PURMO GROUP

Purmo Group Plc

Interim report

1 January – 31 March 2023

John Peter Leesi, CEO
Erik Hedin, COO
Matts Rosenberg, Interim CFO, Vice Chairman of the Board

26 April 2023

Agenda

Q1 2023 in brief and strategy execution update
John Peter Leesi, CEO

Accelerate PG ahead of plan
Erik Hedin, COO

Q1 2023 financial review and guidance
Matts Rosenberg, Interim CFO, Vice Chairman of the Board

Appendix

Q1 2023 in brief
and strategy execution update

January-March 2023

Solid earnings and cash flow, Accelerate PG ahead of plan

Solid earnings in the Climate Products & Systems division despite weak market

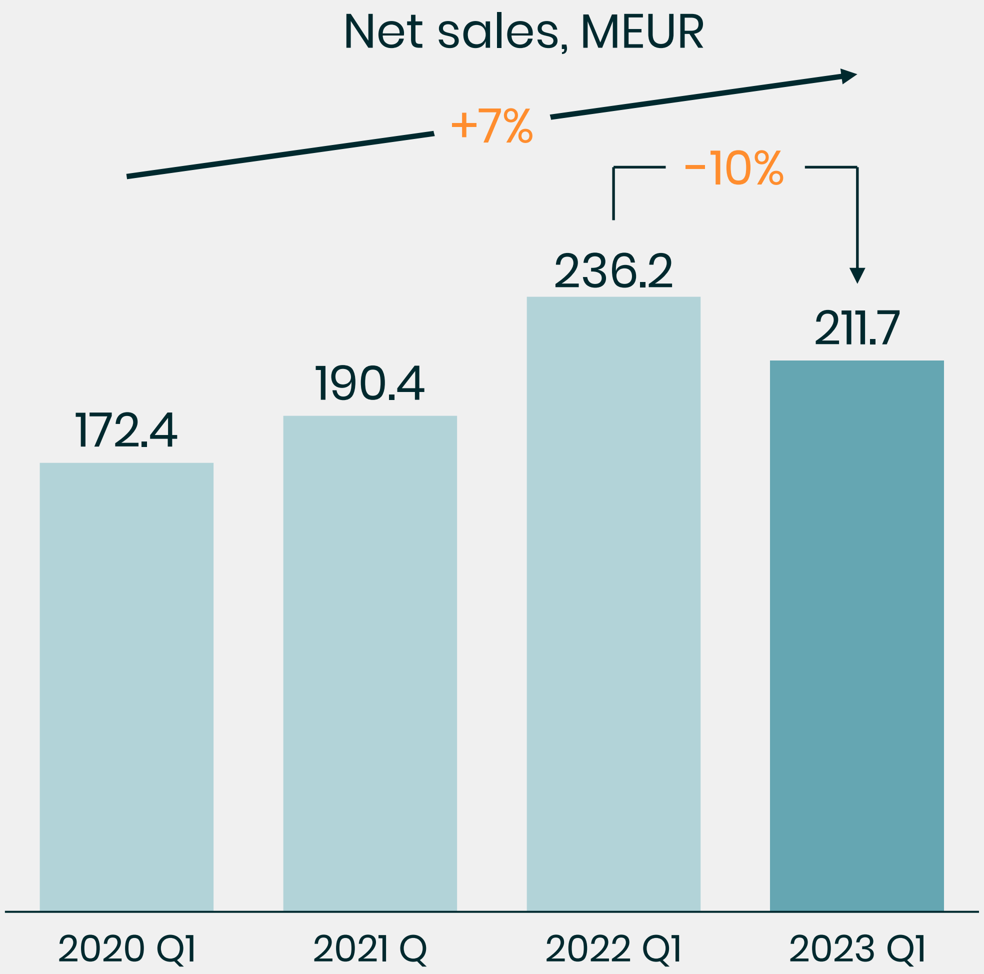
Normalised market in the Climate Solutions division

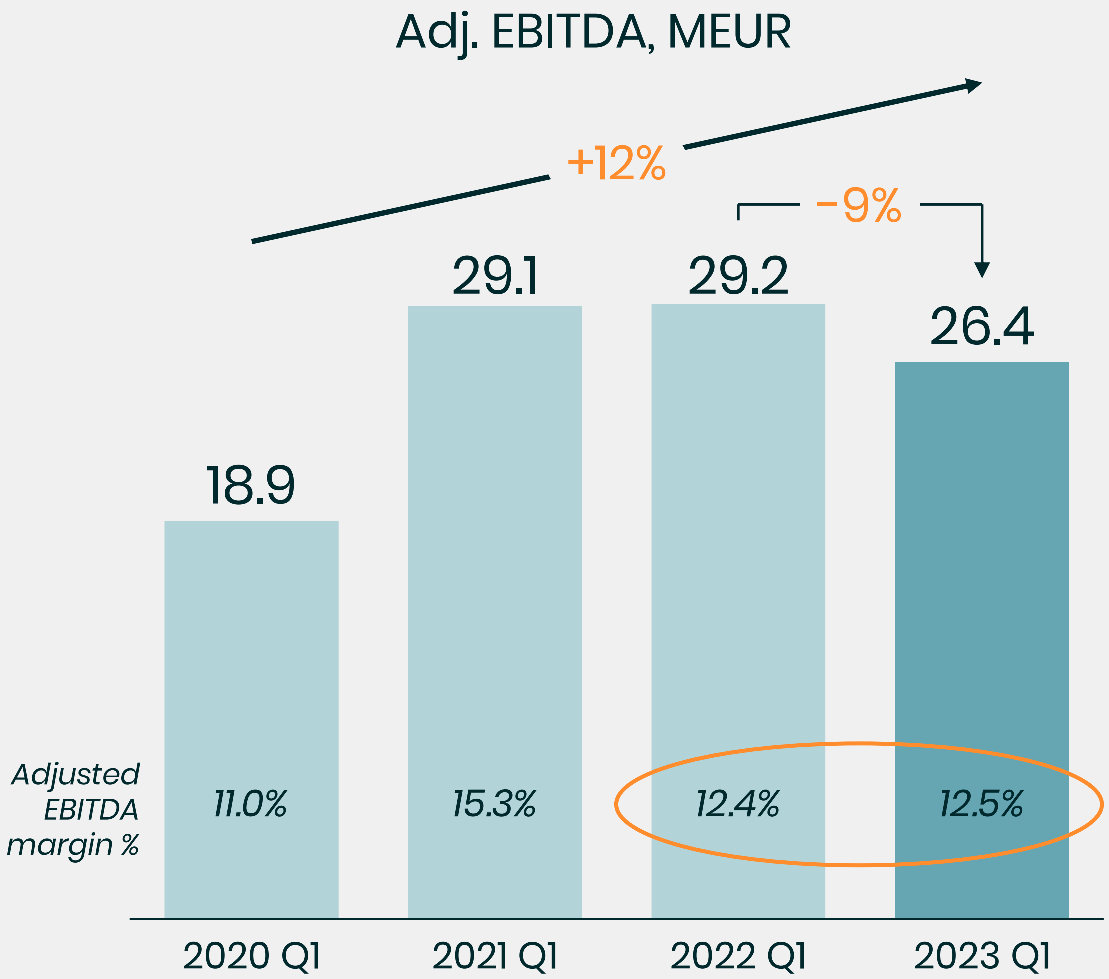
Accelerate PG ahead of plan

Guidance unchanged

Q1 2023: Purmo Group

Net sales declined due to weak market, adjusted EBITDA margin at last year's level

