PURMO GROUP

Purmo Group Plc

Half-year financial report

1 January – 30 June 2023

John Peter Leesi, CEO
Jan-Elof Cavander, CFO
Erik Hedin, COO

19 July 2023

Agenda

Q2 2023 in brief and strategy execution update
John Peter Leesi, CEO

Accelerate PG ahead of plan
Erik Hedin, COO

Q2 2023 financial review and guidance
Jan-Elof Cavander, CFO

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Q2 2023 in brief
and strategy execution update

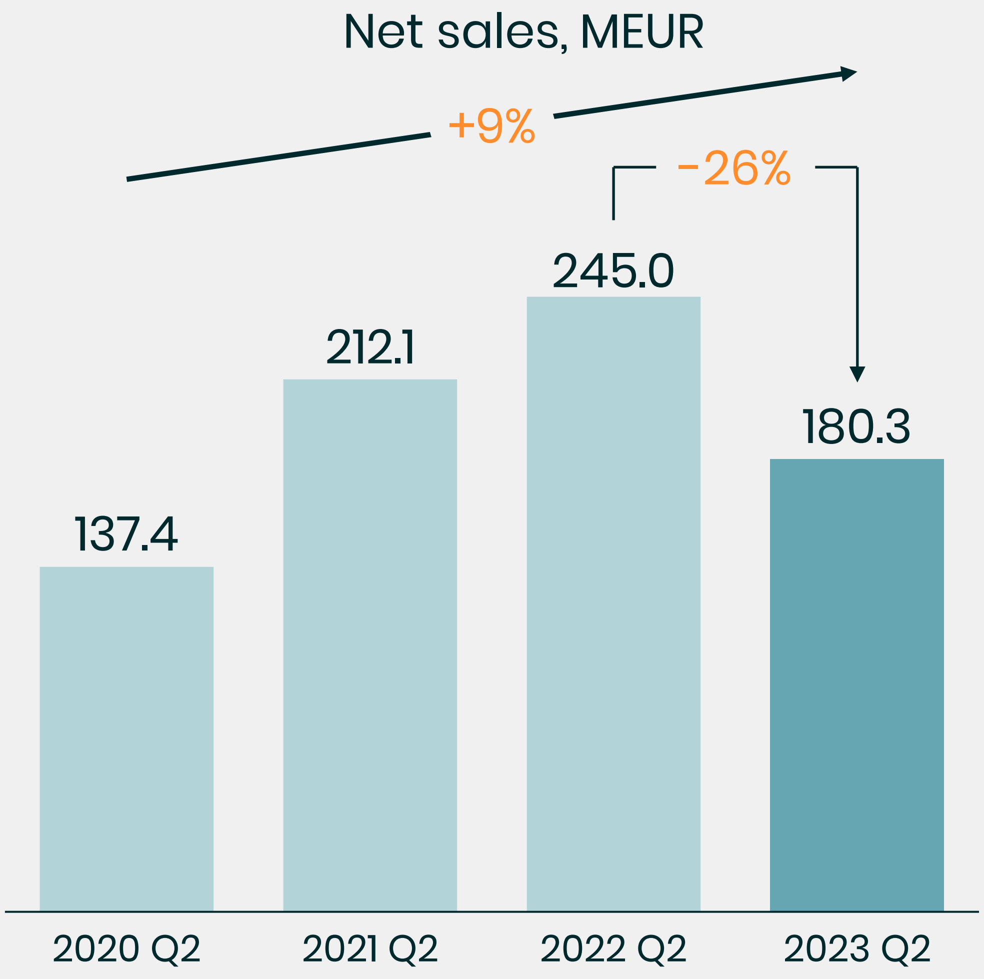
April-June 2023

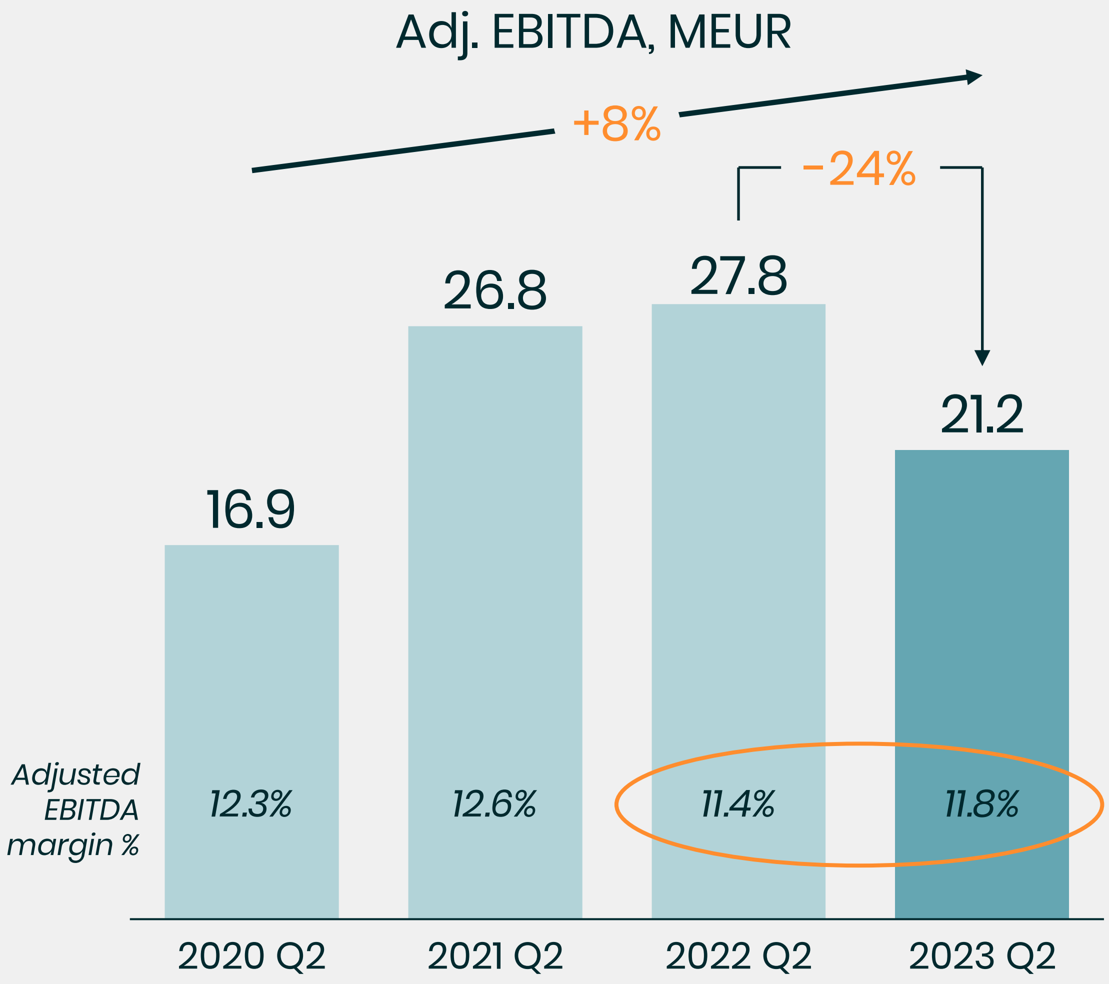
Successful margin management during challenging market conditions, Accelerate PG provides support for full-year outlook

Market environment with low volumes	Improved margins in both divisions	Accelerate PG progressing ahead of plan	Guidance unchanged

