Healthy air, sustainably

Volution Group plc
Full year results to 31 July 2021

volution

Agenda

- » Introduction and strategy
- » Financial review
- » Business review
- » Summary and outlook
- » Q&A

Ronnie George
Chief Executive Officer

Andy O'Brien
Chief Financial Officer

Ronnie George – CEO

Introduction and strategy

Full year results to 31 July 2021

Our energy efficient indoor air quality solutions are part of the global green economy

We are differentiated by our purpose. Our purpose is to provide healthy indoor air, sustainably. This commitment is integral to everything we do. It shapes our values, steers our strategy and informs our capital allocation.

Sustainability

ESG strategy and approach

Volution is committed to high standards of corporate responsibility, sustainability and employee engagement.

Product

Our ambition

To champion the energy saving potential of our products and solutions and support the net zero ambitions of the countries in which we operate.

To continue to develop clean air solutions that protect people's health and increase their comfort in an ethical and responsible way.

Planet

Our ambition

To reduce our environmental impact by improving business efficiencies and minimising our impact on the climate.

To focus on the quality of materials we use to support the creation of a circular economy, and eliminate all forms of waste across our value chain.

People

Our ambition

To continue to develop an engaging and inclusive workforce where our employees feel valued and can fulfil their potential.

To build relationships with the local community, provide support where needed, and leave a lasting legacy.

Our sustainability strategy in action

Focus area	Target	FY20	FY21	In support of the United Nations Sustainable Development Goals
Product	**Committed to a zero carbon future** – Target **70%** of our sales revenue from low carbon products[1] by the end of FY25.	59%	62.1%	3 GOOD HEALTH AND WELL-BEING; 7 AFFORDABLE AND CLEAN ENERGY; 11 SUSTAINABLE CITIES AND COMMUNITIES; 13 CLIMATE ACTION
Planet	**Reducing our environmental impact** – Target **90%** of the plastic that we process in our own factories to be from recycled sources by the end of FY25.	56%	59.7%	12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 13 CLIMATE ACTION
People	**Creating an engaged and inclusive workforce** – Target zero reportable accidents[2].	No. of incidents: 1 Frequency rate[3]: 0.03	No. of incidents: 6 Frequency rate: 0.20	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.
3. Reportable accidents are shown as a frequency rate, per 100,000 hours worked, to provide a more robust and comparable measure as we continue to grow. Industry average frequency rate is 0.17.

FY21 summary

We have delivered strong revenue growth, expanded our adjusted operating margins ahead of our 20% target and completed three acquisitions in the year with a fourth transaction completed early in the new financial year. We have made excellent progress with our key sustainability metrics and have been awarded the London Stock Exchange Green Economy Mark validating our market leading position.

Organic revenue growth
+22.0%
(+8.6% vs FY19)

Adjusted operating margin
20.9%

Adjusted EPS growth
+73.6%
(+31.3% vs FY19)

Operating cash flow conversion
97%

Three acquisitions completed in the year
£42.2m
(Total)

Total dividend
6.30p
(+28.6% vs FY19)

Very strong revenue and profit growth, operating margin increased to 20.9%

Delivering well against our strategy, very strong performance

We aim to achieve our goals through a combination of three strategic objectives: organic growth, selective acquisitions and Operational Excellence, and this year we have continued to develop our focus on Environmental, Social and Governance (ESG) issues into our culture.

Organic growth

- Organic revenue growth of 22.0% (20.5% at constant currency)
- Organic revenue growth across all three regions

Value-adding acquisitions

- Three acquisitions in the year (ClimaRad in the Netherlands, Klimatfabriken in Sweden and Rtek in Finland)
- One acquisition post year end (ERI Corporation signed in the year with completion in early FY22)
- £42.2 million spend yet year-end net debt ratio at 0.9x

Operational Excellence

- We have delivered our adjusted operating profit margin target of 20%
- All three regions achieved our 20% margin target
- Successfully mitigating cost pressures in the second half of the year

Welcome to the Volution Group

Acquired December 2020

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.