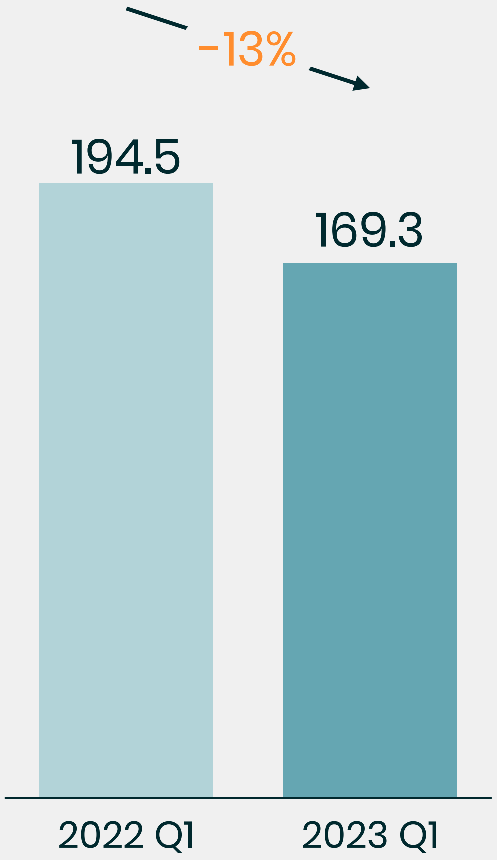




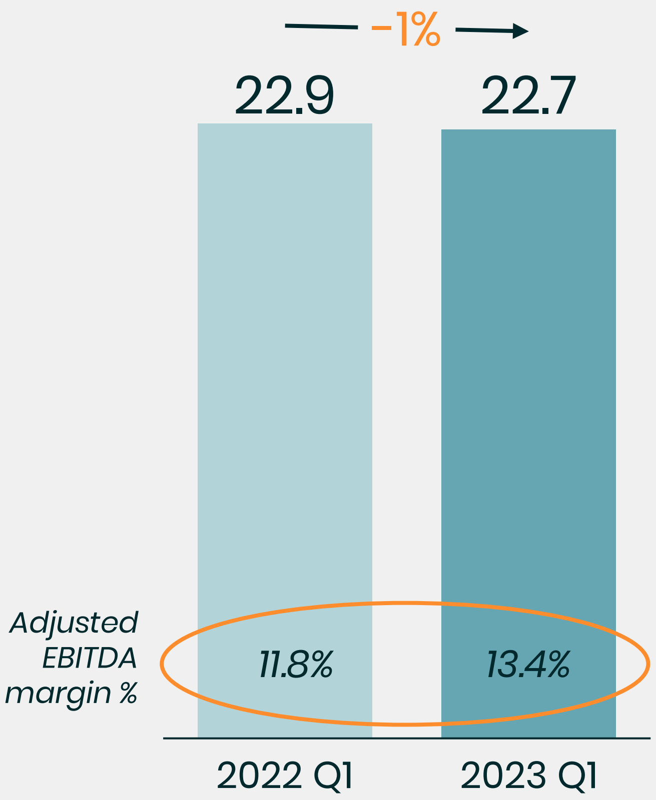
Q1 2023: Climate Products & Systems division

Solid earnings and margin improvement despite weak market

Net sales, MEUR



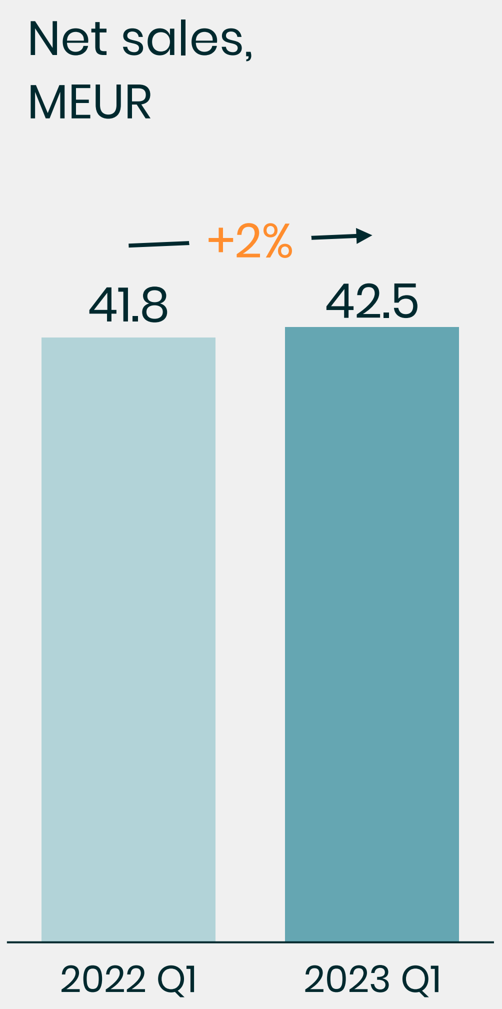
Adj. EBITDA, MEUR

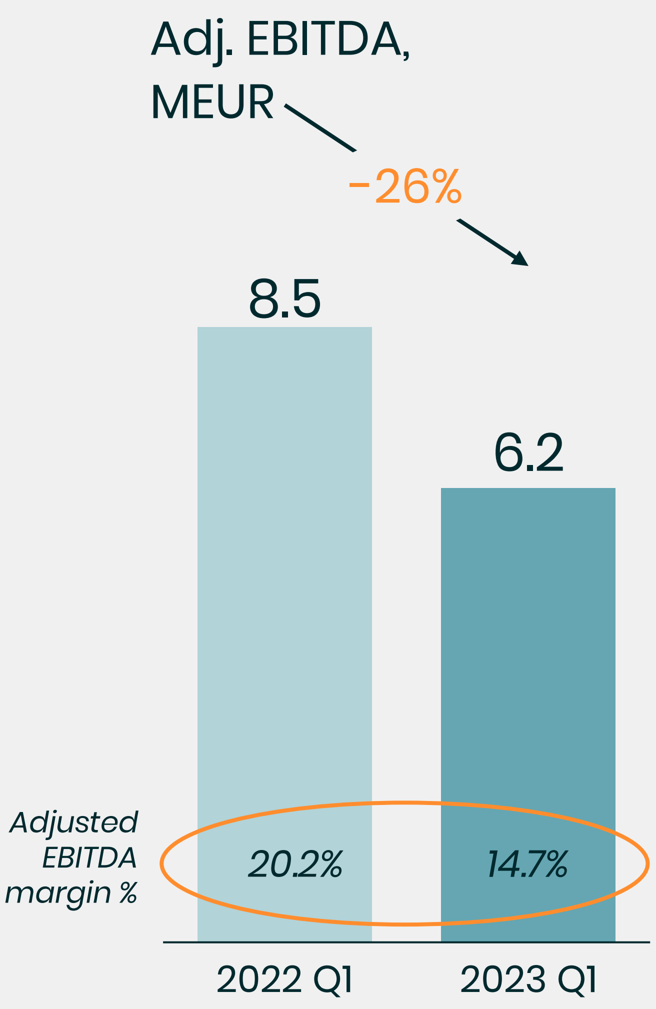


- Net sales declined due to continued weak market
- Adjusted EBITDA margin improved thanks to price increases and cost reductions
- Net sales of radiators amounted to MEUR 110.2 (135.0)
- Net sales of other products, including e.g. underfloor heating, was MEUR 59.9 (59.5)

Q1 2023: Climate Solutions division

Market normalisation, earnings declined vs. a strong Q1/2022





- Net sales growth slowed down compared to previous quarters due to the decline in demand in Italy and Sweden
- Italy saw a more normalised market compared to corresponding period last year with high sales volumes and prices in heat pumps
- Acquisition of Thermotech contributed with 8 per cent to net sales growth
- Adjusted EBITDA on a healthy level (14.7%) in Q1 2023 compared to the strong comparison period in Q1 2022 (20.2%)

Strategy execution during the quarter

Solution selling

- Emmeti solutions model introduced in France
- Thermotech systems introduced to modular house builders in the Baltics
- Thermotech system with radiators introduced in Sweden

Smart products

- New entry level electrical radiators Kaba2 launched
- Development of Unisenza App control system
- Airpert pipe and fitting system launched in Brazil

Growth markets

- Russia exit ongoing

Operational excellence

- Accelerate PG ahead of plan: **run-rate profitability improvements EUR 12.1 million**
- Continued strategic and inflationary sales price increases to mitigate continued cost inflation
- Cost-saving actions for production and operations continued in response to weak demand

Sustainability

- First Purmo Sustainability Report published in March
- Purmo Group will submit Science Based Targets for certification in 2023

Smart product development during Q1 2023

A new radiator version: Kaba2

- Designed based on original radiator model Kaba
- Oil filled radiator with a small size and with digital, programmable thermostat
- Similar heat output compared to radiators with bigger size

Unisenza Plus app

- A control system for heating or air conditioning
- Connection to heating or cooling system remotely through the Cloud
- Connectivity to other Purmo thermal devices

Accelerate PG ahead of plan

Strategy acceleration programme overview

- Accelerate PG programme launched in H2/2022 to strengthen the execution of Purmo Group's strategy