Q2 2023: Purmo Group

Net sales declined due to low volumes, adjusted EBITDA margin improved

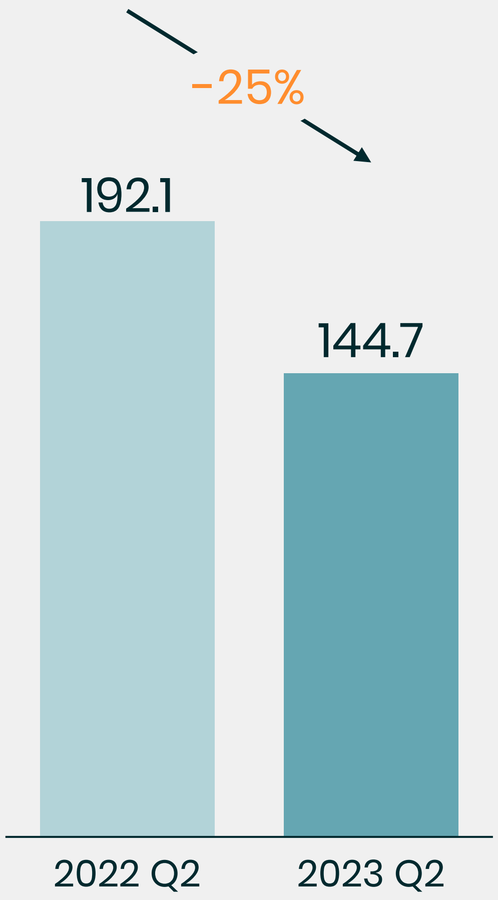




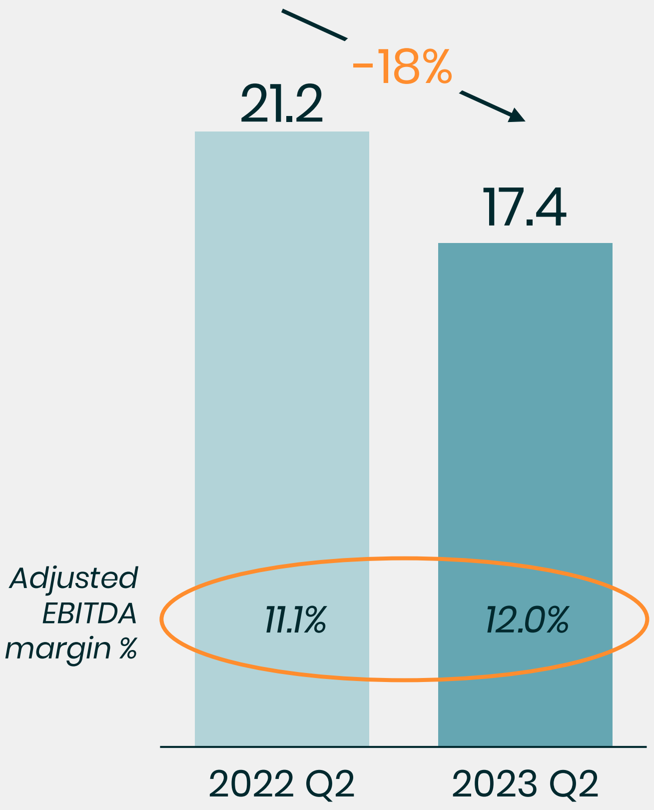
Q2 2023: Climate Products & Systems division

Margin improvement despite challenging market conditions

Net sales,
MEUR



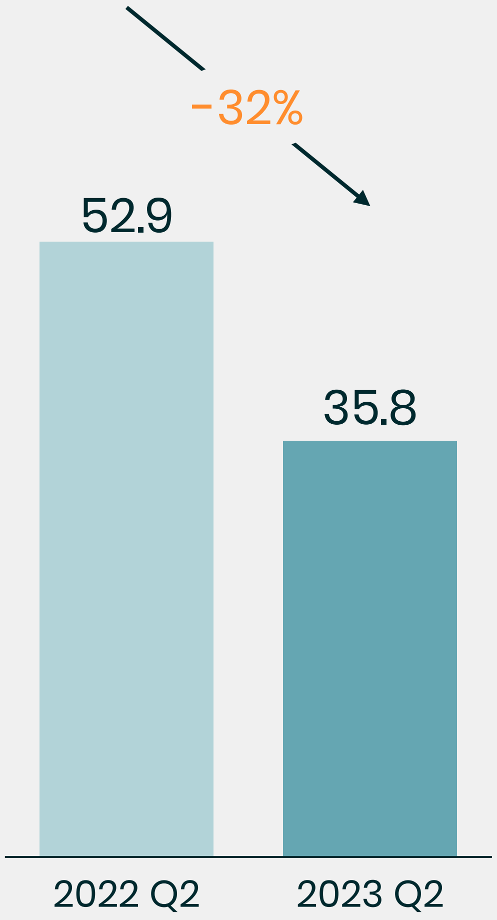
Adj. EBITDA,
MEUR



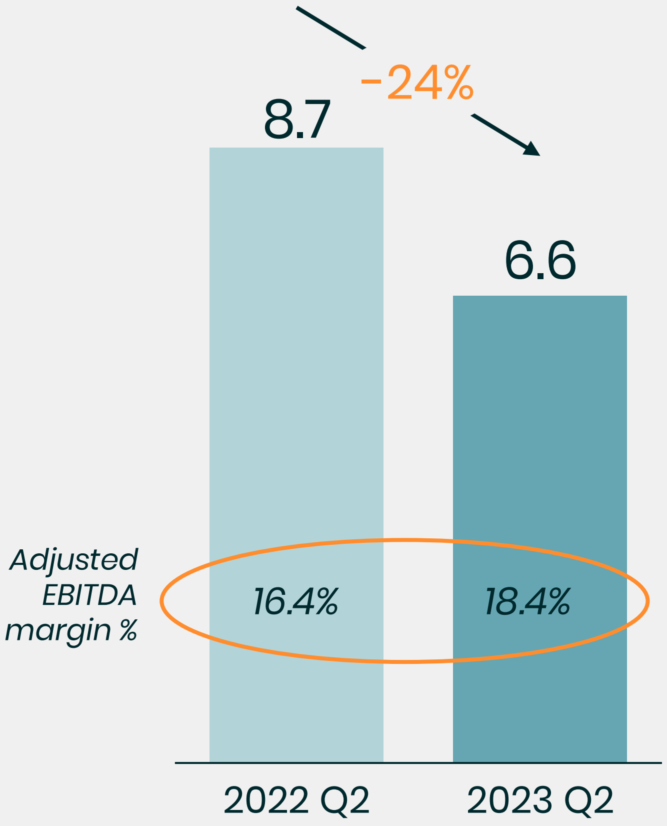
- The decline in net sales was a result of low volumes
- The improvement in adjusted EBITDA margin was a result of strong margin management, including pricing, cost-saving actions in operations and savings in sourcing
- Net sales of radiators amounted to MEUR 92.0 (126.2)
- Net sales of other products, including e.g. underfloor heating, was MEUR 51.9 (65.9)

Margin improvement in a tough market

Net sales,
MEUR



Adj. EBITDA,
MEUR



- The decline in net sales was a result of further normalisation in trading conditions in the Italian market compared to last year, when demand was exceptionally high due to government energy incentives
- The adjusted EBITDA margin increased to 18.4 per cent (16.4)
- Improvement in adjusted EBITDA margin was a result of strong actions for margin management during the quarter, including several cost-saving actions and maintaining prices on a healthy level

Strategy execution during the quarter

Solution selling

- Thermotech's first eco-building project in Finland of UFH system deliveries

Smart products

- Upgraded version of oil-filled electric YALI PLUS radiator range launched
- The world's most flexible PE-Xc pipe development completed

Growth markets

- Russia exit agreement signed with IPLS on 28th of April

Operational excellence

- Accelerate PG ahead of target: run-rate profitability improvements EUR 16.5 million (11.3)
- Strong margin management mitigated weak demand
- Launch of a consultation process regarding the future of manufacturing plant in Zonhoven, Belgium

Sustainability

- 4,817 solar panels installed in China: part of Group's commitment to sourcing 100% renewable energy for all its plants by 2030
- A programme began to accelerate the production of Environmental Product Declarations (EPDs)
- Ongoing preparations for the implementation of the Corporate Sustainability Reporting Directive (CSRD) for the reporting year 2024

Solution case studies during Q2 2023

Two mid-sized public buildings with heating system deliveries in Finland and in Sweden

Hospital, Tammisaari

- Delivery of underfloor heating and snow melting systems

Office building, Malmö

- Highest wooden office building in Sweden with 11 floors and 7,900 m² of space in total
- Delivery of water distribution systems including pipes for domestic water and tap water distribution