Acquired February 2021

Klimatfabriken was founded in Sweden in 2014 with the launch of the K7 fan for which it won awards. Subsequently it built a traded product portfolio focusing on energy efficient products with appealing design. The Klimatfabriken branded product range will be integrated in to the proposition with PAX and Fresh within the Nordics.

Acquired May 2021

Energent Oy was founded in Finland in 1982, and its early operations focused on ventilation units for special applications. Today, the focus is on select market segments ranging from housing companies and day-care centres to public construction projects and industry. The product range is sold under the Rtek brand.

Acquired September 2021

ERI designs and manufactures a range of innovative and highly efficient air-to-air heat recovery devices for use in industrial, commercial and residential heat recovery ventilation systems. Products are manufactured in ERI's modern, high quality production facility in Bitola, North Macedonia, and are supplied to heat recovery and air handling unit manufacturers around the world.

Our purpose is to provide healthy air, sustainably

Our business model provides the driving force and local implementation of our strategy.

We understand and shape markets

Our intimate relationships with our stakeholders across our markets provide unique insights and understanding of the regulatory and commercial environments in which we operate. We use this insight to share knowledge across our Group to drive our growth.

Key strengths:

- Trade association and network supporting legislative feedback and development.
- Broad customer base helping us to understand construction trends and innovate our solutions.

We leverage our scale

Our scale provides unique opportunities to develop products and solutions that we can sell across our markets. This depth of product range and close localised category management ensures we optimise our innovations.

Key strengths:

- International sales channels supporting volume sales and investment in innovation.
- Localised specialists combined with centralised resources maximising opportunities.

We support our companies to grow

Our investment in new acquisitions provides a continuous stream of new and exciting opportunities for our companies to learn and grow. The integration of the product ranges, brands and access to our wide and diverse sales channels supports our organic growth ambitions.

Key strengths:

- Brand strength allowing multi-channel approaches in our geographies.
- Continuous product category development through acquisitions providing opportunities for growth.

We drive sustainability

Volution is committed to a low carbon future and making itself sustainable over the long term. Our sustainability strategy and wide ranging initiatives to reduce avoidable waste and minimise our impact on the environment continue to inform our investment decisions in product development, M&A and wider capital allocation.

Key strengths:

- Centralised operations focused on sustainability.
- Low carbon product range helping to save energy and reduce carbon emissions.

Andy O'Brien – CFO

Financial review

Full year results to 31 July 2021

Financial highlights

Revenue £m
£272.6m

Year	£m
2021	272.6
2020	216.6
2019	235.7
2018	205.7
2017	185.1

Adjusted EPS pence
21.0p

Year	pence
2021	21.0
2020	12.1
2019	16.0
2018	14.5
2017	13.6

Adjusted operating profit £m
£56.9m

Year	£m
2021	56.9
2020	33.7
2019	42.1
2018	37.1
2017	35.6

Adjusted operating margin %
20.9%

Year	%
2021	20.9
2020	15.6
2019	17.8
2018	18.0
2017	19.3

Adjusted operating cash flow £m
£56.9m

Year	£m
2021	56.9
2020	43.4
2019	36.9
2018	34.4
2017	35.9

Net debt £m
£79.2m

Year	£m	
2021	53.8[2]	79.2[1]
2020	51.1[2]	74.2[1]
2019	74.6	
2018	77.2	
2017	37.0	