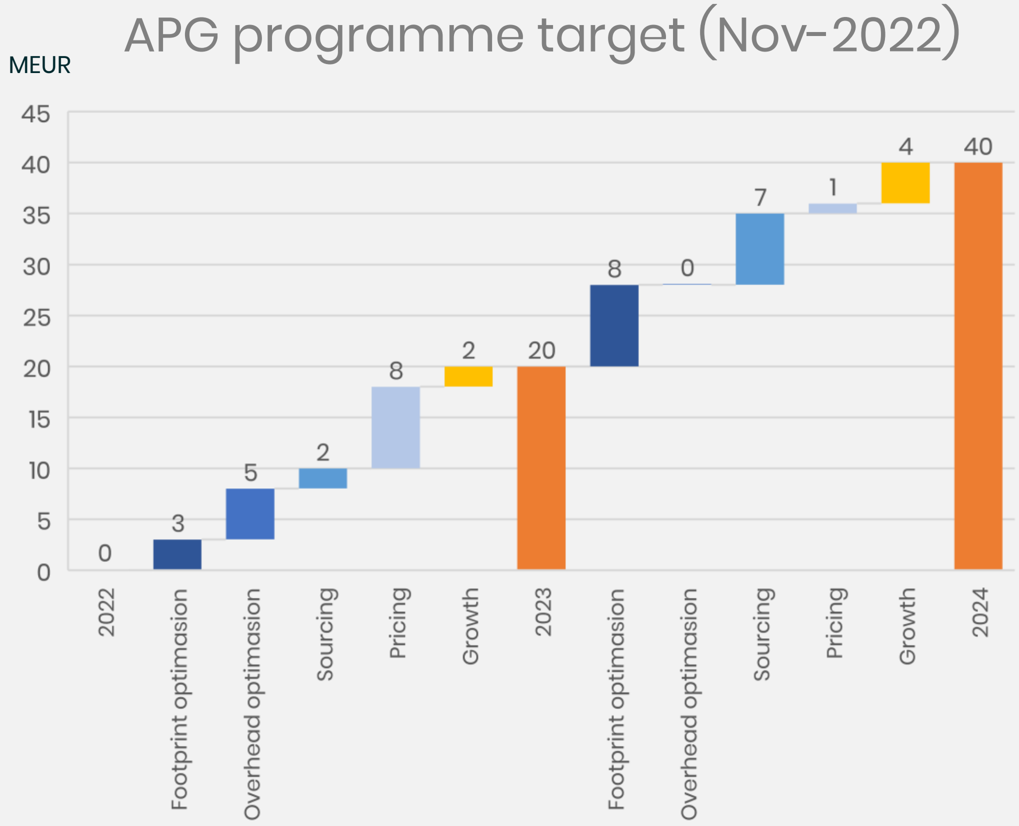
- Accelerate PG is a successor programme to Purmo Group's previous PG Up performance improvement programme which was successfully executed during 2020 – 2021

- The programme focuses on improving net sales growth, profitability and net working capital

- The programme will support reaching the financial targets communicated in conjunction with the stock listing in January 2022

Accelerate PG – Programme ahead of plan to reach target

Adjusted EBITDA run-rate target – EUR 40 million
Adjusted EBITDA run-rate improvements of EUR 20 million by the end of 2023 and cumulatively EUR 40 million by the end of 2024



Profitability improvements include:

- **Footprint** optimisation of manufacturing, warehouse and distribution facilities circa EUR 11 million
- **Overhead** optimisation of circa EUR 5 million
- **Sourcing** including purchasing savings and value engineering circa EUR 9 million
- **Pricing** for selected products of circa EUR 9 million
- **Growth** initiatives of circa EUR 6 million

Costs of the programme of EUR 43 million:

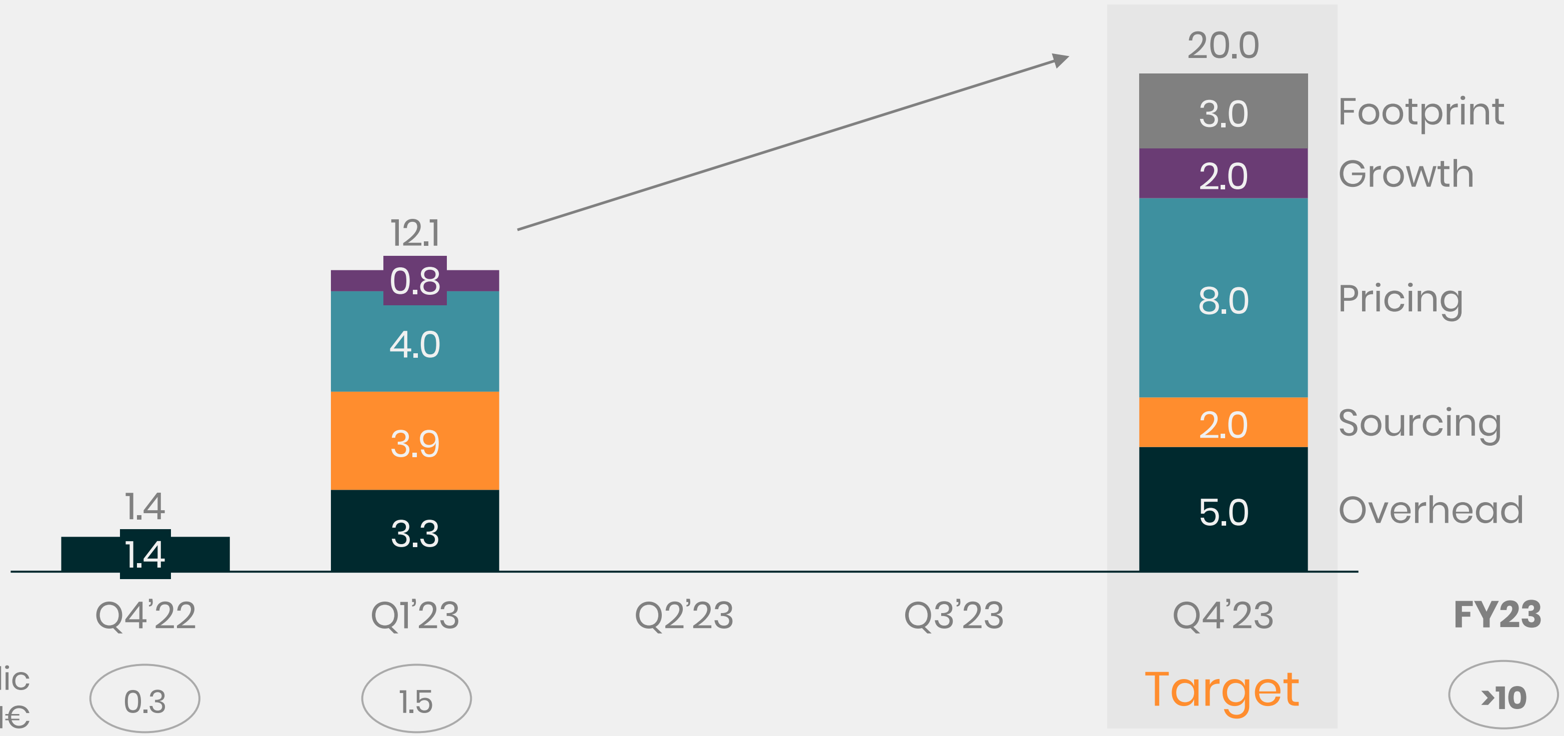
- EUR 33 million are expected to incur before the end of 2023 and the remainder in 2024, to be treated as items affecting comparability

Outcomes of the programme at the end of March 2023:

- Programme is progressing ahead of plan
- Implemented run-rate EBITDA improvements at the end of March amounted to EUR 12.1 million

Adjusted EBITDA run-rate impact of EUR 12.1 million end of Q1/23

Projected run-rate Adj. EBITDA impact, EUR million – status end of March 2023
Run-rate visible in the P&L by the end of the quarter, from the initiatives already implemented



	Q4'22	Q1'23	FY23
Adj. EBITDA periodic effect, M€	0.3	1.5	>10
NWC improvement cumulative, M€	-	3.3	>5
One-off cost (periodic), M€	-2.7	-2.2	~33

- The 2023 APG program target of EUR 20 million run-rate improvements within reach
- The company continues to pursue further actions to achieve 2024 APG program target of EUR 40 million run-rate improvements
- This includes to evaluate accelerating its footprint optimisation, covering both manufacturing and supply chain

Improvements completed at the end of Q1 2023

APG impact by category, EUR million	Actual run-rate (visible in P&L end of Q1'23)	2024 Target (upgraded on 8 Nov 2022)	Key initiatives implemented
Growth	0.8	6	✓ **Purmo Flex** panel radiator with flexible installation & thermostatic valve mounting ✓ **iVector** new generation fan convector
Pricing	4.0	9	✓ **Harmonize pricing** within and across markets and **value capture** for specialty items ✓ **Customer discounts** simplification ✓ **Pricing Excellence tools & processes ramped up** to manage inflationary effects
Sourcing	3.9	9	✓ **Value engineering** optimized raw material usage ✓ **Steel supplier base** enhanced ✓ **Other direct material** spend renegotiated
Overheads	3.3	5	✓ **New operating model ramped up**: Solutions div., Products & Systems div., Operations ✓ **Management delayering and back-office efficiency** ✓ **Organizational agility improved** by delayering and clarified accountabilities
Footprint	–	11	✓ **External warehouse** closure notice given ✓ **Manufacturing footprint** review ongoing
Adj. EBITDA total	**12.1**	**40**	
NWC	**3.3**	**-**	✓ **New Inventory management models** in UK, Italy and Belgium ✓ Move **infrequent SKUs from make-to-stock to make-to-order model** ✓ **Real time inventory monitoring** practices ramped-6up