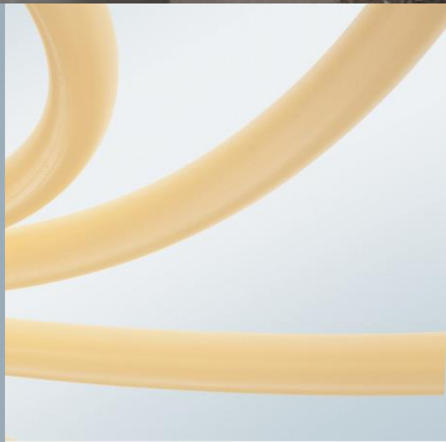
Smart product development during Q2 2023

Upgraded versions of oil-filled electric Yali Plus radiators

- Integrated with the Unisenza Plus control system
- Unisenza application available for smart phones, with additional functionality

The world's most flexible PE-Xc pipe offered by Purmo

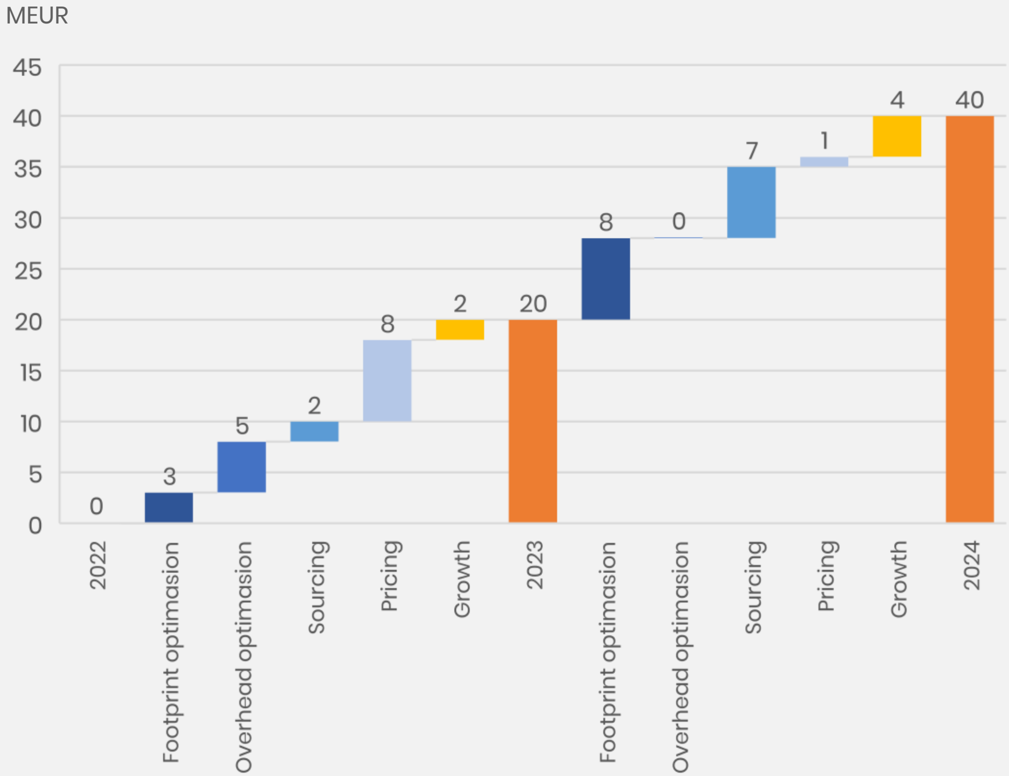
- Easy and quick installation for customers



Accelerate PG
ahead of plan

Accelerate PG – Programme target

APG programme target (Nov-2022)



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

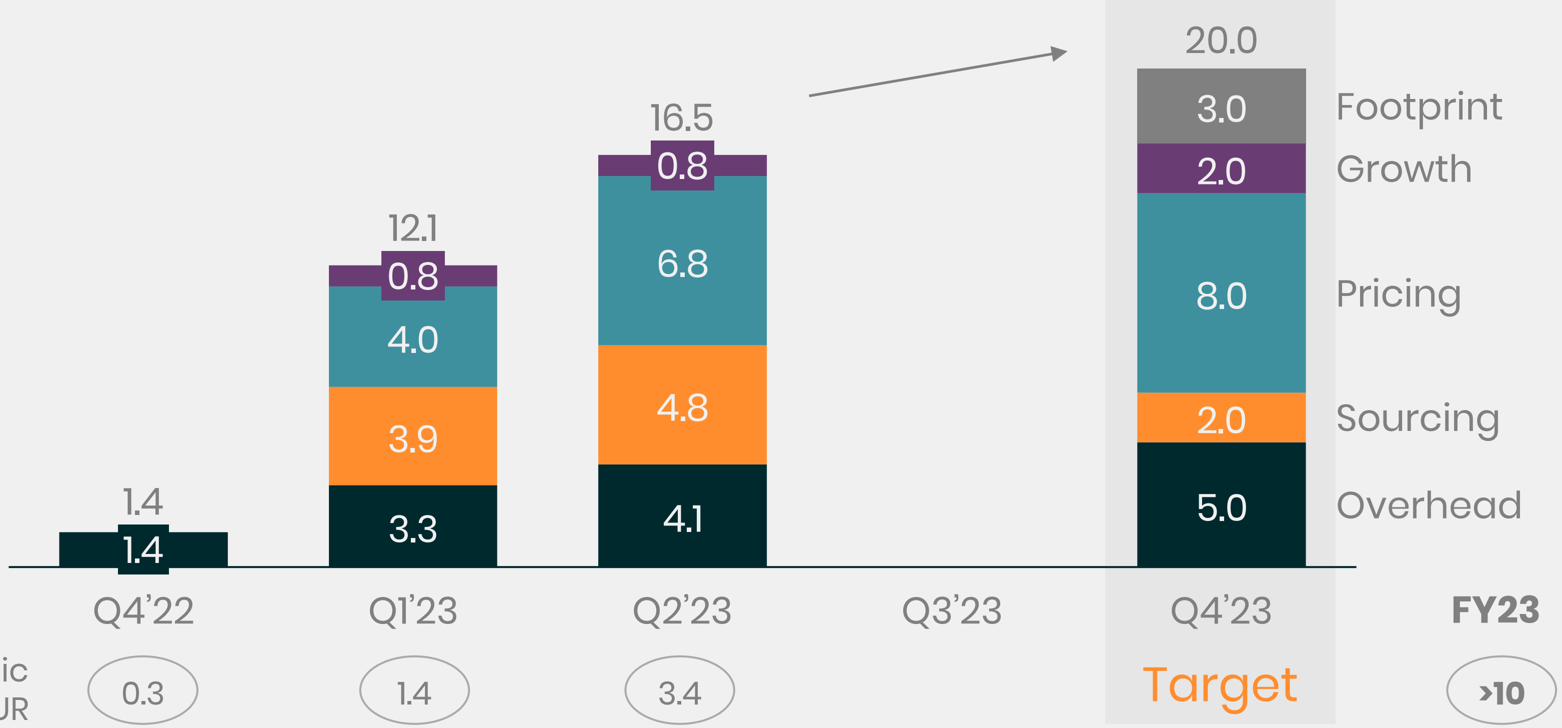
Costs of the programme of EUR 43 million:

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

Adjusted EBITDA run-rate impact EUR 16.5 million at the end of Q2 2023

Projected run-rate Adj. EBITDA impact, EUR million – status end of June 2023

Run-rate visible in the P&L by the end of the quarter, from the initiatives already implemented



	Q4'22	Q1'23	Q2'23	FY23
Adj. EBITDA periodic effect, MEUR	0.3	1.4	3.4	>10
NWC improvement cumulative, MEUR	-	3.3	6.1	>10
One-off cost (periodic), MEUR	-2.7	-2.2	-3.5	~33

