



## 2014 Results

Full year results to 31 July 2014



**Vent-Axia**

**MANROSE**

**Fresh**  
Ventilation

**PAX**

**inVENTer**  
einfach genial lüften

**torin-sifan**  
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# Introduction

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## Agenda

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

## Presentation



# The Volution Group

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- Volution consists of The Ventilation Group and an OEM division (Torin-Sifan)
- The Ventilation Group consists of five key brands, Vent-Axia, Manrose, Fresh, PAX and inVENTer, focused primarily on the UK, Swedish, Norwegian and German ventilation markets.
- We are the market leader in the UK residential ventilation products market, the Swedish residential refurbishment ventilation products market and the German decentralised heat recovery residential ventilation systems market.
- Torin-Sifan is a leading supplier of motors, motorised impellers, fans and blowers for the European HVAC (Heating, Ventilation and Air Conditioning) industry
- Volution listed on the LSE in June 2014 (ticker FAN)
- Building on this platform, we will continue to strengthen our position as one of the leading players in the European market for ventilation products, including heat recovery systems.

# 2014 Highlights

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- Performance in line with management expectations at the time of the IPO
- Revenue growth of +18.0% driven by:
  - Organic growth +3.2% (5.2% LFL currency)
  - M+A +14.8% driven by Pax and InVENTer
  - 4<sup>th</sup> consecutive year of growth
- Organic growth was driven by:
  - +11.2% growth in systems sales in new build residential
  - +2.8% growth in RMI (private and public)
    - Sales of higher value added Lo-Carbon products increased to 43% (2013, 37%)
- Integration of InVENTer (acquired in April 2014) progressing well, exploring cross sell opportunities
  - Recent appointment of 2 new sales agents in Hamburg region to compensate a regional softness in sales
  - Introduction of new central MVHR systems planned for the financial year
- Strong demand for our products, especially newer, higher value-added ventilation systems
- OEM (Torin-Sifan) had a challenging year with lower sales of boiler spares
- The Group's reported loss before tax was impacted by exceptional costs (including IPO costs), re-financing costs, costs of acquisitions and higher finance costs under previous ownership
- Net debt reduced by £129.8m to £42.9m (1.5x adjusted EBITDA)

# Financial Review

## Ian Dew – Chief Financial Officer

**Vent-Axia**

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# Financial Highlights

	2014 £m	2013 £m	Movement £m	Movement %
Revenue	120.7	102.3	18.4	+18.0%
Adjusted EBITDA	28.5	23.8	4.7	+19.7%
Adjusted Operating profit	26.5	22.2	4.3	+19.4%
Adjusted Profit before Tax	14.0	9.2	4.8	+51.9%
Reported Loss before Tax	(15.5)	(4.2)	(11.3)	
Adjusted Operating Cash Flow	22.8	20.9	1.9	+9.1%
Net Debt	(42.9)	(172.7)	129.8	
Net Det to Adjusted EBITDA	1.5x	6.9x	5.4x	

*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 the following slides.*

# Income Statement Summary

	2014 £m	2013 £m	Movement £m	Movement %
Revenue	120.7	102.3	18.4	18.0
Gross Profit	57.0	46.0	11.0	23.8
Gross Margin	47.2%	45.0%	2.2pp	
Adjusted EBITDA	28.5	23.8	4.7	19.7
Adjusted Operating Profit	26.5	22.2	4.3	19.4
Adjusted Operating Profit Margin	22.0%	21.7%	0.3pp	
Adjusted Finance Costs	(12.5)	(13.0)	0.5	
<b>Adjusted Profit before Tax</b>	<b>14.0</b>	<b>9.2</b>	<b>4.8</b>	<b>51.9</b>

- Revenue Growth of 18.0% (+£18.4m)
  - 3.2% organic (5.2% on a like for like currency basis)
  - 14.8% Inorganic:
    - Pax, Sweden (Aug 2013)
    - inVENTer, Germany (April 2014)
- Gross margin 47.2% from 45.0% (£11m increase in Gross Profit)
  - Margin improved as mix, price and direct costs improved
  - Gross Profit improvement mainly volume related
- Adjusted EBITDA, Operating Profit and Margins all improved
- Pax and InVENTer both contributed to profit in the period
- Adjusted Finance Costs are high in the period reflecting the debt structure under previous ownership until the 23<sup>rd</sup> June 2014
- Adjusted Profit before Tax improved by £4.8m to £14.0m

