

Volusion Group

Investing for growth

Investment – organic and inorganic – is a key theme of Volusion's H117 results, contributing to healthy y-o-y growth. Volusion has the financial capacity to continue this strategy and, in more mixed market conditions, acquisitions may be more significant drivers for premium earnings growth.

Underlying growth boosted by acquisitions and FX

H117 headline growth rates were strongly ahead in all reported Ventilation Group categories and acquisitions largely boosted UK progress. L-f-ls (ex-favourable acquisition and FX effects) were more of a mixed bag; we estimate that European revenue was + c 5.2% (with both subregions ahead) and the UK was +1.4% (with positive exports and residential new build sectors, partly offset by weakness in residential RMI, with commercial flat). Underlying profitability is more difficult to read; there was some gross margin improvement (at least partly due to US\$ transactional hedging last year), but there has also been P&L investment in sales resource. Acquisitions (Welair, Diffusion, NVA – all prior year, and Breathing Buildings – December 2016) chipped in c £12m of c £78m revenue for the Ventilation Group and all are understood to be trading ahead of pre-acquisition levels, which should feed into l-f-ls in due course. Torin-Sifan is in a product transition phase. Volusion ended H117 with c £40m net debt (1.1x trailing EBITDA), with free cash flow funding acquisition spend of £11.6m in the period.

Clear acquisition and group integration strategy

Management has expounded a clear acquisition strategy, and has successfully identified and landed some of its targets to date. As well as integrating individual acquisitions, we like the fact that broader steps are being taken, including implementing a new ERP system (almost complete) and consolidating some UK manufacturing operations. The latter move is expected to cost c £1.75m (with a mid-2018 completion date), entails minimal capex and, with no net operating cost impact, will increase floor space of the operations to be combined by c 25%. Together, these actions provide an enhanced platform for further growth.

Valuation: Anticipating growth

Since June last year, Volusion's share price has performed broadly in line with, but slightly ahead of the FTSE All-Share index and is up c 9% ytd. In our view, the rating is probably anticipating further use of the company's financial capacity to make earnings-enhancing acquisitions. Ahead of this, Volusion is trading on a low-teens P/E multiple (and a PEG in excess of 2x), with a comparatively low yield for the subsector, but with scope to grow it reasonably quickly in most scenarios.

Consensus estimates

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
07/15	130.2	22.0	11.0	3.3	16.2	1.9
07/16	154.5	25.1	12.6	3.8	14.1	2.1
07/17e	179.3	33.7	13.3	4.0	13.4	2.2
07/18e	186.0	35.6	14.1	4.2	12.6	2.4

Source: Bloomberg. Note: Company-defined adjusted basis.

Construction & materials

24 March 2017

Price 178.13p
Market cap £356m

Share price graph



Share details

Code FAN
 Listing LSE
 Shares in issue 200.0m

Business description

Volusion Group is a leading supplier of branded ventilation products to the residential and commercial construction markets. Geographically, the UK represented c 55% of H117 revenue, the Nordics c 17% and Central Europe c 15%, while its OEM division (Torin-Sifan c 12%) supplies mechanical products (motors, fans, blowers) to other group companies and external heating and ventilation OEMs.

Bull

- Leading positions in the supply of ventilation products into residential construction markets in the UK, Sweden and Germany.
- European operations performing well and good UK residential new build and export exposure.
- Financial capacity for further complementary acquisitions.

Bear

- UK residential RMI spending appears weak.
- Commercial sector currently flat, but appears to be improving.
- Torin-Sifan has been constrained by migration to new product offering, but deliveries now underway.

Analysts

Toby Thorrington +44 (0)20 3077 5721
 Roger Johnston +44 (0)20 3077 5722

industrials@edisongroup.com

EDISON QUICKVIEWS ARE NORMALLY ONE-OFF PUBLICATIONS WITH NO COMMITMENT TO WRITING ANY FOLLOW UP. QUICKVIEW NOTES USE CONSENSUS EARNINGS ESTIMATES.

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2017 Edison Investment Research Limited. All rights reserved. This report has been prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") (c) FTSE [2017]. "FTSE(i)" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.