Helping to heat homes sustainably

Stelrad Group plc

Results for the six months ended 30 June 2022

Agenda

- Overview
- Financial review
- Business review
- Summary and outlook
- Q&A

Trevor Harvey
Chief Executive Officer

George Letham
Chief Financial Officer

Stelrad Group plc

Overview

Trevor Harvey
Chief Executive Officer

Interim 2022 financial performance ahead of expectations

- Improvement in revenue and adjusted operating profit in all territories.

- Sales volumes lower than 2021:
  - H1 2021 was an exceptional comparative with distributors building stock due to global supply chain concerns.

- Margins per unit continue to improve :
  - New production line commissioned in low-cost Turkish facility.
  - Improved mix of premium steel panel radiators.
  - Proactive margin management in light of increases in input costs.

- Acquisition of Italian manufacturer of heat emitters, DL Radiators for €28.3 million in July 2022.

- Rising energy costs across Europe expected to drive increased, long-term demand for more energy efficient heating solutions.

Stelrad Group plc

Financial review

George Letham
Chief Financial Officer

Interim 2022 financial performance demonstrates Stelrad's resilient business model and robust strategy

Highlights

- The Group delivered sales growth of 17.4% in the first half of 2022, increasing revenues from £127.9 million to £150.1 million.
- Group adjusted operating profit increased by 13.1% to £19.0 million.
- Good progress across all territories during 2022:
  - UK & Ireland: 13.1% revenue growth, 19.4% growth in adjusted operating profit.
  - Europe: 17.7% revenue growth, 11.9% growth in adjusted operating profit.
  - Turkey & International: 42.9% revenue growth, 33.3% growth in adjusted operating profit.
- Leverage at 30 June 2022 was 1.1x EBITDA in line with the Group's capital structure guidance.
- Based on the Group's financial results in the first half of 2022, the Board recommends an interim dividend of 2.92 pence per share.

Revenue: £150.1m
(2021: £127.9m)

Adjusted operating profit: £19.0m
(2021: £16.8m)

Leverage: 1.1x
(2021: 1.0x)

Interim dividend: 2.92p
(2021: n/a)

Strong revenue growth in the first half of 2022, increasing by 17.4% to £150.1 million

Revenue by geographical market	H1 2022 £m	H1 2021 £m	Movement £m	Movement %
UK & Ireland	71.5	63.2	8.3	13.1
Europe	64.6	54.9	9.7	17.7
Turkey & International	14.0	9.8	4.2	42.9
Total	**150.1**	**127.9**	**22.2**	**17.4**

UK & Ireland

- Full year impact of selling price increases implemented in 2021 partially offset by a decrease in sales volumes.
- Stable market share year on year.

Europe

- Selling price increases implemented in the second half of 2021 and quarter 1 2022 partially offset by a decrease in sales volumes.
- Premium panel mix improvements.

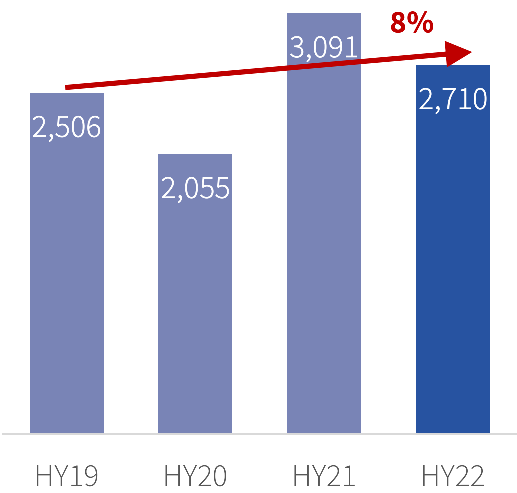
Turkey & International

- Selling price increases implemented in the second half of 2021 and first half of 2022.
- Sales volume growth in Turkish market.