*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 the following slides.*

# Exceptional Items

## Adjusted Profit before Tax reconciled to Reported Loss before Tax

	2014 £m	2013 £m	Movement £m
Adjusted Profit before Tax	14.0	9.2	4.8
Exceptional items	(7.8)	(2.8)	(5.0)
Amortisation of financing costs and other finance costs	(8.6)	(0.5)	(8.1)
Amortisation and impairment of intangibles (customer base and trademarks)	(13.1)	(10.1)	(3.0)
<b>Reported Loss before tax</b>	<b>(15.5)</b>	<b>(4.2)</b>	<b>(11.3)</b>

	2014 £m	2013 £m	Movement £m
<b>Exceptional items</b>			
Inventory fair value adjustment arising on business combinations	0.2	0.8	(0.6)
Acquisition costs	0.9	1.1	(0.2)
Restructuring and acquisition integration	1.2	0.4	0.8
Other	0.0	0.5	(0.5)
Costs associated with the IPO	5.5	0.0	5.5
<b>Exceptional items</b>	<b>7.8</b>	<b>2.8</b>	<b>5.0</b>

- The following costs are added back in the calculation of Adjusted Profit before Tax:
- Exceptional items:
  - Exceptional costs relate primarily to the acquisitions, reorganisations and the costs of the IPO
- Refinancing costs:
  - Refinancing costs incurred in FY 2012 and FY 2014 were written off in the year as a consequence of the capital restructuring at the time of listing
- Amortisation and impairment (inVENTer) of Intangible Assets:
  - Relating to the fair value of acquired customer base and trademarks (valued at the time of acquisition)



# Consolidated Statement of Financial Position, Summary

	2014 £m	2013 £m
Property, plant and equipment	15.9	10.8
Intangible assets – goodwill	50.1	46.5
Intangible assets – others	113.7	108.4
Deferred tax assets	0.7	0.1
<b>Non-Current Assets</b>	<b>180.4</b>	<b>165.8</b>
Inventory	15.9	12.8
Trade and Other Receivables	26.9	21.4
Cash	11.0	15.9
<b>Current assets</b>	<b>53.8</b>	<b>50.1</b>
Payables and Other Liabilities	(24.3)	(21.5)
Loans and Borrowings	0.0	(3.5)
<b>Current Liabilities</b>	<b>(24.3)</b>	<b>(25.1)</b>
Loans and Borrowings	(53.9)	(181.5)
Other Liabilities	(0.7)	(1.0)
Deferred Tax	(22.1)	(21.8)
<b>Non Current Liabilities</b>	<b>(76.7)</b>	<b>(204.3)</b>
<b>Net Assets</b>	<b>133.3</b>	<b>(13.5)</b>
Share Capital	2.0	0.0
Share Premium	11.5	2.1
Capital Reserve	92.3	0.0
Translation reserve	0.3	0.6
Retained Earnings	27.1	(16.2)
<b>Total equity</b>	<b>133.3</b>	<b>(13.5)</b>

- Non Current Assets increased because of the acquisition of Pax and inVENTer and because of capital expenditure of £4.5m
- Operating Working Capital increased mainly as a consequence of the two acquisitions
- Loans and borrowings reduced significantly at the time of listing when the capital structure was changed
- The Deferred Tax Credit relates primarily to the intangible assets recognised on acquisition: fair value of our Customer Base and Trademarks
- Following the IPO, Volution entered into a court approved capital reduction which was finalised in July 2014. Share premium arising from the sale of new shares, was partly converted to distributable reserves of £52.1m in the Volution Group plc.
- The Capital reserve of £92.3m arises on consolidation and is non-distributable
- The Board initially intends to target a dividend of approximately 30% of our adjusted net income for each financial year and it is expected that the first dividend will be payable following publication of our results for the six months ending 31 January 2015.

