

# FLOWTECH

2023 half-year financial results

a world of motion

# DISCLAIMER

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This document contains certain forward-looking statements which reflect the knowledge and information available to the Company during the preparation and up to the publication of this document. By their very nature, these statements depend upon circumstances and relate to events that may occur in the future and thereby involve a degree of uncertainty. Therefore, nothing in this document should be construed as a profit forecast by the Company.



# INTRODUCTION

Our aim is to provide our customers with power, motion and control solutions, from a single component to fully integrated engineering systems, in the most cost-effective way, harnessing the best global brands, products, services and engineers in the market.

# OVERVIEW

**Continued growth, sustainable gross margins and further debt reduction whilst we rebase to build a lean and scalable business**

2.8% revenue growth, double digit growth in Solutions and Services segment with weaker performance in the Product Distribution segment being addressed

Underlying operating profit at £3.4m, a decrease of £0.9m on the comparative period with increasingly challenging economic market conditions

Sustained gross margins of 35.5% (H1 22 36.3%) across product, solutions and services with opportunities identified to deliver further improvements over time

£4.3m reduction in net debt (pre-leases) as we continue to focus on working capital management and cash generation

New CEO: - implemented Performance Improvement Plan including changes made to operating model and leadership team

Progress in deploying the refreshed strategy to provide the direction and capabilities to deliver mid-term scalable above market growth in a highly fragmented market

# AGENDA

Mike England

CEO

Russell Cash

CFO

1 Financial results

2 Performance improvement plan

3 Our journey to the future

4 Current trading and outlook





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# FINANCIAL RESULTS

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Progress made however there is plenty of headroom for improvement

# FINANCIAL HIGHLIGHTS

## Positive revenue growth

2.8% increase year on year, varying results by segment  
11.5% in Solutions, 9.8% in Services and -5.6% in Product Distribution

## Sustainable gross margins

35.5% achieved despite weaker performance of Product Distribution  
Good discipline in managing ongoing inflationary price changes

## Tightly managed operating overheads

Restructuring and cost focus offsetting inflation and wage increases  
Progress made in delivering Group synergies with more to come

## Improved net debt position

£5.1m <sup>(1)</sup> reduction over 12 months (inc. lease debt)  
This despite inventory investment; further reduction expected in H2 2023



Six months to 30 June 2023	Unaudited HY 23	Unaudited H1 22
Revenue (£m)	£59.1m	£57.5m
Gross margin %	35.5%	36.3%
Underlying operating overheads (£m)	£17.6m	£16.5m
Underlying EBITDA (£m)	£5.0m	£5.8m
Net debt <sup>(1)</sup> (£m)	£15.4m	£19.7m

(1) Excludes IFRS16 lease debt

# NET DEBT

Progress with net debt and working capital reduction with further gains expected as new leadership and capability is onboarded

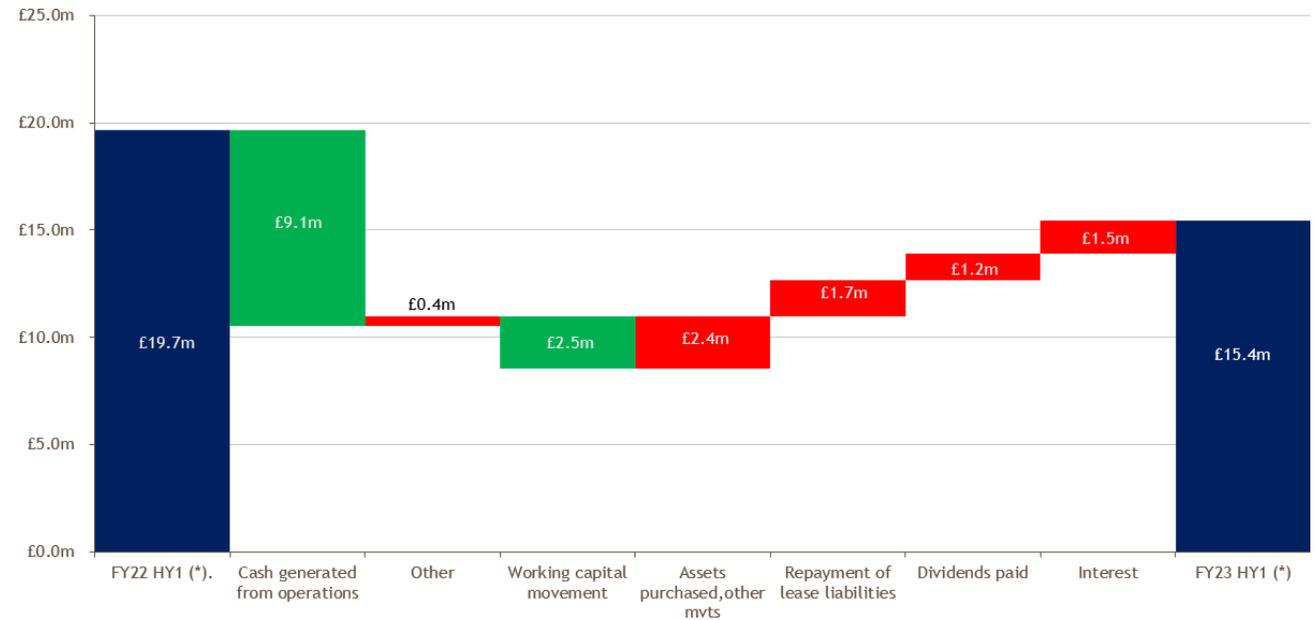
Continued debt reduction expected in H2 23