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

Strong performance

	2021	2020	2019	Movement FY21 vs FY20	Movement FY21 vs FY19
Revenue (£m)	**272.6**	216.6	235.7	**25.8%**	**15.7%**
Revenue (cc) (£m)	***269.4***	*216.6*	*235.7*	***24.4%***	-
Gross margin (%)	**48.4**	45.8	47.1	**3.2pp**	**1.3pp**
Adjusted operating profit (£m)[1]	**56.9**	33.8	42.1	**68.8%**	**35.4%**
Adjusted operating margin (%)[1]	**20.9**	15.6	17.8	**5.3pp**	**3.1pp**
Adjusted profit before tax (£m)[1]	**53.2**	31.3	39.9	**70.2%**	**33.4%**
Adjusted EPS (pence)[1]	**21.0**	12.1	16.0	**73.6%**	**31.3%**
Adjusted effective tax rate (%)	**21.8**	23.7	20.7	**(1.9)pp**	**1.1pp**
Reported operating profit (£m)	**34.2**	18.2	24.7	**87.7%**	**38.7%**
Reported operating margin (%)	**12.6**	8.4	10.5	**4.2pp**	**2.1pp**
Reported profit before tax (£m)	**30.0**	14.6	23.1	**106.3%**	**29.8%**
Reported basic EPS (pence)	**10.5**	4.9	9.2	**114.3%**	**14.1%**
Adjusted operating cash flow (£m)[1]	**56.9**	43.4	36.9	**31.2%**	**53.4%**
Reported net debt (£m)	**79.2**	74.2	74.6	**6.8%**	**6.3%**
Net debt (excluding lease liabilities) (£m)	**53.8**	51.1	74.6	**5.4%**	**(27.8)%**
Closing debt leverage (x)[2]	**0.9**	1.3	1.6	**(0.4x)**	**(0.7x)**
Dividend per share (pence)	**6.3**	—	4.9	**—**	**28.6%**

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 13.
2. Closing debt leverage is net debt to LTM adjusted EBITDA.

- **Revenue** – strong revenue growth of 25.8% (24.4% at constant currency), with organic revenue growth of 22.0% (20.5% at cc) and inorganic revenue growth of 3.8% (3.9% at cc).
- **Adjusted operating margins** – margin expansion of 5.3pp to 20.9% (2020: 15.6%) delivering the Group's target six months earlier than anticipated.
- **Adjusted operating cash** – adjusted operating cash inflow of £56.9 million (2020: £43.4 million) with strong cash conversion of 97% (2020: 124%).
- **Leverage** – leverage (excluding lease liabilities) of 0.9x at 31 July 2021 (2020: 1.3x) whilst spending £42.2 million on acquisitions in the year.

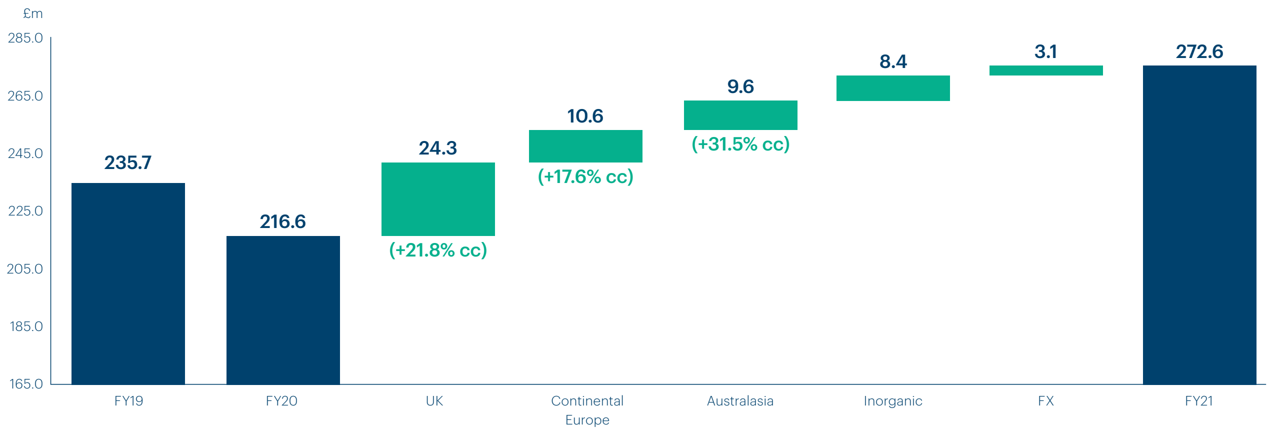
Reconciliation of adjusted to reported profit

