



Uponor, Inc. factory, Apple Valley, Minnesota, USA

## Financial results briefing – Q3/2015

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Jyri Luomakoski  
President and CEO  
Uponor Corporation

Q<sup>3</sup>

# Q3/2015 market overview

- **Nordics**

- Construction activity in Sweden continues to be brisk. Meanwhile, civil engineering in Norway shows signs of strengthening, Denmark and Finland remain subdued

- **Central Europe**

- Markets are generally stable, with the German market essentially flat while the recovery in the Netherlands continues

- **Southern Europe**

- Construction activity has slowed in the UK, while most other markets have stabilised at low levels

- **North America**

- The U.S. construction market has continued to improve. The Canadian residential segment remains healthy, while the non-residential segment is softening

# Q3/2015: Strong U.S. growth not enough to offset European weaknesses

July – September	7-9/2015	7-9/2014	Change
Net sales	274.1	277.0	-1.0% (Org. +1.6%)
Operating profit	23.6	29.2	-18.8%
- Operating profit w/o non-recurring items	24.6	29.3	-15.8%

## Net sales

- Building Solutions – North America picks up growth through successful penetration in a healthy market
- Building Solutions – Europe and Infra net sales impacted by weak trends in Europe, divestments and tighter competition
- Currency influence from mainly the USD was €5.6m

## Operating profit

- Building Solutions – North America's performance boosted from the previous quarters due to business growth and careful cost management
- Negative leverage in Building Solutions – Europe as a result of declining net sales, especially in high fixed-cost markets
- Uponor Infra burdened by lack of volume and resin supply and price issues

Developments by segment:

# Building Solutions – Europe

- Markets remain stagnant in most of Europe, with only a couple of brighter spots
- Demand for Uponor's indoor climate solutions challenged by low energy prices, flat non-residential markets and increasing share of lower-end standard products
- First Russian manufacturing unit, located close to St. Petersburg
- New product offerings to support premier positioning
- New management structure, and a programme to adjust cost to volume ongoing

  
**BETTER PLACES  
FOR PEOPLE**  
PUT WELLBEING AT THE  
HEART OF YOUR BUILDING



Developments by segment:

# Building Solutions – North America

- Net sales growth picks up as markets remain healthy
- Continued success for Uponor's PEX solutions in commercial plumbing projects
- Manufacturing expansion on plan, completion expected during Q4/2015







Photo: Bryan Baxter

## Developments by segment:

# Uponor Infra

- Challenging business environment in Europe and Canada
- Resin availability in spring and summer followed by price volatility impacted short-term performance
- Recent decline in resin prices helps regain competitiveness for plastic solutions







The Linköping Culvert, Linköping, Sweden

# Financial statements

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Riitta Palomäki  
CFO  
Uponor Corporation

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# Interim January – September 2015:

## Key figures

M€	1-9 2015	1-9 2014	Change Y/Y	1-12 2014
Net sales, continuing operations	788.8	772.4	+2.1%	1,023.9
Operating profit, continuing operations	57.4	51.6	+11.4%	63.4
Operating profit margin, continuing operations	7.3%	6.7%	0.6% pts	6.2%
Earnings per share (diluted), €	0.44	0.38	+15.8%	0.50
Return on equity, % (p.a.)	14.4%	12.8%	1.6% pts	12.3%
Return on investment, % (p.a.)	17.3%	14.8%	2.5% pts	14.2%
Net interest bearing liabilities	114.8	122.9	-6.6%	82.0
Gearing, %	37.9%	41.7%	-3.8% pts	27.6%
Net working capital of Net sales, % (p.a.)	6.6%	11.2%	-4.6% pts	7.1%
Average number of employees, continuing operations	3,872	4,161	-6.9%	4,127
Number of employees, end of period, continuing operations	3,777	4,091	-7.7%	3,982

# July – September 2015:

## Income statement

M€	7-9 2015	7-9 2014	Change Y/Y
<b>Continuing operations</b>			
Net sales	274.1	277.0	-1.0%
Cost of goods sold	179.1	184.8	-3.1%
Gross profit	95.0	92.2	+3.2%
- % of net sales	34.7%	33.3%	+1.4% pts
Other operating income	0.2	1.0	
Expenses	71.6	64.0	+11.8%
Operating profit	23.6	29.2	-18.8%
- % of net sales	8.6%	10.5%	-1.9% pts
Financial expenses, net	-0.7	1.4	
Share of result in associated companies	0.1	0.0	
Profit before taxes	24.4	27.8	-12.3%
Profit for the period	15.4	16.8	-8.8%
EBITDA	32.7	38.2	-14.4%

- **Net sales** change includes currency translation impact of €5.6m (mainly coming from the USD)
- **Gross profit margin** improvement driven by an increased share of Building Solutions – North America and a more favourable product mix there
- Increase in **expenses** driven by Building Solutions – North America, additionally inflated by the dollar-to-euro translation
- **Operating profit** w/o non-recurring items at €24.6m (comparison year €29.3m). A non-recurring cost of €1.0m in operating profit relates to the streamlining programme in Building Solutions – Europe.

# Interim January – September 2015:

## Income statement

M€	1-9 2015	1-9 2014	Change Y/Y	1-12 2014
<b>Continuing operations</b>				
Net sales	788.8	772.4	+2.1%	1,023.9
Cost of goods sold	510.0	515.4	-1.1%	683.8
Gross profit	278.8	257.0	+8.5%	340.1
- % of net sales	35.3%	33.3%	+2.0% pts	33.2%
Other operating income	0.9	2.1	-58.5%	2.4
Expenses	222.3	207.5	+7.1%	279.1
Operating profit	57.4	51.6	+11.4%	63.4
- % of net sales	7.3%	6.7%	+0.6% pts	6.2%
Financial expenses, net	5.7	7.2	-20.1%	7.4
Share of result in associated companies	0.2	0.1		0.3
Profit before taxes	51.9	44.5	+16.6%	56.3
Profit for the period	32.7	28.0	+16.7%	36.3
EBITDA	84.7	78.5	+7.9%	99.9

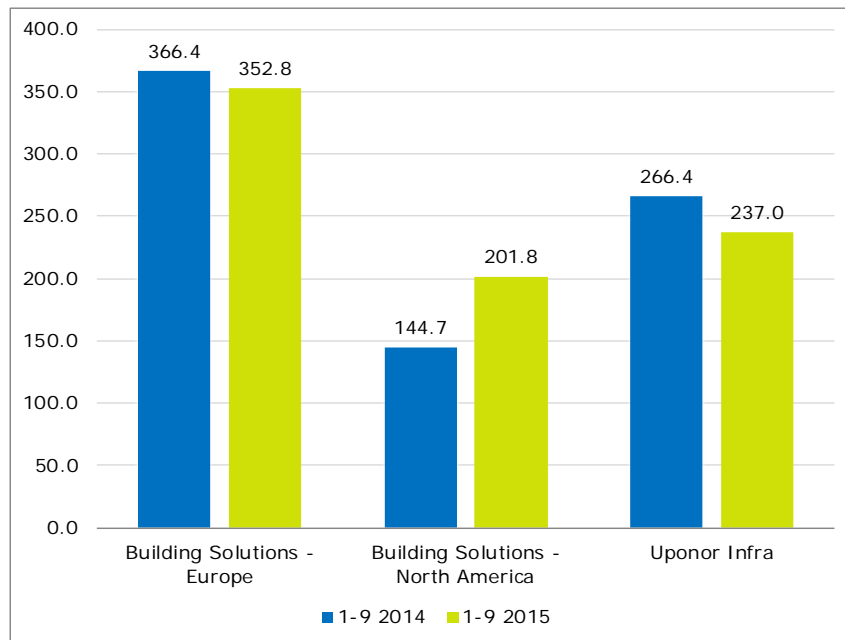
- **Net sales** growth 4.3% in organic terms; currency impact totalled €27.8 million, mainly from the USD
- Increase in **expenses** mainly due to Building Solutions - North America, also driven by the dollar-to-euro translation
- **Operating profit** in 2015 includes €1.8m in NRI related to the streamlining programme in Building Solutions - Europe. Operating profit w/o NRI at €59.2m (€55.0m), up 7.8% y-on-y. Operating profit improvement includes a translation impact of €6.3m