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

Improvements completed at the end of Q2 2023

APG impact by category, EUR million	**Actual run-rate**[1], (change since Q1 end)	**2024 target**[2]	**Key initiatives implemented during the quarter**
Growth	0.8	6	✓ Push on **unpenetrated markets** & smart products continued
Pricing	6.8 (+2.8)	9	✓ Implementation **proceeding to plan** despite challenging market conditions ✓ **Pricing Excellence** tools and processes deployed to manage turbulent market conditions
Sourcing	4.8 (+0.9)	9	✓ Components **outsourced** achieving significant cost savings ✓ Renegotiated **UFH insulation** material commercial mechanism and logistics model ✓ Optimised **packaging** to reduce costs
Overhead optimisation	4.1 (+0.8)	5	✓ Implementation of **overhead reductions** proceeding to plan ✓ Further improvements being prepared
Footprint optimisation	-	11	✓ Consultation of intention to potentially discontinue panel radiator production in Zonhoven, Belgium ✓ External warehouse contract discontinued in UK
Adj. EBITDA total	**16.5 (+4.4)**	**40**	
NWC	**6.1 (+2.8)**	**-**	✓ **Implementation progressing well** with substantial additional cash released, rigorous real-time monitoring practices ramped up ✓ **Intense planning for expanding scope to next wave of entities at full speed**

1. Impact visible in P&L, 2. Upgraded on 8 Nov 2022

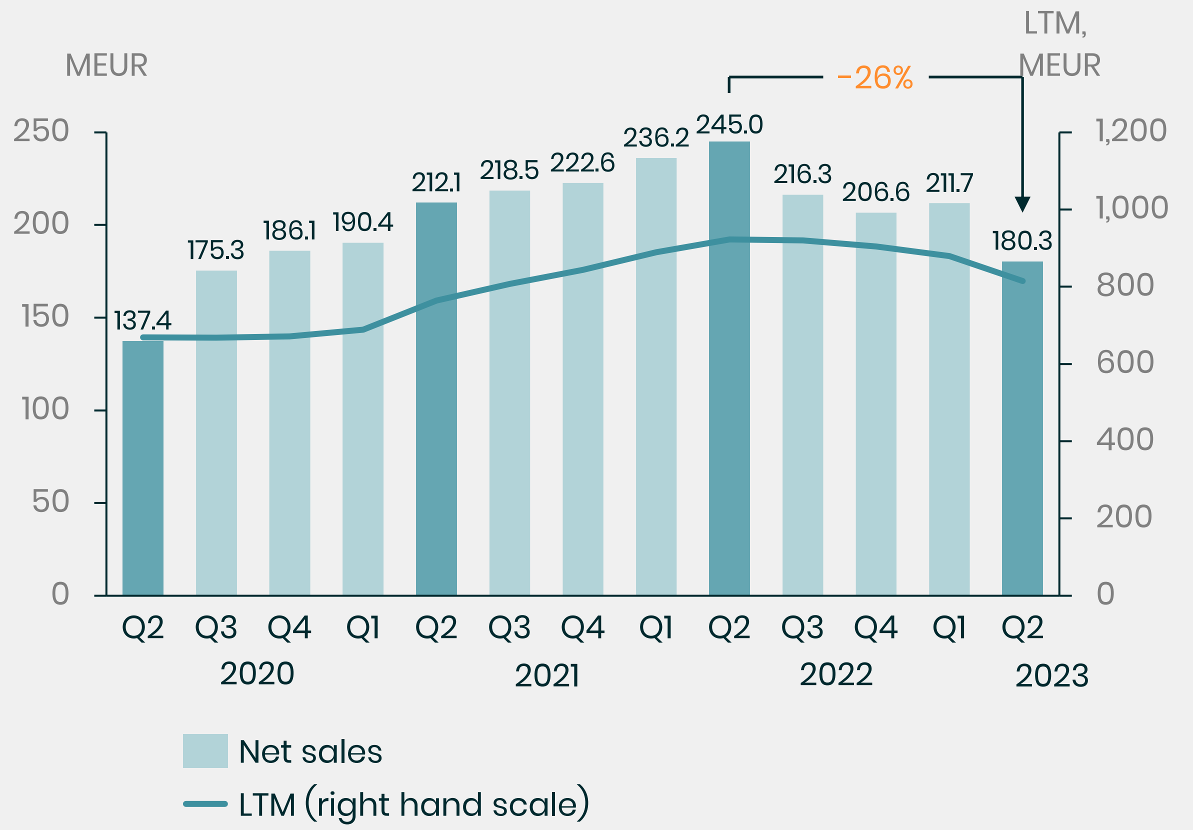
Q2 2023
financial review and guidance

April-June 2023 financial overview

Net sales	Adj. EBITDA	Adj. EBITDA
180.3	**21.2**	**11.8%**
MEUR,	MEUR,	margin
-26.4%	-23.8%	+0.4 ppt
Q2/2022: 245.0	Q2/2022: 27.8	Q2/2022: 11.4%

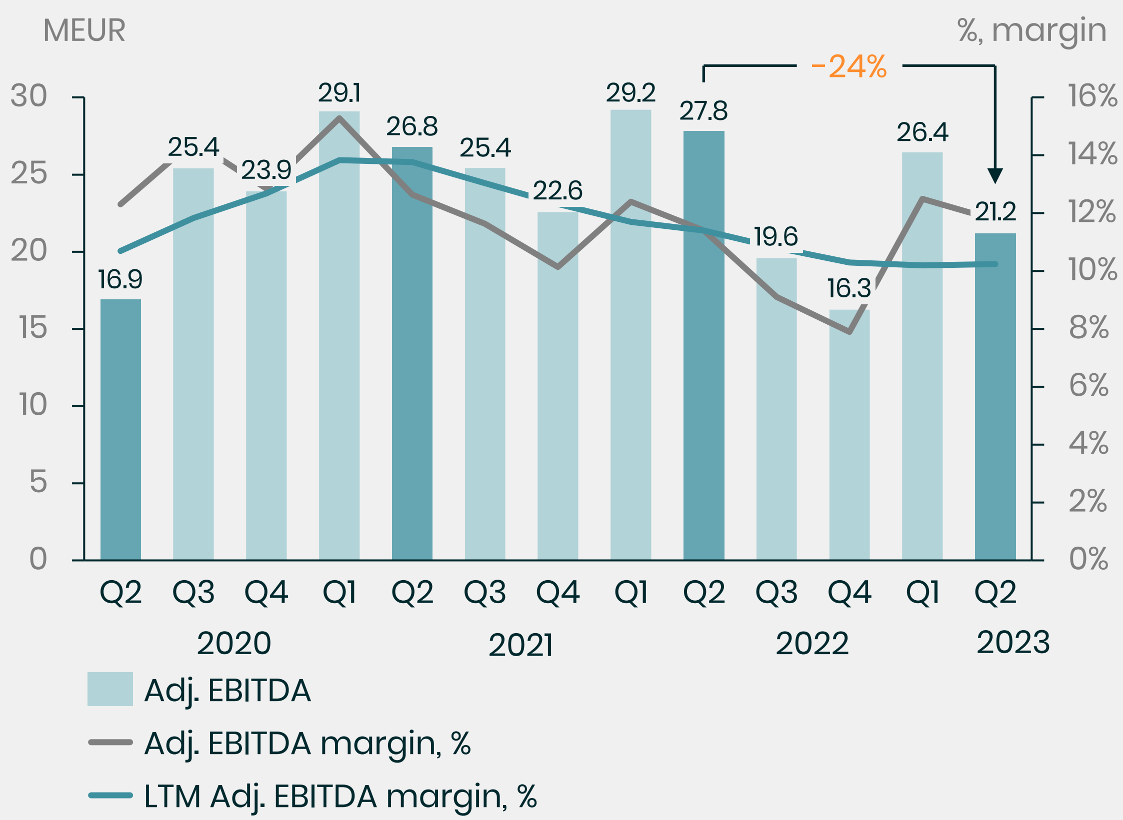
Purmo Group

Net sales



- Organic sales -25% in Q2/23
- The decline in net sales was a result continued weakness across markets and regions for the Group, which led to low volumes
- Acquisitions had no impact on Q2/23
- Changes in FX rates decreased reported sales by -1%

