2015 H1 Results

Half year results to 31 January 2015

Introduction

Agenda

- Financial Highlights
- Financial Review
- Business Review, Strategy and Outlook
- Q&A

Presentation

2015 H1 Financial Highlights

- Results are in line with our expectations and ahead on a constant currency basis.
- Revenue in the 6 months was £64.3 million, a 10.6% increase (14.7% at constant currency).
- Revenue growth comprised of 0.5% organic revenue growth (3.8% at constant currency), with inorganic revenue growth of 10.1% (10.9% at constant currency) as a result of acquisitions.
- Ventilation Group revenue growth including acquisitions was 18.5% at constant currency, with a particular highlight being UK Residential New Build growth of 16.6%.
- OEM (Torin-Sifan) results declined as revenue fell due to a difficult end market for boiler spares during the mild winter.
- Maiden interim dividend of 1.05 pence per share.

Financial Review
Ian Dew – Chief Financial Officer

Financial Highlights

Currency: Despite significant adverse movements in foreign exchange rates our first half result was in line with our expectations

		6 months to Jan 2015	6 months to Jan 2014	Movement	Movement %	Change Constant currency
Revenue (£m)		64.3	58.2	6.1	10.6%	14.7%
Adjusted EBITDA (£m)	2	15.0	14.0	1.0	7.7%	12.1%
Adjusted Operating profit (£m)	2	14.0	13.1	0.9	6.8%	11.2%
Adjusted Profit before Tax (£m)	2	12.7	11.8	0.9	7.6%	12.4%
Reported Profit/(Loss) before Tax (£m)		7.5	(8.1)	15.6		
Adjusted Basic and diluted EPS (p)	2	4.98p	4.59p	0.39p	8.6%	0.58p
Interim Dividend per share (p)		1.05p		1.05p		
Adjusted Operating Cash Flow (£m)	2	11.8	11.6	0.2	1.5%	
Net Debt (£m)		(31.4)	(183.2)	151.8		
Net Debt to annualised EBITDA		1.0	6.6	5.5		

1. *The Board believes that the performance measures Adjusted EBITDA, Adjusted Operating Profit and Adjusted Profit before Tax, stated before deduction of exceptional costs, give a clearer indication of the underlying performance of the business. An explanation and reconciliation to Reported Profit before Tax is shown on page 6.*

2. *To provide a more meaningful comparison of our performance in the current period we have presented the prior period including pro-forma adjustments to reflect additional costs associated with public ownership (£600k) and lower finance costs associated with the new capital structure post listing (£5,580k).*

Income Statement Summary

		6 months to Jan 2015 £m	6 months to Jan 2014 £m	Movement £m	Movement %	Constant currency £m	Change Constant currency
Revenue		64.3	58.2	6.1	10.6%	66.7	14.7%
Gross Profit		31.4	28.2	3.2	11.3%		
Gross Margin		48.7%	48.4%	0.3pp			
Adjusted EBITDA	2	15.0	14.0	1.0	7.7%		
Adjusted Operating Profit	2	14.0	13.1	0.9	6.8%	14.5	11.2%
Adjusted Operating Profit Margin	2	21.7%	22.5%	-0.7pp			
Net Finance Costs	2	(1.3)	(1.3)	0.0			
Adjusted Profit before Tax		**12.7**	**11.8**	**0.9**	**7.6%**		

- At Constant Currency: Revenue growth of 14.7%
  - Organic Growth of 3.8%
  - Inorganic growth of 10.9% (Mainly inVENTer, acquired April 2014)
- Gross Margin of 48.7% increased from 48.4%
  - Margin improved as mix, price and direct costs improved
  - Gross profit improved by £3.2m, mainly volume related
- Adjusted EBITDA and adjusted operating profit both improved
  - inVENTer continues to contribute to profit in line with expectations
  - Profits would have been approximately £0.5 higher at constant currency
- Adjusted finance costs (excluding gains on revaluation of hedge instruments) are much reduced reflecting the new capital structure. The benefits from the recent refinancing will be effective from 20th February 2015.
- Adjusted Profit before Tax improved by £0.9m to £12.7m.