Sales volumes in first half 2022 lower than 2021 but significant increase in contribution per radiator

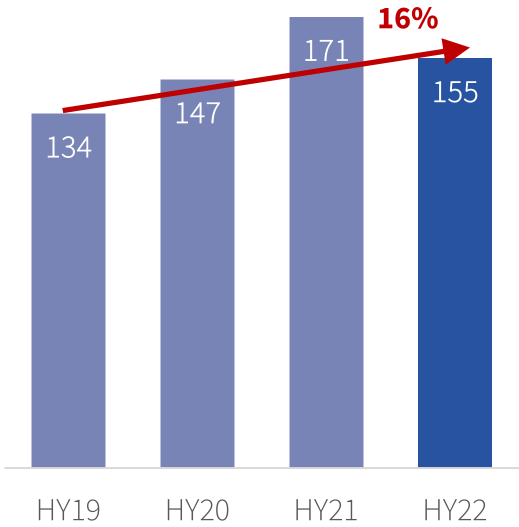
Radiator volumes sold

2,710k units



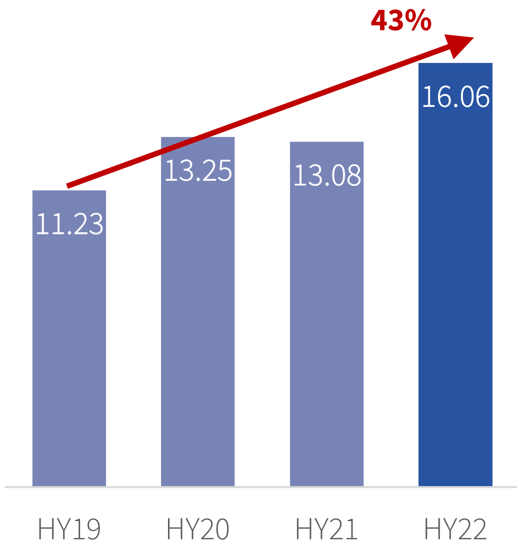
Premium panel radiator volumes sold

155k units



Contribution per radiator (pre-IAS 29)

£16.06



Highlights

- Total sales volume decreased by 12% versus 2021 (exceptionally strong comparative) but were 32% higher than 2020 (impacted by Covid lockdowns) and 8% higher than 2019 (pre-pandemic).
- Improved mix of premium steel panel radiators.
- Margins per radiator enhanced by optimisation of lowest cost facilities maintaining cost leadership position.
- Proactive margin management in response to substantial increases in input costs.

Adjusted operating profit improved by 13.1% to £19.0 million, with good progress in all territories during the first half of 2022

Adjusted operating profit	H1 2022 £m	H1 2021 £m	Movement £m	Movement %
UK & Ireland	12.3	10.3	2.0	19.4
Europe	7.5	6.7	0.8	11.9
Turkey & International	2.0	1.5	0.5	33.3
Central costs	(2.8)	(1.7)	(1.1)	(64.7)
Total	**19.0**	**16.8**	**2.2**	**13.1**

UK & Ireland

- Increased margins per radiator, partially offset by lower sales volumes.

Europe

- Increased margins per radiator, partially offset by lower sales volumes.

Turkey & International

- Increased margins per radiator.
- Higher sales volumes.

Central costs

- Central costs increased following the Group's IPO in November 2021.

Cash generation lower than prior year with working capital reverting to historical seasonal pattern

	H1 2022 £m	H1 2021 £m	Movement £m
Operating profit	11.9	17.9	(6.0)
Depreciation add back	4.2	3.8	0.4
Exceptional items add back	-	1.5	(1.5)
Gain on disposal of property plant and equipment	(0.2)	(0.2)	-
Income statement adjustment (IAS 29)	3.0	-	3.0
Share based payments	0.1	-	0.1
Working capital movements	(15.1)	(2.8)	(12.3)
Net capital expenditure	(4.3)	(3.4)	(0.9)
Adjusted cash flow from operations	**(0.4)**	**16.8**	**(17.2)**
Income tax paid	(2.2)	(1.8)	(0.4)
Interest received	0.1	0.1	-
Adjusted free cash flow	**(2.5)**	**15.1**	**(17.6)**

Free cash flow

- The Group's adjusted free cash outflow for the period was £0.4 million, a reduction of £17.2 million compared with the prior period.
- Capital expenditure higher than 2021 due to investment in warehousing and production facilities in Turkey.
- Inventories significantly higher than June 2021 due to a customer service led recovery in finished goods stocks.
- Working capital is expected to reduce to the seasonal low point historically experienced in December each year.