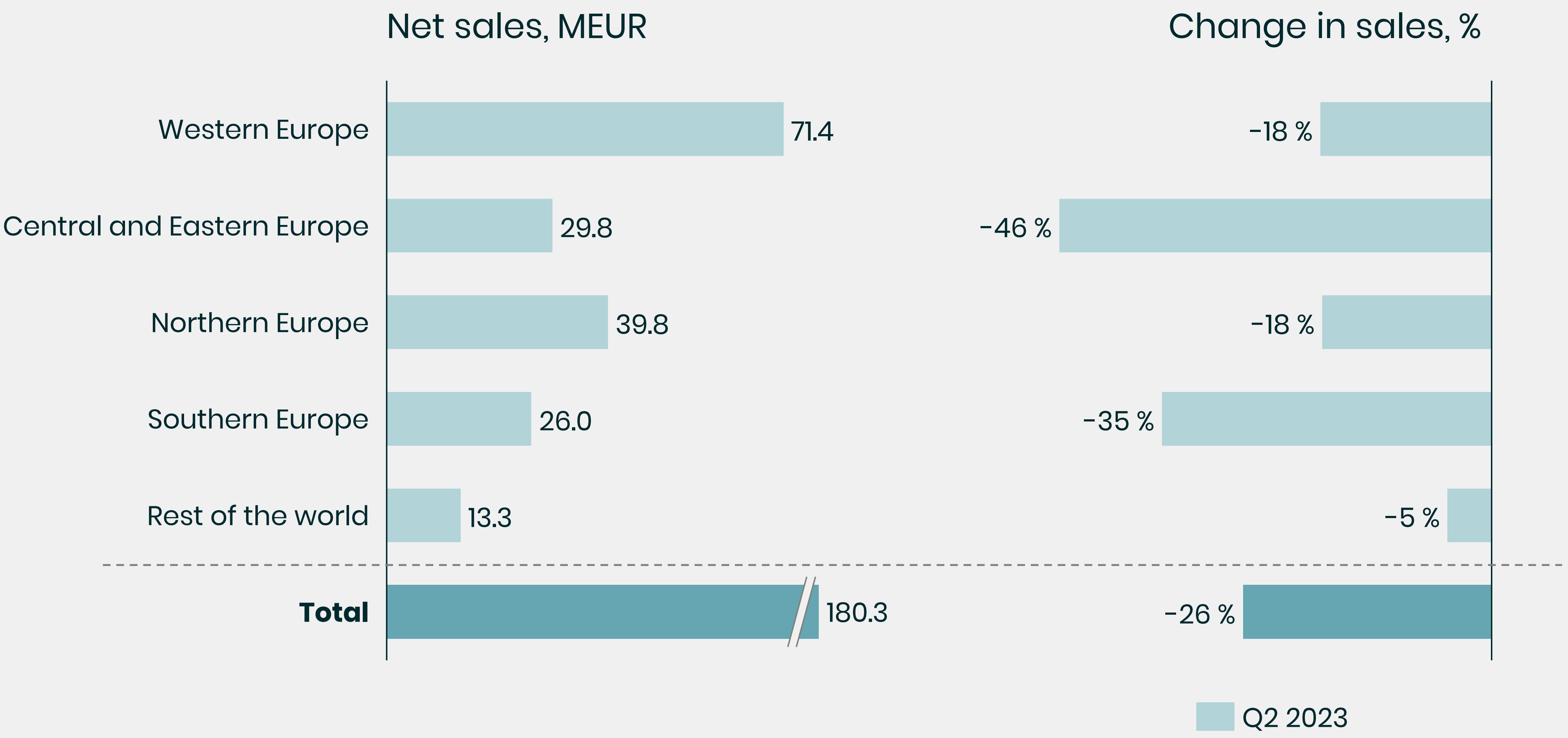
Adj. EBITDA



- The decline of 24% in adjusted EBITDA a result of lower levels of adjusted EBITDA for both divisions, burdened by low volumes
- Adjusted EBITDA margin reached 11.8% in Q2/23 (11.4%)
- The improvement in adjusted EBITDA margin was a result of strong pricing and cost-saving actions within the Group

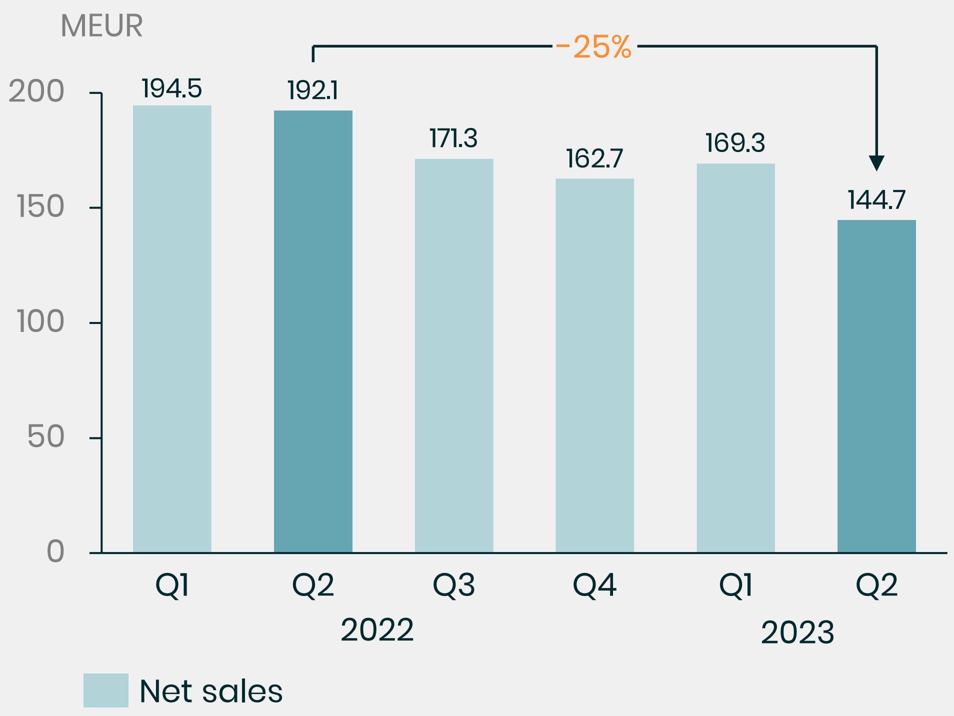
Notes: Quarterly data is unaudited

Q2 2023 net sales by geographical area



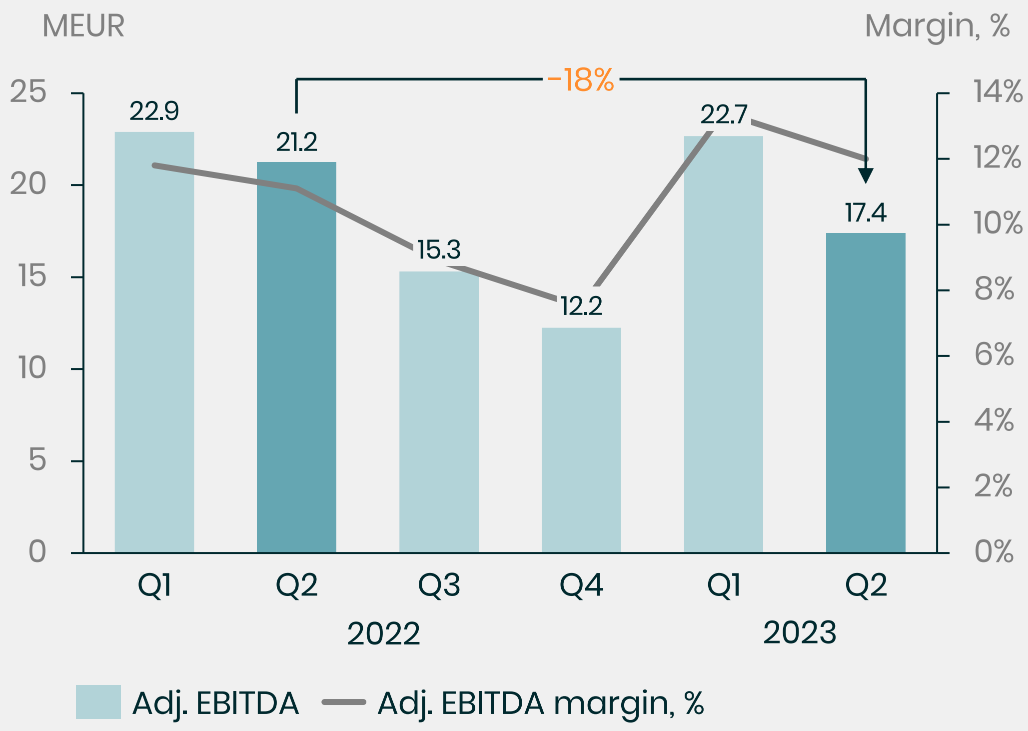
Climate Products & Systems division

Net sales



- Organic sales decline -23% in Q2/23, net currency -1%, acquisitions 0%
- Net sales in radiators amounted to EUR 92.0 (126.2) million
- Volume decline of -34% in radiators, due to the weak demand in renovation and new build markets
- Price increases +6% in radiators
- Q2/23 LTM net sales 648.0 MEUR