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Exceptional Items and Adjusted PBT

Adjusted Profit before Tax reconciled to Reported Profit/(Loss) before Tax

	H1 2015 £m	H1 2014 £m	Movement £m
Adjusted Profit before Tax	12.7	11.8	0.9
Exceptional items	(0.1)	(1.4)	1.3
Increased plc costs	0.0	0.6	(0.6)
Amortisation of financing costs and other finance costs	0.7	(13.7)	14.4
Amortisation of intangibles (customer base and trademarks)	(5.8)	(5.4)	(0.4)
Reported Profit/(Loss) before tax	**7.5**	**(8.1)**	**15.6**

- The following costs are excluded from the calculation of Adjusted profit before Tax:
- Exceptional items:
  - Exceptional costs relate primarily to acquisitions and reorganisations
- Refinancing costs:
  - Refinancing costs incurred in 2012, 2013 and 2014 were written off in the period H1 2014 (£7.4m) as a consequence of refinancing
- Increased costs associated with public ownership have been included in the pro-forma adjusted profit before tax for H1 2014 to make the comparison more meaningful, accordingly they become a reconciling item.
- Amortisation of Intangible Assets:
  - Amortisation of the fair value of acquired customer base and trademarks

Consolidated Statement of Financial Position Summary

	31/01/2015 £m	31/07/2014 £m
Property, plant and equipment	16.1	15.9
Intangible assets – goodwill	49.9	50.1
Intangible assets – others	107.2	113.7
Deferred tax assets	0.7	0.7
Non-Current Assets	173.9	180.4
Inventory	15.7	15.9
Trade and Other Receivables	25.2	26.9
Cash	20.9	11.0
Current assets	61.8	53.8
Payables and Other Liabilities	(23.4)	(24.3)
Current Liabilities	(23.4)	(24.3)
Loans and Borrowings	(52.3)	(53.9)
Other Liabilities	(0.6)	(0.7)
Deferred Tax	(20.7)	(22.1)
Non Current Liabilities	(73.6)	(76.7)
Net Assets	**138.7**	**133.3**
Share Capital	2.0	2.0
Share Premium	11.5	11.5
Capital Reserve	92.3	92.3
Translation reserve	(0.1)	0.3
Retained Earnings	33.0	27.1
Total equity	**138.7**	**133.3**

- Non Current Assets decrease
  - Amortisation of the fair value of acquired intangible assets: customer base and trademarks (£5.8m)
  - The effect of the changing currency rates on translation of assets denominated in foreign currencies
- Working Capital decreased slightly to 13.6% of annualised sales (prior year 15.9% of annualised sales)
- Loans and borrowings reduced because of the effect of changing currency rates on translation of borrowings denominated in foreign currencies. There was no repayment of loan principal.
- The Deferred Tax Credit relates primarily to the intangible assets recognised on acquisition: fair value of our Customer Base and Trademarks.
  - This amount is <u>not</u> payable, it will be amortised to the income statement as a deduction to the tax charge over the life of the acquired intangible assets
- In February 2015, after the balance sheet date, we renegotiated a new and improved bank facility which allowed us to utilise some of our cash reserves to repay £12m of bank borrowings.
- The Capital reserve of £92.3m arises on consolidation and is non-distributable

Cash Flow Summary and Net Debt Bridge

	6 months to Jan 2015 £m	6 months to Jan 2014 £m
Opening Net Debt	**(42.9)**	**(172.7)**
Movements from normal business operations		
EBITDA	15.0	14.6
Movement in working capital	(0.6)	(1.3)
Capital Expenditure	(2.6)	(1.6)
Adjusted Operating Cash Flow	11.8	11.7
Interest paid	(1.3)	(6.5)
Income tax paid	(0.4)	(1.5)
Exceptional items	(0.1)	(0.1)
Other	1.5	(2.8)
Movements from Acquisitions		
Acquisition consideration	0.0	(10.6)
Acquisition costs	0.0	(0.7)
Closing net debt	**(31.4)**	**(183.2)**
Closing Gross Debt	(52.3)	(190.8)
Closing Cash	20.9	7.6
	(31.4)	(183.2)

- Net Debt reduced from £42.9m to £31.4m in the 6 months
- Adjusted Operational Cash Flow of £11.8m remains strong and represented a cash conversion of 84.1%, after movements in working capital and capital expenditure (H1 2014: 86.6%)
- Significantly reduced interest cost reflects the lower level of borrowings under public ownership
- The amount of income tax paid has benefited from a lower than anticipated tax charge in 2014.
- Bank facilities at the balance sheet date include:
  - Fully drawn term loans: £53.9m (to Feb 2019)
  - Unutilised Acquisition facility £20.0m (to Feb 2018)
  - Unutilised Revolving credit facility: cash £11.5m (to Feb 2018)
  - Revolving credit facility guarantees: £ 1.5m (to Feb 2018)
- On 13th February, after the balance sheet date, we entered into a new and enlarged £90 million multi currency revolving credit bank facility maturing on 30th April 2019.
  - The new facility represents a considerable increase in flexibility and a reduction in financing costs.
  - At the time of refinancing we repaid £12m of our gross debt from cash reserves.