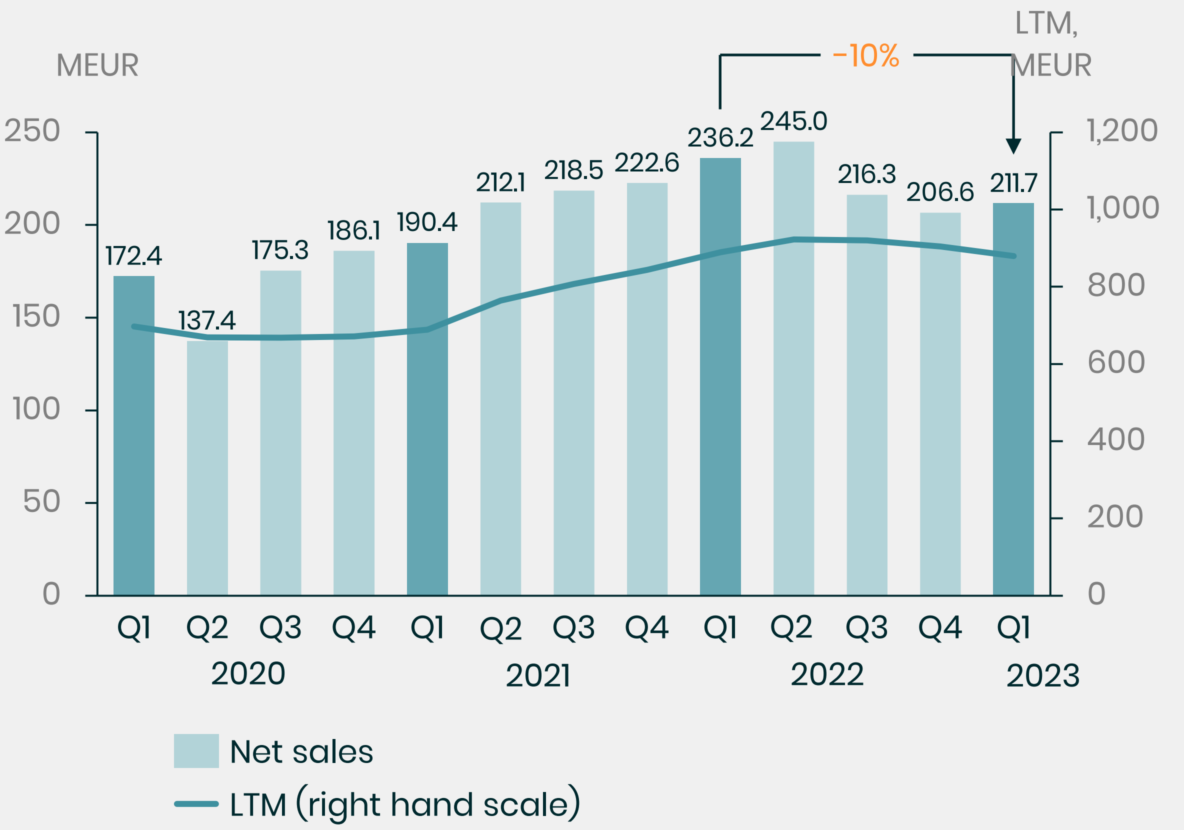
Q1 2023
financial review and guidance

January-March 2023 financial overview

Net sales	Adj. EBITDA	Adj. EBITDA
211.7	**26.4**	**12.5%**
MEUR,	MEUR,	margin
-10%	-9%	+0.1 ppt
Q1/2022: 236.2	Q1/2022: 29.2	Q1/2022: 12.4%

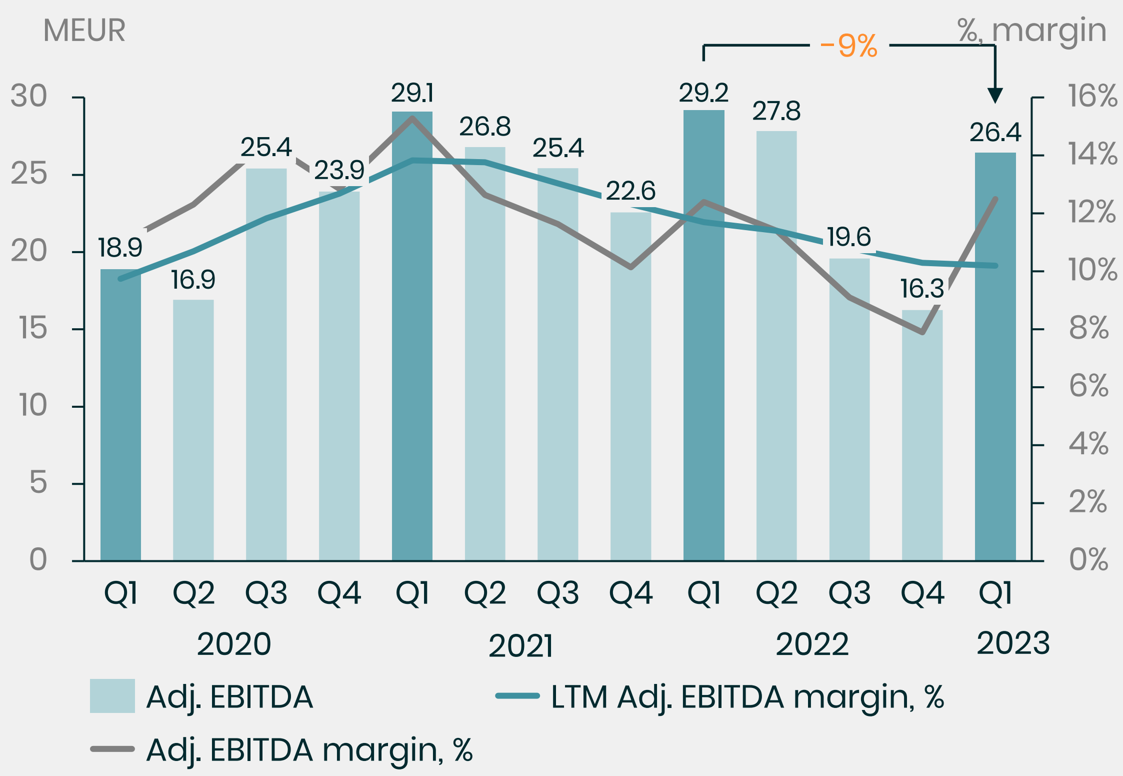
Purmo Group

Net sales



- Organic sales -11% in Q1/23
- The decline derived from Eastern Europe, but all regions were pressured by the weak market sentiment
- Acquisitions +1% due to Thermotech
- Net currency -1%