The Group’s net leverage has increased since period end to finance the acquisition of DL Radiators

	30 June 2022 £m	31 Dec 2021 £m
Revolving credit facility	61.0	56.5
Cash	(13.5)	(15.6)
Net debt before finance leases	**47.5**	**40.9**
Finance leases	9.0	9.3
Net debt	**56.5**	**50.2**

- At 30 June 2022, £61.0 million was drawn against the facility and the Group had undrawn available facilities of £19.0 million and cash of £13.5 million.
- Net debt excluding finance leases was £47.5 million.
- An accordion increase of £20 million to the existing £80 million debt facility was agreed in July 2022 to fund the acquisition of DL Radiators s.r.l., which was purchased for €28.3 million in July 2022.
- Leverage at 30 June 2022 was 1.1x EBITDA in line with the Group’s capital structure guidance.

The Group is now required to adopt IAS 29 Financial Reporting in Hyperinflationary Economies in respect of its Turkish subsidiary

	Statutory results £m	IAS 29 £m	Pre-IAS 29 results £m
Revenue	**150.1**	**2.3**	**147.8**
Adjusted operating profit	**19.0**	**-**	**19.0**
Exceptional items	-	-	-
Foreign exchange differences	(3.0)	(0.1)	(2.9)
Impact of IAS 29	(4.1)	(4.1)	-
Operating profit / (loss)	**11.9**	**(4.2)**	**16.1**
Net finance costs	(1.8)	-	(1.8)
Monetary losses - net (IAS 29)	(5.4)	(5.4)	-
Profit / (loss) before tax	**4.7**	**(9.6)**	**14.3**
Income tax expense	(4.0)	(1.3)	(2.7)
Profit / (loss) for the period	**0.7**	**(10.9)**	**11.6**

- The table outlines the impact of IAS 29 on the results for the six months ended 30 June 2022. All IAS 29 accounting adjustments are non cash items.
- The Group is required to adopt IAS 29 Financial Reporting in Hyperinflationary Economies in respect of its Turkish subsidiary for the first time in the financial statements for the six months ended 30 June 2022 as inflation in Turkey exceeded 100% over a three-year period in early 2022
- The impact of this accounting standard at 31 December 2021 is accounted for as a restatement to opening reserves.
- Adjusted operating profit and adjusted profit after tax are stated before the impact of IAS 29 in the period as management believe that this gives a more meaningful presentation of the Group’s underlying performance.
- IAS 29 adjustments are required due to the Turkish subsidiary using Turkish Lira as its functional currency.

Modelling guidance

- Steel price volatility has continued throughout 2022.
- Additional selling price increases implemented in all major markets in July 2022.
- Currency movements do not impact cash gains or losses due to robustness of the business model and natural hedging.
- DL Radiators expected to contribute EBITDA in 2022 at a similar level to 2021 pro rata to our ownership period.
- Leverage expected to return to c. 1x EBITDA by the end of the year after a temporary increase due to the acquisition of DL Radiators.

Impact of lower volumes is being more than offset by higher revenues and margins per radiator.