Business update, Strategy and Outlook

Ronnie George - CEO

Market Sector Review – UK Residential RMI

UK Residential RMI	2015/H1 £m	2014/H1 £m	% change
Revenue	17.91	17.75	0.9%

- Private RMI
  - Strong revenue growth
  - Ongoing upselling and high growth of silent and quiet ventilation in both trade and retail channels.
  - Specialised distribution sales force increased sales of "higher value" quiet / silent / LoCarbon domestic fans
- Public RMI
  - Revenue declined – Funding remains difficult due local authority austerity measures.
  - Focus on continuous running ventilation in refurbishment.
  - Dedicated specification sales team headed by new sales director starting 1/5.

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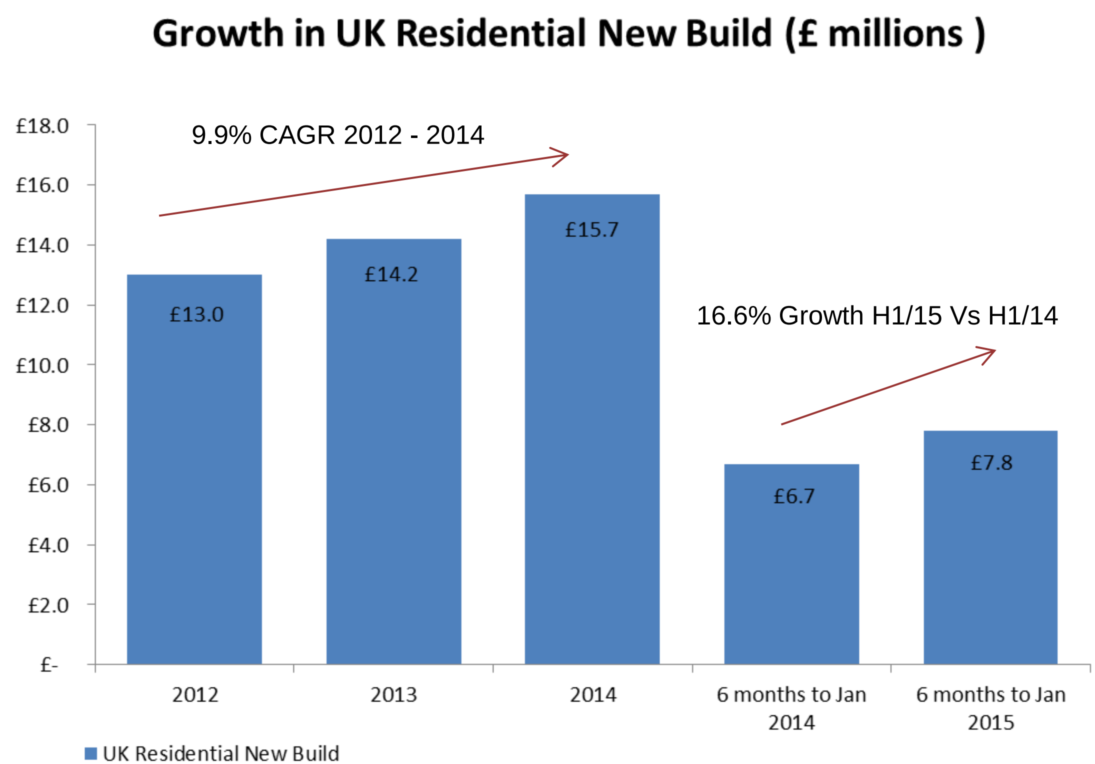
Market Sector Review – UK Residential New Build

UK Residential New Build	2015/H1 £m	2014/H1 £m	% change
Revenue	7.8	6.7	16.6%

- Growth in central systems underpinned by increased house completions and further technology penetration.
- Further development of the sales team and internal sales support including CAD for specification selling.
- Energy efficiency legislation and planning considerations underpinning demand for central systems.
- Increasing awareness of MVHR as the optimal ventilation solution in new build.