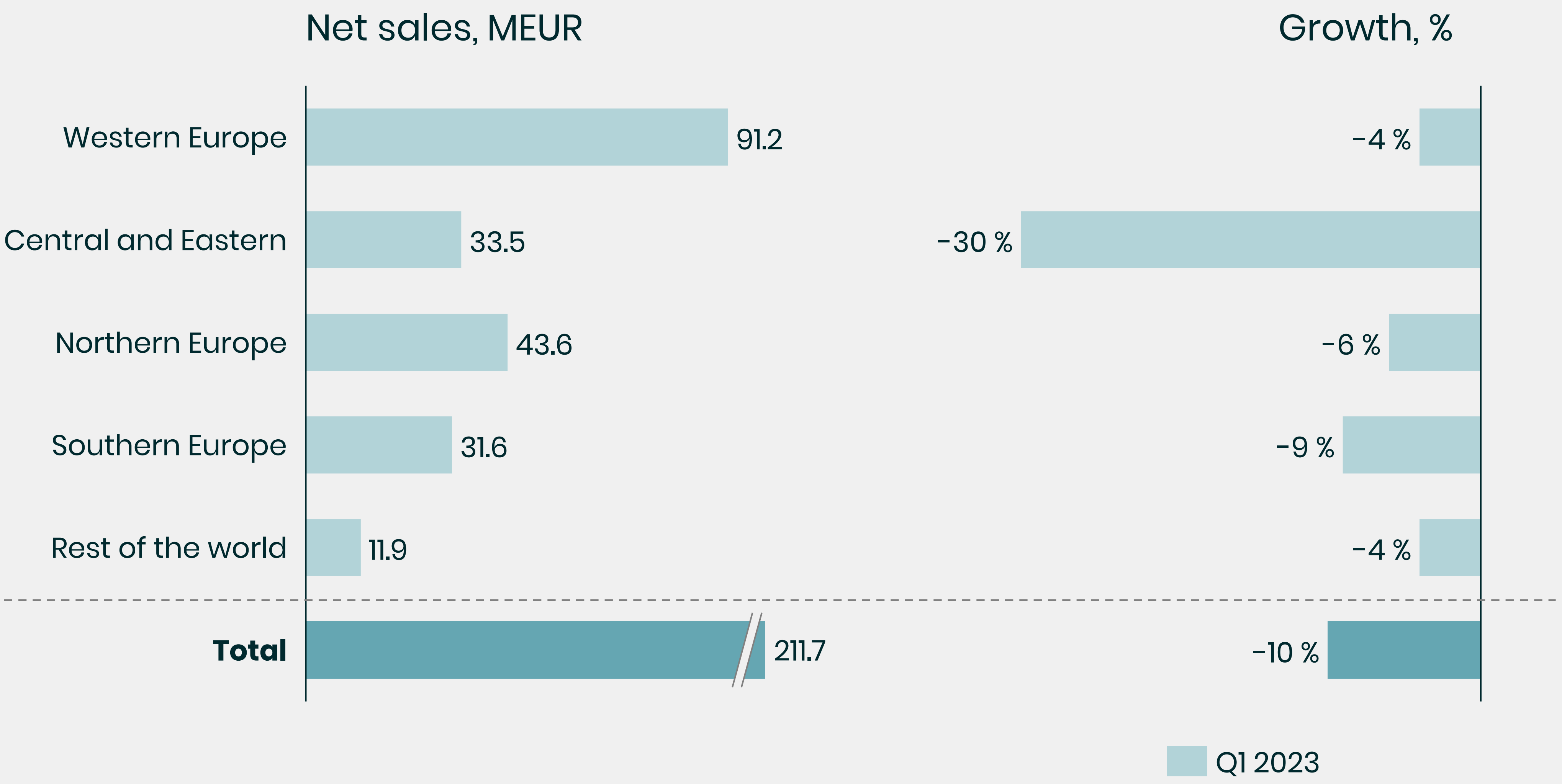
Adj. EBITDA



- Adjusted EBITDA margin reached 12.5% in Q1/23 (12.4%)
- Adjusted EBITDA margin supported by successful price increases as well as optimisation of production and operations in the Climate Products & Systems division
- Successful management of input costs

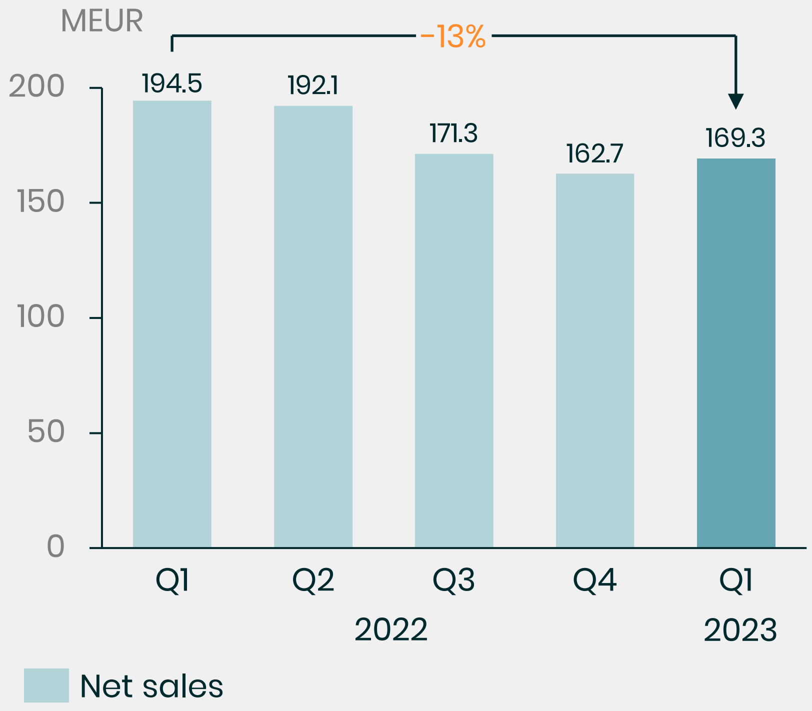
Notes: Quarterly data is unaudited

Net sales growth by geographical area



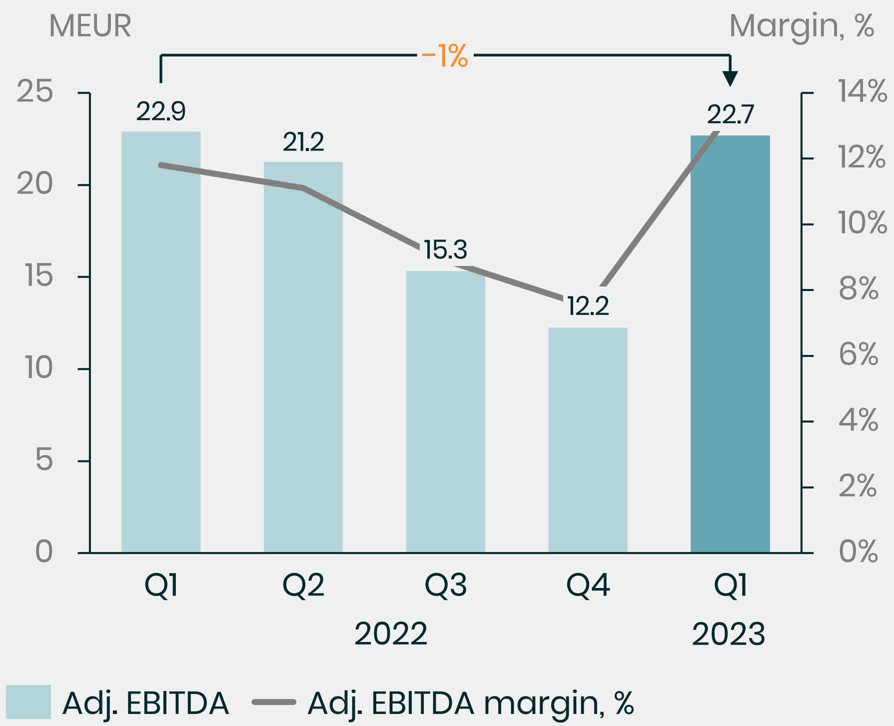
Climate Products & Systems division

Net sales



- Organic sales decline -12% in Q1/23, net currency -1%, acquisitions 0%
- Net sales in radiators amounted to EUR 110.2 million
- Volume decline of -23% in radiators, due to the weak demand in renovation and new build markets
- Price increases +7% in radiators
- Q1/23 LTM net sales 695.4 MEUR

Adj. EBITDA

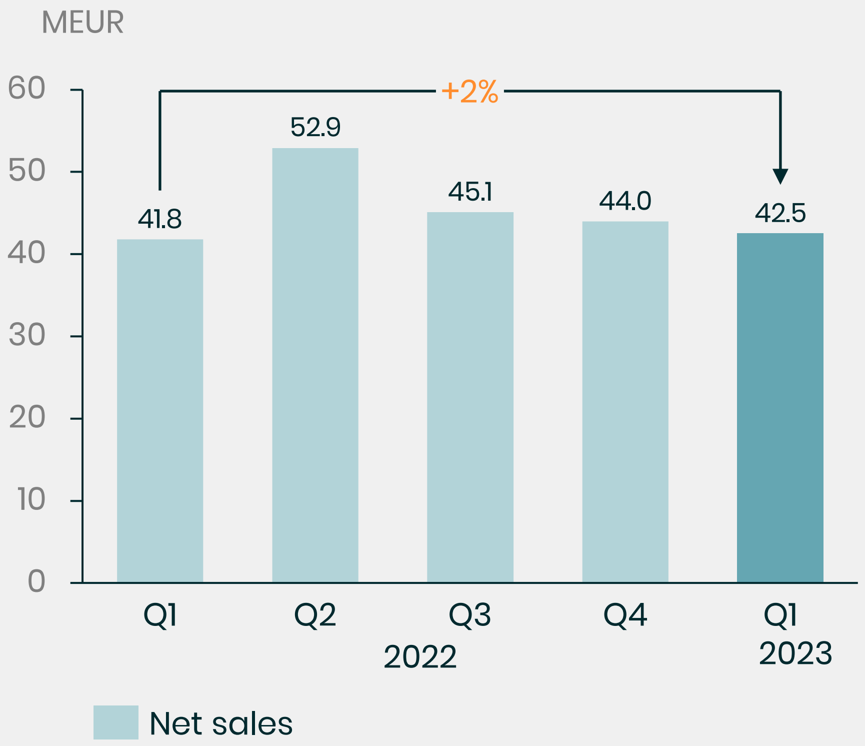


- Adjusted EBITDA margin improved to 13.4% in Q1/23 (11.8%)
- The increase in adjusted EBITDA margin was a result of strategic and inflationary price increases and cost improvements
- Q1/23 LTM Adj. EBITDA 71.5 MEUR, LTM Adj. EBITDA margin 10.3%