Strong working capital management

Targeted investment in inventory to improve availability and service on higher turn products

Good headroom versus total facility of £25m

12 month debt bridge (30 June 22 to 30 June 23)



(\*) Opening and closing figures exclude IFRS 16 related liabilities

# SEGMENT PERFORMANCE

Positive recovery across the Services and Solutions segment making a strong H1 contribution. Weaker performance in Product Distribution segment

## Key focus is recovery of Product Distribution

Consolidation of five businesses resulted in some service disruption combined with slowdown in the general market

## Solutions & Services performing well

Positive sales pipeline and order book although some larger Original Equipment Manufacturers are indicating reduced order books and project cycles into 2024

£000	Product Distribution	Solutions	Services	Total
<b>H1 23</b>				
Total revenue	26,606	22,019	10,445	<b>59,070</b>
Underlying segment operating profit	2,275	2,462	1,202	<b>5,939</b>
Contribution %	8.60%	11.20%	11.50%	<b>10.1%</b>
<b>H1 22 (re-stated) (*)</b>				
Total revenue	28,192	19,749	9,516	<b>57,457</b>
Underlying segment operating profit	3,617	2,707	234	<b>6,558</b>
Contribution %	12.80%	13.70%	2.50%	<b>11.4%</b>

(\*) Re-stated refers to re-allocation of certain revenue streams between segments and has not impact on overall Group profitability.

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# PERFORMANCE IMPROVEMENT PLAN

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Near-term interventions to  
improve performance



# PERFORMANCE IMPROVEMENT PLAN

## Objective

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To quickly deliver a more customer centric, lean and scalable platform for growth

**Simple**

New, simple operating model releasing the full potential of our people and our capabilities

**Customer Centric**

Decision making and activities centred around the customer with a refreshed growth focus

**Scalable**

Re-focus on doing the basics brilliantly whilst improving our operational and technology infrastructure to power future growth

# SIMPLE

Newly structured leadership team and simple operating model, releasing the full potential of our people and capabilities

## Simple operating model

Moving from complex, multi-brand divisional model to a simple functional, country, one brand model

## High calibre leadership team

Newly structured leadership team with a strong mix of existing and new talent. Seven in place, three onboarding in October. Five leaders from previous team have now exited the business



# CUSTOMER CENTRIC

Powering up our growth capabilities to increase the quality and frequency of customer interactions underpinned by improved customer service

## Focus on our growth capabilities

Aligning the whole business around serving the customer, increasing our focus on delivering sales, marketing and customer service excellence



Sales Capability

- Restructure sales team
- Sales process
- Capability & talent building
- Sales tools and enablers
- Sales productivity



Marketing Excellence

- Restructure marketing team
- Re-branding activity
- Channel optimisation
- Customer segmentation
- E-commerce development



Customer Care

- Do the basics brilliantly
- Customer NPS measures
- Technical support
- Pro-active communications
- Live-chat

# SCALABLE

Re-focus on doing the brilliant basics whilst improving our operational and technology infrastructure to power future growth

## Focus on our delivery capabilities

Improvements to deliver operational excellence and the highest levels of customer service underpinned by the right digital, data and technology platforms to deliver best in class customer experiences and internal efficiencies



Digital

- Website improvements
- E-commerce capability
- Exploitation of insight
- Digital tools and enablers
- Continuous improvement



