	12.2	16.8%
Adjusted operating profit margin %	**21.5%**	18.9%	2.6pp

New central and decentralised extract ventilation units.

% of Volution Group revenue

- **Operating margin** up to 21.5%.
- **Residential RMI** grew 9.3%, private (14.4%), public (1.3%).
  - UK green grant extends to ventilation including an air leakage test.
  - Success in upselling to newer, more functional and higher priced solutions.
  - Public RMI +1.3% despite postponement of significant refurbishment projects.
- **Residential New Build** declined 3.5% although order book grew in the period. Medium-term regulations continue to favour low energy ventilation solutions on our path to net zero carbon.
- **Commercial** declined 4.1% in the period due to a slow return to normal practice. The order book for low-carbon fan coils, however, grew strongly in the period.
- **Export** grew 7.1% with sizeable gains in Eire. Significant changes in Irish building regulations are greatly favouring mechanical ventilation with/without heat recovery.
- **OEM** grew 5.7% with good growth in EC3 sales both in the UK and overseas. (EC3 is our low-carbon EC/DC motorised impeller).

Continental Europe

	H1 2021 £m	H1 2020 £m	Total growth (cc) %
Continental Europe revenue	**45.1**	38.4	12.3%
Nordics	**25.7**	21.4	13.8%
Central Europe	**19.4**	17.0	10.3%
Adjusted operating profit	**11.6**	8.4	30.0%
Adjusted operating profit margin %	**25.7%**	22.0%	3.4pp

% of Volution Group revenue

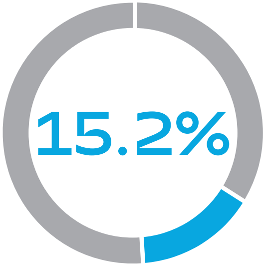
- **Operating profit margins** 25.7%.
- **Organic growth** of 8.9% (at cc).
- Move to new, modern, energy efficient facility in Växjö.
- **Strong revenue growth** in Nordic refurbishment markets underpinned by our leading range of "premium low-carbon products".
- **Strong revenue** and order book growth in the Nordic project market.
- In Germany we continued to make progress with our leading range of decentralised heat recovery range of products.
- **Acquired** ClimaRad (NL) and Klimatfabriken (Sweden).

New facility in Växjö.

Australasia

	H1 2021 £m	H1 2020 £m	Total growth (cc) %
Australasia revenue	**20.1**	15.9	23.9%
Adjusted operating profit	**4.4**	2.3	82.3%
Adjusted operating profit margin %	**22.0%**	14.9%	7.0pp

% of Volution Group revenue



- **Operating profit** almost double the prior year.
- **Operating margin** now 22.0%.
- **23.9% organic growth** supported by strong refurbishment demand underpinned by the Healthy Homes Standard in New Zealand. Significant market share gains as we introduce new product ranges to the Australian market. Notable success with our new low carbon DC ceiling fan.

Group extract fan range extended in New Zealand.

New DC ceiling fan range.

Value-adding acquisitions: ClimaRad

Acquisition terms

Acquired 75% of the business for a cash consideration of £37.1 million, an approximate multiple of 10.4x the 31 December 2020 EBITDA. Remaining 25% to be acquired on or before 28 February 2025 for a multiple of 13x EBITDA of 31 December 2024.

Examples of ClimaRad product range.

ClimaRad decentralised ventilation market leader NL

Founded in 2005 and headquartered in Oldenzaal, Netherlands, ClimaRad has become the market leader for decentralised heat recovery ventilation in the Netherlands. The company designs and manufactures innovative heat recovery ventilation systems, many incorporating filtering, heating and comfort cooling capability, primarily to the residential and care home sectors with further presence in the office and education sectors. Its products are manufactured in its own scalable, low cost and efficient production facility in Sarajevo, Bosnia-Herzegovina.

Regulatory drivers and indoor air quality

We have seen increasing commitment to achieving net zero carbon by 2050. With many of our geographies now committed in law or in proposed legislation we will continue to see the regulatory underpinning positively influence our markets.

Reducing carbon emissions through building regulations

In the first half of the year we have seen new building regulations targeting carbon reduction in buildings proposed in the UK and New Zealand.

Supporting energy efficient RMI

In addition, the European Green Deal and the Green Homes Grant provide stimulus for energy efficient refurbishment including ventilation. Further grant programmes are available in Germany when installing ventilation with heat pumps and in the Netherlands targeting school ventilation.

Covid-19 and the air we breathe

Indoor air quality has received more attention as aerosol transmission of Covid-19 has become clear.

There has never been more awareness of the importance that clean air has for our health and we expect a lasting positive impact on demand across our Group.

Governments are legislating to reduce carbon in buildings.