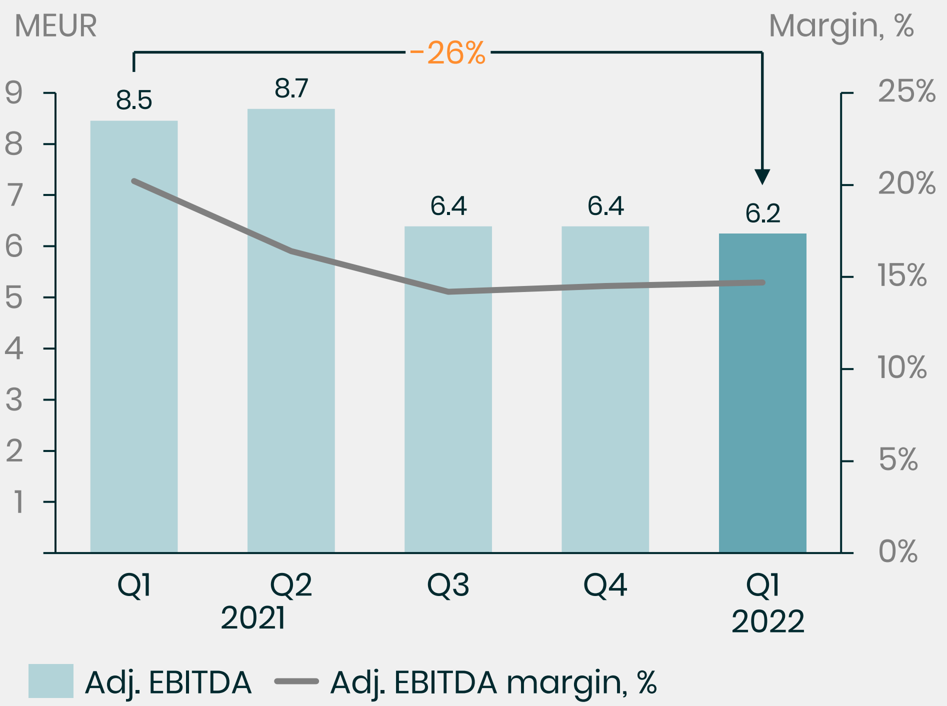
Notes: Quarterly data is unaudited

Climate Solutions division

Net sales



Adj. EBITDA

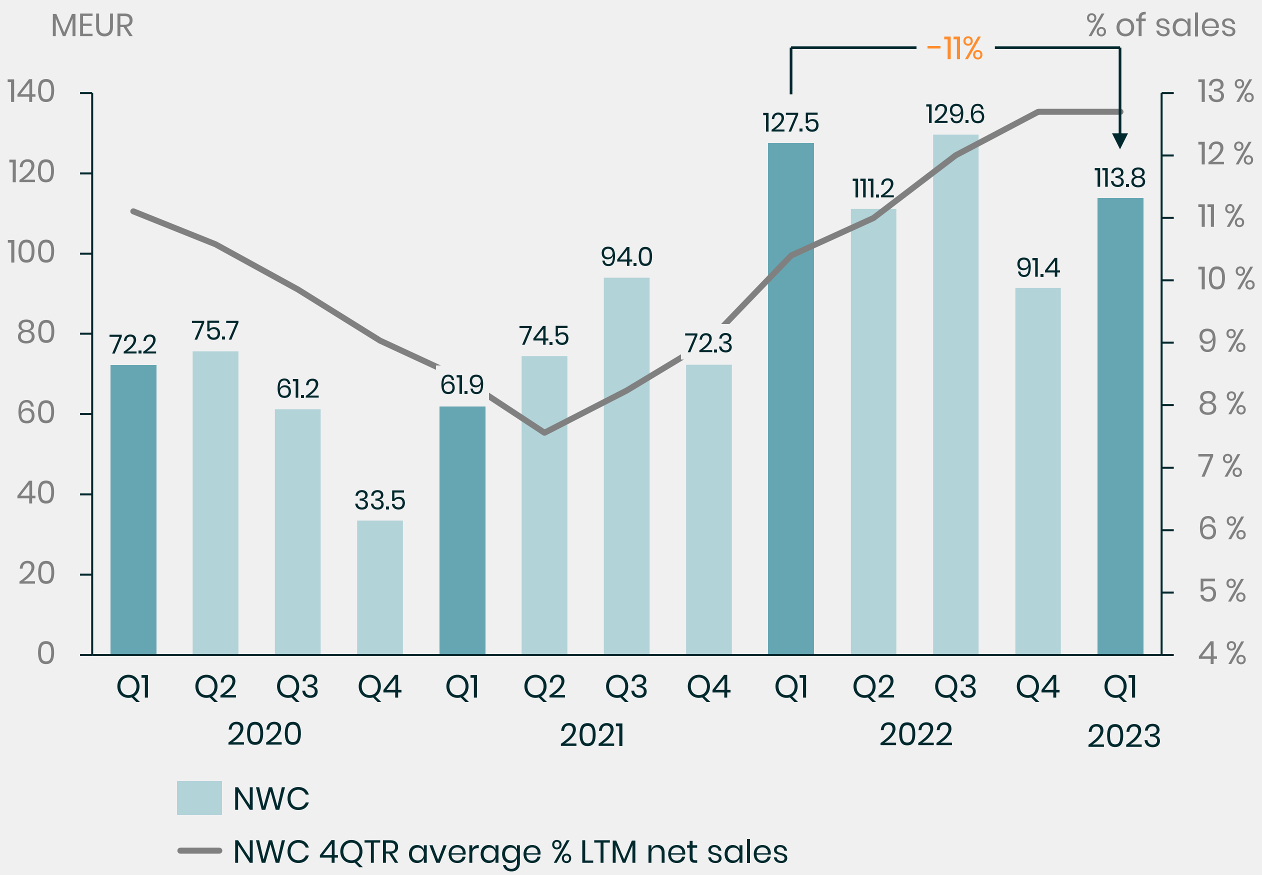


- Organic sales decline -6% in Q1'23, acquisitions +8%, net currency 0%
- The demand in France and Brazil was strong; the demand declined in Italy and Sweden
- The volumes in pipes and controls for UFH as well as products related to water distribution, including pipes and fittings, were high
- Volumes declined in heat pumps, solar panels and air conditioning
- Q1/23 LTM net sales 695.4 MEUR

- Adj. EBITDA margin was 14.7% (20.2%)
- Decline in margin a result of strong comparison period in Italy with higher volumes and early price increases of heat pumps
- Thermotech contributed with EUR 0.4 million (+0%) to adjusted EBITDA
- Q1/23 LTM Adj. EBITDA 27.7 MEUR, LTM Adj. EBITDA margin 15.0%

