

Thursday 9 March 2023

VOLUTION GROUP PLC

Half year Results for the six months ended 31 January 2023

Strong first half performance, underpinned by structural growth drivers

Volution Group plc ("Volution" or "the Group" or "the Company", LSE: FAN), a leading international designer and manufacturer of energy efficient indoor air quality solutions, today announces its unaudited interim financial results for the six months ended 31 January 2023.

RESULTS SUMMARY

	6 months to 31 January 2023	6 months to 31 January 2022	Movement
Revenue (£m)	162.3	149.6	+8.5%
Adjusted operating profit (£m)	34.2	31.9	+7.1%
Adjusted operating margin (%)	21.1%	21.3%	(0.2)pp
Adjusted profit before tax (£m)	31.8	30.0	+6.0%
Adjusted basic EPS (pence)	12.4	11.7	+6.0%
Reported operating profit (£m)	27.8	23.3	+19.6%
Reported profit before tax (£m)	22.6	21.4	+5.6%
Reported basic EPS (pence)	8.6	8.2	+4.9%
Adjusted operating cash flow (£m)	30.6	16.2	+88.1%
Net debt (£m) ¹	79.2	104.0	(24.8)
Interim dividend per share (p)	2.50	2.30	+8.7%

¹ H1 2023 includes lease liabilities of £23.3 million (H1 2022: £24.8 million).

The Group uses some alternative performance measures to manage and assess the underlying performance of the business. These measures include adjusted operating profit, adjusted profit before tax, adjusted EPS, adjusted operating cash flow and net debt. A definition of all the adjusted and non-GAAP measures is set out in the glossary of terms in note 16 to the condensed consolidated financial statements. A reconciliation to reported measures is set out in note 2 to the condensed consolidated financial statements.

FINANCIAL HIGHLIGHTS

- Revenue up 8.5%; 7.3% organic growth (6.3% at constant currency ('cc')) and 1.2% inorganic growth (1.2% at cc). All three regions grew organically, delivered through both volume and price
- Adjusted operating margin of 21.1% (H1 2022: 21.3%), above our long-term operating margin target as we successfully mitigated inflationary headwinds
- Adjusted operating cash flow significantly up on prior year at £30.6 million as inventory levels normalised (H1 2022: £16.2 million), leading to a cash conversion of 88% (H1 2022: 50%)
- Balance sheet remains strong (leverage ex-leases at 0.8x), providing significant headroom for earnings accretive acquisitions
- Reported profit before tax up 5.6% to £22.6 million (H1 2022: £21.4 million), with higher operating profits partially offset by increased finance charges as a result of interest rate rises
- Interim dividend up 8.7% to 2.50 pence per share (H1 2022: 2.30 pence)

OPERATIONAL HIGHLIGHTS

- Excellent levels of customer service underpinned by our group-wide optimisation of component inventory
- Pricing discipline in all three geographical regions underpinned margin delivery
- Improved Health & Safety performance, with significant reduction in accident frequency rate, at 0.15 per 100,000 hours worked (H1 2022: 0.25)
- Good progress on a number of important new product development programs, with several new product launches anticipated during the second half of the year

HEALTHY AIR, SUSTAINABLY

- Continued progress against our key sustainability targets:
 - 76.4% of plastic used in own manufacturing facilities from recycled sources vs. target of 90% by end FY25 (H1 2022: 58.0%)
 - 69.4% of revenue from low-carbon, energy saving products vs. target of 70% by end FY25 (H1 2022: 65.1%)
- Heat recovery further increased to 32.2% of the total Group revenue

Commenting on the Group's performance, Ronnie George, Chief Executive Officer, said:

"We delivered a strong first half performance across our three regions, driven in particular by strong UK residential RMI demand. We have successfully managed inflationary headwinds and supply chain challenges through pricing discipline and inventory optimisation and in doing so maintained our operating margin at 21%. This strong result is testament to the hard work and commitment of our employees."

"The importance of indoor air quality to our health and the need for energy efficient, low carbon buildings, are moving even further up the global agenda and increasingly supported by government policy and regulation, driving demand for Volution's innovative ventilation and heat recovery systems. This was evidenced in the first half by strong refurbishment demand, particularly in the UK, as homeowners and landlords focused on fixing mould and condensation issues, exacerbated by a reduction in heating use in response to the energy crisis.

"Looking ahead, although mindful of the cautious sentiment in some of our segments, residential RMI demand remains supportive, and inflationary pressures and supply chain challenges are easing.

With our excellent levels of customer service, agile manufacturing, a well-developed M&A pipeline and strong balance sheet position, coupled with significant geographic revenue diversity, we are well placed to make further progress."

-Ends-

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A meeting for analysts will be held at 10:00am GMT today, Thursday 9 March 2023, at the offices of Berenberg, 60 Threadneedle Street, London EC2R 8HP. Please contact FTI_Volution@fticonsulting.com to register to attend or for instructions on how to connect to the meeting via conference facility.

A copy of this announcement and the presentation given to analysts will be available on our website www.volutiongroupplc.com on Thursday 9 March 2023.

Volution Group plc Legal Entity Identifier: 213800EPT84EQCDHO768.

Note to Editors:

Volution Group plc (LSE: FAN) is a leading international designer and manufacturer of energy efficient indoor air quality solutions. Volution Group comprises 19 key brands across three regions:

UK: Vent-Axia, Manrose, Diffusion, National Ventilation, Airtech, Breathing Buildings, Torin-Sifan.

Continental Europe: Fresh, PAX, VoltAir, Kair, Air Connection, inVENTer, Ventilair, ClimaRad, rtek, ERI

Australasia: Simx, Ventair, Manrose.

For more information, please go to: www.volutiongroupplc.com

Cautionary statement regarding forward-looking statements

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.

CHIEF EXECUTIVE OFFICER'S REVIEW

Overview

We have reported a strong performance in the first half of the year, and I want to congratulate our valued colleagues in delivering these results. Our end market activity continues to be characterised by a greater proportion of revenue in providing refurbishment solutions for buildings with, approximately 70% of our revenue being RMI and 30% being in new build applications. A growing focus on decarbonising buildings, the impact that poorly heated and ventilated dwellings can have on our health and a greater awareness post Covid-19 of the inextricable link between good ventilation and healthy homes, is providing a structural underpinning to the long-term revenue trends across our Group. Despite the uncertain global macroeconomic environment, we continue to see a widespread willingness and funding support to invest in good quality ventilation for buildings.

During the first half, our teams successfully navigated supply chain interruptions and inflationary pressures and our customer service levels have been exemplary across all areas of the Group.

I am immensely proud of the progress we have made, not just with our financial performance but also with the key sustainability initiatives that our colleagues champion daily. Progress with recycled content in our production, the proportion of our revenue that is from low carbon products and our improving health and safety performance are some of the highlights of the first half of the year. Well done and thank you to the Volution team.

The strategic investment we made in component inventory in the last two financial years has helped us not only deliver excellent levels of customer service but also allowed us to respond more quickly to some encouraging demand growth opportunities, most notably in the UK refurbishment market. The inventory investments made in prior years have now normalised and we expect inventory levels to remain reasonably constant, relative to revenues in future, well positioned to support our organic growth initiatives.

Our pricing discipline and relentless pursuit of improving efficiency, coupled with tight cost control and initiatives to reduce our material costs have resulted in an adjusted operating margin of 21.1%, in a period when inflationary pressures have been significant.

Across our Group we have started to see material cost inflation pressures subsiding, although facilities and labour cost inflation pressures remain. The impact of these costs has largely been mitigated through higher selling prices, higher factory volumes and improving levels of efficiency, in several cases underpinned by investment in new plant, tooling and equipment.

With excellent levels of customer service across our group, and our supply chains now in good shape, our innovation and product development teams have been focused on the launch of several new products planned for the second half of the year including new MVHR (mechanical ventilation with heat recovery) solutions for both residential and commercial.

Results

Adjusted operating margin was consistent with the last two full financial years at 21.1% (H1 2022: 21.3%).

Revenue grew by 8.5%, 7.5% at constant currency, with revenue growth in all three of our geographic regions enabling the Group to deliver organic growth of 6.3% on a constant currency basis.

Our adjusted operating profit increased 7.1% to £34.2 million in H1 2023 from £31.9 million in the prior period. Reported operating profit was £27.8 million (H1 2022: £23.3 million).

Adjusted operating cash inflow increased to £30.6 million (H1 2022: £16.2 million) as inventory levels normalised with a cash conversion rate of 88% (H1 2022: 50%). Our balance sheet is strong, with leverage (ex-leases) at 0.8x, giving ample headroom to make earnings accretive acquisitions.