	2021 £m	2020 £m	Movement £m
Adjusted profit before tax	**53.2**	31.2	22.0
Items excluded from adjusted measures:			
Acquisition-related costs:			
Professional fees	**(0.9)**	—	(0.9)
Amortisation of acquired inventory fair value adjustments	**(1.7)**	—	(1.7)
Contingent consideration	**(3.3)**	—	(3.3)
Former CFO compensation	**—**	(0.4)	0.4
Re-measurement of future consideration	**(0.8)**	—	(0.8)
Net gain/(loss) on financial instruments at fair value	**0.3**	(1.2)	1.5
Amortisation of acquired intangibles	**(16.8)**	(15.1)	(1.7)
Reported profit before tax	**30.0**	14.5	15.5

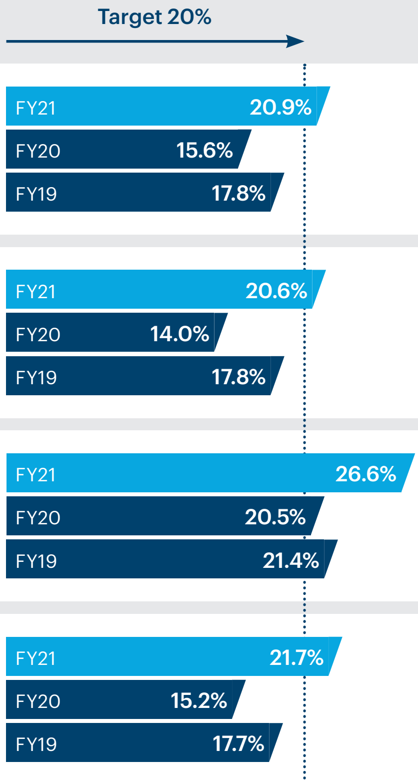
- Acquisition-related costs:
  - £0.9 million (2020: £nil) of professional fees.
  - £1.7 million amortisation of inventory fair value adjustments relating to ClimaRad (2020: £nil).
- Contingent consideration of £3.3 million in the year (2020: £nil) relates to Ventair.
- Re-measurement of future consideration relating to ClimaRad £0.8 million (2020: £nil).
- Gain of £0.3 million (2020: loss of £1.2 million) on fair value of financial instruments.
- £16.8 million (2020: £15.1 million) amortisation of intangible assets.

Revenue

Revenue growth 25.8% (+24.4% at cc)
Organic revenue growth 22.0% (+20.5% at cc)



Adjusted operating profit margin> 20% operating margin target



Group

Group margins
+5.3pp to 20.9%

UK

UK margins
+6.6pp to 20.6%

Continental Europe

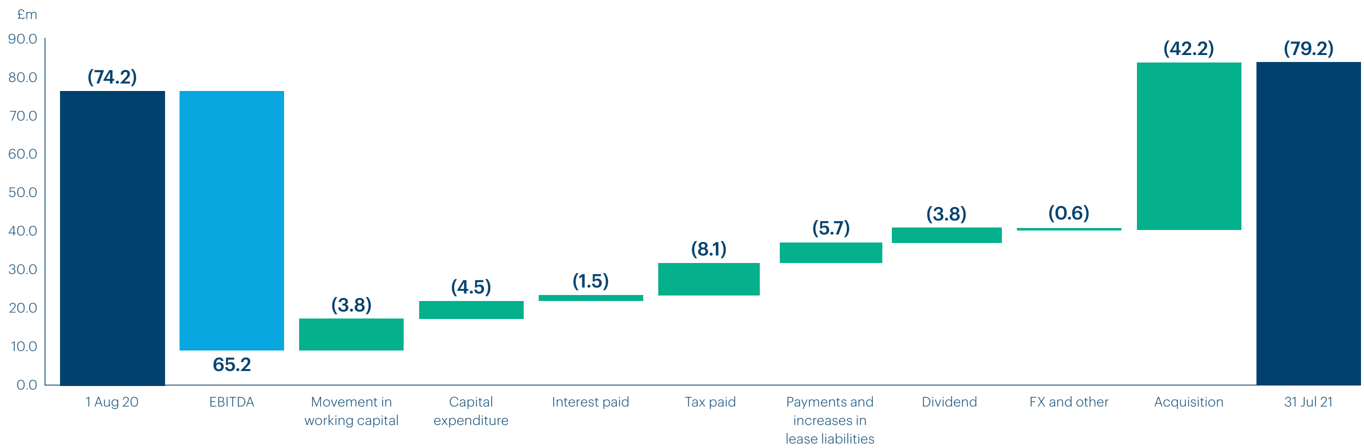
Continental Europe margins
+6.1pp to 26.6%