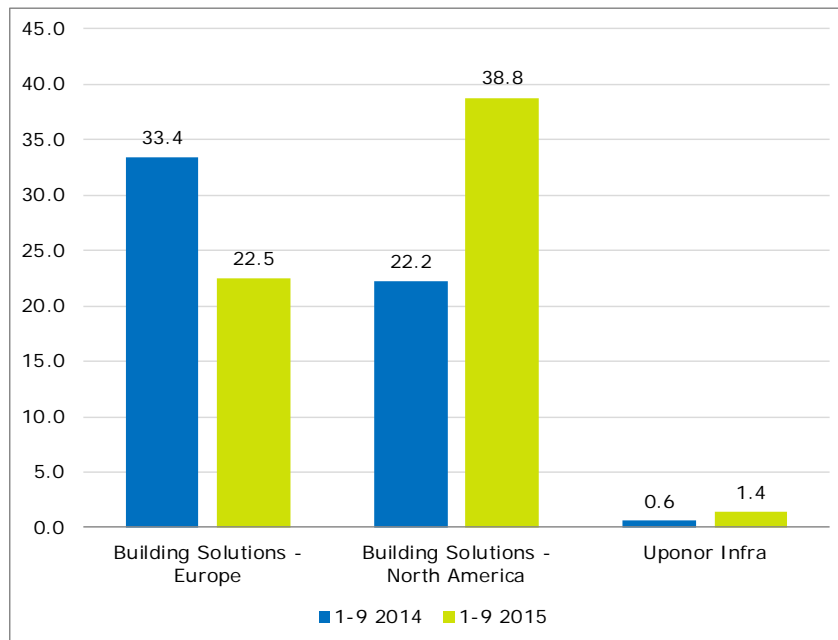
# Interim January – September 2015:

## Net sales & operating profit by segment

Net sales

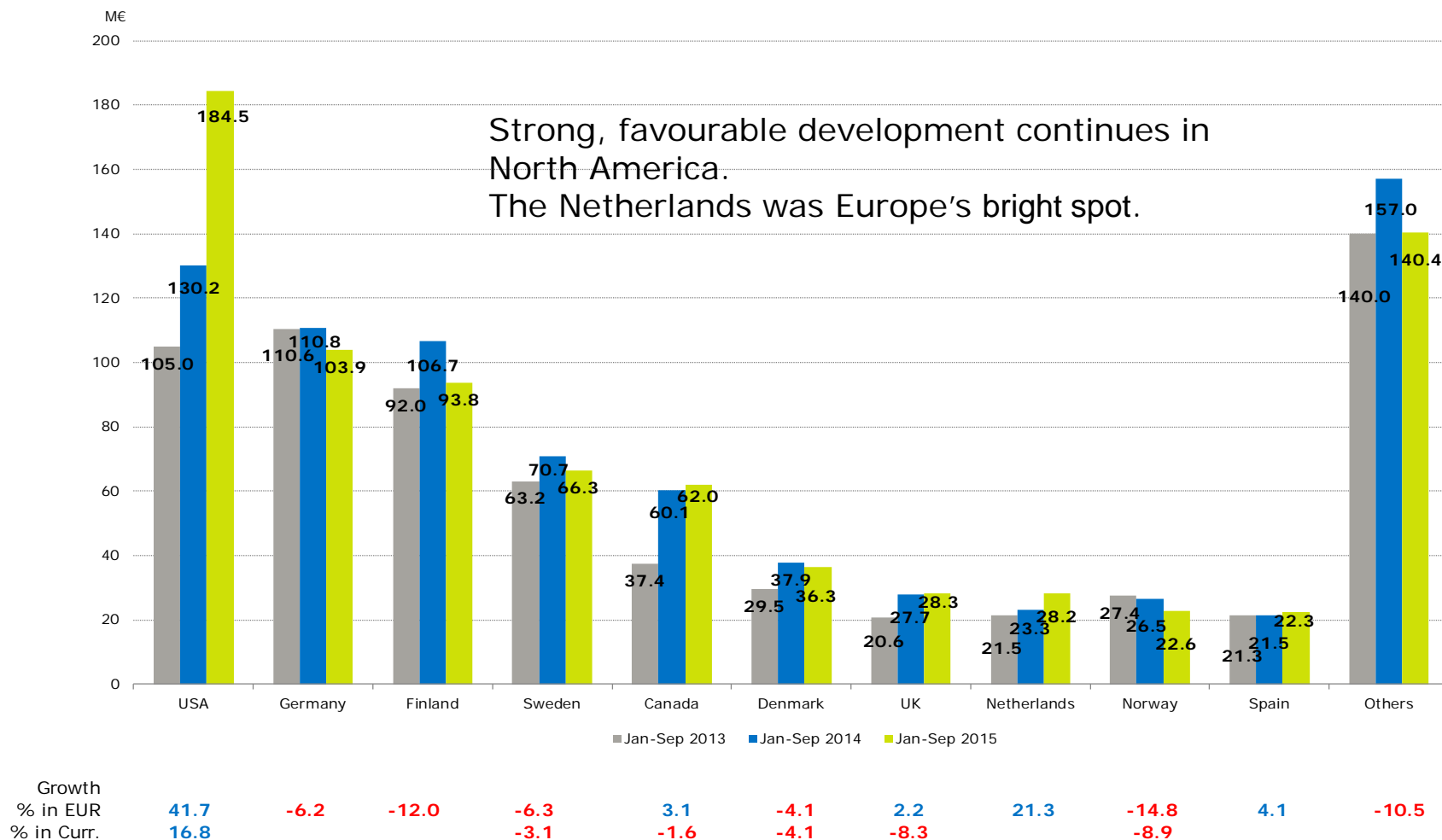


Operating profit, w/o non-recurring items



- Building Solutions – Europe: operating profit margin (w/o non-recurring items) down from 9.1% to 6.4% driven by declining net sales in high fixed-cost markets
- Building Solutions – North America: continued profit improvement, profit margin up from 15.3% to 19.2%, driven by solid sales growth and careful management of discretionary expenses
- Uponor Infra: weaker sales volumes in key markets; also the extreme resin price volatility had a short-term adverse effect on profits

# Interim January – September 2015: Net sales development in key markets



Note: Countries are sorted by YTD 2015 net sales

# Interim January – September 2015:

## Balance sheet

M€	30 Sep 2015	30 Sep 2014	Change Y/Y	31 Dec 2014
Property, plant and equipment	211.3	201.6	+9.7	207.8
Intangible assets	95.1	99.7	-4.6	98.4
Securities and long-term investments	10.8	11.4	-0.6	11.2
Inventories	119.2	119.8	-0.6	117.4
Restricted cash	41.1	-	-	-
Cash and cash equivalents	20.7	21.2	-0.5	60.2
Other current and non-current assets	241.8	248.0	-6.2	186.8
Total equity	302.5	294.7	+7.8	297.9
Non-current interest-bearing liabilities	100.4	129.9	-29.5	126.3
Provisions	17.7	20.6	-2.9	16.2
Non-interest-bearing liabilities	284.3	242.3	+42.0	225.5
Current interest-bearing liabilities	35.1	14.2	+20.9	15.9
Balance sheet total	740.0	701.7	+38.3	681.8

- The **restricted cash** relates mainly to cash inflows into an escrow account from parties contributing to the funding of Uponor, Inc.'s pending U.S. class action settlements. These amounts are expected to be used later this year, after court approval of the settlements has been obtained.