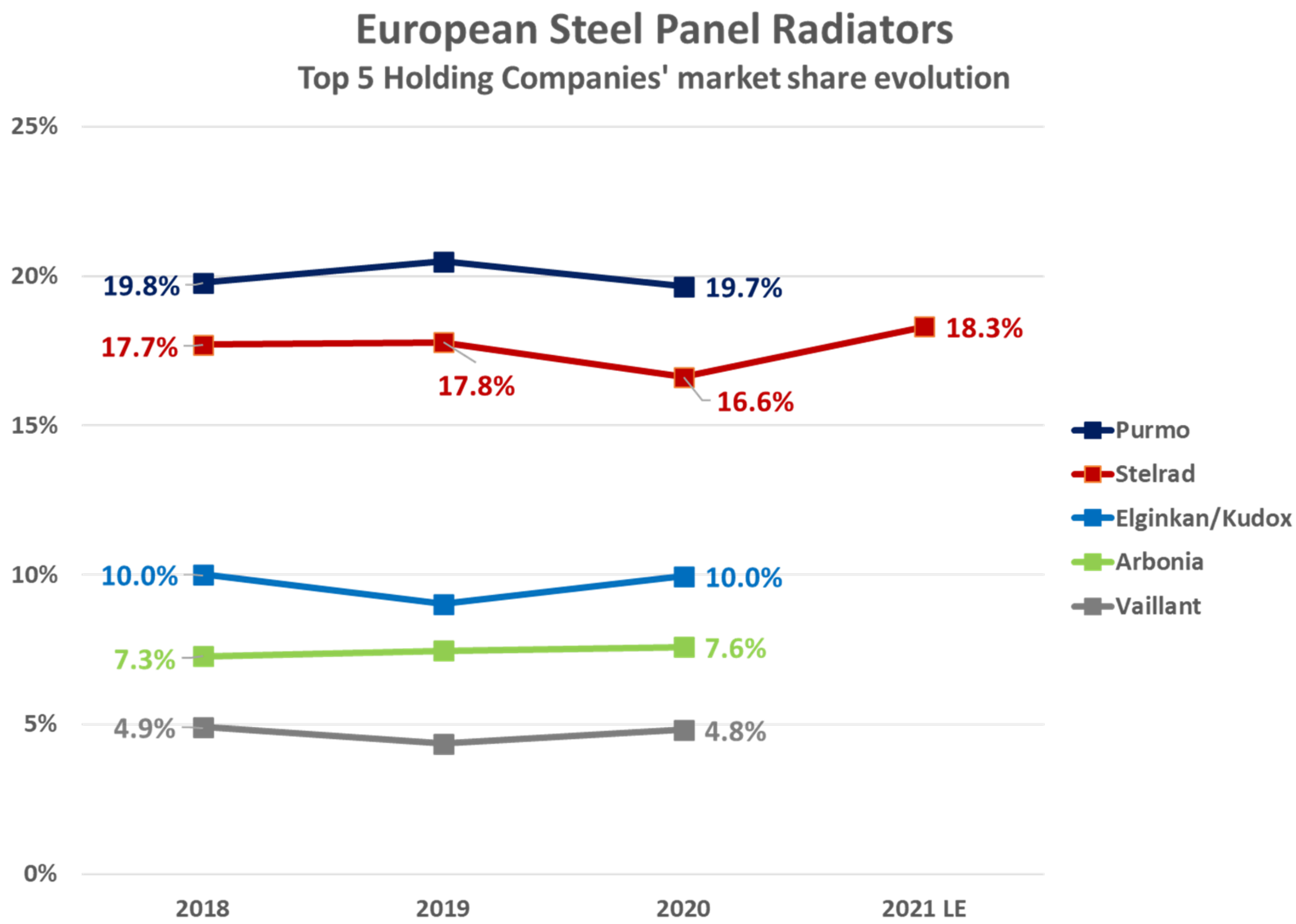
Despite caution over the impact of inflation on future market demand our expectations for 2022 remain unchanged due to the resilience of the business.

Business review

Trevor Harvey
Chief Executive Officer

In 2021, Stelrad Group's market share increased by 1.7 ppts vs 2020, from 16.6% to 18.3%