Australasia

Australasia margins
+6.5pp to 21.7%

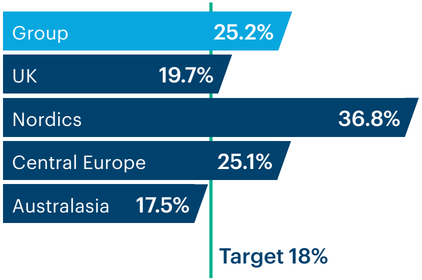
Net debt and cash flow

Cash conversion 97%, leverage 0.9x, available liquidity £96.2 million

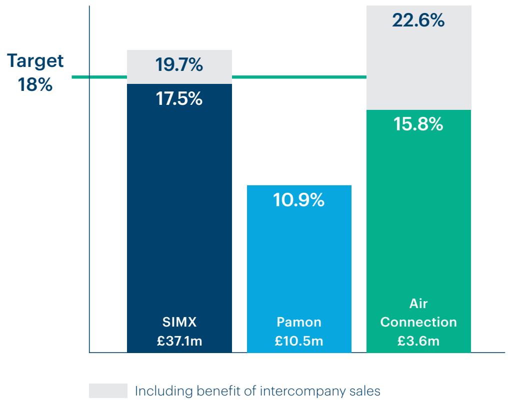


Returns on acquisition investment (ROAI)

	Investment £m	OP 2021 £m	%
UK	**28.2**	5.6	19.7%
Nordics	**38.5**	14.2	36.8%
Central Europe	**37.4**	9.4	25.1%
Australasia	**37.1**	6.5	17.5%
	141.2	35.6	25.2%



FY 2018 acquisitions (now > 3 years)



- SIMX ROAI has increased from c.11% at point of acquisition to 17.5% with the additional benefit of margin on incremental intercompany sales from the UK bringing the ROAI to 19.7%.
- Finland was the most impacted of our Nordic markets by Covid-19 restrictions, resulting in ROAI of 10.9% for Pamon. The later period of FY21 performed more strongly and we are seeing a good start to FY22.
- Air Connection ROAI above target at 22.6% including the impact of the incremental intercompany margins.

Ronnie George – CEO

Business review

Operating segments

United Kingdom

Continental Europe

Australasia

% of Volution Group plc revenue (by segment)

United Kingdom 49.9%

£135.9m

(up 21.8% cc)

Continental Europe 35.0%

£95.5m

(up 25.3% cc)