Market Sector Review - Commercial RMI and New build

UK Commercial	2015/H1 £m	2014/H1 £m	% change
Revenue	**8.0**	**7.9**	**0.8%**

- Commercial RMI and New build
  - Specialist sales team targeting distribution and specification
- Sales of new, low carbon and specified products growing offsetting decline of older products used in RMI.
- New range of quite, energy efficient sentinel fans under development to launch Autumn 2015.

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SHORTLISTED

Market Sector Review – UK Exports

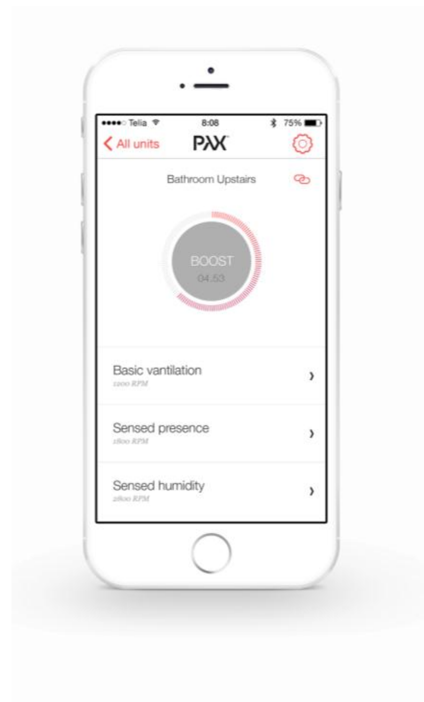
UK Exports	2015/H1 £m	2014/H1 £m	% change
Revenue (*constant currency)	4.0*	3.5	15.7%

- Strong growth in central systems in Europe – Kinetic product family
- Recovery in Irish construction market with a number of large project orders for new build residential systems already secured.
- New business secured in Africa in H1/15 and a return to growth in New Zealand.

Market Sector Review - Nordics

Nordics	2015/H1 £m	2014/H1 £m	% change
Revenue (*constant currency)	13.0*	11.7	11.5%

- Pax integration completed and synergies delivered.
- Strong growth in Sweden and Norway.
- Launch of new “app” controlled EC extract fan “Calima” at Elfack 5-8 May 2015
- Launch of new wall inlet grille



Market Sector Review - Germany

Germany	2015/H1 £m	2014/H1 £m	% change
Revenue (*constant currency)	5.6*	N/A	

- Continued hiring of new sales agents in Germany to extend our sales reach.
- Launched Pax Eos at the “BAU” in January. Sales orders already received.
- Introduction of new multi zone controller
- Student accommodation project in Bamberg with 305 decentralised units supplied.
- Gross margins improving since acquisition.

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Market Sector Review – OEM (Torin-Sifan)

OEM (Torin-Sifan)	2015/H1 £m	2014/H1 £m	% change
Revenue **(*constant currency)**	**10.4***	**10.7**	**-2.5%**

- Boilers spares end market very difficult
- Investment in new 3ph EC/DC motorised impellor nearing completion – internal sales in H2/15.
- New factory opened to the press February 2015.
- Energy efficiency providing opportunity through ErP and EPBD

Strategy

1 Organic growth through our core markets

- UK, Nordics and Germany are our core markets
- Favourable regulations especially in new construction
- Consumer choice and increasing awareness of indoor air quality issues

2 Growth through a disciplined and value-adding acquisition strategy

- Primarily Europe/residential ventilation – fragmented market place
- Access to new markets, product cross selling and cost reduction synergies
- Considerable ongoing activity in this area

3 Develop Torin-Sifan's range and build customer preference

- Reduce dependence on declining boiler spares revenue stream
- New 3 phase EC/DC motorised impellor development nearing completion
- EC technology/manufacturing centre operational

Summary and Outlook

- Results are in line with our expectations and ahead on a constant currency basis.
- Despite current foreign exchange challenge, we remain confident of making continued progress in the second half.
- The full year benefit of InVENTer will contribute to sales and profit growth in 2015. We also expect to see continuing strong demand for system ventilation in new UK dwellings
- Continue to target a number of acquisitions that complement our existing portfolio
- Strong demand for our products, especially newer, higher value added ventilation systems
- Our goal is to become a leading player in the European market for ventilation products, including heat recovery products

Appendices

Disclaimer

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