In the first half of financial year 2023 we acquired the remaining shares of ERI Corporation UK Limited for consideration of £0.4 million. Our pipeline of potential acquisition opportunities is encouraging, and with our balance sheet strength and headroom, we are optimistic of being able to add further earnings accretive acquisitions to the Group.

Focus on sustainability

Our purpose, to deliver "Healthy Air, Sustainably" is hugely important to us and we made strong progress with our key sustainability initiatives in the first half of the year.

The proportion of our revenue from low carbon, energy saving products increased to 69.4% versus our long term target of 70% by end of FY25 (H1 FY22: 66.1%). This was aided by the growth in heat recovery ventilation which now represents 32.2% of the total revenue of the Group. Our new product innovation team developments are focused on adding innovative new low carbon product solutions to our portfolio.

Continuing the excellent progress we made in H2 2022, where breakthroughs were made in applying alternative types of recycled materials to our injection moulding processes, the proportion of recycled plastics used in our manufacturing increased to 76.4% versus our long term target of 90% by end of FY25 (H1 2022: 67.2%). I would like to thank our technical and operational teams in the UK for delivering this significant progress.

We are also pleased that our continued focus on 'keeping everyone safe' has led to a significant reduction in our accident frequency rate, at 0.15 per 100,000 hours worked compared to 0.25 last year. As always, our ambition remains that all of our colleagues should go home safely every day.

We are well positioned to make further good progress with these important KPIs in the second half of the year.

Regulatory Drivers and indoor air quality

Following the changes to Part F and Part L of the Building Regulations in the UK, we are now seeing a greater transition to continuous ventilation solutions among housebuilders. This increases our average sales value per house and this trend is expected to continue. We await the Future Homes Standard public consultation from Government due later this year which we expect to further support energy efficient ventilation in new build.

Following several widely reported cases of health issues and fatalities linked to exposure to mould, we are seeing an increased urgency and focus on air quality in social housing. We also await the publication of the Decent Home Standard for the Private Rented sector after the consultation completed in October 2022.

In Continental Europe, The Industry, Research and Energy Committee adopted its position on the proposed revision of the Energy Performance of Buildings Directive (EPBD). According to the text, residential buildings would have to

achieve at least energy performance class E by 2030, and D by 2033. Non-residential and public buildings would have to achieve the same classes by 2027 and 2030 respectively. These changes support further air tightness improvements to buildings and therefore the requirement for energy efficient ventilation solutions.

Interim dividend

The Board has declared an interim dividend of 2.5 pence per share, up 8.7% (H1 2022: 2.3 pence), reflecting the strong first half performance and demonstrating the Board's confidence in the performance of the Group. The interim dividend will be paid on 2 May 2023 to shareholders on the register at the close of business on 24 March 2023.

Outlook

Looking ahead, although mindful of the cautious sentiment in some of our segments, residential refurbishment demand remains supportive, and inflationary pressures and supply chain challenges are easing.

With our excellent levels of customer service, agile manufacturing, a well-developed M&A pipeline and strong balance sheet position, coupled with significant geographic revenue diversity, we are well placed to make further progress.

Ronnie George
Chief Executive Officer
8 March 2023

MARKET BY MARKET

United Kingdom

	6 months to 31 Jan 2023	6 months to 31 Jan 2022	Growth %
Market sector revenue	£m	£m	
UK			
Residential	41.4	35.8	15.7
Commercial	14.3	15.8	(9.3)
Export	5.3	5.6	(5.9)
OEM	12.7	12.6	0.2
Total UK Revenue	73.7	69.8	5.5
Adjusted operating profit	15.6	13.9	12.5
Adjusted operating profit margin (%)	21.2	19.9	1.3pp
Reported operating profit	13.4	9.2	45.7

UK revenue grew by 5.5% (5.3% at constant currency) to £73.7 million with adjusted operating profit at £15.6 million, an increase of £1.7 million on the prior year. Adjusted operating profit margin was 21.2% compared to the first half of 2022 of 19.9%, an increase of 1.3 percentage points. This brings the UK operating profit margin close to our other two market sector areas, Continental Europe, and Australasia.

A year ago, we made some changes to the UK's organisational structure to strengthen the performance of the region. The development of the leadership team focusing on our three key areas of UK residential RMI, UK residential new build and commercial ventilation has enabled us to more closely focus and support each of these areas. The residential growth of 15.7% in the first half of the year is an outstanding performance and offsets the more difficult commercial end market.

Pricing discipline, cost reduction and efficiency initiatives and a growing mix shift towards higher value, higher gross margin low carbon and innovative solutions has been a key driver of performance. Excellent customer service and stock availability across the UK business have also enabled us to make further share gains in the residential market.

Revenue in our Residential sector was up 15.7% to £41.4 million (H1 2022: £35.8 million). The detail of our key residential end markets is as follows.

Social housing refurbishment demand has delivered the strongest revenue growth in our UK residential market. On 19 November 2022, Housing Secretary Michael Gove, wrote a letter to all providers of social housing, headed, "Ensuring Quality in Social Housing." This letter was in response to the tragic death of Awaab Ishak, a two-year-old boy, with the Coroner citing mould and poor-quality ventilation in his home as the direct reason attributable to his death. Amendments have since been tabled to the Social Housing Regulation Bill to introduce 'Awaab's law' which will require social housing landlords to fix reported health hazards within specified timeframes.

Alongside this issue we are witnessing a winter period where fuel bills have been the highest on record. As some households understandably reduce their heating use, the lower temperatures drive a higher incidence of mould and condensation. These factors, as well as an accelerated approach to delivering the net zero carbon targets for the future, have driven strong demand for our low carbon ventilation solutions. Our Vent-Axia brand is the first in the UK to launch a fully PAS2035 compliant decentralised heat recovery solution fully suitable for retrofit.

We have also achieved strong revenue growth in our private RMI market with similar demand drivers as public housing.

Homeowners as well as private landlords and their tenants are increasingly aware of the dangers of damp, mould and indoor pollutants, and are turning to ventilation products as part of the solution. Whilst wider discretionary building products purchases have been under pressure in the last twelve months, we continue to believe that ventilation refurbishment in our dwellings is being seen as an increasingly necessary and worthwhile investment required to maintain the health of both the building and its occupants.

Sales in our UK New Build Residential Systems sector were also strong in the first half of the year with revenue considerably up on the same period last year. Building regulations changes in June 2022 will move the market to a "systems only" approach soon, where all new build housing will incorporate higher value, whole building ventilation systems, and we predict that very few new developments will utilise traditional, less energy efficient single exhaust fans in the future. We have been pleased to work closely with our trade association and house builders in helping define an energy efficient and cost-effective ventilation strategy for the homes of the near future.

Order intake levels remain encouraging, but we are mindful of the significant reduction in sales rates across the housebuilder community since the "mini budget" late in 2022. We expect unit revenue rates per new dwelling to continue to increase as newer, more energy efficient products, including heat recovery system solutions, are applied. This will help to offset any potentially weaker volumes in the period ahead.

UK Commercial market revenue declined by 9.3% in the period to £14.3 million (H1 2022: £15.8 million). Commercial refurbishment was more challenged in the first half of the year. The prior year comparator period was a strong post-Covid-19 restart for many retailers, restaurants and offices, whilst we witnessed weak demand for our refurbishment solutions in the first half. Our solutions for the new build education sector also performed weakly although a further enhancement to the product range was added at the end of the period with expectations to recover market share in the months ahead. The better performer in our commercial revenue stream was our range of energy efficient fan coils where the order book remains strong and there is a further range enhancement planned for the second half of the year.

UK Export market revenue was £5.3 million, down 5.9% (6.7% at constant currency). Weaker demand in the period from the Republic of Ireland market notably in December and January was exacerbated by some customer destocking over the calendar year end to meet reducing demand. However, we have already seen this demand return at the start of the second half of the financial year.

OEM revenue was £12.7 million, an increase of 0.2% (decline 0.7% at constant currency). Whilst overall this is a disappointing revenue performance, we have seen a continuation of the revenue mix trend away from older, less energy efficient technology towards newer, leading low carbon EC3 range of products. The shift in demand has been so pronounced in the period that our existing EC3 production capacity is largely full, and we have now added new capacity. This investment commenced in early FY23 and, became operational at the beginning of March 2023. The shift away from older technology products will continue, but the reducing significance of this category lessens the impact of the decline, whilst we are optimistic about the continued growth of our EC3 ranges.