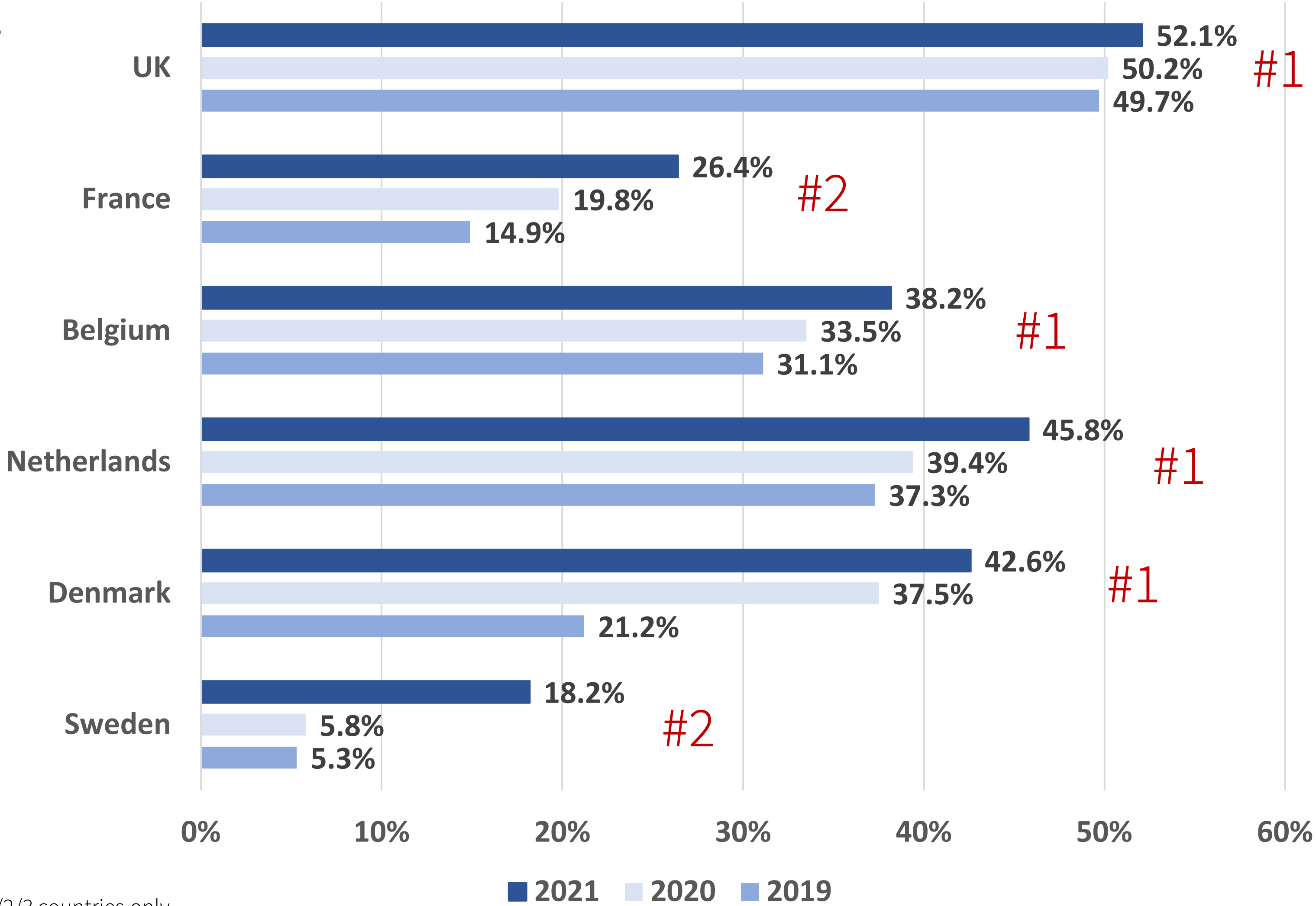
- Stelrad's significant share in the UK - the European country most affected by Covid-19 in 2020 - impacted the Group's overall position in 2020.
- Stelrad performed most strongly of the Top 5 players, according to the 2021 share data now available for markets representing c.91% of total European volume .
- Based on the latest market data, Stelrad has not only recovered but has also increased share in 2021, with 0.5 ppts growth relative to 2019.