IT & Data

- Process improvement
- ERP/WMS upgrades
- Data migration
- Technology-led enablers
- Continuous improvement



Facilities & Supply Chain

- Do basics brilliantly
- Distribution automation
- Manufacturing excellence
- Facilities upgrades
- Continuous improvement



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# OUR JOURNEY TO THE FUTURE

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Deploying the refreshed strategy  
to deliver mid-term above market  
growth and value creation

# CUSTOMER FOCUS

Our customers today are diverse across a range of geographies, industries and types

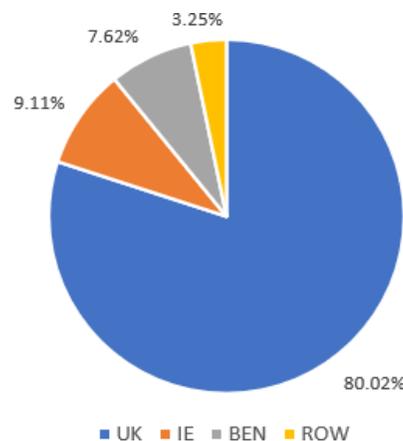
## Our unique proposition is a differentiator

Through specialist product and engineering capabilities, we can focus on indirect and direct channels (current revenue share 40% and 60% respectively), enabling us to serve a broad and diverse range of industries and customers

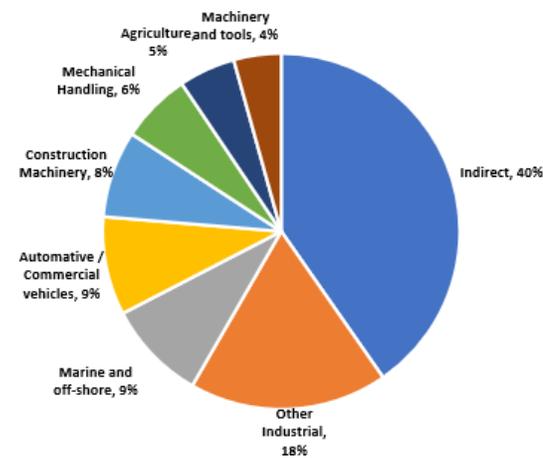
## Our geographical growth opportunity is large

Today, only 20% of our revenue is outside of the UK, mainly in Ireland and Benelux. We see significant headroom for growth in all existing geographies and internationally

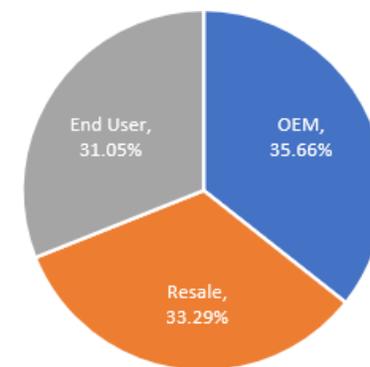
### Geography



### Industry



### Customer Type



# A WORLD OF MOTION

The Fluid Power market is changing meaning we can evolve to meet our customer needs and accelerate our commercial advantage