Continental Europe

	6 months to 31 Jan 2023	6 months to 31 Jan 2022	Growth %
Market sector revenue	£m	£m	
Continental Europe			
Nordics	26.6	27.0	(1.4)
Central Europe	37.7	30.4	23.9
Total Continental Europe revenue	64.3	57.4	12.0
Adjusted operating profit	15.4	14.8	4.0
Adjusted operating profit margin (%)	24.0	25.8	(1.8)pp
Reported operating profit	12.1	11.6	4.3

Revenue in Continental Europe was £64.3 million, with growth of £6.9 million, an increase of 12.0% (11.4% at constant currency). Organic revenue grew by 8.9% (8.2% at constant currency) and adjusted operating profit was £15.4 million, up from £14.8 million, in the same period in the prior year. The margin reduction year-on-year in Continental Europe is primarily due to business mix, although European margins remain the highest in the Group. ERI, our heat exchanger business acquired in September 2021 grew strongly, as did ClimaRad in the Netherlands, with the Nordics broadly flat and a decline in Germany after three and a half years of exceptionally strong revenue growth.

Revenue in the Nordics was £26.6 million (H1 2022: £27.0 million), a decrease of 1.4% (growth 0.4% at constant currency). Sales in the Nordics have been challenging in the first half of the year. The weakness is predominantly across the new build market in Sweden, Denmark, and Finland. Our DIY and trade routes to market for refurbishment solutions meanwhile have performed well over the period and our disciplined approach to pricing has enabled us to maintain our adjusted operating margins.

We continued to make strong progress in Central Europe, delivering revenue of £37.7 million and growth of 23.9% (21.2% at constant currency) compared to the previous period, helped by the acquisition of ERI. Organic revenue grew by 18.0% (15.2% at constant currency).

Our InVENTer brand in Germany had a weaker performance in the first half of the year as activity and sentiment in the market was much softer. The local nervousness over gas supplies during the winter period and higher interest rates impacting new build demand made for a challenging backdrop in the period. InVENTer has delivered strong organic growth over the last three and a half years, and we see the most recent period as a temporary setback. Quote levels remain high, supply chain difficulties have eased and we are optimistic about the long-term growth drivers for decentralised heat recovery ventilation products in this market.

The trend towards decentralised heat recovery solutions, particularly for major refurbishments, is demonstrated by the strong performance delivered by our ClimaRad brand in the Netherlands. The project order pipeline is also strong, and we are confident about the direction of travel for the second half of the year. The investment payback for decentralised heat recovery is now much shorter than before due to higher energy costs.

In Belgium the late launch of our new and upgraded range of mechanical ventilation with heat recovery held back revenues in the first half but we have now launched our upgraded range of products into the market. The project, whilst delayed by Covid-19 and our own electronics development, is now

available to the market and enables us to access areas of the market previously unavailable to us.

ERI continues to deliver strong growth and our investment to substantially increase capacity remains on track to deliver benefits in the balance of FY23 and into the following year. We continue to develop new, innovative, and more efficient product solutions and have had some success in developing the North American market for additional business. The long-term structural underpinning of the demand for aluminium cross counterflow heat exchangers remains exciting and we will add additional capacity headroom to grow in the coming months.

Australasia

	6 months to 31 Jan 2023	6 months to 31 Jan 2022	Growth %
Market sector revenue	£m	£m	
Total Australasia revenue	24.3	22.4	8.9
Adjusted operating profit	5.5	4.9	11.3
Adjusted operating profit margin (%)	22.6	22.1	0.5pp
Reported operating profit	4.9	4.4	12.4

Revenue in Australasia was £24.3 million, and grew by 8.9% (4.5% at constant currency). Adjusted operating profit increased by 11.3% to £5.5 million, with our adjusted operating margin increasing to 22.6% (H1 2022: 22.1%).

We continue to develop our product portfolio for both the New Zealand and Australian markets and despite the slower activity in the new build construction market we are confident about our opportunities for further growth and are capturing further market share in our key area of residential refurbishment. Delivering a 22.6% operating profit margin, with excellent levels of customer service and the widest offering of residential product solutions in the Australasian market, we are delighted about the continuing progress made in the first half of the year.

FINANCIAL REVIEW

Trading performance summary

Group revenue for the six months ended 31 January 2023 was £162.3 million (H1 2022: £149.6 million), an increase of 8.5%. On a constant currency basis revenue grew by 7.5%, of which 6.3% was organic and 1.2% inorganic due to the prior year acquisition of ERI, with a favourable 1.0% impact from foreign exchange.

Adjusted operating profit increased by 7.1% (6.4% at constant currency) to £34.2 million (H1 2022: £31.9 million). The strong adjusted operating margin of 21.1% remained in line with the prior two full financial years (H1 2022: 21.3%). On a regional level, UK adjusted operating margin increased to 21.2% (H1 2022: 19.9%) with strong price discipline, good progress in terms of product mix, and good operational performance. European margins remain the highest in the Group at 24.0% albeit slightly down on the prior year period (H1 2022: 25.7%) due principally to business mix. Reported operating profit increased by 19.6% to £27.8 million (H1 2022: £23.3 million), of which £2.3 million was attributable to the increase in adjusted operating profit and a further £2.3 million was due to a reduced amortisation charge as a number of intangibles assets reached the end of their amortisation life.

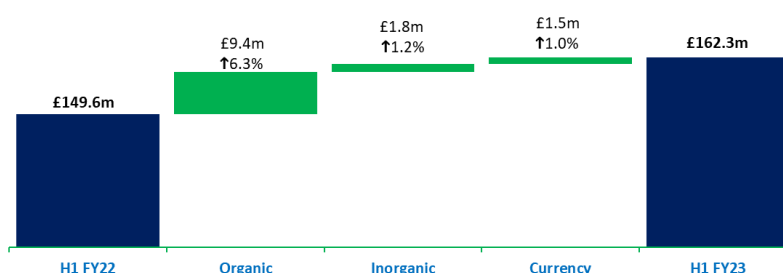
Adjusted earnings per share increased by 6.0% to 12.4p, compared with 11.7p in H1 2022. This is despite an adverse impact on our finance costs (up 21.6%) due to the marked increase in global bank base rates. Our reported basic earnings per share also increased by 4.9% to 8.6 pence (H1 2022: 8.2 pence).

	Reported			Adjusted ²		
	6 months to 31 January 2023	6 months to 31 January 2022	Movement	6 months to 31 January 2023	6 months to 31 January 2022	Movement
Revenue (£m)	162.3	149.6	8.5%	162.3	149.6	8.5%
EBITDA (£m)	38.6	36.1	6.7%	38.7	36.3	6.8%
Operating profit (£m)	27.8	23.3	19.6%	34.2	31.9	7.1%
Net finance costs (£m)	3.5	0.9	280.2%	2.0	1.6	21.6%
Profit before tax (£m)	22.6	21.4	5.6%	31.8	30.0	6.0%
Basic EPS (p)	8.6	8.2	4.9%	12.4	11.7	6.0%
Interim dividend per share (p)	2.50	2.30	8.7%	2.50	2.30	8.7%
Operating cash flow (£m)	30.4	16.1	88.4%	30.6	16.2	88.1%
Net debt (£m) ¹	79.2	104.0	24.8	79.2	104.0	24.8

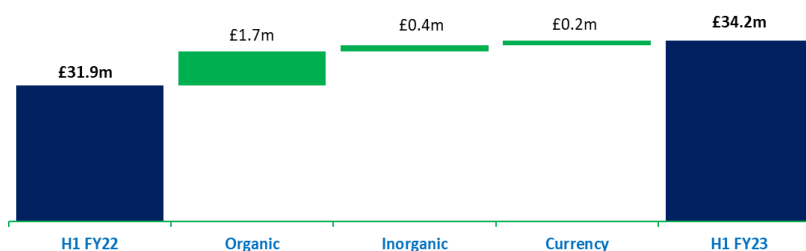
¹ H1 2023 includes lease liabilities of £23.3 million (H1 2022: £24.8 million)

² The reconciliation of the Group's reported profit before tax to adjusted measures of performance is summarised in the table below and in detail in note 2 to the condensed consolidated financial statements. For a definition of all the adjusted and non-GAAP measures, please see the glossary of terms in note 16 to the condensed consolidated financial statements.

Revenue growth - H1 2022 to H1 2023 (£m)



Adjusted operating profit growth - H1 2022 to H1 2023 (£m)



Reported and adjusted results

The Board and key management use some alternative performance measures to manage and assess the underlying performance of the business. These measures include adjusted operating profit, adjusted profit before tax, adjusted basic EPS, adjusted operating cash flow and net debt. These measures are deemed more appropriate to track underlying financial performance as they exclude income and expenditure that is not directly related to the ongoing trading of the business. A reconciliation of these measures of performance to the corresponding reported figure is shown below and is detailed in note 2 to the condensed consolidated financial statements.

Adjusted profit before tax of £31.8 million was 6.0% higher than H1 2022 (£30.0 million). Reported profit before tax £22.6 million was 5.6% higher than H1 2022 (£21.4 million).