Source: BRG Building Solutions June 2022 – 2021 currently represents a latest market volume estimate for smaller countries not yet fully reported

In 2021, Stelrad made important gains in share and market position across key countries, providing a strong foundation to meet future market challenges

- UK share increased 1.9ppts vs 2020 to 52.1%.
- In France, Stelrad Group gained #2 market position with 26.4% share, +6.6ppts.
- Belgian share increased by 4.7ppts to 38.2%.
- In the Netherlands, 45.8% share reflected growth of 6.4ppts.
- Danish share rose 5.1ppts to 42.6%.
- In Sweden, Stelrad Group moved from #5 to #2 position with 18.2% share, +12.4ppts.



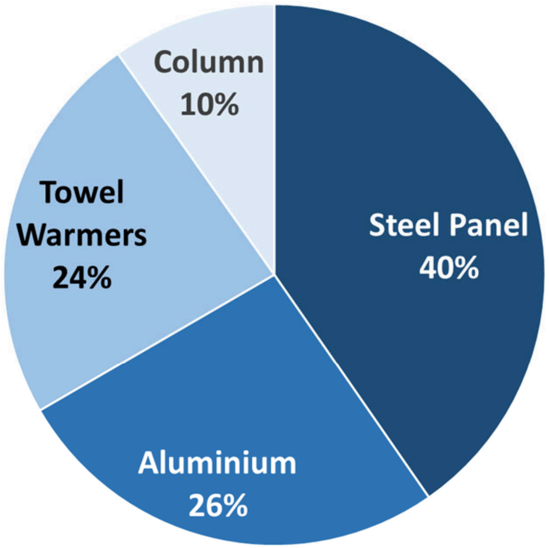
Source: BRG Building Solutions June 2022 Tier 1/2/3 countries only

The acquisition of DL Radiators is strongly aligned with Stelrad Group's four key strategic objectives

1 Growing market share	• Stelrad Group is fulfilling the role of market consolidator. • Facilitates share growth in key geographic markets.
2 Improving product mix	• Manufactures a wide range of radiator types and technologies. • Will further accelerate upselling to design products leveraging Stelrad Group channels.
3 Optimising routes to market	• Provides increased access to the retail channel. • Provides increased access to markets and channels in France and Germany.
4 Positioning effectively for decarbonisation	• Provides an electrical range suitable for decarbonised heating systems. • Will extend Stelrad Group's offer for products compatible with low temperature systems, leveraging existing brands and channels.

DL Radiators represents an extremely complementary acquisition for Stelrad

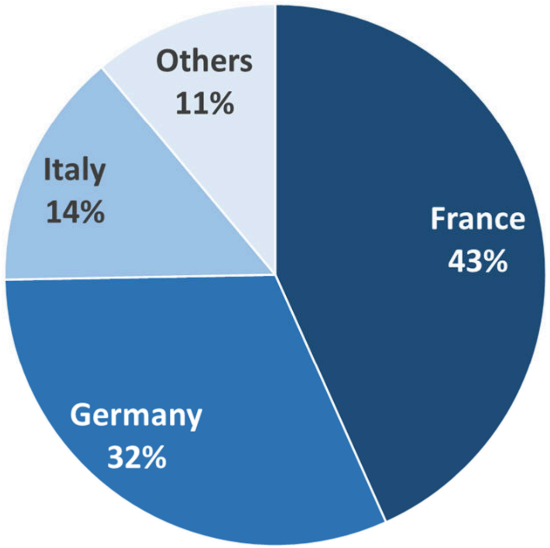
2021 revenue by product type



>60% of sales are in higher added value design ranges

- DL Radiators' sales will improve Stelrad Group's product mix.
- In addition, there are clear opportunities to develop sales of these products in Stelrad's core markets and existing channels.