Notes: Quarterly data is unaudited

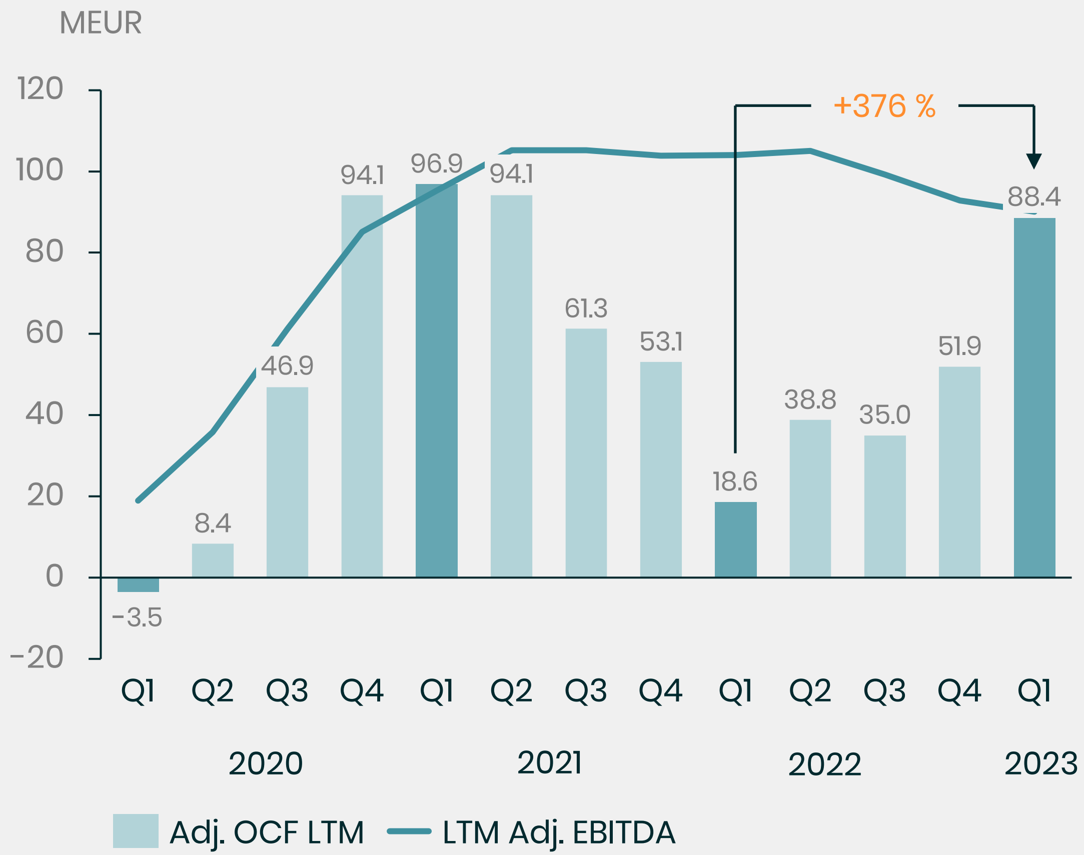
Net working capital



Net working capital	Q1 2023	Q1 2022	FY 2022
Inventories	169.1	167.9	174.1
Operative receivables	133.3	158.6	110.5
Operative liabilities	188.6	199.0	193.1
Net working capital	**113.8**	**127.5**	**91.4**
% of LTM net sales, QTR	12.9%	14.3%	10.1%
% of LTM net sales, 4QTR average	12.7%	10.4%	12.7%

Notes: Quarterly data is unaudited

Adjusted operating cash flow



Adjusted operating cash flow, last 12 months	**Q1 2023**	**Q1 2022**	**FY 2022**
Adjusted EBITDA LTM	90.1	104.0	92.9
NWC change*	23.9	-69.7	-16.9
Capex LTM**	-25.6	-15.7	-24.0
Adj. operating cash flow, LTM* **	**88.4**	**18.6**	**51.9**
Cash conversion	98.2%	17.8%	55.9%

* Change compared to previous year same period, adjusted for impact from M&A

** Investments tangible and intangible assets, excluding acquisitions (M&A)

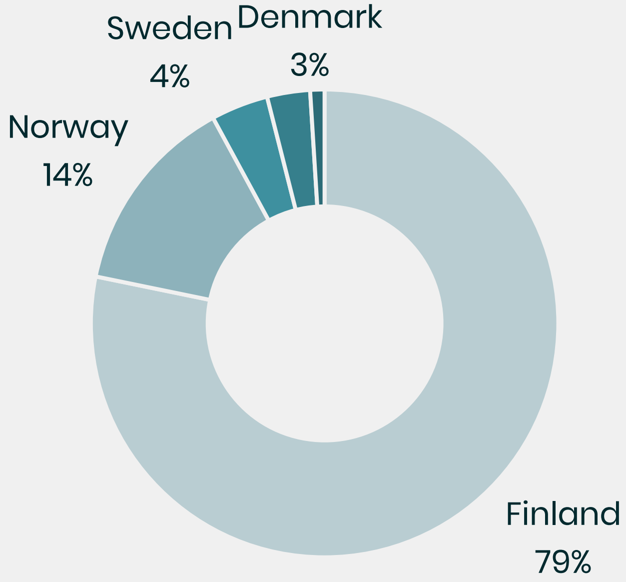
*** Adjusted operating cash flow before acquisitions and disposals of companies, financial net items and paid taxes

Notes: Quarterly data is unaudited

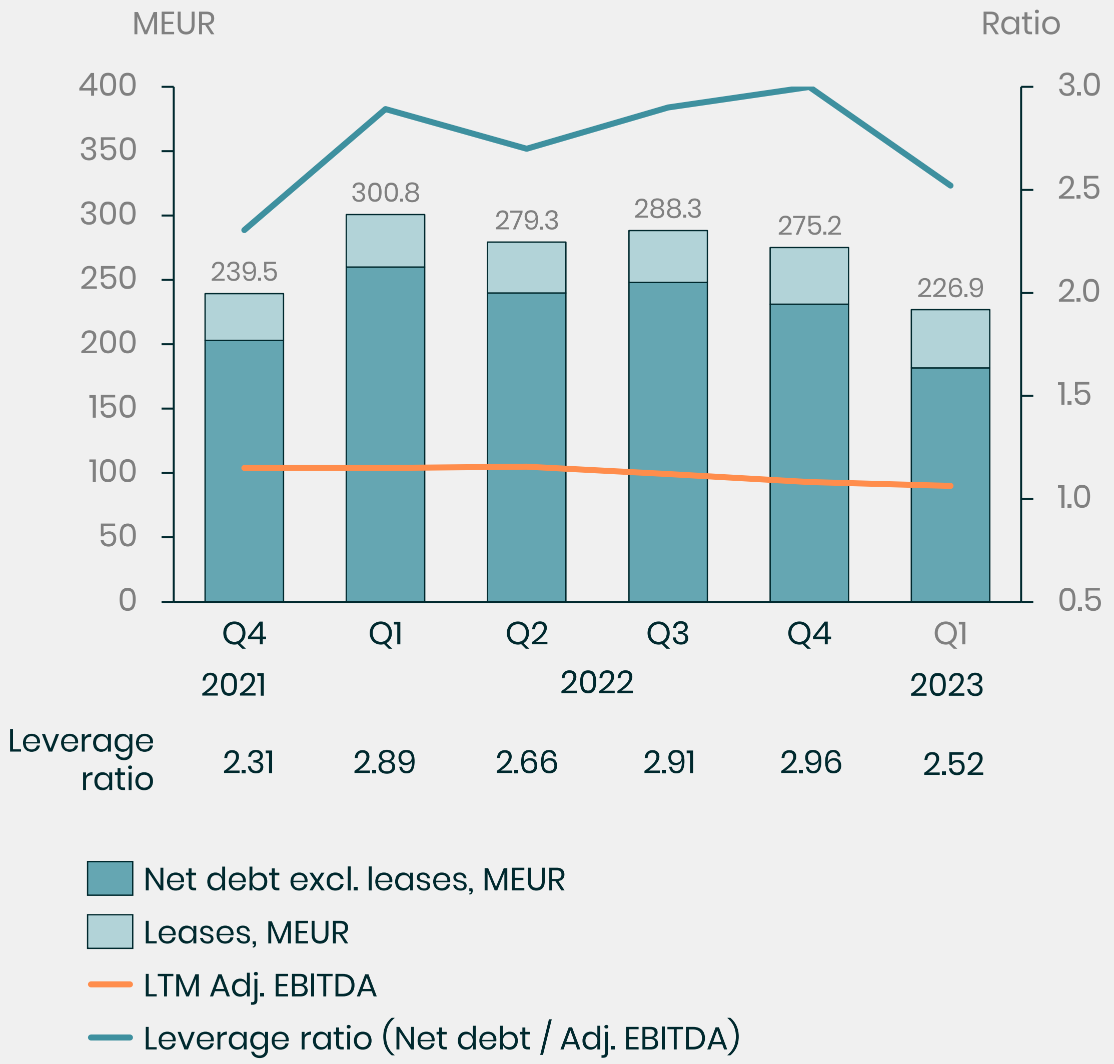
EUR 60 million green hybrid bond

Key terms	
Key terms	▪ Issuance date: **23 February 2023** ▪ Size: **EUR 60 million** ▪ Pricing: **9.50%** ▪ Maturity: **3 year non-call period** ▪ 100% equity treatment under IFRS: **Yes** ▪ Listing: **Yes**
Purpose	▪ Ensures funding for Purmo **Group's strategy acceleration programme** ▪ Net proceeds from the issue used in accordance with the company's **Green Finance Framework** which was announced on 13 February 2023