	6 months ended 31 January 2023			6 months ended 31 January 2022		
	Reported	Adjustments	Adjusted results	Reported	Adjustments	Adjusted results
	£m	£m	£m	£m	£m	£m
Revenue	162.3	–	162.3	149.6	–	149.6
Gross profit	76.9	–	76.9	71.3	–	71.3
Administration and distribution costs excluding the costs listed below	(42.7)	–	(42.7)	(39.4)	–	(39.4)
Amortisation of intangible assets acquired through business combinations	(6.2)	6.2	–	(8.5)	8.5	–
Acquisition costs ¹	(0.2)	0.2	–	(0.1)	0.1	–
Operating profit	27.8	6.4	34.2	23.3	8.6	31.9
Re-measurement of financial liability	(0.4)	–	(0.4)	(0.3)	–	(0.3)
Re-measurement of future consideration ²	(1.3)	1.3	–	(0.7)	0.7	–
Net loss on financial instruments at fair value ³	(1.5)	1.5	–	0.7	(0.7)	–
Other net finance costs	(2.0)	–	(2.0)	(1.6)	–	(1.6)
Profit before tax	22.6	9.2	31.8	21.4	8.6	30.0
Income tax	(5.7)	(1.7)	(7.4)	(5.1)	(1.7)	(6.8)
Profit after tax	16.9	7.5	24.4	16.3	6.9	23.2

¹ £0.2 million acquisition costs relate to professional fees and expenses for acquisitions. (H1 2022: £0.1 million)

² £1.3 million revaluation relating to the re-measurement of future consideration in ClimaRad and ERI (H1 2022: £0.7 million)

³ £1.5 million loss due to the fair value of financial derivatives (H1 2022: £0.7 million gain)

Currency impact on reported revenue and profit

The Group's key trading currencies, other than Sterling, are the Euro, Swedish Krona, New Zealand Dollar and Australian Dollar. Average exchange rates are used to translate results in the Income Statement. During the six months, the movement of Sterling against our four principal non-Sterling trading currencies were as follows: Euro weakened by 2.3%, Swedish Krona strengthened by 4.4%, New Zealand Dollar weakened by 1.6% and Australian Dollar weakened by 6.0%.

If we had translated the H1 2023 performance of the Group at our H1 2022 exchange rates, the reported revenue would have been £1.5 million lower at £160.8 million, and adjusted operating profit would have been £0.2 million lower at £33.9 million.

We do not hedge the translational exchange risk arising from the conversion of the results of overseas subsidiaries, although we do denominate some of our bank borrowings in both Euro and Swedish Krona, which offsets some of the translation risk relating to net assets. At 31 January 2023 we had borrowings denominated in Swedish krona of £nil million (31 July 2022: £2.4 million), and Euro-denominated bank borrowings of £72.5 million (31 July 2022: £71.9 million). The Sterling value of our foreign currency-denominated loans, net of cash, increased by £4.4 million (H1 2022: decreased by £0.9 million) as a consequence of exchange rate movements.

Finance costs

Reported net finance costs were £3.5 million (H1 2022: £0.9 million) including £1.5 million of net loss on the revaluation of financial instruments (H1 2022: gain £0.7 million). Adjusted finance costs were £2.0 million (H1 2022: £1.6 million), the increase compared to prior year reflecting higher interest rates across our areas of operation.

Taxation

Our underlying effective tax rate, on adjusted profit before tax, was 23.2% (H1 2022: 22.6%). The increase of 0.6 percentage points in our adjusted effective tax rate compared to the prior period was primarily a result of part year impact of the change in the UK rate from 19% to 25%.

Our reported effective tax rate for the period was 25.0% (H1 2022: 23.8%).

We expect our medium term underlying effective tax rate to be in the range of 23% to 25% of the Group's adjusted profit before tax.

Cash flow and net debt

Group cash conversion, defined as adjusted operating cash flow as a percentage of adjusted earnings before interest, tax and amortisation (see note 16) was 88% (H1 2022: 50%). With the Group's typical cash seasonality profile weighted slightly more towards the second half of the year, this is well on track to exceed our stated financial target of 90% for the full year 2023.

Working capital increased by £5.0 million in the period (H1 2022: £17.5 million), within which inventory increased by £2.5 million (H1 2022: £8.3 million). Approximately £0.5 million of the increase in inventory was due to movements in foreign exchange rates, with receipt of components ahead of the lunar New Year holiday period and a small amount of revaluation due to increased input costs also being factors.

Capital expenditure in the period of £4.1 million (H1 2022: £3.6 million), included £1.0 million in product development across the Group and £1.0 million on plant and equipment in the UK, as well as investment to expand the EC3 motorised impeller production capacity in our OEM business and on

continuing the capacity expansion investment in ERI in North Macedonia.

Dividend payments in the period were £9.9 million (H1 2022: £8.7 million), whilst tax payments were also higher at £6.5 million (H1 2022: £6.3 million).

Acquisition spend of £0.4 million (H1 2022: £24.4 million) related to the acquisition of the remaining 49% share purchase of ERI Corporation UK Limited (see note 9).

Net debt at 31 January 2023 was £79.2 million (H1 2022: £104.0 million), comprised of bank borrowings of £72.5 million (H1 2022: £94.4 million), net of cash and cash equivalents of £16.6 million (H1 2022: £15.2 million) and including lease liabilities of £23.3 million (H1 2022: £24.8 million). Net debt (excluding leased liabilities) of £55.9 million (H1 2022: £79.2 million) represents leverage of 0.8x adjusted EBITDA (H1 2022: 1.2x).

	6 months to 31 January 2023	6 months to 31 January 2022
	£m	£m
Opening net debt at 1 August	(85.8)	(79.2)
Movements from normal business operations:		
Adjusted EBITDA	38.7	36.3
Movement in working capital	(5.0)	(17.5)
Share-based payments	1.0	1.0
Capital expenditure	(4.1)	(3.6)
Adjusted operating cash flow:	30.6	16.2
– Interest paid net of interest received	(1.5)	(1.4)
– Income tax paid	(6.5)	(6.3)
– Business combination related operating costs	(0.2)	(0.1)
– Dividend paid	(9.9)	(8.7)
– Purchase of own shares by the Employee Benefit Trust	(0.9)	–
– FX on foreign currency loans/cash	(4.4)	0.9
– Issue costs of new borrowings	(0.3)	–
– Lease liabilities	1.7	0.7
– Payments of lease liabilities	(1.6)	(1.7)
Movements from acquisitions:		
– Acquisition of non-controlling interest	(0.4)	–
– Contingent consideration relating to the acquisition of Ventair from operating activities	–	(3.2)
– Contingent consideration relating to the acquisition of Ventair from investing activities	–	(0.9)
– Acquisition consideration net of cash acquired and debt repaid	–	(20.3)
Closing net debt at 31 January	(79.2)	(104.0)

	6 months to 31 January 2023	6 months to 31 January 2022
	£m	£m
Bank Debt	(72.5)	(94.4)
Cash	16.6	15.2
Net Debt (excluding leased liabilities)	(55.9)	(79.2)
Lease liabilities	(23.3)	(24.8)
Closing net debt at 31 January	(79.2)	(104.0)

Reconciliation of adjusted operating cash flow

	6 months to 31 January 2023	6 months to 31 January 2022
	£m	£m
Net cash flow generated from operating activities	28.0	10.2
Capital expenditure	(4.1)	(3.6)
UK and overseas tax paid	6.5	6.3
Contingent consideration relating to the acquisition of Ventair from operating activities	–	3.2
Cash flow relating to business combination costs	0.2	0.1
Adjusted operating cash flow	30.6	16.2

Bank facilities, refinancing and liquidity

In December 2022, the Group exercised the option to extend its £150 million multicurrency “Sustainability Linked Revolving Credit Facility”, together with an accordion of up to £30 million, by a further period of twelve months. The maturity date of the facility is now 2 December 2025.

At 31 January 2023, the Group had £77,544,000 (31 July 2022: £75,649,000) of the facility unutilised.

Employee Benefit Trust

During the period a £0.9 million loan was made to the Volution Employee Benefit Trust for the purpose of purchasing shares in Volution Group plc in order to partly fulfil the Company’s obligations under its share incentive plans (H1 2022: £nil). In the period 162,542 shares (H1 2022: 305,024) were exercised and released by the trustees with a value of £533,000 (H1 2022: £845,000). The Volution Employee Benefit Trust has been consolidated into our results and the shares purchased have been treated as treasury shares deducted from shareholders’ funds.

Going concern

After reviewing the Group’s current liquidity, net debt, financial forecasts and stress testing of potential risks, the Board confirms there are no material uncertainties which impact the Group’s ability to continue as a going concern for the period to 31 July 2024 and these condensed consolidated financial statements have therefore been prepared on a going concern basis. Please refer to Note 1 Basis of preparation.