Adj. EBITDA

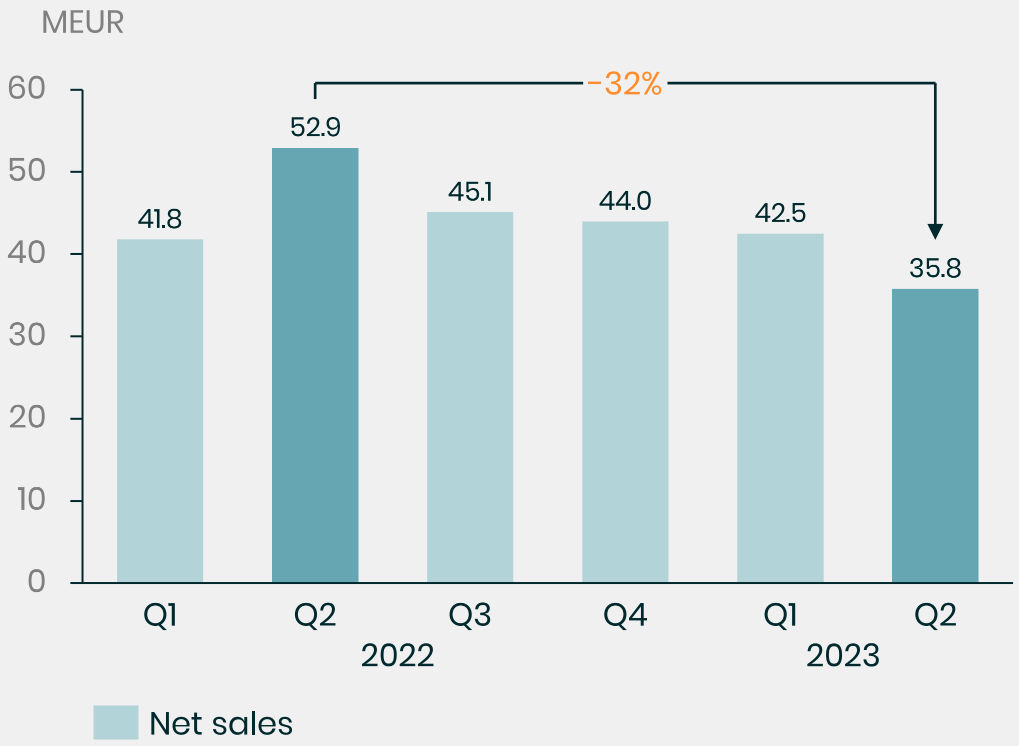


- Adjusted EBITDA margin improved to 12.0% in Q2/23 (11.1%)
- The increase in adjusted EBITDA margin was a result of successful margin management actions
- Q2/23 LTM Adj. EBITDA 67.6 MEUR, LTM Adj. EBITDA margin 10.4%

Notes: Quarterly data is unaudited

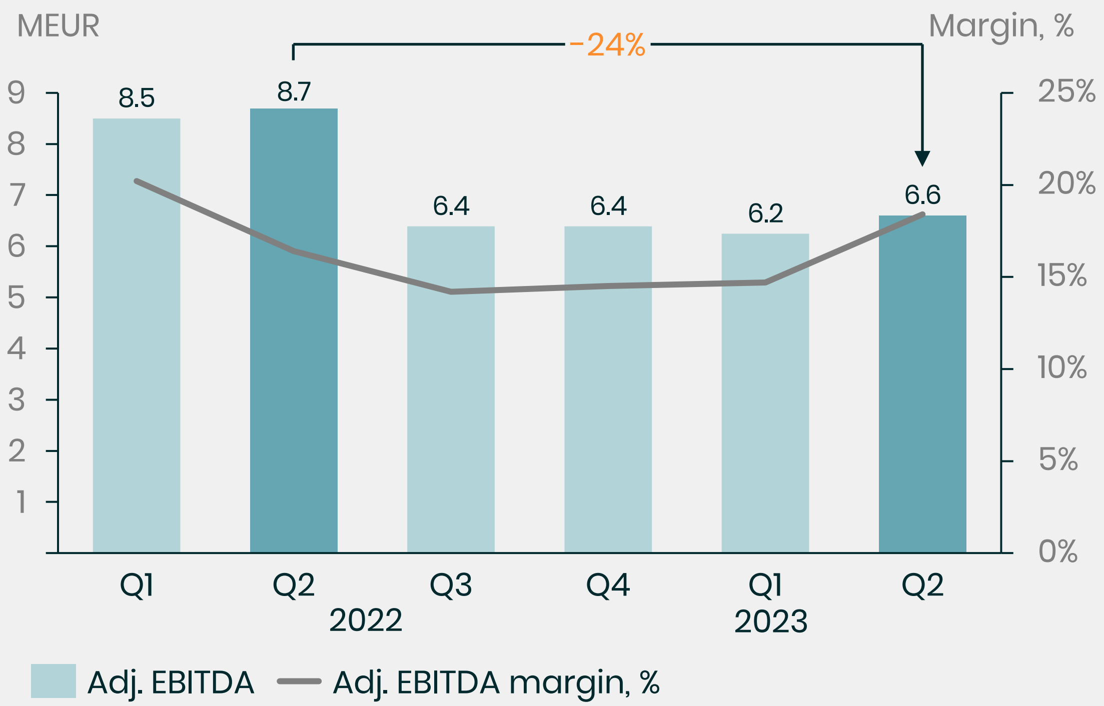
Climate Solutions division

Net sales



- Organic sales decline -31% in Q2/23, acquisitions 0%, net currency -1%
- Further normalisation in the Italian market continued, in addition to the Nordics, driving down demand
- Project deliveries of radiators increased slightly in Ireland during the second quarter. Volumes dropped in heat pumps, gas pipes and products related to air conditioning.
- Q2/23 LTM net sales 167.5 MEUR