# Interim January – September 2015:

## Cash flow

M€	1-9 2015	1-9 2014	Change Y/Y	1-12 2014
Net cash from operations	+82.9	+74.2	+8.7	+99.0
Change in NWC	-41.4	-36.2	-5.2	-3.5
Net payment of income tax and interest	-24.5	-18.7	-5.8	-19.8
<b>Cash flow from operations</b>	<b>+17.0</b>	<b>+19.3</b>	<b>-2.3</b>	<b>+75.7</b>
Cash flow from investments	-24.3	-16.5	-7.8	-30.6
<b>Cash flow before financing</b>	<b>-7.3</b>	<b>+2.8</b>	<b>-10.1</b>	<b>+45.1</b>
Dividends and buy backs	-30.7	-27.8	-2.9	-27.8
Other financing	-1.3	-7.6	+6.3	-9.9
Cash flow from financing	-32.0	-35.4	+3.4	-37.7
Change in cash and cash equivalents	-39.5	-32.5	-7.0	+6.5

- Gross CapEx (€30.4m) slightly higher than depreciation and up €9.0m from LY, driven by the investments in Building Solutions – North America
- Cash flow from investments includes a cash flow effect of €+5.9m from the divestments of the Thai infrastructure business and Extron Engineering Oy in Finland. The comparison year includes €4.4m in proceeds from the sale of fixed assets in Finland related to Uponor Infra's integration



Dutch Military Museum, Soesterberg, the Netherlands











# Outlook for the future

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# Leading indicators in major markets

	Indicator	% change YTD	Data through	Trend since Q4 update
USA	Housing starts <sup>1)</sup>	+18%	September 2015	
Germany	Housing permits	+2%	August 2015	
Finland	Housing starts	+0%	July 2015	
Sweden	Housing starts	+36%	June 2015	
Canada	Housing starts <sup>1)</sup>	+17%	September 2015	
Denmark	Housing starts	-23%	June 2015	
UK	Housing starts <sup>2)</sup>	+1%	June 2015	
Netherlands	Housing permits	+78%	July 2015	
Norway	Housing permits	+7%	August 2015	
Spain	Housing permits	+28%	May 2015	

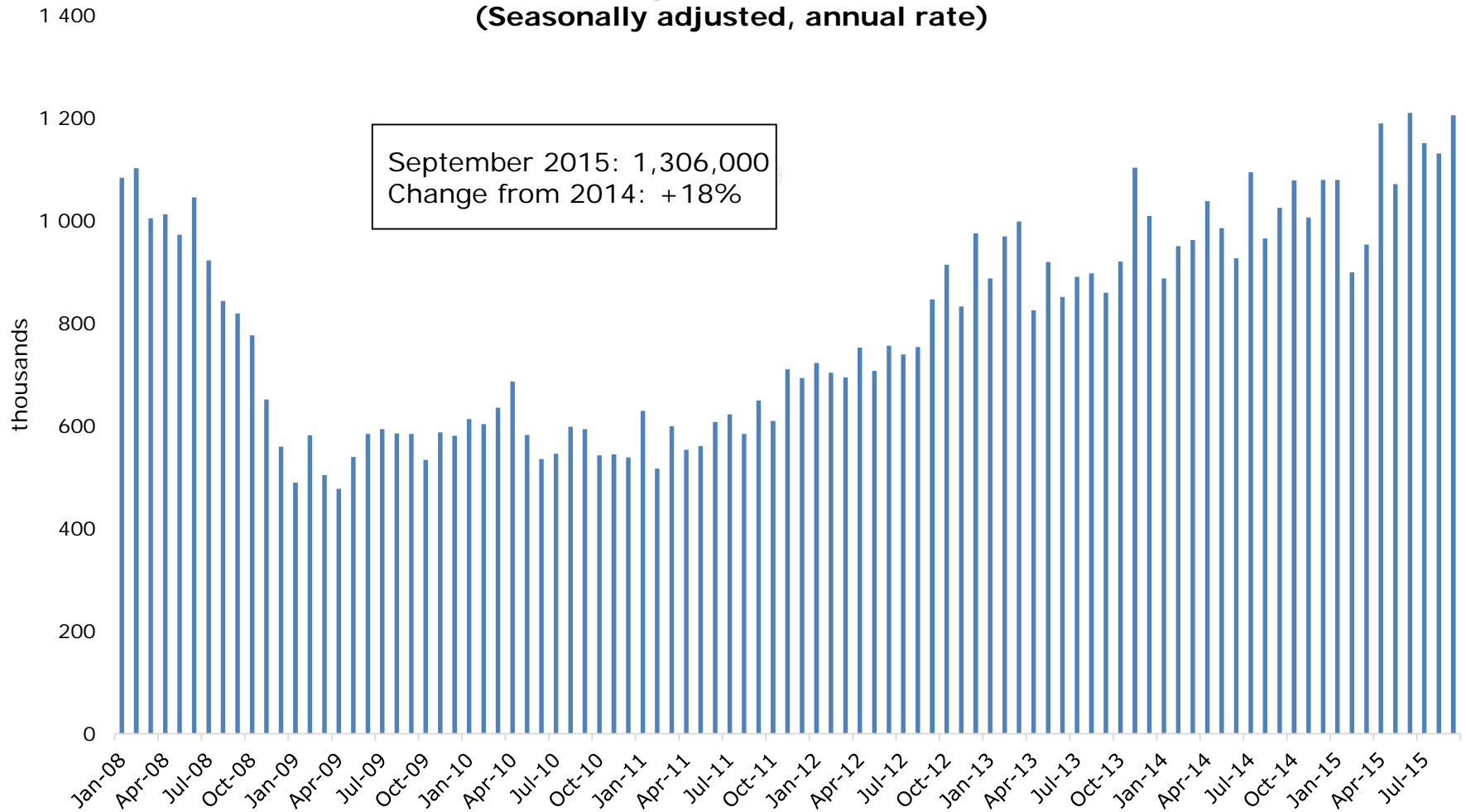
<sup>1)</sup> Seasonally adjusted, annualised rate vs. same month in 2014; <sup>2)</sup> England only



# Country overview – USA

- The economy continues to expand at a measured rate while consumer confidence and the labour market are sound
- Within the construction industry:
  - Housing starts are slowly trending higher
  - Builder confidence has reach a 10-year high
  - Construction spending continues to rise across nearly all residential and non-residential building segments

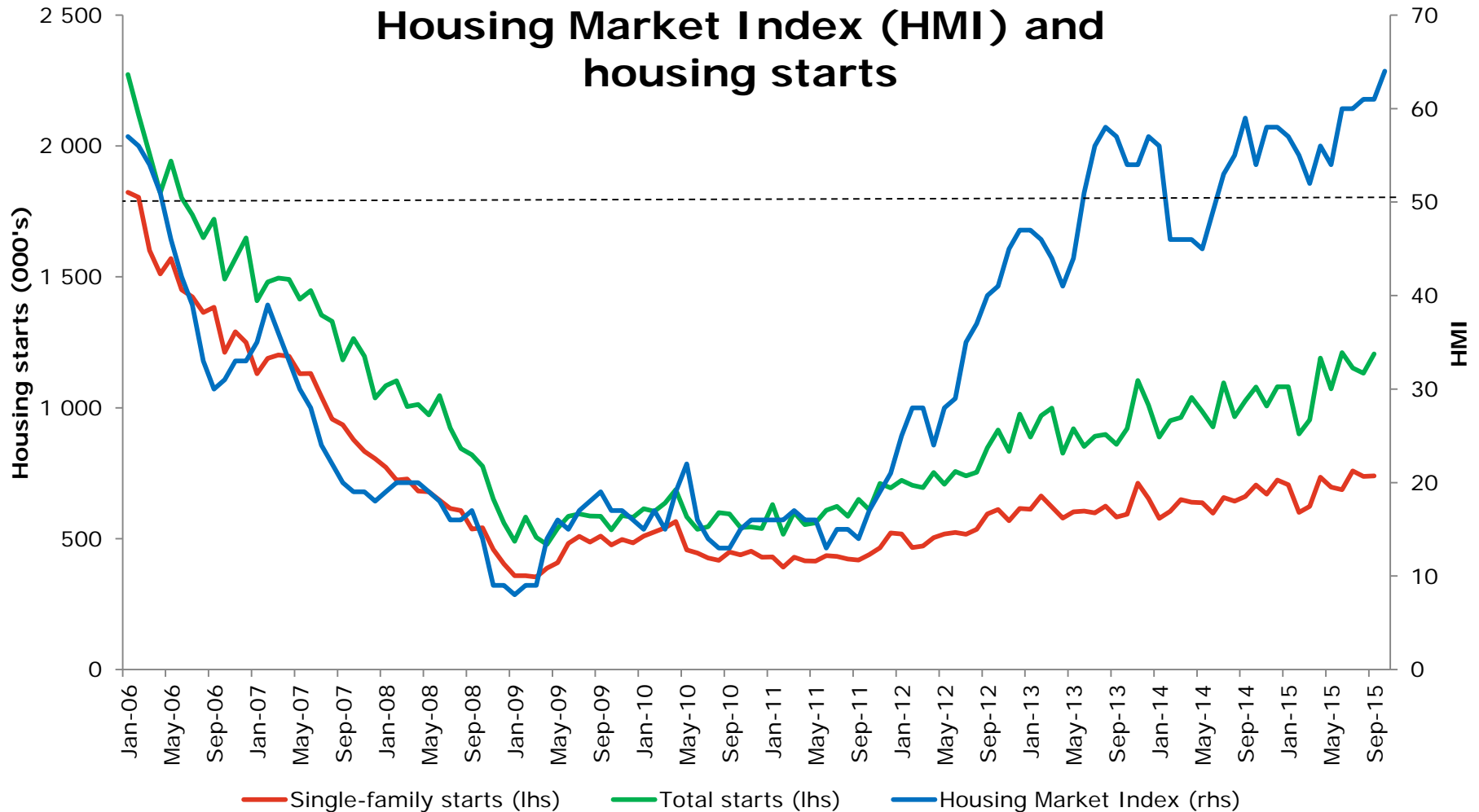
## Housing starts in USA (Seasonally adjusted, annual rate)