Andy O’Brien
Chief Financial Officer

8 March 2023

Principal Risks and Uncertainties

The Directors have reviewed the principal risks and uncertainties which could have a material impact on the Group's performance and have concluded that they has been no material change from those described in Volution's Annual Report 2022, which can be found at www.volutiongroupplc.com.

Statement of Directors' Responsibilities

The Directors confirm that to the best of their knowledge:

The condensed consolidated set of financial statements has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' as adopted by the United Kingdom and that the interim management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

(b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the Group during that period; and any changes in the related party transactions described in the Annual Report 2022 that could do so.

The full list of current Directors can be found on the Company's website at www.volutiongroupplc.com.

By order of the Board

Ronnie George
Chief Executive Officer
8 March 2023

Andy O'Brien
Chief Financial Officer
8 March 2023

Independent Review Report to Volution Group plc

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 January 2023 which comprises the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of financial position, the interim condensed consolidated statement of changes in equity, the interim condensed consolidated statement of cash flows and the related explanatory notes 1 to 16. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 January 2023 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements 2410 (UK) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (ISRE) issued by the Financial Reporting Council. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with UK adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with UK adopted International Accounting Standard 34, "Interim Financial Reporting".

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis of conclusion section of this report, nothing has come to our attention to suggest that management have inappropriately adopted the going concern basis of accounting or that management have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with this ISRE, however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the directors

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the half-yearly financial report, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the review of the financial information

In reviewing the half-yearly report, we are responsible for expressing to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Ernst & Young LLP
London
8 March 2023

Interim Condensed Consolidated Statement of Comprehensive Income For the period ended 31 January 2023

		2023 Unaudited £000	2022 Unaudited £000
	Notes		
Revenue from contracts with customers	3	162,287	149,574
Cost of sales		(85,378)	(78,284)
Gross profit		76,909	71,290
Administrative and distribution expenses		(48,904)	(47,910)
Operating profit before separately disclosed items		28,005	23,380
Costs of business combinations		(187)	(126)
Operating profit		27,818	23,254
Finance revenue		33	695
Re-measurement of financial liability	11	(428)	(292)
Re-measurement of future consideration	11	(1,336)	(691)
Finance costs		(3,531)	(1,615)
Profit before tax		22,556	21,351
Income tax	5	(5,639)	(5,082)
Profit for the period		16,917	16,269
Attributable to the shareholders		16,908	16,240
Attributable to non-controlling interests		9	29
Other comprehensive (expense)/income			
Items that may subsequently be reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		2,934	(3,751)
(Loss)/Gain on hedge of net investment in foreign operations		(3,805)	2,104
Other comprehensive expense for the period		(871)	(1,647)
Total comprehensive income for the period		16,046	14,622
Attributable to the shareholders		16,037	14,593
Attributable to non-controlling interests		9	29
Earnings per share			
Basic earnings per share	6	8.6	8.2
Diluted earnings per share	6	8.5	8.1

Interim Condensed Consolidated Statement of Financial Position

At 31 January 2023

		31 January 2023	31 July 2022
	Notes	Unaudited £000	Audited £000
Non-current assets			
Property, plant and equipment	10	29,108	28,235
Right-of-use assets		23,184	23,567
Intangible assets – goodwill	7	145,182	142,661
Intangible assets – others	8	81,884	87,592
		279,358	282,055
Current assets			
Inventories		59,392	57,151
Right of return assets		296	–
Trade and other receivables		53,563	57,526
Other financial assets	11	–	1,091
Cash and short-term deposits		16,604	13,543
		129,855	129,311
Total assets		409,213	411,366
Current liabilities			
Trade and other payables		(42,333)	(48,837)
Refund liabilities		(10,305)	(10,268)
Income tax		(6,517)	(5,564)
Other financial liabilities	11	(661)	–
Interest-bearing loans and borrowings	12	(1,888)	(3,599)
Provisions		(1,556)	(1,684)
		(63,260)	(69,952)
Non-current liabilities			
Interest-bearing loans and borrowings	12	(102,957)	(104,433)
Other financial liabilities	11	(15,896)	(14,132)
Provisions		(465)	(319)
Deferred tax liabilities		(12,474)	(14,222)
		(131,792)	(133,106)
Total liabilities		(195,052)	(203,058)
Net assets		214,161	208,308
Capital and reserves			
Share capital		2,000	2,000
Share premium		11,527	11,527
Treasury shares		(1,467)	(3,574)
Capital reserve		93,855	93,855
Share-based payment reserve		4,647	5,058
Foreign currency translation reserve		2,228	3,099
Retained earnings		101,371	96,247
Total shareholders' equity		214,161	208,212
Non-controlling interest		–	96
Total equity		214,161	208,308

The consolidated financial statements of Volution Group plc (registered number: 09041571) were approved by the Board of Directors and authorised for issue on 8 March 2023.

On behalf of the Board

Ronnie George
Chief Executive Officer

Andy O'Brien
Chief Financial Officer

Interim Condensed Consolidated Statement of Changes in Equity

For the period ended 31 January 2023

	Share capital £000	Share premium £000	Treasury shares £000	Capital reserve £000	Share-based payment reserve £000	Foreign currency translation reserve £000	Retained earnings £000	Shareholder's equity £000	Non-Controlling Interest £000	Total Equity £000
At 31 July 2021 (Audited)	2,000	11,527	(3,739)	93,855	4,090	2,899	74,658	185,290	—	185,290
Profit for the period	—	—	—	—	—	—	16,240	16,240	29	16,269
Other comprehensive expense	—	—	—	—	—	(1,647)	—	(1,647)	—	(1,647)
Total comprehensive income	—	—	—	—	—	(1,647)	16,240	14,593	29	14,622
Acquisition of businesses	—	—	—	—	—	—	—	—	34	34
Exercise of shares options	—	—	2,064	—	(1,129)	—	(792)	143	—	143
Share-based payment including tax	—	—	—	—	892	—	—	892	—	892
Dividend paid	—	—	—	—	—	—	(8,719)	(8,719)	—	(8,719)
At 31 January 2022 (Unaudited)	2,000	11,527	(1,675)	93,855	3,853	1,252	81,387	192,199	63	192,262
Profit for the period	—	—	—	—	—	—	19,370	19,370	33	19,403
Other comprehensive income	—	—	—	—	—	1,847	—	1,847	—	1,847
Total comprehensive income	—	—	—	—	—	1,847	19,370	21,217	33	21,250
Purchase of own shares	—	—	(1,900)	—	—	—	—	(1,900)	—	(1,900)
Exercise of share options	—	—	1	—	—	—	43	44	—	44
Share-based payment including tax	—	—	—	—	1,205	—	—	1,205	—	1,205
Dividends paid	—	—	—	—	—	—	(4,553)	(4,553)	—	(4,553)
At 31 July 2022 (Audited)	2,000	11,527	(3,574)	93,855	5,058	3,099	96,247	208,212	96	208,308
Profit for the period	—	—	—	—	—	—	16,908	16,908	9	16,917
Other comprehensive expense	—	—	—	—	—	(871)	—	(871)	—	(871)
Total comprehensive income	—	—	—	—	—	(871)	16,908	16,037	9	16,046
Purchase of own shares	—	—	(911)	—	—	—	—	(911)	—	(911)
Exercise of share options	—	—	3,018	—	(1,379)	—	(1,639)	—	—	—
Share-based payment including tax	—	—	—	—	968	—	—	968	—	968
Dividend paid	—	—	—	—	—	—	(9,881)	(9,881)	—	(9,881)
Acquisition of non-controlling interest (note 9)	—	—	—	—	—	—	(264)	(264)	(105)	(369)
At 31 January 2023 (Unaudited)	2,000	11,527	(1,467)	93,855	4,647	2,228	101,371	214,161	—	214,161

Treasury shares

The treasury shares reserve represents the cost of shares in Volution Group plc purchased in the market and held by the Volution Employee Benefit Trust to satisfy obligations under the Group's share incentive schemes.

Capital reserve

The capital reserve is the difference in share capital and reserves arising from the use of the pooling of interest method for preparation of the financial statements in 2014. This is a non-distributable reserve.

Share-based payment reserve

The share-based payment reserve is used to recognise the value of equity-settled share-based payments provided to key management personnel, as part of their remuneration.

Foreign currency translation reserve

Exchange differences arising on translation of the Group's foreign subsidiaries into GBP are included in the foreign currency translation reserve. The Group hedges some of its exposure to its net investment in foreign operations; foreign exchange gains and losses relating to the effective portion of the net investment hedge are accounted for by entries made to other comprehensive income. No hedge ineffectiveness has been recognised in the statement of comprehensive income for any of the periods presented.

Retained earnings

The parent company of the Group, Volution Group plc, had distributable retained earnings at 31 January 2023 of £111,793,000 (31 January 2022 £116,822,000).