## Our customer needs are evolving

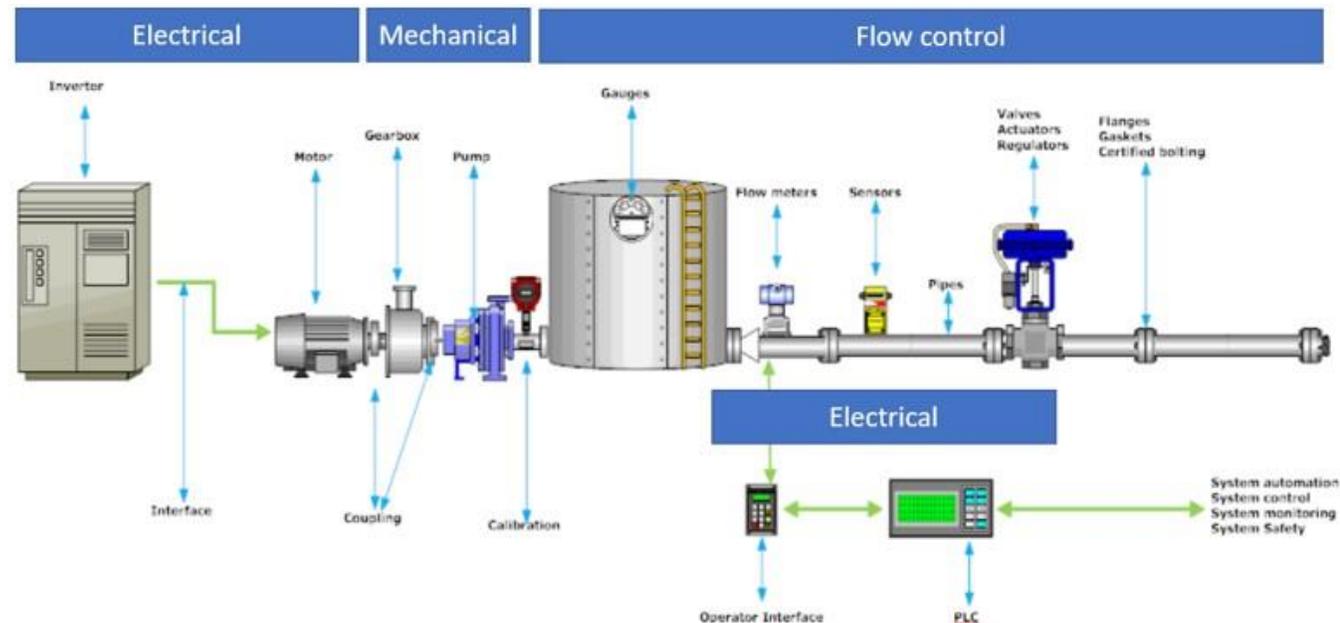
Driven by digitisation, Industrial Internet of Things (IIOT), electrification, new emerging technologies (i.e. hydrogen power), the need for sustainability and market consolidation.

## x3 our market growth opportunity

Expanding our product and service offering across the power, motion and control sectors increases our addressable market opportunity in Europe from £10bn to more than £30bn helping us to increase our customer penetration and future proofing the business.

## Typical industrial application

Today, we play within the flow control technology area supporting movement of air, gases and fluids to transfer power. This is a key part of most industrial applications, but industrial customers increasingly seek products and solutions of technologies across the total application.



# THE POWER OF ONE

Combining the full capabilities and potential of the Group under one brand, one simple operating model and one value proposition

## Releasing the true potential across Flowtech

We've been fragmented. Operating under multiple brands and profit centres. We are quickly transitioning to a new operating model

- One approach. One brand. One team
- Powerful customer proposition
- Speed and agility
- Greater efficiency



## Fragmented approach

Multiple brands operating independently with different offerings and approach to the market



## One approach

One brand, simple operating model with consistent value proposition accelerating customer focus and growth



"I need a partner who is easy to work with, quick to respond and delivers to their promises"

"I need help designing and building a new machine"

"I need technical support finding the right product for the job"



"I need a partner I can trust, who understands our engineering problems"

"A machine is down, it's costing us, I need a replacement part urgently"

"I wish someone could help me reduce my energy bills"

# VALUE CREATION PLAN

Our mid-term value creation plan has six engines to power our EBITDA growth

## Components to power our future ambitions

With a new leadership team assembled and clearly defined Performance Improvement Plan and strategic goals, our focus now is about brilliant execution aligned to these six growth engines: -

- Clear accountability
- Clear delivery plan
- Clear measurement



1. Customer growth

Sell more to existing customers and add more new customers, powered by digital and insight to accelerate market share growth



2. Commercial excellence

Improved procurement, pricing and selling processes and activities to optimise gross margins



3. Product and service expansion

Execute phased product range expansion plan and increase engineering services portfolio



4. Own brand growth

Enhance and grow our own brand range of products and services



5. Operate for less

Deliver efficiencies, improving systems, processes and streamlining operations



6. Talent and capability

Leadership and talent development to built our capabilities as we scale

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# CURRENT TRADING AND OUTLOOK

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Optimistic despite increased  
economic headwinds



# TRADING & OUTLOOK

Current trading is in line with our revised expectations with the team now focused on delivering the Performance Improvement Plan

- Expect external economic headwinds to continue to bite through H2 23 and into 2024 with continued slowdown in industrial output and production
- We have deployed a number of focussed interventions to address weaker performing segments underpinned by a change in leadership and capability and providing greater clarity on our forward strategy and plans
- Our people are motivated and committed to delivering high performance and whilst we expect H2 23 to remain more challenging, we are optimistic in our outlook in building our momentum and capabilities into 2024 and beyond through the deployment of our refreshed strategy