Source: U.S. Census Bureau

# U.S. starts continue to trend higher while builder confidence is at a 10-year high

**Housing Market Index (HMI) and housing starts**



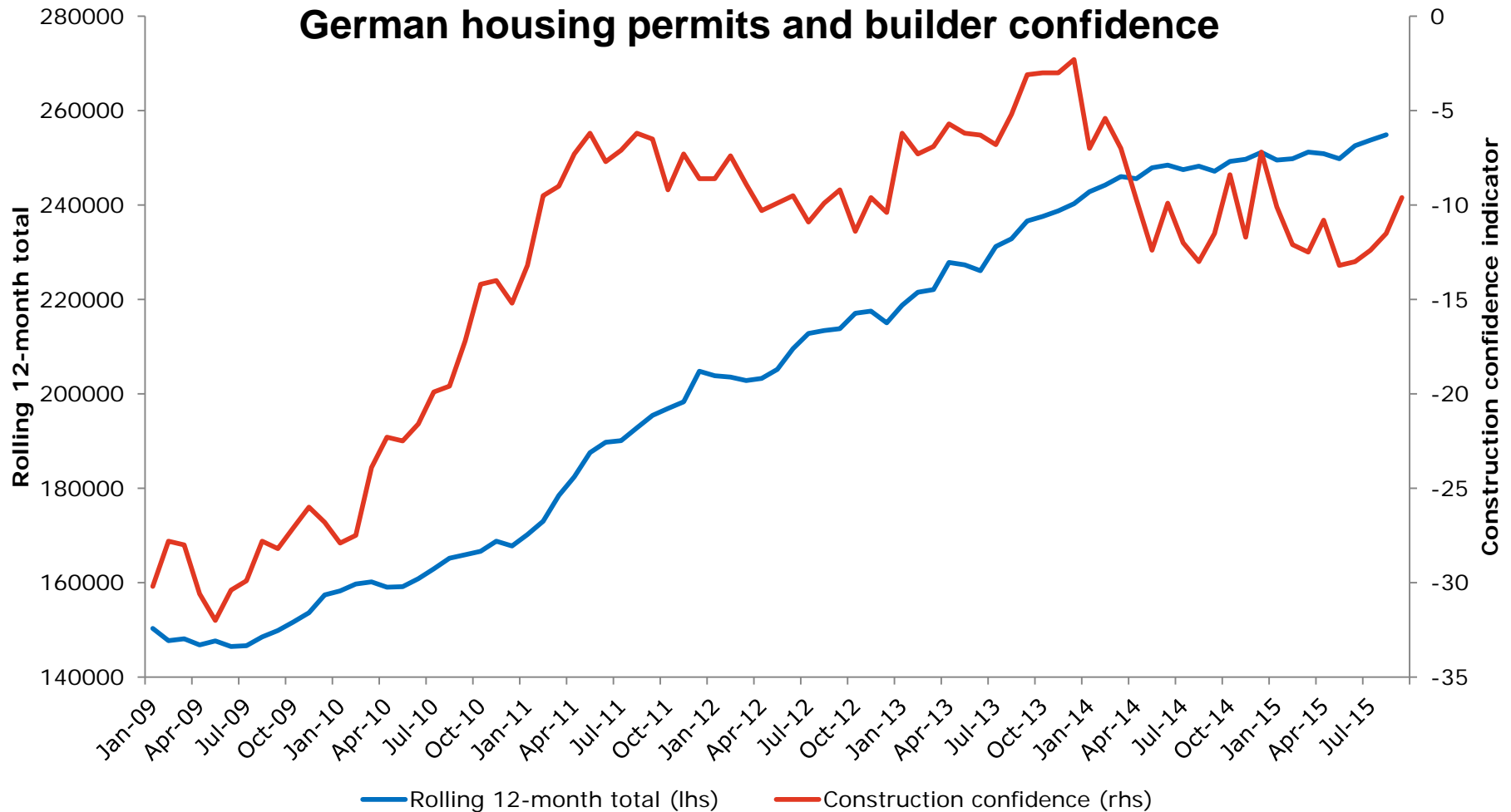
Source: US Census, NAHB/Wells Fargo

# Country overview – Germany

- Despite growing downside risks created largely by external factors, the German economy remains generally sound, supported by internal demand
- Within the construction industry:
  - Residential building activity is largely on par with last year's level, with the multi-family segment outperforming the single-family segment
  - Builder confidence strengthened late in the summer, with business expectations rising
  - Non-residential spending continues to be restrained



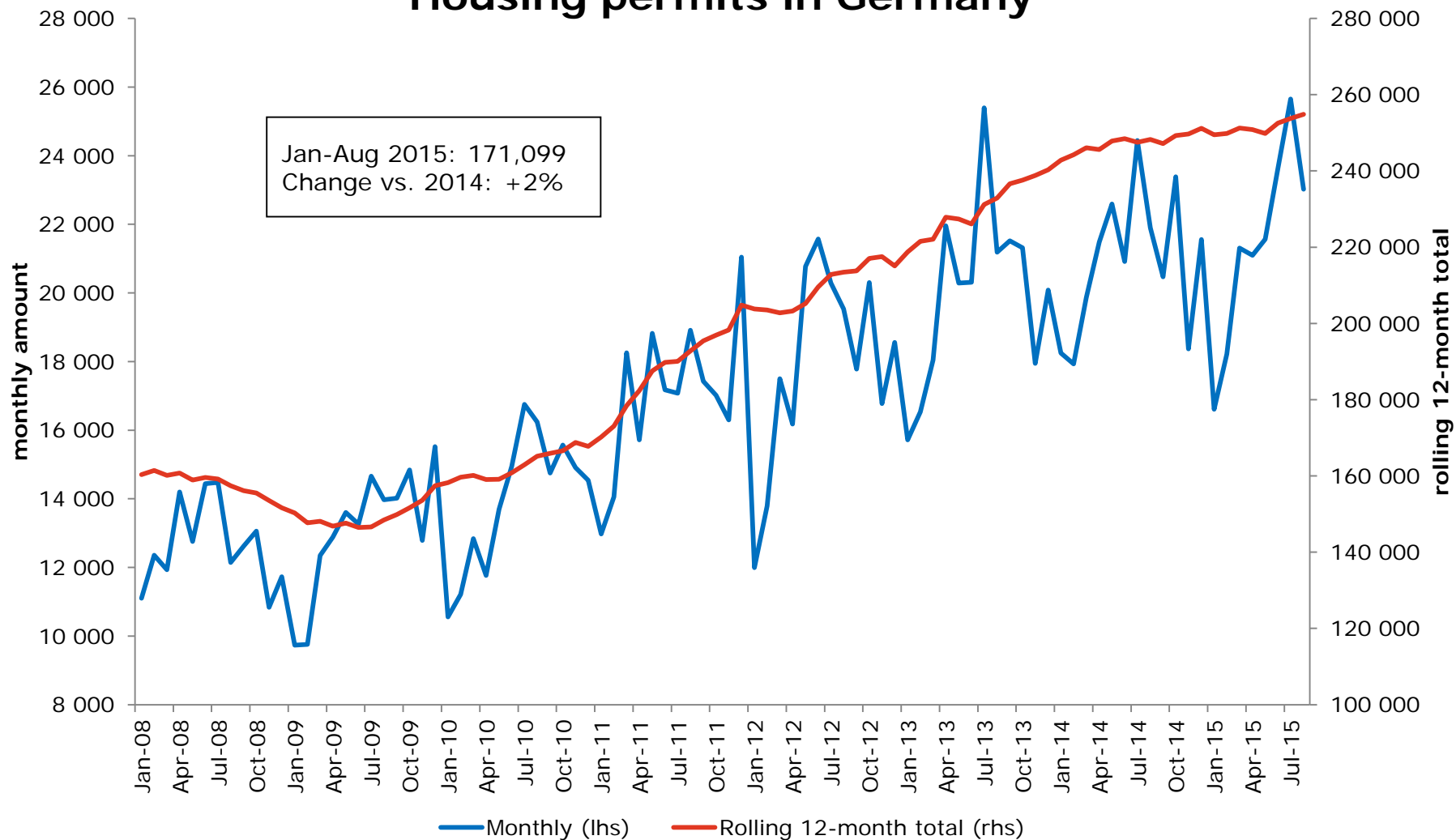
# Germany: Both builder confidence and permit levels strengthened during the summer