# Cash Flow Summary and Net Debt Bridge

	£m
<b>Opening Net Debt 1st August 2013</b>	<b>(172.7)</b>
Movements from normal business operations	
Adjusted EBITDA	28.5
Movement in working capital	(1.2)
Capital Expenditure	(4.5)
Adjusted Operating Cash Flow	22.8
Interest paid / accrued	(12.6)
Income tax paid	(3.2)
Exceptional items	(0.8)
Other	(1.9)
Movements from Acquisitions	
Acquisition consideration	(29.8)
Acquisition costs	(0.9)
Movements from the IPO	
Conversion of investor debt to equity	91.7
Share issue proceeds	72.0
IPO costs (against income and Share Premium)	(7.5)
<b>Closing net debt 31st July 2014</b>	<b>(42.9)</b>
Closing Gross Debt	(53.9)
Closing Cash	11.0

- Net Debt reduced from £172.7m to £42.9m in the year following improved Operational Cash Flow and the capital restructuring at the time of listing
- Operational Cash Flow of £22.8 m represented a cash conversion of 86% (after working capital and cap. ex.)
- The high level of interest paid reflects the higher level of borrowings under previous ownership
  - Current blended interest rate is 4.9%
- Cash flows relating to consideration and costs for Acquisitions in the year was £30.7m
- On listing £91.7m of investor debt was converted to Equity
- Proceeds from the sale of new shares was £72m which was used to pay for the cost of the IPO, £7.5m, and repay £61.9m of Bank debt. The balance of £2.6m was used to increase cash reserves on the balance sheet.
- Bank facilities 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)
  - There is no capital repayment of term loans before Feb 2019 and cash surpluses do not mitigate our interest burden.

# Business update, Strategy and Outlook

Ronnie George - CEO

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# Market Sector Review – UK Residential RMI

UK Residential RMI	2014 £m	2013 £m	% change
Gross Sales	43.4	42.3	2.8%

- Private RMI
  - Silent and Quiet fans into DIY – Both Manrose and Vent-Axia
  - Development of wider over the counter offer
  - Specialised distribution sales force increased sales of “higher value” quiet / silent / Lo-Carbon domestic fans
- Public RMI
  - Continued adoption of Lo-Carbon continuous ventilation
  - Increase in sales of Temptra single room heat recovery ventilation



Note: These numbers are Gross Sales, defined as sales before rebates and settlement discounts

# Market Sector Review – UK Residential New Build

UK Residential New Build	2014 £m	2013 £m	% change
Gross Sales	15.7	14.2	11.2%

- UK Residential New Build
  - Growth in centralised systems driven by increasing housing completions, further increase in the penetration of the technology and market share gains.
  - Key account development and specification selling on projects – additional house builder accounts
  - Energy efficiency legislation and planning considerations underpinning demand for central systems
  - Saffron Square project 414 apartments



Note: These numbers are Gross Sales, defined as sales before rebates and settlement discounts

# Market Sector Review - Commercial RMI and New build

UK Commercial	2014 £m	2013 £m	% change
<b>Gross Sales<sup>1</sup></b>	<b>17.9</b>	<b>17.0</b>	<b>5.2%</b>

- Commercial RMI and New build
  - Specialist sales team targeting distribution and specification
  - Energy efficiency legislation driving adoption of higher specification products
  - ErP<sup>2</sup> increasing driving development of energy efficient products and increasing sales trend towards more energy efficient product solutions (e.g. Lo-Carbon EC/DC<sup>3</sup> Kitchen Axial Fan –as pictured)



## Notes:

- These numbers are Gross Sales, defined as sales before rebates and settlement discounts
- ErP: Energy Related Products directive
- EC/DC: Electrically Commutated / Direct Current

# Market Sector Review - International

Nordics	2014 £m	2013 £m	% change
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<b>Gross Sales<sup>1</sup></b>	<b>23.7</b>	<b>10.8</b>	<b>118.7%</b>
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- Acquisition of Pax
- Focused sales teams
- Implementation of planned synergies