Interim Condensed Consolidated Statement of Cash Flows

For the period ended 31 January 2023

	Notes	2023 Unaudited £000	2022 Unaudited £000
Operating activities			
Profit for the period after tax		16,917	16,269
Adjustments to reconcile profit for the period to net cash flow from operating activities:			
Income tax		5,639	5,082
Gain on disposal of property, plant and equipment		(2)	(4)
Acquisition related operating costs		187	126
Cash flows relating to acquisition costs		(187)	(126)
Re-measurement of financial liability		428	292
Re-measurement of future consideration		1,336	691
Finance revenue		(33)	(695)
Finance costs		3,531	1,615
Share-based payment expense		968	1,035
Depreciation of property, plant and equipment	10	1,974	1,854
Depreciation of right of use assets		1,870	1,801
Amortisation of intangible assets	8	6,892	9,229
Working capital adjustments:			
Decrease/(Increase) in trade receivables and other assets		3,963	(3,060)
Increase in inventories		(2,537)	(8,282)
Decrease in trade and other payables		(6,467)	(5,960)
Movement in provisions		18	(153)
Cash generated by operations		34,497	19,714
UK income tax paid		(2,320)	(1,000)
Overseas income tax paid		(4,170)	(5,264)
Contingent consideration relating to the acquisition of Ventair	9	—	(3,211)
Net cash flow generated from operating activities		28,007	10,239
Investing activities			
Payments to acquire intangible assets	8	(1,622)	(595)
Purchase of property, plant and equipment	10	(2,513)	(3,075)
Proceeds from disposal of property, plant and equipment		19	80
Acquisition of subsidiaries, net of cash acquired	9	—	(16,466)
Contingent consideration relating to the acquisition of Ventair	9	—	(952)
Interest received		33	1
Net cash flow used in investing activities		(4,083)	(21,007)
Financing activities			
Repayment of interest-bearing loans and borrowings		(18,700)	(12,237)
Repayment of ERI debt acquired		—	(3,285)
Repayment of ClimaRad vendor loan		—	(504)
Proceeds from new borrowings		13,000	35,428
Acquisition of non-controlling interest	9	(369)	—
Issue costs of new borrowings		(300)	—
Interest paid		(1,554)	(1,371)
Payment of principal portion of lease liabilities		(1,584)	(1,657)
Dividends paid		(9,881)	(8,719)
Purchase of own shares		(911)	—
Net cash flow (used)/generated in financing activities		(20,299)	7,655
Net increase/(decrease) in cash and cash equivalents		3,625	(3,113)
Cash and cash equivalents at the start of the year		13,543	19,456
Effect of exchange rates on cash and cash equivalents		(564)	(1,183)
Cash and cash equivalents at the end of the period		16,604	15,160

Notes to the Interim Condensed Consolidated Financial Statements

For the period ended 31 January 2023

Volution Group plc (the Company) is a public limited company and is incorporated and domiciled in the UK (registered number: 09041571). The share capital of the Company is listed on the London Stock Exchange. The address of its registered office is Fleming Way, Crawley, West Sussex RH10 9YX.

The preliminary results were authorised for issue by the Board of Directors on 8 March 2023. The financial information set out herein does not constitute the Group's statutory consolidated financial statements for the 6 months ended 31 January 2023 and is unaudited.

1. Basis of preparation

These condensed consolidated financial statements have been prepared in accordance with UK-adopted International Accounting Standards (IAS) 34 'Interim financial reporting'. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the Annual Report 2022. The financial information for the half years ended 31 January 2023 and 31 January 2022 do not constitute statutory accounts within the meaning of Section 434(3) of the Companies Act 2006 and is unaudited.

The annual financial statements of Volution Group plc are prepared in accordance with UK-adopted international accounting standards. The comparative financial information for the year ended 31 July 2022 included within this report does not constitute the full statutory accounts for that period. The Annual Report 2022 has been filed with the Registrar of Companies. The Independent Auditor's Report on the Annual Report 2022 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under section 498(2) and 498(3) of the Companies Act 2006.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

Going Concern

The financial statements have been prepared on a going concern basis. The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence in the foreseeable future, assessed for the 18 month period ending 31 July 2024.

The financial position remains robust with committed facilities totalling £150 million, and an accordion of a further £30 million, maturing in December 2025 (having been extended by 12 months during the period as set out in note 12). The financial covenants on these facilities are for leverage (net debt/adjusted EBITDA) of not more than three times and for adjusted interest cover of not less than four times.

The base case scenario has been prepared using robust forecasts from each of our operating companies, with each considering the risks and opportunities the businesses face, including the high inflation environment and economic uncertainty across many of the countries in which we operate, and the other principal risks set out in the Annual report 2022.

We have then applied a severe but plausible downside scenario in order to model the potential concurrent impact of:

- a significant economic slowdown reducing revenue by 20% in FY23 and a further 10% year-on-year in FY24 compared to plan;
- supply chain difficulties or inflationary cost increases reducing gross profit margin by 10%; and
- significant acquisitions increasing debt but with no positive cash flow contribution.

A reverse stress test scenario has also been modelled which shows a revenue contraction of >35% in FY23 and a further 10% year-on-year reduction in FY24 with no mitigations would be required to breach covenants or compromise liquidity, which is considered an extremely remote scenario.

Mitigations available within the control of management include reducing discretionary capex, discretionary indirect costs, and dividends. Over the short period of our climate change assessment published in the Annual report 2022 (aligned to our going concern assessment) we have concluded that there is no material adverse impact of climate change and hence have not included any impacts in either our base case or downside scenarios of our going concern assessment.

The Directors have concluded that the results of the scenario testing combined with the significant liquidity profile available under the revolving credit facility confirm that there is no material uncertainty in the use of the going concern assumption.

Non-Controlling interest

Non-Controlling Interests are identified separately from the Group's equity. Non-Controlling Interests consist of the amount of those interests at the date of the acquisition and the Non-Controlling's share of changes in equity since that date. Non-Controlling Interests are measured at the Non-Controlling Interest's share of the fair value of the identifiable net assets.

Where there is an obligation to purchase the Non-Controlling Interest at a future date, the Non-Controlling Interest will be recognised on acquisition, and subsequently when the obligation to purchase liability is recognised the amount is reclassified from equity to a financial liability and the Non-Controlling Interest is derecognised. Any difference between the carrying value of non-controlling interest and the liability is adjusted against retained earnings.

The financial liability for the Non-Controlling interest is subsequently accounted for under IFRS 9, with all changes in the carrying amount, including the Non-Controlling interest share of profit, recognised as a re-measurement in the income statement. When the obligation or 'put liability' is exercised, the carrying amount of the financial liability at that date is extinguished by the payment of the exercise price.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the period ended 31 January 2023

Employee Benefit Trust

The Company has an Employee Benefit Trust (EBT) which is used in connection with the operation of the Company's Long Term Incentive Plan (LTIP), Deferred Share Bonus Plan and Sharesave Plan. The Company's own shares held by the Volution EBT are treated as treasury shares and deducted from shareholders' funds until they vest unconditionally with employees.

At 31 January 2023, a total of 2,321,123 (31 July 2022: 2,183,665) ordinary shares in the Company were held by the Volution EBT, all of which were under option to employees. During the period 300,000 ordinary shares in the Company were purchased by the trustees (H1 2022: none), and 162,542 shares (H1 2022: 305,024 shares) were exercised.

The Volution EBT has agreed to waive its rights to dividends.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

In preparing the interim condensed consolidated financial statements, the areas where judgement has been exercised and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 July 2022.

New standards and interpretations

Any new standards or interpretations in issue, but not yet effective, are not expected to have a material impact on the Group's net assets or results.

The following new standards and amendments became effective as at 1 January 2022 and have been adopted for the financial year commencing 1 August 2022. The Group has not early adopted any other standard, interpretation or amendment that has been issued but not yet effective.

- Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

- Covid-19-Related Rent Concessions beyond 30 June 2021 Amendment to IFRS 16

These have not had an impact on these condensed consolidated financial statements.

2. Adjusted earnings

The Board and key management personnel use some alternative performance measures to track and assess the underlying performance of the business. These measures include adjusted operating profit and adjusted profit before tax. These measures are deemed more appropriate as they remove income and expenditure which is not directly related to the ongoing trading of the business. Such alternative performance measures are not defined terms under IFRS and may not be comparable with similar measures disclosed by other companies. Likewise, these measures are not a substitute for IFRS measures of profit. A reconciliation of these measures of performance to the corresponding reported figure is shown below.