Source: Destatis and Eurostat

# Germany

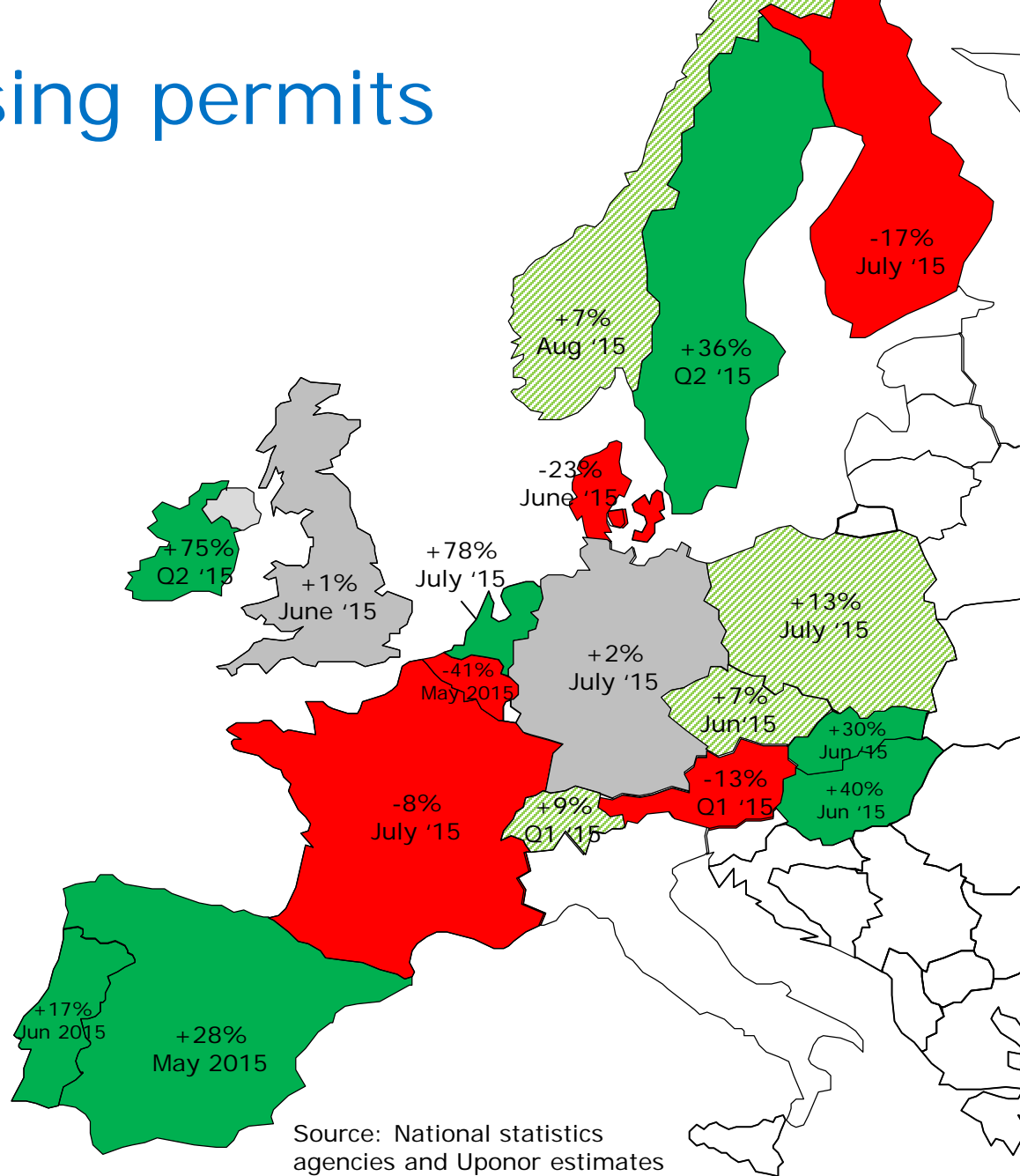
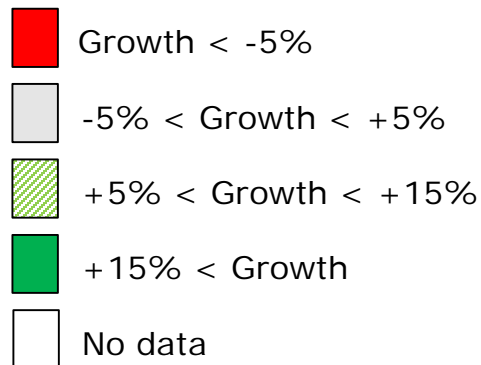
## Housing permits in Germany



Source: Destatis

# European housing permits

Year-to-date percent change compared to 2014



Source: National statistics agencies and Uponor estimates

# Management agenda for the near term

- Building Solutions – Europe turnaround plan needed to focus on revenue growth opportunities and to align the cost base to a realistic market opportunity
- Continue penetration into the commercial market segment in Building Solutions – North America and further leverage our strong position in the growing residential market
- Uponor Infra will continue efforts to improve profitability by various actions
  - Shift of focus to higher added-value solutions in contrast to non-differentiating commodity offering
  - Management changes implemented in some units to drive the strategy forward

# Guiding forward

- The building industry lacks vigour as Europe is held captive by economic and political challenges
- Stable growth is expected for the U.S. building markets
- Supply issues that disturbed especially Uponor Infra's business in spring and summer are likely to turn more favourable after Q4
- A new guidance issued on 30 September 2015:

The Group's net sales for 2015, based on organic growth, are expected to exceed those of the prior year while operating profit, excluding any non-recurring items, remains somewhat below that of 2014