**1**

**DIFFERENTIATED  
SPECIALIST  
PROPOSITION IN A  
LARGE AND  
UNCONSOLIDATED  
INDUSTRIAL MARKET**

**> £30bn**

market opportunity

**2**

**DIVERSE CUSTOMER  
BASE AND MULTI-  
CHANNEL APPROACH  
ACCELERATES MARKET  
SHARE GAINS**

**x2**

market growth rate

**3**

**BUILDING A LEAN AND  
SCALABLE PLATFORM  
TO EXPAND PRODUCTS,  
SERVICES AND  
GEOGRAPHICAL REACH**

**Mid-teen**

Adjusted operating profit margin  
target

**OPPORTUNITY**

A photograph of two industrial workers in a large factory. They are wearing orange safety suits and yellow hard hats. They are standing on a metal platform, looking up at a large metal chain hanging from above. The background shows the complex structure of the factory with many lights and pipes.

**Q&A**

**THANK YOU FOR YOUR INTEREST IN FLOWTECH**



**“THE WAY TO GET  
STARTED IS TO  
QUIT TALKING AND  
BEGIN DOING”**

Walt Disney

# APPENDIX

## Supporting information

# SHAREHOLDER SUMMARY

66% of shares are held by the top 10 shareholders

Share Register as at: 11 August 2023	
Fund manager	%
Odyssean Investment Trust	17.1%
Harwood Capital	9.9%
Downing	9.7%
Close Brothers Asset Management	7.1%
Charles Stanley	4.4%
Janus Henderson Investors	4.1%
Lazard Freres Banque (PB)	4.0%
Gresham House Asset Management	3.7%
BGF (Business Growth Fund)	3.1%
Transact (EO)	2.8%

# Cash flow statement

	<b>Unaudited</b> <b>Six months ended</b> <b>30 June 2023</b> <b>£000</b>	Unaudited Six months ended 30 June 2022 £000	Audited Year ended 31.12.22 £000
Net cash from operating activities	3,607	(2,505)	5,014
Cash flow from investing activities			
Acquisition of property, plant, and equipment	(1,340)	(683)	(1,645)
Acquisition of intangible assets	-	(62)	(212)
Proceeds from sale of property, plant, and equipment	3	34	65
Net cash used in investing activities	(1,337)	(711)	(1,792)
Cash flows from financing activities			
Repayment of lease liabilities	(880)	(830)	(1,673)
Interest on lease liabilities	(116)	(118)	(227)
Other interest	(776)	(336)	(925)
Proceeds from sale of shares held by EBT	-	155	172
Dividends paid	-	-	(1,228)
Net cash generated from / (used in) financing activities	(1,772)	(1,129)	(3,881)
Net change in cash and cash equivalents	498	(4,345)	(659)
Cash and cash equivalents at start of period	3,972	4,562	4,562
Exchange differences on cash and cash equivalents	(24)	56	69
Cash and cash equivalents at end of period	4,446	273	3,972

	Short-term borrowings £000	Long-term borrowings £000	Lease liabilities £000	Total £000
At 1 January 2023	19,967	-	6,713	26,680
Cash flows				
Repayment	-	-	(880)	(880)
Movement between short-term and long-term	(19,967)	19,967	-	-
Other movements	-	(78)	358	280
Non-cash				
Foreign exchange	-	-	(33)	(33)
At 30 June 2023	-	19,889	6,158	26,047