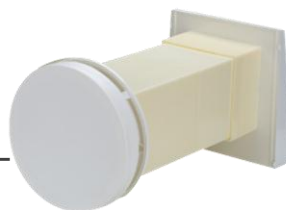
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Germany	2014 £m	2013 £m	% change
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<b>Gross Sales<sup>1</sup></b>	<b>3.5</b>	<b>0</b>	<b>N/A</b>
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- Integration going to plan and new factory opened
- Introduction of the new “iv12 SMART” – 160mm diameter
- Close to completing 200 day plan



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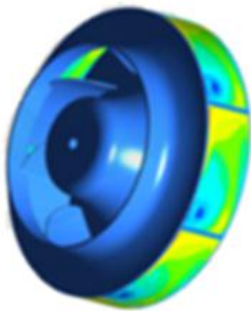
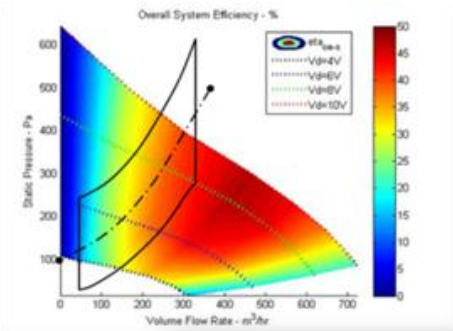


Note: 1. These numbers are Gross Sales, defined as sales before rebates and settlement discounts

# Market Sector Review – OEM (Torin Sifan)

OEM (Torin-Sifan)	2014 £m	2013 £m	% change
Revenue	19.4	20.0	-2.9%

- Boiler spares – difficult market environment due to mild winter
- Investment in new 3 phase (i.e. quieter) EC/DC<sup>1</sup> motorised impellor
- New factory commissioned 1<sup>st</sup> September 2014
- Energy efficiency providing opportunity through ErP<sup>2</sup> and EPBD<sup>3</sup>



Notes:

1. EC/DC: Electrically Commutated / Direct Current
2. ErP: Energy Related Products directive
3. EPBD: Energy Products in Buildings Directive



# Strategy

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1

**Organic growth through our core markets**

2

**Growth through a disciplined and value-adding acquisition strategy**

3

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

# Organic Growth

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- In our core markets, we will continue to benefit from a favourable regulatory backdrop
  - Focus on reducing carbon emissions from buildings (building regulations and Energy Related Products directive)
  - Need for improving energy efficiency (regulatory and consumer choice)
  - Emerging understanding of the importance of indoor air quality on health
  
- We will continue to gain from these market developments with our specialised approach to each market area
  
- Focused on product management and product development to enable us to deliver innovative product and system solutions to improve the customer experience

# Acquisition Strategy

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- The ventilation market in Europe remains highly fragmented
- Continue to explore selective acquisition opportunities to increase our international footprint
- Focus primarily on opportunities within Europe where there are clear synergies (cost reduction, cross selling or access to new markets)
- Ongoing activity in this area

## OEM (Torin Sifan)

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- Significant investment has been made in developing a new range of high performing air movement products that meet the energy efficient demands placed on this industry
- Acquired and equipped a new 25,000 square feet manufacturing facility in Swindon
- The European launch of our EC/DC<sup>1</sup> product range will take place at the ISH trade fair in Frankfurt in March 2015
- We will continue to focus on developing more energy efficient and quieter EC/DC<sup>1</sup> motorised impellers

Note:

1. EC/DC: Electrically Commutated / Direct Current

# Summary and Outlook

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- Current financial year started well; in line with management expectations
- Confident that the company will continue to deliver profitable growth
- Full year benefit of InVENTer and Pax will contribute to sales and profit growth in 2015.
- Expect to see continued strong demand for system ventilation in UK new build.
- Targeting acquisitions that complement our existing portfolio
- Strong demand for our products, especially newer, higher value-add ventilation systems
- Will build on our leading position in European ventilation and heat recovery products.

# Appendices

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# Disclaimer

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