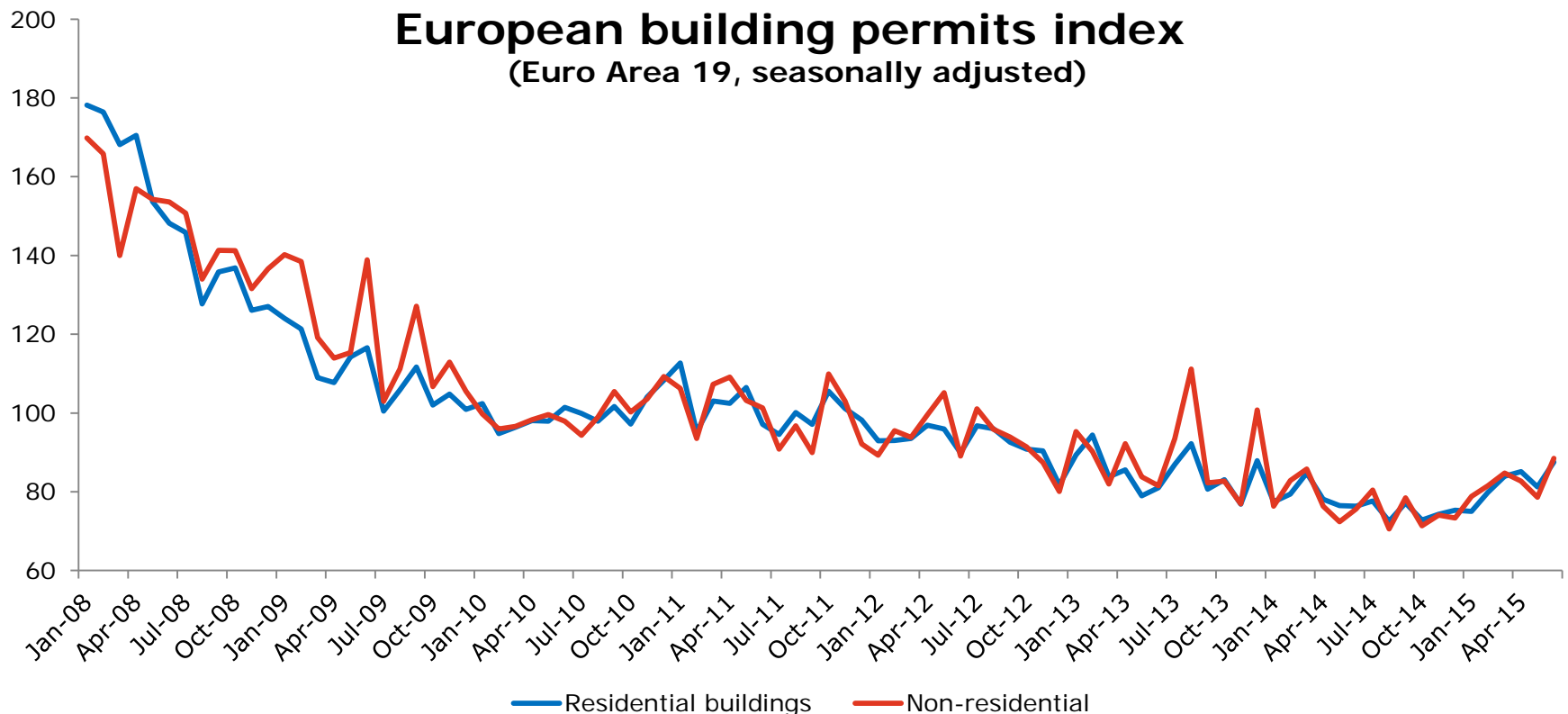
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*The text may contain forward-looking statements, which are based on the present business scope and the management's present expectations and beliefs about the future. The actual result may differ materially from such statements.*

# Building permits in Europe

- Building permits through June improved in both the residential and non-residential segments compared to a year ago
- Non-residential permits improved in nearly every country, while developments in residential permits were more mixed

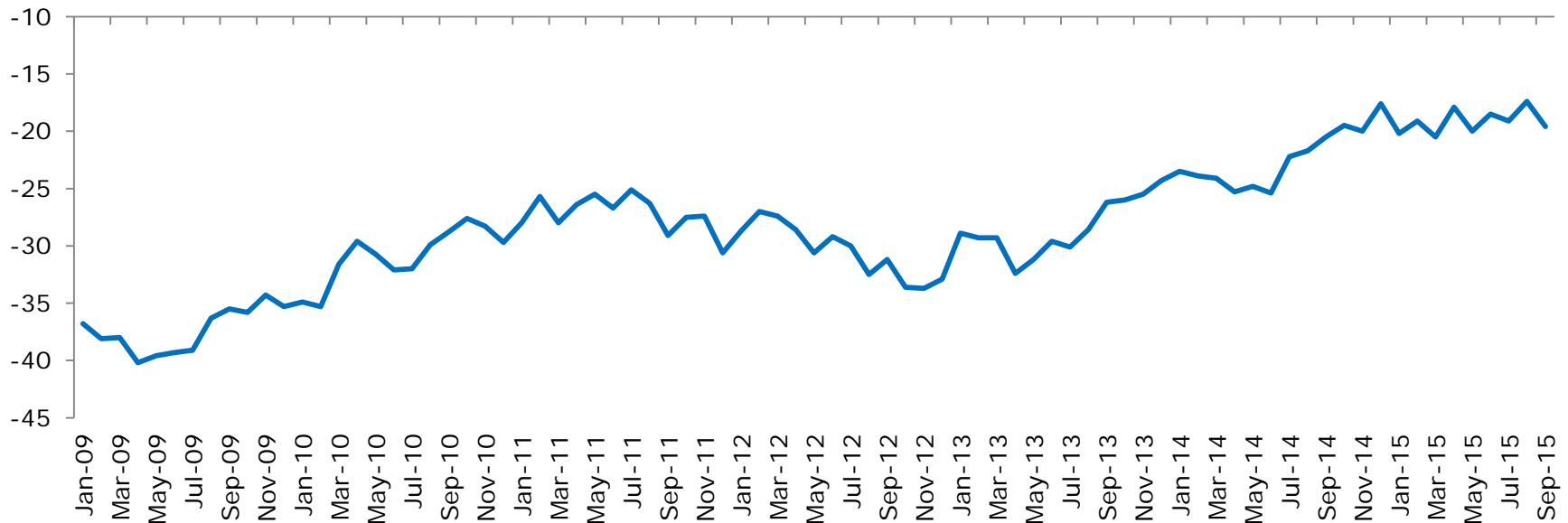


Source: Eurostat (Base year = 2010)

# Construction confidence in Europe

- Despite a drop in September, construction confidence in Europe improved or remained unchanged from Q2 to Q3 in all major markets except the UK
- The mood has darkened in the UK, where sentiment has retreated from the multi-year high witnessed in the spring

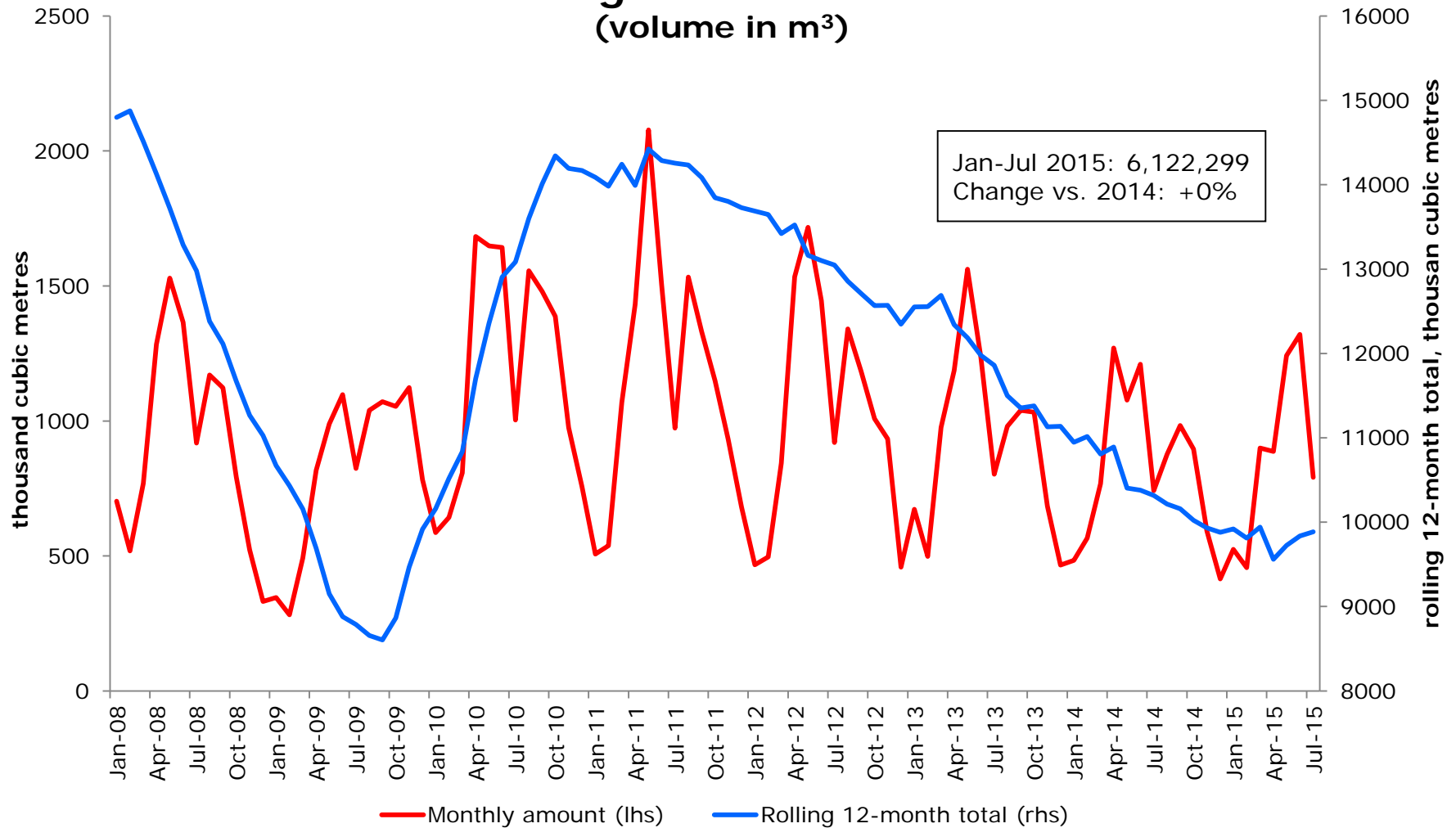
**European construction confidence indicator**  
(European Union, seasonally adjusted)