	6 months to 31 January 2023 £000	6 months to 31 January 2022 £000
Profit after tax	16,917	16,269
Add back:		
Costs of business combinations	187	126
Re-measurement of future consideration relating to the business combination of ClimaRad	1,336	691
Net loss/(gain) on financial instruments at fair value	1,535	(694)
Amortisation and impairment of intangible assets acquired through business combinations	6,174	8,520
Tax effect of the above	(1,729)	(1,697)
Adjusted profit after tax	24,420	23,215
Add back:		
Adjusted tax charge	7,368	6,779
Adjusted profit before tax	31,788	29,994
Add back:		
Interest payable on bank loans, lease liabilities and amortisation of financing costs	1,996	1,615
Re-measurement of financial liability relating to acquisition of ClimaRad	428	292
Finance revenue	(33)	(1)
Adjusted operating profit	34,179	31,900
Add back:		
Depreciation of property, plant and equipment	1,974	1,854
Depreciation of right-of-use asset	1,870	1,801
Amortisation of development costs, software and patents	718	709
Adjusted EBITDA	38,741	36,264

For definitions of terms referred to above see note 16, Glossary of terms.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the period ended 31 January 2023

3. Revenue from contracts with customers

Revenue recognised in the statement of comprehensive income is analysed below:

	6 months to 31 January 2023 £000	6 months to 31 January 2022 £000
Sale of goods	158,751	146,466
Installation services	3,536	3,108
Total revenue from contracts with customers	162,287	149,574

	6 months to 31 January 2023 £000	6 months to 31 January 2022 £000
Market sectors		
UK		
Residential	41,423	35,813
Commercial	14,284	15,757
Export	5,277	5,609
OEM	12,658	12,628
Total UK	73,642	69,807
Nordics	26,649	27,023
Central Europe	37,673	30,405
Total Continental Europe	64,322	57,428
Total Australasia	24,323	22,339
Total revenue from contracts with customers	162,287	149,574

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the period ended 31 January 2023

4. Segmental analysis

	Continental			Central /	
	UK	Europe	Australasia	Eliminations	s Consolidated
6 months ended 31 January 2023	£000	£000	£000	£000	£000
Revenue from contracts with customers					
External customers	73,642	64,322	24,323	–	162,287
Inter-segment	11,668	19,168	116	(30,952)	–
Total revenue from contracts with customers	85,310	83,490	24,439	(30,952)	162,287
Gross profit	34,119	30,776	12,014	–	76,909
Results					
Adjusted segment EBITDA	17,649	16,982	6,141	(2,031)	38,741
Depreciation and amortisation of development costs, software and patents	(2,013)	(1,554)	(655)	(340)	(4,562)
Adjusted operating profit/(loss)	15,636	15,428	5,486	(2,371)	34,179
Amortisation of intangible assets acquired through business combinations	(2,249)	(3,338)	(587)	–	(6,174)
Acquisition related operating costs	–	–	–	(187)	(187)
Operating profit/(loss)	13,387	12,090	4,899	(2,558)	27,818
Net finance cost	–	–	–	(1,963)	(1,963)
Loss on financial instruments	–	–	(214)	(1,321)	(1,535)
Re-measurement of future consideration	–	–	–	(1,336)	(1,336)
Re-measurement of financial liability	–	–	–	(428)	(428)
Profit/(loss) before tax	13,387	12,090	4,685	(7,606)	22,556

	Continental			Central /	
	UK	Europe	Australasia	Eliminations	Consolidated
6 months ended 31 January 2022	£000	£000	£000	£000	£000
Revenue from contracts with customers					
External customers	69,807	57,428	22,339	–	149,574
Inter-segment	9,617	12,483	70	(22,170)	–
Total revenue from contracts with customers	79,424	69,911	22,409	(22,170)	149,574
Gross profit	29,645	30,713	10,982	(50)	71,290
Results					
Adjusted segment EBITDA	15,725	16,425	5,537	(1,423)	36,264
Depreciation and amortisation of development costs, software and patents	(1,828)	(1,591)	(609)	(336)	(4,364)
Adjusted operating profit/(loss)	13,897	14,834	4,928	(1,759)	31,900
Amortisation of intangible assets acquired through business combinations	(4,708)	(3,244)	(568)	–	(8,520)
Acquisition related operating costs	–	–	–	(126)	(126)
Operating profit/(loss)	9,189	11,590	4,360	(1,885)	23,254
Net finance cost	–	–	–	(1,614)	(1,614)
Gain on financial instruments	–	–	211	483	694
Re-measurement of future consideration	–	–	–	(691)	(691)
Re-measurement of financial liability	–	–	–	(292)	(292)
Profit/(loss) before tax	9,189	11,590	4,571	(3,999)	21,351

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the period ended 31 January 2023

5. Income tax

Our underlying effective tax rate, on adjusted profit before tax, was 23.2% (H1 2022: 22.6%). The increase of 0.6 percentage points in our adjusted effective tax rate compared to the prior period was primarily a result of part year impact of the change in the UK rate from 19% to 25%.

Our reported effective tax rate for the period was 25.0% (H1 2022: 23.8%).

We expect our medium term underlying effective tax rate to be in the range of 23% to 25% of the Group's adjusted profit before tax.

6. Earnings per share (EPS)

Basic earnings per share is calculated by dividing the profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of any dilutive potential ordinary shares into ordinary shares. There are 3,465,898 dilutive potential ordinary shares at 31 January 2023 (H1 2022: 2,966,484).

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	6 months ended 31 January 2023 £000	6 months ended 31 January 2022 £000
Profit attributable to ordinary equity holders	16,917	16,269

	Number	Number
Weighted average number of ordinary shares for basic earnings per share	197,146,809	197,605,520
Weighted average number of ordinary shares for diluted earnings per share	199,811,338	200,256,594

Earnings per share

Basic	8.6p	8.2p
Diluted	8.5p	8.1p

	6 months ended 31 January 2023 £000	6 months ended 31 January 2022 £000
Adjusted profit attributable to ordinary equity holders	24,420	23,215

	Number	Number
Weighted average number of ordinary shares for adjusted basic earnings per share	197,146,809	197,605,520
Weighted average number of ordinary shares for adjusted diluted earnings per share	199,811,338	200,256,594

Adjusted earnings per share

Basic	12.4p	11.7p
Diluted	12.2p	11.6p

The weighted average number of ordinary shares has declined as a result of treasury shares held by the Volution Employee Benefit Trust (EBT) during the period. The shares are excluded when calculating the reported and adjusted EPS. Adjusted profit attributable to ordinary equity holders has been reconciled in note 2, adjusted earnings.

See note 16, Glossary of terms, for an explanation of the adjusted basic and diluted earnings per share calculation.

7. Intangible assets – goodwill

	Total £000
Goodwill	
Cost and net book value	
At 31 July 2021	137,710
On acquisition of ERI and its subsidiaries	5,134
Net foreign currency exchange differences	(183)
At 31 July 2022	142,661
Net foreign currency exchange differences	2,521
At 31 January 2023	145,182

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the period ended 31 January 2023

8. Intangible assets – other

2023	Total £000
Cost	
At 1 August 2022	236,437
Additions	1,622
Net foreign currency exchange differences	888
At 31 January 2023	238,947
Amortisation	
At 1 August 2022	148,845
Charge for the period	6,892
Net foreign currency exchange differences	1,326
At 31 January 2023	157,063
Net book value	
At 31 January 2023	81,884

9. Business combinations and acquisitions of non-controlling interests

Acquisitions in the half year ended 31 January 2023

Acquisition of additional interest in Energy Recovery Industries Corporation Ltd (UK)

On 14 October 2022, the Group acquired the additional 49% interest in the voting shares of Energy Recovery Industries Corporation Ltd (UK), increasing its ownership to 100%. Cash consideration of £369,000 was paid to the non-controlling shareholder. The following is a schedule of additional interest acquired in Energy Recovery Industries Corporation Ltd (UK):

	£000
Cash consideration paid to non-controlling shareholder	369
Carrying value of the non-controlling interest in Energy Recovery Industries Corporation Ltd (UK)	(105)
Difference recognised in retained earnings	264

Cash outflows arising from business combinations and acquisitions of non-controlling interests are as follows

	6 months ended 31 January 2023 £000	6 months ended 31 January 2022 £000
Operating activities		
Ventair		
Deferred cash consideration paid	–	3,211
Total contingent consideration in operating activities	–	3,211
Investing activities		
ERI		
Cash consideration	–	16,892
Less: cash acquired with the business	–	(902)
	–	15,990
Air Connection		
Deferred cash consideration paid	–	476
Total Acquisition of subsidiaries	–	16,466
Ventair		
Deferred cash consideration paid	–	952
Total contingent consideration in Investing activities	–	952
Financing activities		
ERI		
Cash consideration paid to non-controlling shareholder	369	–
Total acquisition of non-controlling interest	369	–

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the period ended 31 January 2023

10. Property, plant and equipment excluding right-of-use assets

2023	Total £000
Cost	
At 1 August 2022	47,425
Additions	2,513
Disposals	(211)
Net foreign currency exchange differences	270
At 31 January 2023	49,997
Depreciation	
At 1 August 2022	19,190
Charge for the period	1,974
Disposals	(194)
Net foreign currency exchange differences	(81)
At 31 January 2023	20,889
Net book value	
At 31 January 2023	29,108

Commitments for the acquisition of property, plant and equipment as of 31 January 2023 are £524,000 (31 July 2022: £730,000).