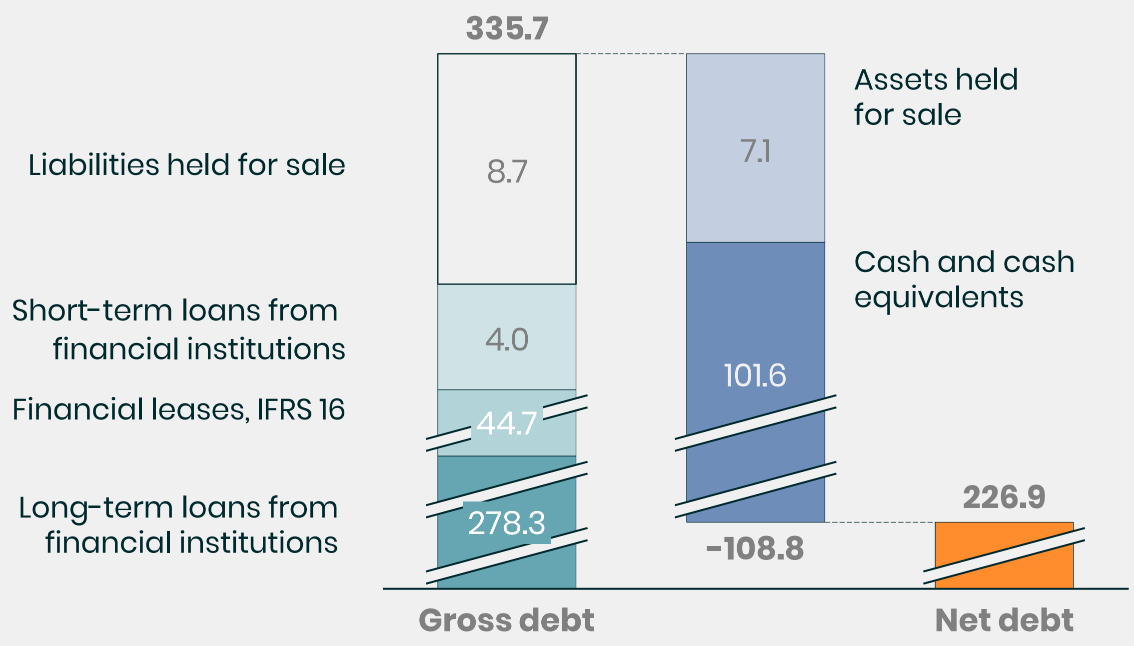
Breakdown of hybrid bond investors (at closing)



Net Debt



Distribution of gross and net debt (MEUR)



- Liabilities held for sale: EUR 8.7 million liabilities redemption liability related to business in Russia
- Assets held for sale (cash) EUR 7.1 million related to business in Russia

Notes: Quarterly data is unaudited

Financial guidance for 2023 remains unchanged

Purmo Group's adjusted EBITDA in 2023 is expected to be on a similar level as in 2022 (EUR 92.9 million).

Similar means a change within +/- 5 per cent from the previous year.

The solid earnings performance during the first quarter combined with the ahead of plan progress of the Accelerate PG programme provides confidence in the outlook for the rest of the year. Purmo Group reiterates the previously communicated targets for the Accelerate PG programme – targeted adjusted EBITDA run-rate improvements of EUR 20 million by the end of 2023 and cumulatively EUR 40 million by the end of 2024.

The visibility for 2023 is limited due to macroeconomic uncertainties and the market environment continues to be challenging in Purmo Group's addressable markets. Furthermore, the guidance also factors in that Purmo Group is building up capabilities to facilitate future growth which impacts the company's cost base, and hence, the net savings from the Accelerate PG programme.

Long-term financial targets and dividend policy

Growth	**> Market organic growth and notable M&A**	Net sales growth
Profitability	**> 15%**	Adj. EBITDA margin %
Leverage[1]	**≤ 3.0x**	Interest bearing net debt / Adj. EBITDA on a rolling twelve-month basis
Dividend[2]	**≥ 40%**	Distributed as a % of annual net profit

1) The leverage ratio is targeted not to exceed 3.0x, measured as interest bearing net debt / Adjusted EBITDA on a rolling twelve-month basis. However, leverage may temporarily exceed the target level, for example in conjunction with acquisitions or restructuring actions.
2) Purmo Group's aim is to distribute at least 40% of annual net profit as dividends or return of capital, intended to be paid out after considering earnings trends for the group, its financial position and future growth potential.

Q&A

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Appendix

Key figures

MEUR	Q1 2023	Q1 2022	*Change, %*	FY 2022	FY 2021	*Change, %*
Net sales	211.7	236.2	*-10%*	904.1	843.6	*7%*
Adjusted EBITDA	26.4	29.2	*-9%*	92.9	103.9	*-11%*
Adjusted EBITDA margin, %	12.5%	12.4%		10.3%	12.3%	
EBIT	15.1	14.1	*7%*	39.0	3.5	*1025%*
EBIT margin, %	7.1%	6.0%		4.3%	0.4%	
Profit for the period	6.7	6.5	*3%*	13.1	-18.8	*170%*
Cash flow from operating activities	-1.2	-38.9	*97%*	31.1	35.4	*-12%*
Adjusted operating cash flow, last 12 months[1]	93.2	18.6	*401%*	51.9	50.2[3]	*3%*
Cash conversion %, last 12 months[2]	103.4%	17.8%		55.9%	48.3%[3]	

[1] Adjusted EBITDA on a rolling 12 month basis deducted by the change in net working capital and capex on a rolling 12 month basis.
[2] Adjusted operating cash flow divided by Adjusted EBITDA, both on a rolling 12 month basis.
[3] Restated for comparability reasons.

Comparability adjustments

Comparability adjustments	Q1 2023	Q1 2022	FY 2022	FY 2021	
IFRS 2 merger impact	–	–	–	52.3	Non-cash
M&A related transactions and integration costs	0.0	0.4	2.2	0.1	
Restructuring costs and one-off costs related to efficiency programs	2.2	0.2	6.2	8.9	Partly non-cash
Formation of Purmo group and standalone preparations	–	–	–	6.6	
Management fee to owners and legacy Rettig Group incentive plans	–	–	–	2.4	Partly non-cash
Impairment and write-down charges	1.3	6.9	12.9		Non-cash
Other	-0.1	–	0.5	0.0	
Total adjustments	**3.4**	**7.5**	**21.7**	**70.2**	

Net financials, depreciation and amortisation

Net Financial items	Q1 2023	Q1 2022
Interest net	-3.5	-2.3
Exchange gains and losses (FX and financing items)	-0.2	0.6
Leases IFRS 16	-0.6	-0.6
Other financial income and expenses	-1.4	-0.5
Total	**-5.6**	**-2.8**
% of net sales	***2.7%***	***1.2%***

Depreciation and amortisation	Q1 2023	Q1 2022
Amortisation on intangible assets	-0.9	-0.8
Tangible assets	-4.7	-5.0
Impairment of intangible and tangible assets	-	-7.6
Right-of-use assets (IFRS 16)	-2.3	-1.9
Total	**-8.0**	**-15.2**
% of net sales	***3.8%***	***6.4%***

Tax

Income tax expense, MEUR	Q1 2023	Q1 2022	
For the financial period	-3.3	-3.2	
Change in deferred taxes	0.6	-1.5	
Previous years taxes	0	0	
Total income tax expense	**-2.7**	**-4.8**	
Effective Tax Rate adjusted for non-deductible items	***23.1%***	***25.1%***	
Non-deductible items			**Comments**
Profit before taxes	9.5	11.3	As reported
Russian divestment plan	1.3	6.9	Impairment and write-down of Russian business assets and liabilities
Trademark amortisation	0.9	0.9	Related to previous years' company structuring
PBT adjusted for non-deductible items	**11.7**	**19.0**	PBT adjusted for non-deductible items

Descriptions of the new divisions

Division	Description and products
Climate Product & Systems	Climate Products & Systems division sells via sanitary and heating wholesalers in both residential and non-residential sector. Sales regions are Northern, Western, Southern and Eastern Europe, and the rest of the world, including Brazil, China, Japan and the United States. The main product categories within Climate Products & Systems are panel radiators, tubular radiators, and electric radiators. In addition, radiant heating and cooling (RHC), including underfloor heating, air heating and cooling, water distribution systems as well as system components and controls belong to the main product categories within Climate Solutions & Systems.
Climate Solutions	Climate Solutions division sells directly to installers from the company's Emmeti business in South Europe, Thermotech business in the Nordic region and Merriott business in the United Kingdom. Climate Solutions provides integrated solutions, which include a comprehensive set of heating and cooling solutions for customers whose goal is to achieve energy savings and reduce the emissions generated by energy consumption.
	Other and unallocated items comprise of corporate headquarter functions and other Group level costs including Group Finance, Group Legal, Group Sustainability, Group Communications, Group Human Resources and M&A. The head office costs comprise mostly of salaries, rent and professional fees that are operated for the benefit of the whole group and are not allocated to the divisions.

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