Source: Eurostat

# Finland

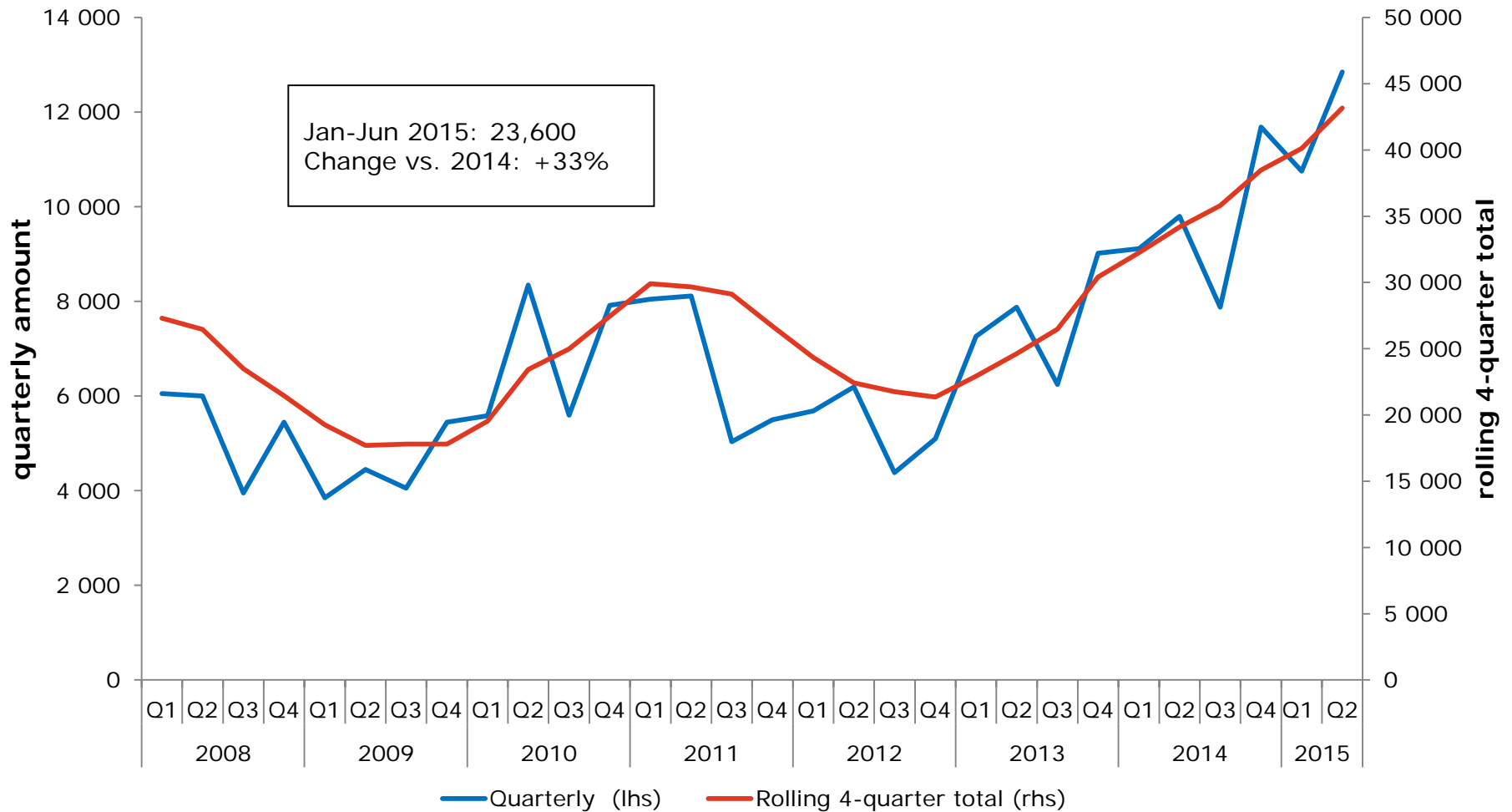
## Housing starts in Finland (volume in m<sup>3</sup>)