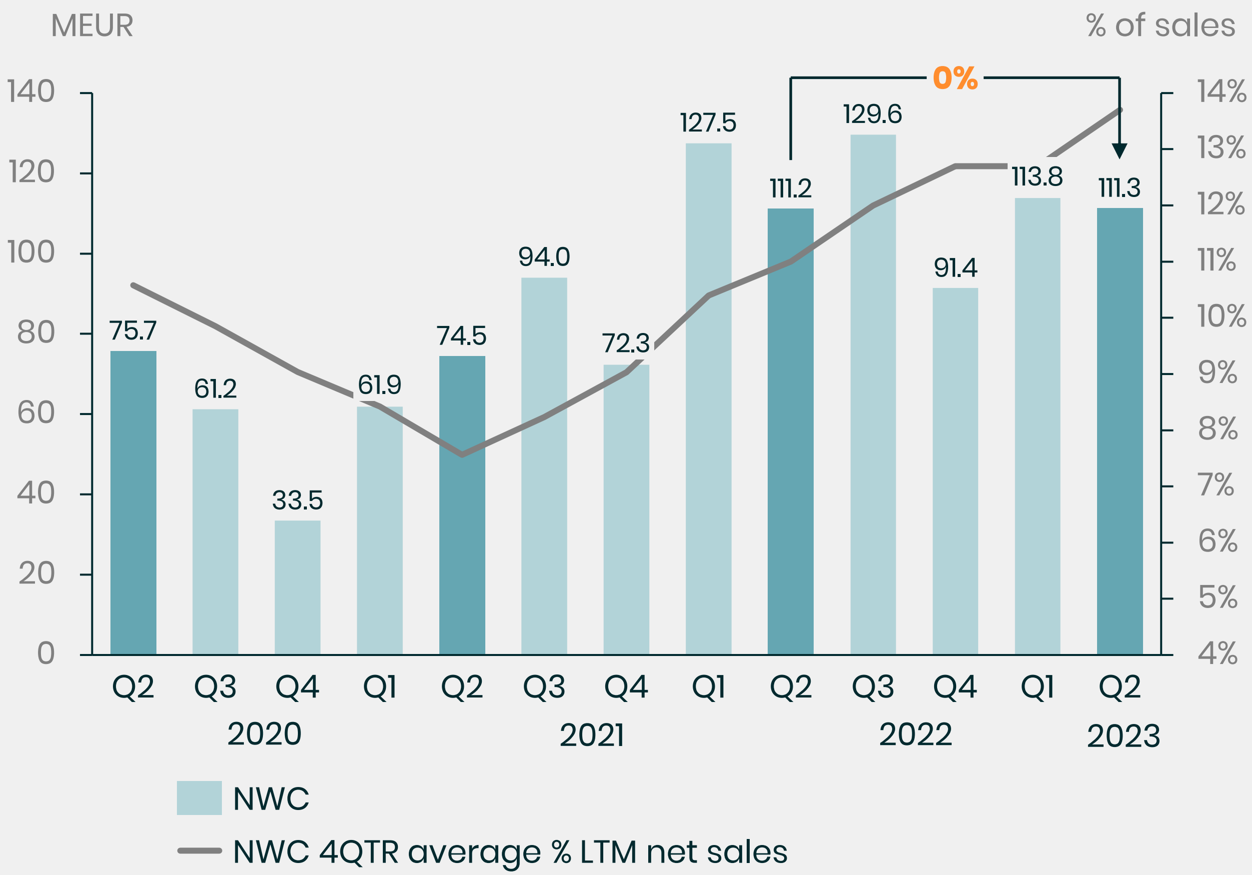
Adj. EBITDA



- Adj. EBITDA margin was 18.4% (16.4%)
- Improvement in adjusted EBITDA margin was a result of strong actions for margin management: cost-saving actions and price increases
- Thermotech contributed with EUR 0.3 million
- Q2/23 LTM Adj. EBITDA 25.6 MEUR, LTM Adj. EBITDA margin 15.3%

Notes: Quarterly data is unaudited

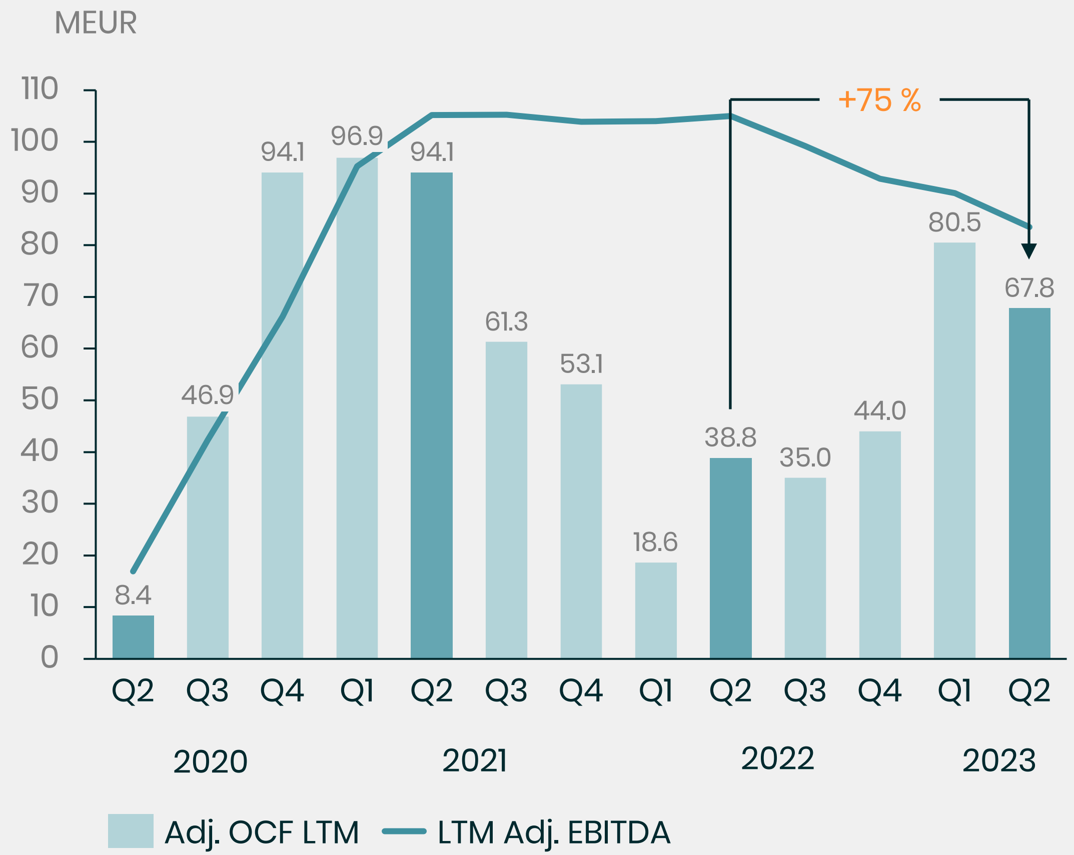
Net working capital



Net working capital	Q2 2023	Q2 2022	FY 2022
Inventories	178.5	179.5	174.1
Operative receivables	117.0	129.9	110.5
Operative liabilities	184.2	198.2	193.1
Net working capital	**111.3**	**111.2**	**91.4**
% of LTM net sales, QTR	15.4%	11.3%	10.1%
% of LTM net sales, 4QTR average	13.7%	11.0%	12.7%

Notes: Quarterly data is unaudited

Adjusted operating cash flow



Adjusted operating cash flow, last 12 months	Q2 2023	Q2 2022	FY 2022
Adjusted EBITDA LTM	83.5	105.0	92.9
NWC change*	8.1	-48.2	-24.8
Capex LTM**	-23.8	-18.0	-24.0
Adj. operating cash flow, LTM* **	**67.8**	**38.8**	**44.0**
Cash conversion	81.2%	37.0%	44.7%