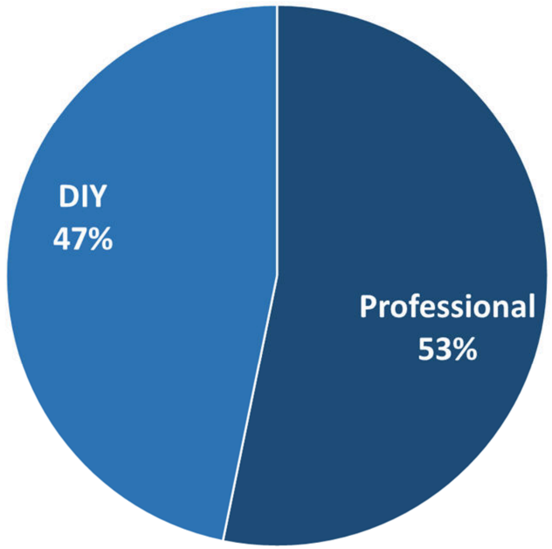
2021 revenue by country



89% of sales are into France, Germany and Italy

- Sales in France reinforce Stelrad's growing market position.
- With the addition of DL Radiators' sales in Germany, Stelrad will be #3 in Steel Panel Radiators.
- Stelrad has a presence in Italy for the first time.

2021 revenue by channel



47% of sales are through the DIY channel

- Acquiring DL Radiators increases Stelrad's penetration of the retail channel.
- DIY/Retail presence is increasingly important in accessing the significant private residential RMI segment.

We are developing our ESG strategy to ensure Stelrad is fit for the future

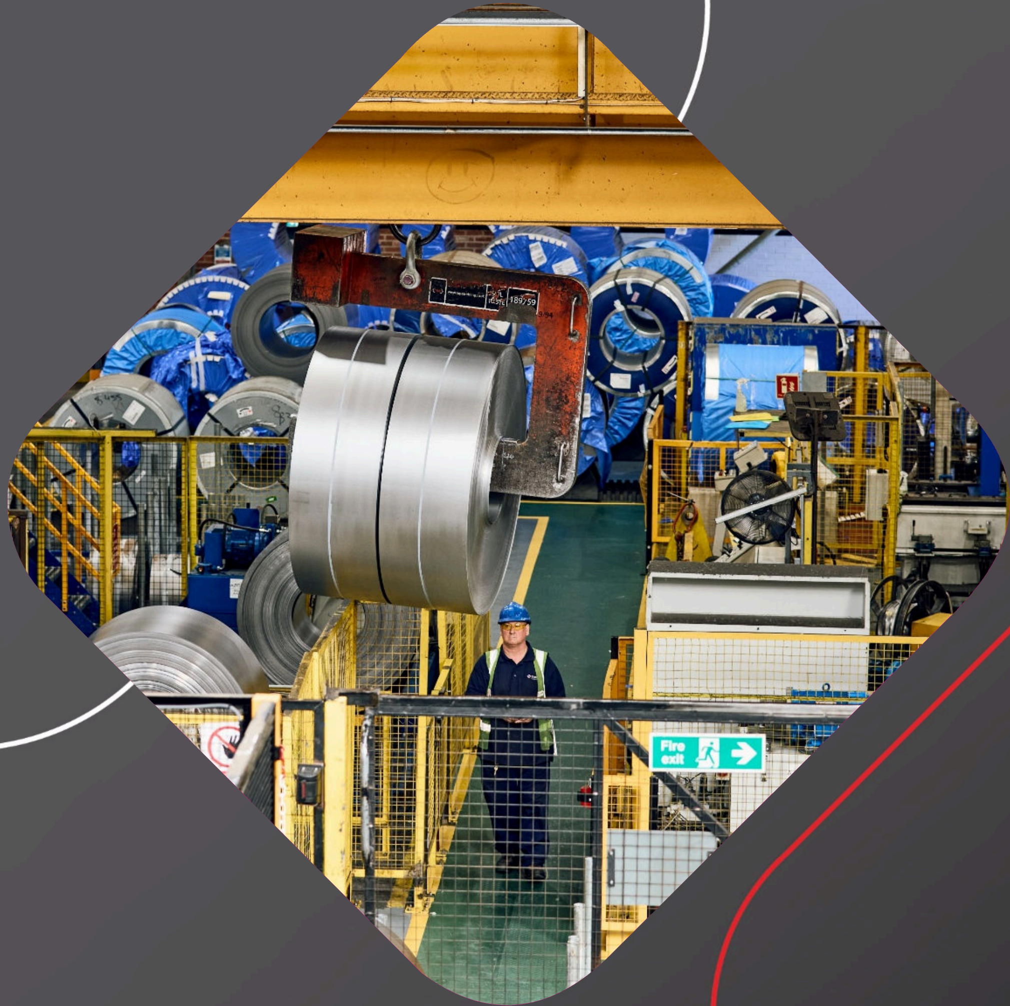
- At the end of 2021, we set up a task force to develop a comprehensive and well-integrated ESG strategy.
- Understanding the needs of Stelrad Group's stakeholders has been central to developing "Fit for the future", our strategic framework based on three key elements:
  - "Building a better workforce" Goal: ensure our people possess the skills and knowledge needed for future growth.
  - "Improving environmental performance" Goal: understand and reduce our impacts across the product life cycle.
  - "Protecting our people" represents the underpinning foundation of the framework Goal: strive for zero harm and high labour standards, always.
- During the second half of 2022, we plan to develop our sustainability targets, including Key Performance Indicators.