Source: Statistics Finland

# Sweden

## Housing starts in Sweden

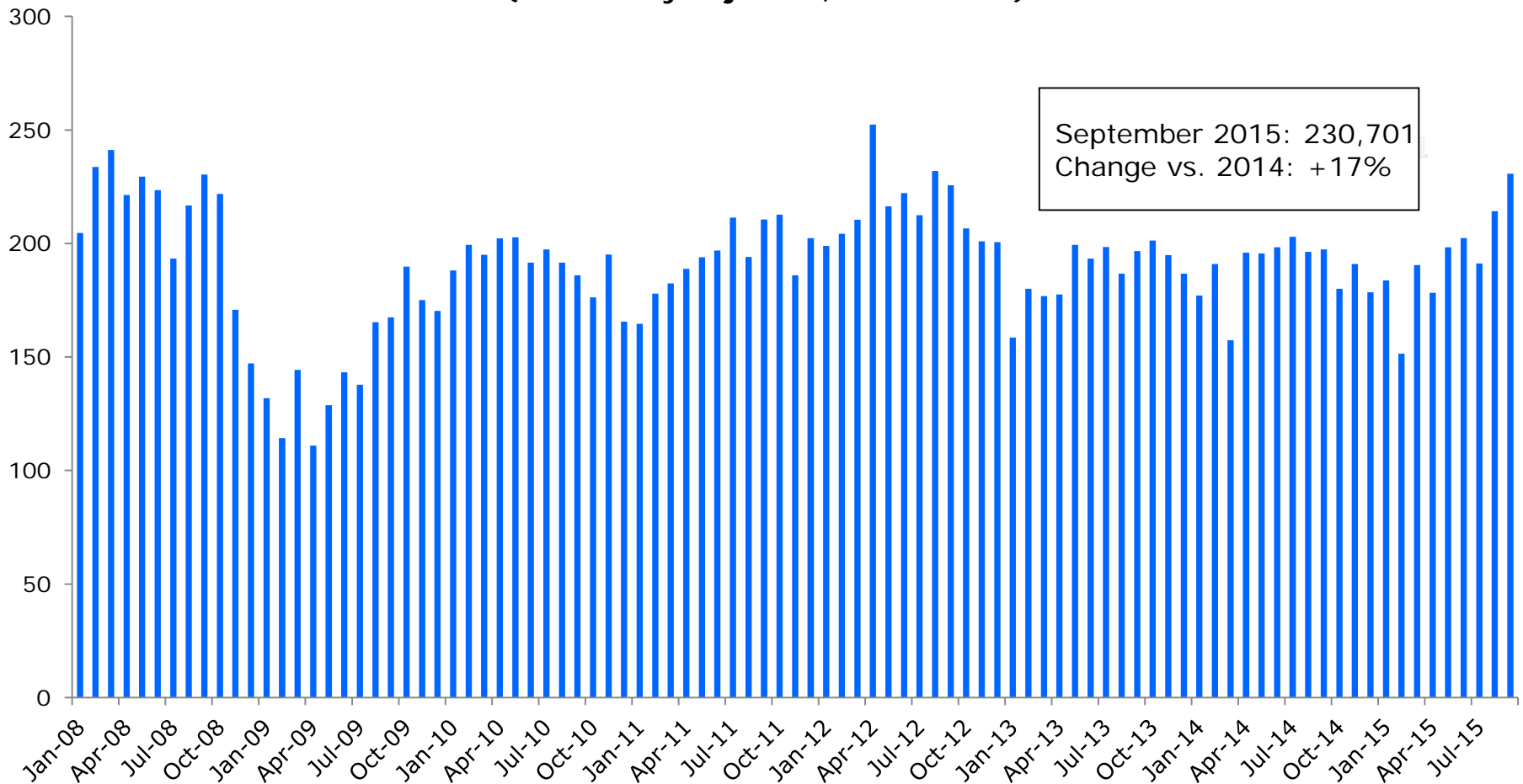


Source: Statistics Sweden



# Canada

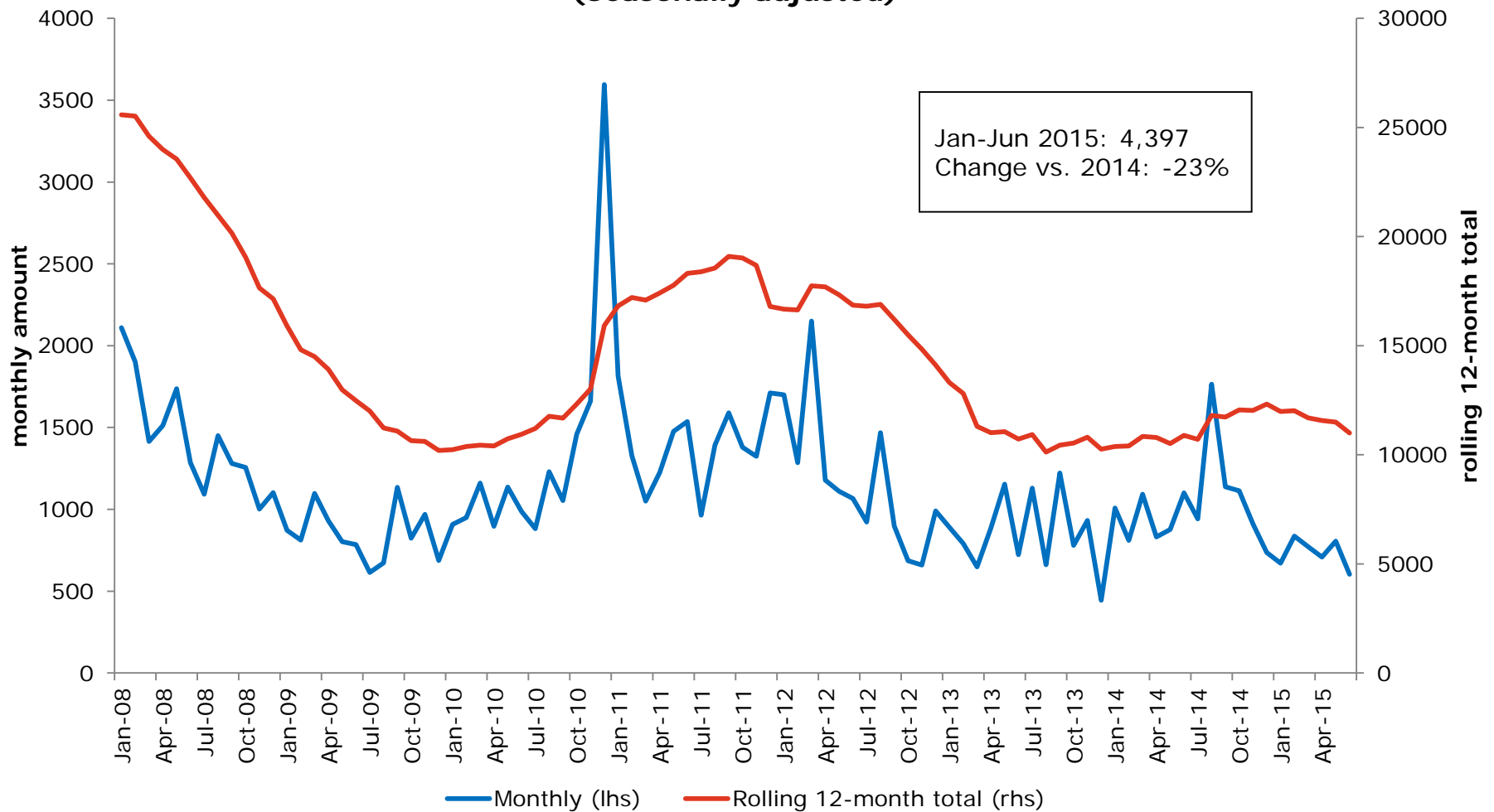
## Housing starts in Canada (Seasonally adjusted, annual rate)



Source: CMHC/ Statistics Canada

# Denmark

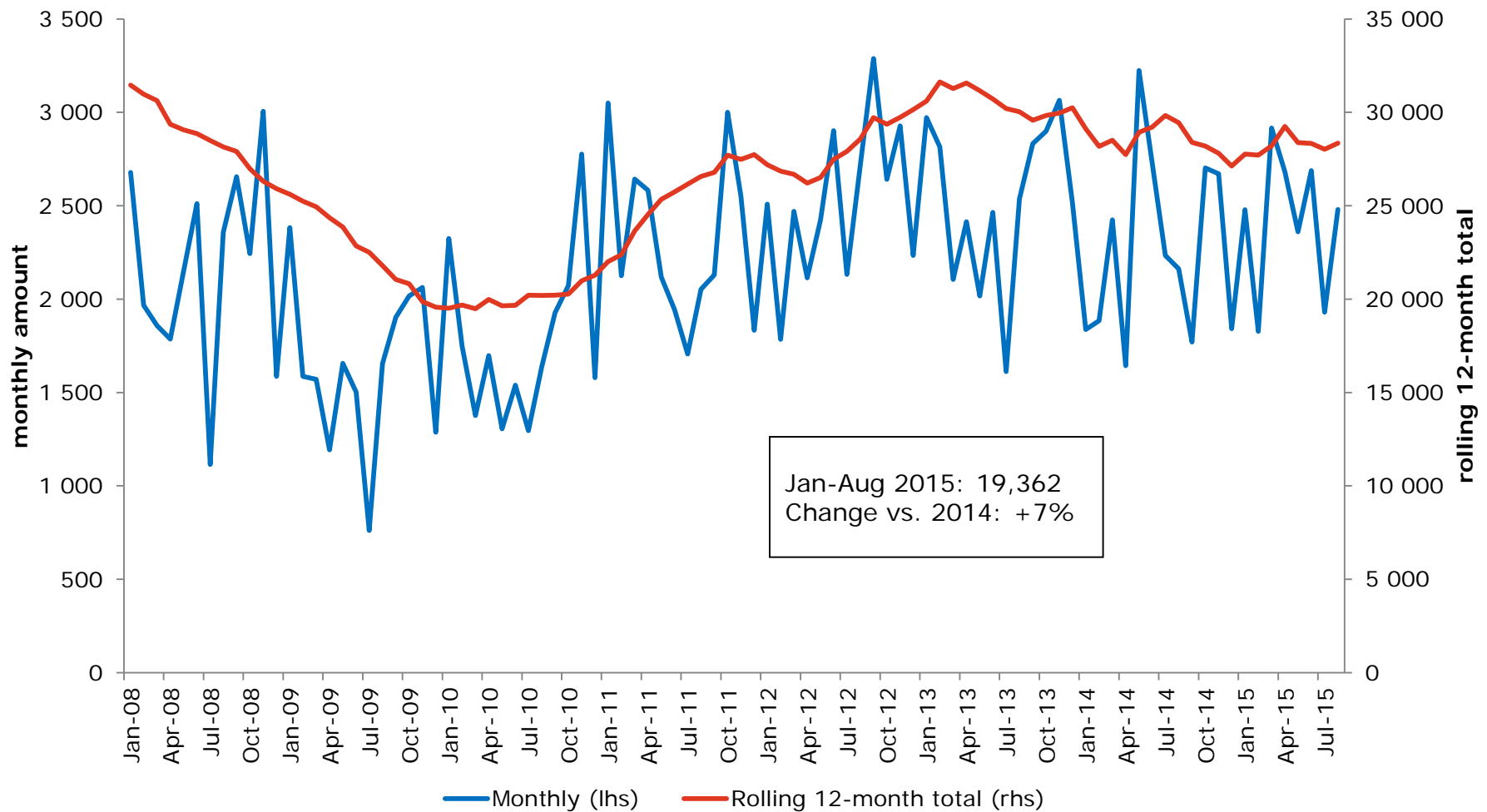
## Housing starts in Denmark (Seasonally adjusted)



Source: Statistics Denmark

# Norway

## Housing permits in Norway



Source: Statistics Norway