Summary and Outlook

Interim results to 31 January 2021

Summary and outlook

Summary

- Strong revenue growth of 10.9% (8.6% at cc).
- Significant adjusted operating profit margin expansion of 2.8pp to 21.1% delivering the Group's target six months earlier than anticipated.
- Adjusted operating cash generation of £29.6 million with strong cash conversion of 104.5%.
- Leverage (excluding lease liabilities) of 1.4x, post the acquisition of 75% of ClimaRad BV for £37.1 million.
- Interim dividend of 1.90 pence per share, reflecting a strong performance in H1.

Outlook

- In the first half of FY21 the Group has been working with industry wide supply chain inefficiency and although this is likely to continue, we believe we are now over the worst impacts with greater visibility for the coming months.
- Strong order book across all areas.
- Price increase initiatives underway to offset the inflationary pressures.
- In general, with an expected easing of the impacts of Covid-19 in all of our geographic regions, we are confident of making progress in the second half of the year.
- Underpinned by the margin expansion we have delivered in the first half of the year, the Board expects earnings for the full year to be ahead of current market expectations.

Thank You

Q&A

Interim results to 31 January 2021

Appendix

Interim results to 31 January 2021

Consolidated statement of financial position summary

	31 January 2021 £m	31 July 2020 £m	Movement £m	ClimaRad 31 January 2021 £m
Non-current assets				
Property, plant and equipment	**24.3**	21.5	2.8	2.8
Right-of-use assets	**25.5**	22.1	3.4	—
Intangible assets – goodwill	**136.6**	116.8	19.8	19.7
Intangible assets – others	**93.2**	79.8	13.4	21.1
	279.6	240.2	39.4	43.6
Current assets				
Inventories	**36.9**	31.9	5.0	2.4
Right of return assets	**0.1**	0.3	(0.2)	—
Trade and other receivables	**43.4**	35.6	7.8	1.5
Cash and short-term deposits	**15.7**	18.5	(2.8)	0.3
	96.1	86.3	9.8	4.2
Total assets	**375.7**	326.5	49.2	47.8

	31 January 2021 £m	31 July 2020 £m	Movement £m	ClimaRad 31 January 2021 £m
Current liabilities				
Trade and other payables	**(40.3)**	(31.3)	(9.0)	(0.8)
Refund liabilities	**(9.1)**	(8.6)	(0.5)	—
Income tax	**(3.6)**	(1.6)	(2.0)	—
Other financial liabilities	**(4.4)**	(0.6)	(3.8)	—
Interest-bearing loans and borrowings	**(3.3)**	(3.0)	(0.3)	—
Provisions	**(1.7)**	(1.8)	0.1	—
	(62.4)	(46.9)	(15.5)	(0.8)
Non-current liabilities				
Interest-bearing loans and borrowings	**(113.9)**	(89.2)	(24.7)	(46.6)
Other financial liabilities	**(4.3)**	(1.5)	(2.8)	—
Provisions	**(0.4)**	(0.3)	(0.1)	—
Deferred tax liabilities	**(15.3)**	(13.0)	(2.3)	—
	(133.9)	(104.0)	(29.9)	(46.3)
Total liabilities	**(196.3)**	(150.9)	(45.4)	(47.4)
Net assets	**179.4**	175.6	3.8	0.4
Total equity	**179.4**	175.6	3.8	0.4

Cash flow/net debt

	31 January 2021 £m	31 January 2020 £m	Movement £m	Movement %
Adjusted EBITA (A)	**28.4**	22.4	6.0	26.8
Depreciation	**3.2**	3.2	—	
Adjusted EBITDA	**31.6**	25.6	6.0	23.4
Change in net working capital	**(0.6)**	(0.9)	0.3	
Share-based payments	**1.1**	—	1.1	
Net investment in fixed assets	**(2.5)**	(2.4)	(0.1)	
Adjusted operating cash flow (B)	**29.6**	22.3	7.3	32.7
Cash conversion (B/A)	**104.5%**	99.5%	5.0pp	
Interest paid on debt	**(0.9)**	(1.1)	0.4	
Tax paid	**(4.1)**	(2.8)	(1.3)	
Dividends	**—**	(6.5)	6.5	
Free cash flow	**24.8**	11.9	12.9	108.4
Changes in investments	**(37.7)**	—	(37.7)	
Purchase of shares	**(0.6)**	(0.8)	0.2	
Exceptional operating costs	**(0.4)**	—	(0.4)	
Finance costs paid	**(1.2)**	—	(1.2)	
CFO succession costs	**—**	(0.2)	0.2	
IFRS 16 long-term lease liabilities	**(3.3)**	(20.4)	17.1	
IFRS 16 payments of lease liabilities	**(1.5)**	(1.4)	(0.3)	
Cash (outflow)/inflow	**(20.1)**	(10.9)	(9.2)	54.1
Opening net debt	**(74.2)**	(74.6)	0.4	
Cash (outflow)/inflow	**(20.1)**	(10.9)	(9.2)	
FX on foreign currency loans/cash	**2.3**	4.6	(2.3)	
Closing net debt	**(92.0)**	(80.9)	(11.1)	9.6

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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