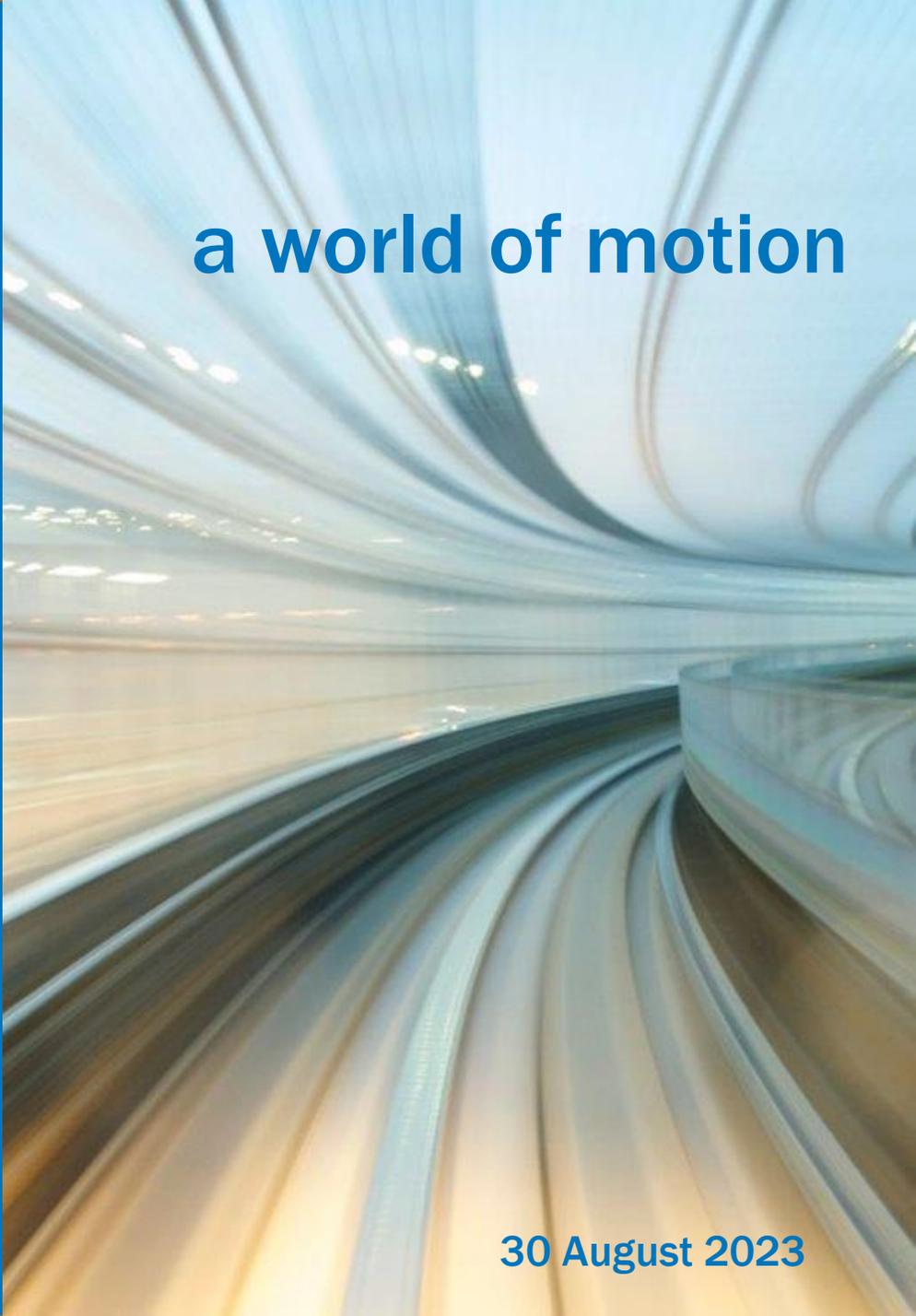
# Financial position at 30 June

	Unaudited 30 June 2023	Unaudited 30 June 2022	Audited 31 December 2022
	£000	£000	£000
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill	53,092	63,164	53,092
Other intangible assets	2,979	4,107	3,523
Right of use assets	5,921	6,805	6,091
Property, plant, and equipment	7,900	6,904	7,234
<b>Total non-current assets</b>	<b>69,892</b>	<b>80,980</b>	<b>69,940</b>
<b>Current assets</b>			
Inventories	30,843	34,731	31,486
Trade and other receivables	25,257	24,293	24,620
Prepayments	1,130	1,129	387
Cash and cash equivalents	4,446	273	3,972
<b>Total current assets</b>	<b>61,676</b>	<b>60,426</b>	<b>60,465</b>

	Unaudited 30 June 2023	Unaudited 30 June 2022	Audited 31 December 2022
	£000	£000	£000
<b>Liabilities</b>			
<b>Current liabilities</b>			
Interest bearing borrowings	-	-	19,967
Lease liability	1,453	1,868	1,705
Trade and other payables	20,248	20,539	19,569
Tax Payable	1,123	1,154	1,219
<b>Total current liabilities</b>	<b>22,824</b>	<b>23,561</b>	<b>42,460</b>
<b>Net current assets</b>	<b>38,852</b>	<b>36,865</b>	<b>18,005</b>
<b>Non-current liabilities</b>			
Interest-bearing borrowings	19,889	19,947	-
Lease liability	4,705	5,178	5,008
Provisions	339	302	317
Deferred tax liabilities	1,196	1,437	1,281
<b>Total non-current liabilities</b>	<b>26,129</b>	<b>26,864</b>	<b>6,606</b>
<b>Net assets</b>	<b>82,615</b>	<b>90,981</b>	<b>81,339</b>

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30 August 2023