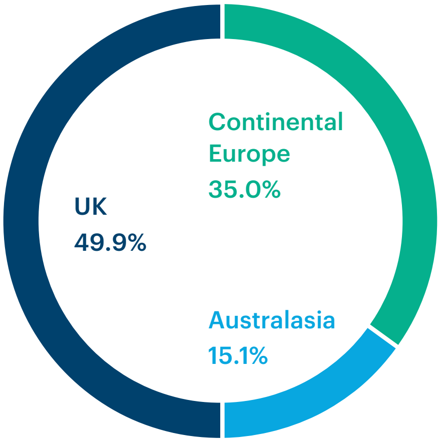
Australasia 15.1%

£41.2m

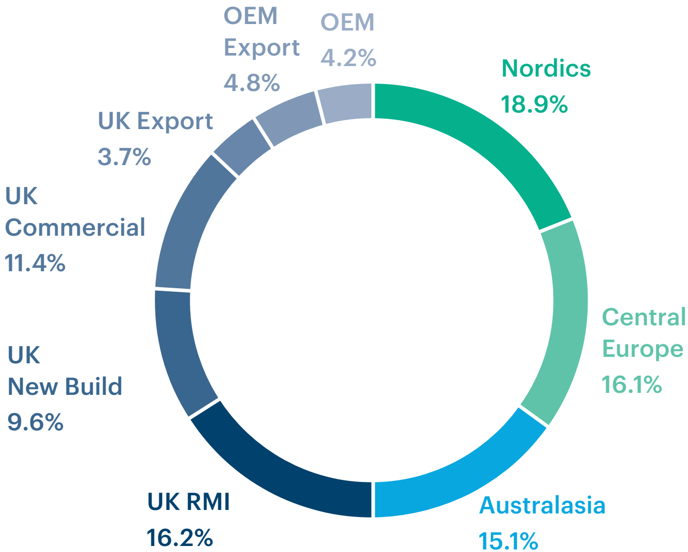
(up 35.1% cc)

Geographic market diversification

% of Volution Group plc revenue



% of Volution Group plc revenue (by sector)



UK

% of Volution Group plc revenue

- Strong residential refurbishment performance in the year with good progress on upselling to high value, silent and more aesthetic solutions.
- Residential New Build delivered a stronger performance in the second half of the year.
- Commercial performance below FY19 levels despite strong growth versus FY20. Project order intake was very good in the second half of the year finishing FY21 with a strong pipeline of confirmed orders.
- OEM growth was underpinned by continued good progress with sales of the low carbon EC3 motorised impeller.

	2021 £m	2020 £m	Total growth (cc) %
UK revenue	**135.9**	111.5	21.8
Residential RMI	**44.1**	33.4	32.3
Residential New Build	**26.1**	21.9	18.7
Commercial	**31.1**	27.3	14.3
Export	**10.1**	8.6	17.0
OEM	**24.5**	20.3	20.0
Adjusted operating profit	**27.8**	15.6	
Adjusted operating profit margin %	**20.4%**	14.0%	

The low carbon MEV unit supplied under the Vent-Axia Lo-Carbon brand

Continental Europe

% of Volution Group plc revenue

- Significant improvement in adjusted operating margin achieving 26.6% in the year.
- Nordic revenue was strong with a particular highlight being refurbishment demand in both the trade and DIY channels.
- Completed the move to a future proofed new, more energy efficient production facility in Växjö (December 2020).
- Excellent organic growth in Germany with share gains related to our market leading range of Xenion decentralised heat recovery.
- Acquisition of ClimaRad, Klimatfabriken and Rtek completed in the year.

	2021 £m	2020 £m	Total growth (cc) %
Continental Europe revenue	**95.5**	74.7	25.3
Nordics	**51.6**	41.6	20.1
Central Europe	**43.9**	33.1	31.8
Adjusted operating profit	**25.4**	15.3	
Adjusted operating profit margin %	**26.6%**	20.5%	

The Klimatfabriken supplied National Ventilation low carbon i7 fan launching Q1 2022

Australasia

% of Volution Group plc revenue

- An excellent year for Australasia with significant organic growth in both NZ and Australia.
- The Healthy Homes programme in NZ continues to roll out improved standards of ventilation in rental properties and is anticipated to continue in FY22.
- New product roll out and share gains in Ventair Australia, coupled with the volume growth in both markets and upselling to new solutions, enabled us to deliver an operating margin of 21.7%.
- New sizeable account win in Australia in FY21 to commence in H1 FY22. A significant DIY retailer will roll out our new ranges of ventilation.

	2021 £m	2020 £m	Total growth (cc) %
Australasia revenue	**41.2**	30.5	31.5%
Adjusted operating profit	**8.9**	4.6	
Adjusted operating profit margin %	**21.7%**	15.2%	

The low carbon EC Skyfan by Ventair

Summary and outlook

Summary and outlook

Summary

- Strong revenue growth of 25.8% (24.4% at cc).
- Significant adjusted operating profit expansion of 5.3pp to 20.9% delivering the Group's target six months earlier than anticipated.
- Completed three acquisitions in the year with a fourth transaction completed early in the new financial year.
- Excellent progress with our key sustainability metrics.
- Mitigated most supply chain and input cost inflation through selling price increase.
- Far greater awareness of the importance of indoor air quality and ventilation on both energy efficiency and health.
- Adjusted operating cash generation of £56.9 million with strong cash conversion of 97%.
- Total dividend of 6.3 pence per share, reflecting a strong performance in the year.