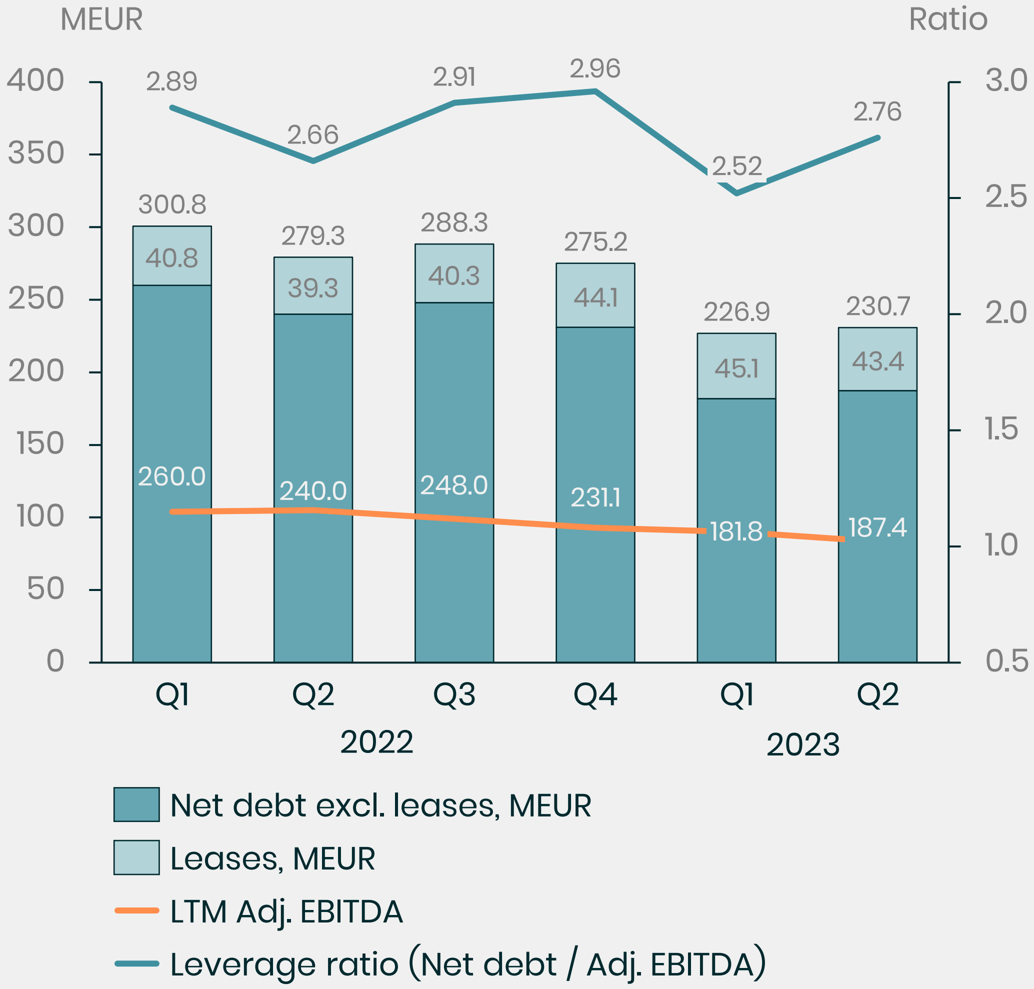
* Change compared to previous year same period, adjusted for impact from M&A. Including the Russian business which has been classified as assets held for sale. The 2022 comparison figure has been restated by EUR 7.9 million impairment charges related to the business in Russia.

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

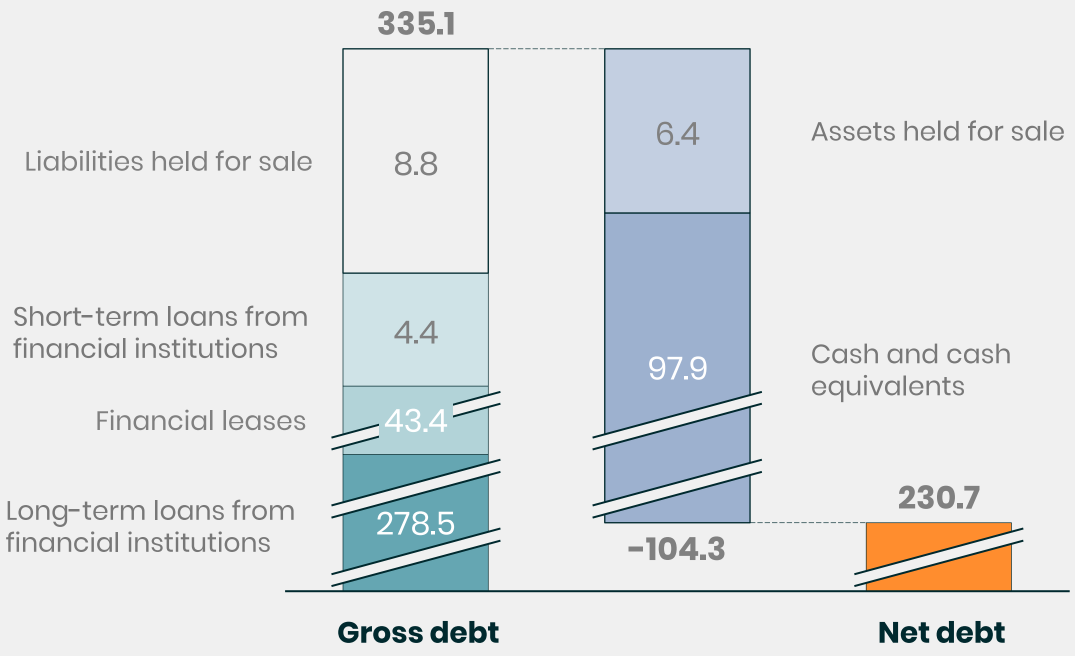
*** Adjusted operating cash flow before acquisitions and disposals of companies, financial net items and paid taxes.

Notes: Quarterly data is unaudited

Net debt and leverage



Distribution of gross and net debt (MEUR)



- Liabilities held for sale: EUR 8.8 million liabilities redemption liability related to business in Russia
- Assets held for sale (cash) EUR 6.4 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.

Strong margin management demonstrates the strength of the underlying business of Purmo Group. Combined with the Accelerate PG programme being ahead of plan, it 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. This has an impact on 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	Q2 2023	Q2 2022	Change, %	1-6/2023	1-6/2022	Change, %	FY 2022
Net sales	180.3	245.0	*-26%*	392.1	481.2	*-19%*	904.1
Adjusted EBITDA	21.2	27.8	*-24%*	47.7	57.0	*-16%*	92.9
Adjusted EBITDA margin, %	11.8%	11.4%		12.2%	11.9%		10.3%
EBIT	9.0	15.9	*-44%*	24.0	30.0	*-20%*	39.0
EBIT margin, %	5.0%	6.5%		6.1%	6.2%		4.3%
Profit for the period	2.9	8.4	*-65%*	9.6	14.9	*-35%*	13.1
Cash flow from operating activities	8.1	32.0	*-75%*	6.8	-6.9		31.1
Adjusted operating cash flow, last 12 months[1 3]				67.8	38.8	*75%*	44.0
Cash conversion %, last 12 months[2 3]				81.2%	37.0%		47.7%

[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] Change in net working capital includes assets held for sale. The 2022 comparison figure has been restated by EUR 7.9 million impairment charges related to the business in Russia.

Comparability adjustments

Comparability adjustments	Q2 2023	Q2 2022	1-6/2023	1-6/2022	FY 2022	
M&A related transactions and integration costs	–	–	0.0	0.3	2.2	
Restructuring costs and one-off costs related to efficiency programs	4.3	3.7	6.5	3.7	6.6	Partly non-cash
Impairment and write-down charges	–	–	1.3	6.9	12.9	Non-cash
Other	-0.1	-0.1	-0.2	0.3	0.2	
Total adjustments	**4.2**	**3.6**	**7.6**	**11.1**	**21.7**	

Net financials, depreciation and amortisation

Net Financial items	Q2 2023	Q2 2022
Interest net	-2.5	-2.6
Exchange gains and losses (FX and financing items)	-0.6	0.7
Leases IFRS 16	-0.9	-0.5
Other financial income and expenses	-0.9	-0.6
Total	**-4.8**	**-3.0**
% of net sales	***-4.8%***	***-1.2%***

Depreciation and amortisation	Q2 2023	Q2 2022
Amortisation on intangible assets	-0.9	-1.1
Tangible assets	-4.8	-5.2
Impairment of intangible and tangible assets	–	–
Right-of-use assets (IFRS 16)	-2.4	-2.0
Total	**-8.0**	**-8.3**
% of net sales	***4.5%***	***3.4%***

Tax

Income tax expense, MEUR	Q2 2023	Q2 2022	
For the financial period	-7.0	-6.7	
Change in deferred taxes	2.8	-2.6	
Previous years taxes	0.2	0.0	
Total income tax expense	**-4.0**	**-9.3**	
Effective Tax Rate adjusted for non-deductible items	***24.3%***	***25.6%***	
Non-deductible items			**Comments**
Profit before taxes	13.7	24.2	As reported
Russian divestment plan	1.3	6.9	Impairment and write-down of Russian business assets and liabilities
Restructuring costs	-	3.7	Non-deductible restructuring costs related to the Irish subsidiary in 2022
Trademark amortisation	1.8	1.8	Related to previous years' company structuring
PBT adjusted for non-deductible items	**16.8**	**36.6**	PBT adjusted for non-deductible items

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