11. Other financial assets and liabilities

Other financial assets:

	31 January 2023 £000	31 July 2022 £000
Foreign exchange forward contracts	—	1,091
Total	—	1,091

Other financial liabilities:

2023	Foreign exchange forward contracts £000	Contingent consideration ClimaRad BV £000	Contingent consideration ERI £000	Total £000
At 1 August 2022	—	7,052	7,080	14,132
Re-measurement of financial liability	—	428	—	428
Re-measurement of future consideration	—	1,326	10	1,336
Foreign exchange forward contracts	661	—	—	661
At 31 January 2023	661	8,806	7,090	16,557
Analysis				
Current	661	—	—	661
Non-current	—	8,806	7,090	15,896
Total	661	8,806	7,090	16,557

The financial liability to purchase the non-controlling interest in ClimaRad BV is sensitive to the estimation of the expected future performance of ClimaRad which is used to calculate the future amount payable – based on an EBITDA multiple. If EBITDA for the calendar year ended 31 December 2024 is 10% higher than expected, contingent consideration would be £1,600,000 higher, discounted to present value.

The financial liability to pay contingent consideration relating to the acquisition in the period of ERI is sensitive to the estimation of the expected future performance of ERI which is used to calculate the future amount payable – based on an EBITDA multiple. If EBITDA for the calendar year ended 31 December 2024 is 10% higher than expected, contingent consideration would be £1,400,000 higher, discounted to present value.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the period ended 31 January 2023

11. Other financial assets and liabilities (continued)

2022	Air Connection ApS £000	Ventair Pty Limited £000	ClimaRad BV £000	Nordiska Klimatfabriken AB £000	Energent Ab £000	ERI £000	Total £000
Contingent consideration							
At 1 August 2021	483	4,070	5,514	251	256	—	10,574
Contractual liability to purchase remaining non-controlling interest	—	—	983	—	—	—	983
Contingent consideration	—	—	—	—	—	7,678	7,678
Consideration paid during the year	(476)	(4,163)	—	—	(256)	—	(4,895)
Foreign exchange	(7)	93	—	(11)	—	—	75
At 31 January 2022	—	—	6,497	240	—	7,678	14,415
Analysis							
Current	—	—	—	240	—	—	240
Non-current	—	—	6,497	—	—	7,678	14,175
Total	—	—	6,497	240	—	7,678	14,415

12. Interest-bearing loans and borrowings

	31 January 2023		31 July 2022	
	Current £000	Non-current £000	Current £000	Non-current £000
Unsecured – at amortised cost				
Borrowings under the revolving credit facility (maturing 2025)	—	72,456	—	74,351
Cost of arranging bank loan	—	(968)	—	(843)
	—	71,488	—	73,508
ClimaRad vendor loan	—	10,061	—	9,557
Lease liabilities	1,888	21,408	3,599	21,368
Total	1,888	102,957	3,599	104,433

In December 2022, the Group exercised the option to extend its £150 million multicurrency “Sustainability Linked Revolving Credit Facility”, together with an accordion of up to £30 million by a period of twelve months. The maturity date is now 2 December 2025.

Revolving credit facility – at 31 January 2023

Currency	Amount outstanding £000	Termination date	Repayment frequency	Rate %
GBP	—	2 December 2025	One payment	Sonia + margin%
Euro	72,456	2 December 2025	One payment	Euribor + margin%
Swedish Krona	—	2 December 2025	One payment	Stibor + margin%
Total	72,456			

Revolving credit facility – at 31 July 2022

Currency	Amount outstanding £000	Termination date	Repayment frequency	Rate %
GBP	—	2 December 2024	One payment	Sonia + margin%
Euro	71,932	2 December 2024	One payment	Euribor + margin%
Swedish Krona	2,419	2 December 2024	One payment	Stibor + margin%
Total	74,351			

The interest rate on borrowings includes a margin that is dependent on the consolidated leverage level of the Group in respect of the most recently completed reporting period. For the period ended 31 January 2023, Group leverage was below 1.0:1 and therefore the margin remains at 1.25% in H2 2023.

At 31 January 2023, the Group had £77,544,000 (31 July 2022: £75,649,000) of its multicurrency revolving credit facility unutilised.

Notes to the Interim Condensed Consolidated Financial Statements (continued) For the period ended 31 January 2023

13. Fair values of financial assets and financial liabilities

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1 – quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2 – other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3 – techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Financial instruments carried at fair value comprise the derivative financial instruments and the contingent consideration in note 11. For hierarchy purposes, derivative financial instruments are deemed to be Level 2 as external valuers are involved in the valuation of these contracts. Their fair value is measured using valuation techniques, including a DCF model. Inputs to this calculation include the expected cash flows in relation to these derivative contracts and relevant discount rates.

Contingent consideration is deemed to be Level 3. Contingent consideration is based on the level of EBITDA achieved during the earn-out period. The contingent consideration has been recognised in line with management's best estimate of the level of EBITDA expected to be achieved during the earn-out period. Whilst the level of EBITDA to be achieved is as yet unobservable, management's estimate has been based on the available budget and forecasts. Contingent consideration has not been discounted when the payment is expected to be made within 1 year as the impact is considered to be immaterial.

14. Dividends paid and proposed

The Board has declared an interim dividend of 2.50 pence per ordinary share in respect of the half year ended 31 January 2023 (6 months to 31 January 2022: 2.30 pence per ordinary share) which will be paid on 2 May 2023 to shareholders on the register at the close of business on 24 March 2023. The total dividend payable has not been recognised as a liability in these accounts. The Volution EBT has agreed to waive its rights to all dividends.

15. Related party transactions

Transactions between Volution Group plc and its subsidiaries, and transactions between subsidiaries, are eliminated on consolidation and are not disclosed in this note.

No related party balances exist at 31 January 2023 or 31 January 2022.

There were no material transactions or balances between the Company and its key management personnel or members of their close family. At the end of the period, key management personnel did not owe the Company any amounts.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the period ended 31 January 2023

16. Glossary of terms

Adjusted basic and diluted EPS: calculated by dividing the adjusted profit/(loss) for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share amounts are calculated by dividing the adjusted net profit/(loss) attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of any dilutive potential ordinary shares into ordinary shares. There are 3,465,898 dilutive potential ordinary shares at 31 January 2023 (H1 2022: 2,966,484).

Adjusted EBITDA: adjusted operating profit before depreciation and amortisation.

Adjusted finance costs: finance costs before net gains or losses on financial instruments at fair value and the exceptional write off of unamortised loan issue costs upon refinancing.

Adjusted operating cash flow: adjusted EBITDA plus or minus movements in operating working capital, less net investments in property, plant and equipment and intangible assets less the operating activities part of the contingent consideration.

Adjusted operating profit: operating profit before adjustments to re-measurement of contingent consideration, costs of business combinations, amortisation of acquired inventory fair value adjustments and amortisation of assets acquired through business combinations.

Adjusted profit after tax: profit after tax before adjustments to re-measurement of contingent consideration, net gains or losses on financial instruments at fair value, costs of business combinations, amortisation of acquired inventory fair value adjustments, amortisation of assets acquired through business combinations and the tax effect on these items.

Adjusted profit before tax: profit before tax before adjustments to re-measurement of contingent consideration, net gains or losses on financial instruments at fair value, costs of business combinations, amortisation of acquired inventory fair value adjustments and amortisation of assets acquired through business combinations.

Adjusted tax charge: the reported tax charge less the tax effect on the adjusted items.

CAGR: compound annual growth rate.

Cash conversion: is calculated by dividing adjusted operating cash flow by adjusted EBITA.

Constant currency: to determine values expressed as being at constant currency we have converted the income statement of our foreign operating companies for the 6 months ended 31 January 2023 at the average exchange rate for the period ended 31 January 2022. In addition, we have converted the UK operating companies' sale and purchase transactions in the period ended 31 January 2023, which were denominated in foreign currencies, at the average exchange rates for the period ended 31 January 2022.

EBITDA: profit before net finance costs, tax, depreciation and amortisation.

Net debt: bank borrowings less cash and cash equivalents.

Operating cash flow: EBITDA plus or minus movements in operating working capital, less share-based payment expense, less net investments in property, plant and equipment and intangible assets.