

An aerial night view of a city skyline, likely Copenhagen, featuring a river and a bridge. The city lights are visible against a dark blue sky.

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# Half-year financial report

Jyri Luomakoski – President and CEO  
Maija Strandberg – CFO

1 – 6 / 2017

# Market overview: second quarter 2017



## Nordic countries

Construction activity is generally favourable across the region, with the residential segment leading the way

## Central Europe

In Germany, increased demand for multi-family residential buildings is driving growth, while activity in the Netherlands has moderated

## Southern Europe

By and large positive developments, with France experiencing the largest tailwinds

## North America

Building construction markets remain largely healthy, but with some limitations to growth present

# Q2/2017: Performance down from Q1 due to a production issue and volatility in demand

April - June, M€	4-6/ 2016	4-6/ 2017	Change
Net sales	299.5	308.4	3.0%
Operating profit	26.5	22.9	-13.6%
Comparable operating profit	30.7	23.8	-22.6%

## Net sales

- Building Solutions – Europe suffered from weaker demand and competitive pressure in key markets
- Building solutions demand in the U.S. remained healthy, but capacity constraints and a temporary production issue curbed deliveries
- Uponor Infra benefited from improving demand in North America and Sweden

## Operating profit

- Flat performance in Building Solutions – Europe, burdened by input costs that offset the savings achieved
- Building Solutions – North America saw a sharp decline in operating profit, mainly due to a temporary production issue
- Uponor Infra suffered from higher resin prices, sales mix and an increase in transformation spending

# Developments by segment: Building Solutions – Europe

- Inconsistent sales development across the European markets
  - Austria and Eastern European countries top the list of best performers
- Transformation programme completed
  - Plan on Italian office consolidation introduced at the end of the 2<sup>nd</sup> quarter
- Marketing efforts continued in order to promote prefabricated solutions as the future choice in several European markets



# Developments by segment: Building Solutions – North America

- A healthy market demand continued across the U.S.; Canadian demand softened in Q2
- Due to capacity constraints, deliveries to customers were controlled based on allocation
  - A temporary production issue curbed output and led to lost business opportunities
- Impact of more extensive resin for EP fittings (since June 2016) still visible
- Manufacturing expansions under way to meet expected growth
  - 10<sup>th</sup> expansion in Apple Valley in progress
  - Acquisition of a Hutchinson, Minn. facility announced in July



# Developments by segment: Uponor Infra

- Increasing stability in the market place in much of Europe, with Sweden and North America booming
- Profitability affected by sales growth in lower margin markets as well as higher cost of resin
  - Price increases take effect from Q3/2017 onwards
- Transformation programme, including optimisation of manufacturing footprint in Finland and cost savings, finalised
  - Targets fully met but with slightly higher than planned temporary costs due to lively demand



# Uponor's European transformation programmes completed with nearly expected results

Launched in November 2015 in Building Solutions

- Europe and Uponor Infra, in order to:
  - strengthen the basis for profitable growth, increase agility, reduce costs and address weak performance in Building Solutions – Europe
  - consolidate Finnish manufacturing operations in Uponor Infra



# Transformation programme: Building Solutions – Europe key deliverables

- Implemented leaner management structure with central function hubs in Frankfurt (DE); Vantaa (FI); and Warsaw (PL)
- Optimised warehouse, administrative and sales office network Europe-wide
- Transferred PEX and Ecoflex pipe production to Sweden
- Started consultation in Italy on office footprint optimisation (Q2/2017)
  - European-wide, a total of 10 consolidated offices and one relocated
- Total workforce reduction to reach 246 by end of 2017 (target 250)









# Transformation programme: Uponor Infra key deliverables

- Completed consolidation of pipe manufacturing to Nastola and chamber manufacturing to Tuusula (FI)
- Launched further rationalisation in Denmark and Canada (not within original scope)
- Total manpower reduction at 65 (target 71)
  - Temporarily missing the target slightly due to delays caused by high demand and knowhow transfer



# Uponor's European transformation: The realised savings are close to plans

€million	Building Solutions - Europe		Uponor Infra		Total
	Target	Outcome	Target	Outcome	Target
Annual operational savings	20		5		25
Total items affecting comparability (non-cash items)	21 (5)		11 (8)		32 (13)

- Close to half of the savings in 2016 and the other half in 2017; total net IAC at €24.5m
- Building Solutions – Europe lags behind, owing to smaller HR cost savings as well as changes in plans with regard to marketing initiatives and indirect sourcing
- Uponor Infra's IAC includes a gain of €1.9m from the sale of unused premises in Vaasa, Finland

The background of the slide is a photograph of a modern building's facade. The building features a prominent, cantilevered upper section with a dark, perforated metal screen. Below this, there are glass-walled sections and more solid panels. The sky is a clear, deep blue, suggesting a bright day. The overall aesthetic is clean and architectural.