Outlook

The new financial year has started well delivering organic revenue ahead of the same period in the prior year.

With our market leading products and brands, implementation of price increases, agile approach to product assembly and supply, and the benefit of the four acquisitions executed in the last twelve months, we expect to make further good progress in the year.

Thank you

Q&A

AO Recycling is a key partner for our recycled HIPS and ABS

Appendix

Consolidated statement of financial position summary

	31 July 2021 £m	31 July 2020 £m
Non-current assets		
Property, plant and equipment	**23.9**	21.5
Right-of-use assets	**24.5**	22.1
Intangible assets – goodwill	**137.7**	116.8
Intangible assets – others	**85.4**	79.8
	271.5	240.2
Current assets		
Inventories	**45.0**	31.9
Right of return assets	**0.1**	0.3
Trade and other receivables	**47.5**	35.6
Other financial assets	**0.5**	—
Cash and short-term deposits	**19.5**	18.5
	112.6	86.3
Total assets	**384.1**	326.5
Current liabilities		
Trade and other payables	**(47.4)**	(31.3)
Refund liabilities	**(10.6)**	(8.6)
Income tax	**(4.7)**	(1.6)
Other financial liabilities	**(4.6)**	(0.6)
Interest-bearing loans and borrowings	**(3.5)**	(3.0)
Provisions	**(1.9)**	(1.8)
	(72.7)	(46.9)
Non-current liabilities		
Interest-bearing loans and borrowings	**(104.9)**	(89.2)
Other financial liabilities	**(6.0)**	(1.5)
Provisions	**(0.4)**	(0.3)
Deferred tax liabilities	**(14.9)**	(13.0)
	(126.2)	(104.0)
Total liabilities	**(198.9)**	(150.9)
Net assets	**185.2**	175.6
Total equity	**185.2**	175.6

Cash flow/net debt

	31 July 2021 £m	31 July 2020 £m	Movement £m	Movement %
Adjusted EBITA (A)	**58.3**	35.0	23.3	66.6%
Depreciation	**6.9**	6.4	0.5	
Adjusted EBITDA	**65.2**	41.4	23.8	57.4%
Change in net working capital	**(5.8)**	6.1	(12.2)	
Share-based payments	**2.0**	0.2	1.8	
Net investment in fixed assets	**(4.5)**	(4.3)	(0.2)	
Adjusted operating cash flow (B)	**56.9**	43.4	13.2	31.2%
Cash conversion (B/A)	**97%**	124%	27pp	
Interest paid on debt	**(1.5)**	(2.2)	0.7	
Tax paid	**(8.1)**	(5.8)	(2.3)	
Dividends	**(3.8)**	(6.5)	2.7	
Free cash flow	**43.5**	28.9	14.3	51.4%
Acquisition consideration net of cash acquired	**(42.2)**	(0.9)	(41.3)	
Acquisition debt repaid	**(1.5)**	—	(1.5)	
Purchase of shares	**(2.1)**	(0.8)	(1.3)	
Exceptional operating costs	**(0.8)**	—	(0.8)	
Finance costs paid	**(1.2)**	—	(1.2)	
CFO succession costs	**—**	(0.4)	0.4	
IFRS 16 long-term lease liabilities adjustment	**—**	(23.2)	23.2	
IFRS 16 payments of lease liabilities	**(3.5)**	(2.9)	(0.3)	
IFRS 16 increase in lease liabilities	**(2.2)**	—	(2.2)	
Cash (outflow)/inflow	**(10.0)**	0.7	(10.7)	
Opening net debt	**(74.2)**	(74.6)	0.4	
Cash (outflow)/inflow	**(10.0)**	0.7	(10.7)	
FX on foreign currency loans/cash	**5.0**	(0.3)	5.3	
Closing net debt	**(79.2)**	(74.2)	(5.0)	6.8%

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. 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.