Summary and Outlook

Results ahead of expectations are testament to Stelrad's resilient business model and robust strategy

Strong results underpin confidence in H2 outcome	• Improvement in revenue and adjusted operating profit across all territories. • Lower volumes more than offset by higher revenues and margins per radiator. • Continue to grow market share.
Long term growth drivers	• Rising energy costs driving long-term demand for more energy efficient heating solutions. • Decarbonisation agenda dovetails perfectly with our purpose. • DL Radiators acquisition augments organic growth potential.
Remain well-positioned to drive shareholder value	• Trading inline with expectations post period end. • Monitoring economic conditions closely… • …but resilient business model, market leading position and sector experience underpin confidence in our ability to outperform the market.

Questions



Appendices

2022 results overview

Income statement	H1 2022 £m	H1 2021 £m	Movement £m	Movement %
Revenue	**150.1**	**127.9**	**22.2**	**17.4**
Adjusted operating profit*	**19.0**	**16.8**	**2.2**	**13.1**
Exceptional items	-	(1.5)	1.5	100.0
Foreign exchange differences	(3.0)	2.6	(5.6)	(215.4)
Impact of IAS 29	(4.1)	-	(4.1)	n/a
Operating profit	**11.9**	**17.9**	**(6.0)**	**(33.5)**
Net finance costs	(1.8)	(5.5)	3.7	67.3
Monetary losses – net (IAS 29)	(5.4)	-	(5.4)	n/a
Profit before tax	**4.7**	**12.4**	**(7.7)**	**(62.1)**
Income tax expense	(4.0)	(3.6)	(0.4)	(11.1)
Profit for the period	**0.7**	**8.8**	**(8.1)**	**(92.5)**
Earnings per share, p	0.52	6.94	(6.42)	(92.5)
Adjusted earning per share, p*	**10.95**	**6.34**	**4.61**	**72.7**
Proposed dividend per share, p	**2.92**	**-**	**2.92**	

- Non cash FX loss due to restatement of Turkish balance sheet assets and liabilities due to relative strength of US dollar compared to Sterling /Euro.

- Non cash IAS 29 losses due to restatement of retained earnings in Turkish subsidiary with corresponding credit in statement of changes in equity

- Proposed dividend represents one third of 40% of Group adjusted net profit pro rated to the full year.

*Adjusted figures are stated before exceptional items, foreign exchange differences, the impact of IAS 29 and tax thereon where applicable.

In July, Stelrad Group acquired leading Italian heat emitter manufacturer DL Radiators for €28.3 million

Overview

- Based in Moimacco, near Udine, Italy.
- Manufactures steel panel, multicolumn steel, aluminium and towel warmer radiators with a volume of c.1 million units in 2021.
- Employs approximately 350 people.
- Experienced management team.

2021 full year results

• Revenue:	€ 86.9 million.
• Normalised EBITDA:	€ 5.0 million.

DL RADIATORS
ITALIAN PROFESSIONAL HEATING