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# Financial statements

Maija Strandberg – CFO

1 – 6 / 2017

# January – June 2017:

## Key figures

Uponor Group - continuing operations		1-6 2016	1-6 2017	Change Y/Y	1-12 2016
Net sales	M€	546.4	573.5	+5.0%	1,099.4
Operating profit	M€	38.4	37.5	-2.3%	71.0
Comparable operating profit	M€	45.6	38.8	-15.0%	90.7
Comparable operating profit margin	%	8.3%	6.8%	-1.6% pts	8.2%
Earnings per share (diluted)	€	0.28	0.29	+3.6%	0.57
Return on equity (p.a.)	%	13.9%	13.6%	-0.3% pts	13.1%
Return on investment (p.a.)	%	15.3%	13.6%	-1.7% pts	14.1%
Net interest bearing liabilities	M€	175.1	208.9	+19.3%	159.5
Gearing	%	58.5%	67.6%	+9.1% pts	48.8%
Net working capital of net sales (p.a.)	%	11.9%	13.5%	+1.6% pts	10.2%
Number of employees, end of period	FTE	3,964	4,077	+2.9%	3,868

# April – June 2017:

## Income statement

Uponor Group - continuing operations, M€	4-6 2016	4-6 2017	Change Y/Y
Net sales	299.5	308.4	+3.0%
Cost of goods sold	194.0	210.0	+8.3%
Gross profit	105.5	98.4	-6.8%
Gross profit margin (%)	35.2%	31.9%	-3.3% pts
Other operating income	1.4	2.3	+56.8%
Expenses	80.4	77.8	-3.5%
Operating profit	26.5	22.9	-13.6%
Operating profit margin (%)	8.8%	7.4%	-1.4% pts
Financial expenses, net	2.1	1.2	-40.6%
Share of result in associated companies	0.0	-0.6	-976.0%
Profit before taxes	24.4	21.1	-13.7%
Profit for the period	15.4	14.3	-6.8%
EBITDA	36.2	33.1	-8.4%

- **Net sales** growth +2.4% in constant currency terms – a positive currency impact of €1.7m mainly originating in USD and CAD
- **Comparable gross profit margin** 32.1% (35.5%) due to increased raw material prices and a temporary production issue in Building Solutions – North America
- **Comparable operating profit** reached €23.8m (€30.7m), a drop of 22.6%
- **Items affecting comparability** amounted to €0.9m (€4.2m), including a €1.9 million gain from the sale of unused office and manufacturing space in Uponor Infra's premises in Vaasa, Finland

# January – June 2017:

## Income statement

Uponor Group - continuing operations, M€	1-6 2016	1-6 2017	Change Y/Y	1-12 2016
Net sales	546.4	573.5	+5.0%	1,099.4
Cost of goods sold	353.1	383.7	+8.7%	723.4
Gross profit	193.3	189.8	-1.8%	376.0
Gross profit margin (%)	35.4%	33.1%	-2.3% pts	34.2%
Other operating income	2.0	2.6	+25.4%	4.2
Expenses	156.9	154.9	-1.4%	309.2
Operating profit	38.4	37.5	-2.3%	71.0
Operating profit margin (%)	7.0%	6.5%	-0.5% pts	6.5%
Financial expenses, net	5.5	4.0	-27.1%	10.0
Share of result in associated companies	0.1	-1.1	-974.2%	-0.6
Profit before taxes	33.0	32.4	-1.8%	60.4
Profit for the period	20.8	21.7	+4.4%	41.5
EBITDA	57.9	57.1	-1.3%	112.6

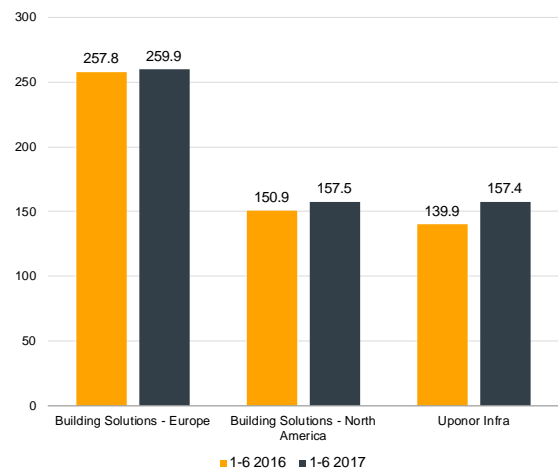
- **Net sales** growth +4.5% in constant currency terms – a positive currency impact of €2.5m mainly driven by USD
- **Comparable gross profit margin** 33.3% (35.5%), mainly burdened by a temporary production issue in North America and competitive price pressure, particularly in the European building solutions business
- **Comparable operating profit** €38.8m which is 15.0% less than last year (€45.6m)

January – June 2017:

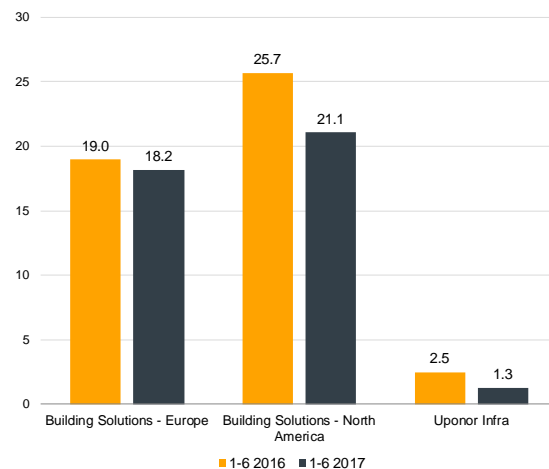
# Net sales & comparable operating profit by segment

Currency: M€

## Net sales



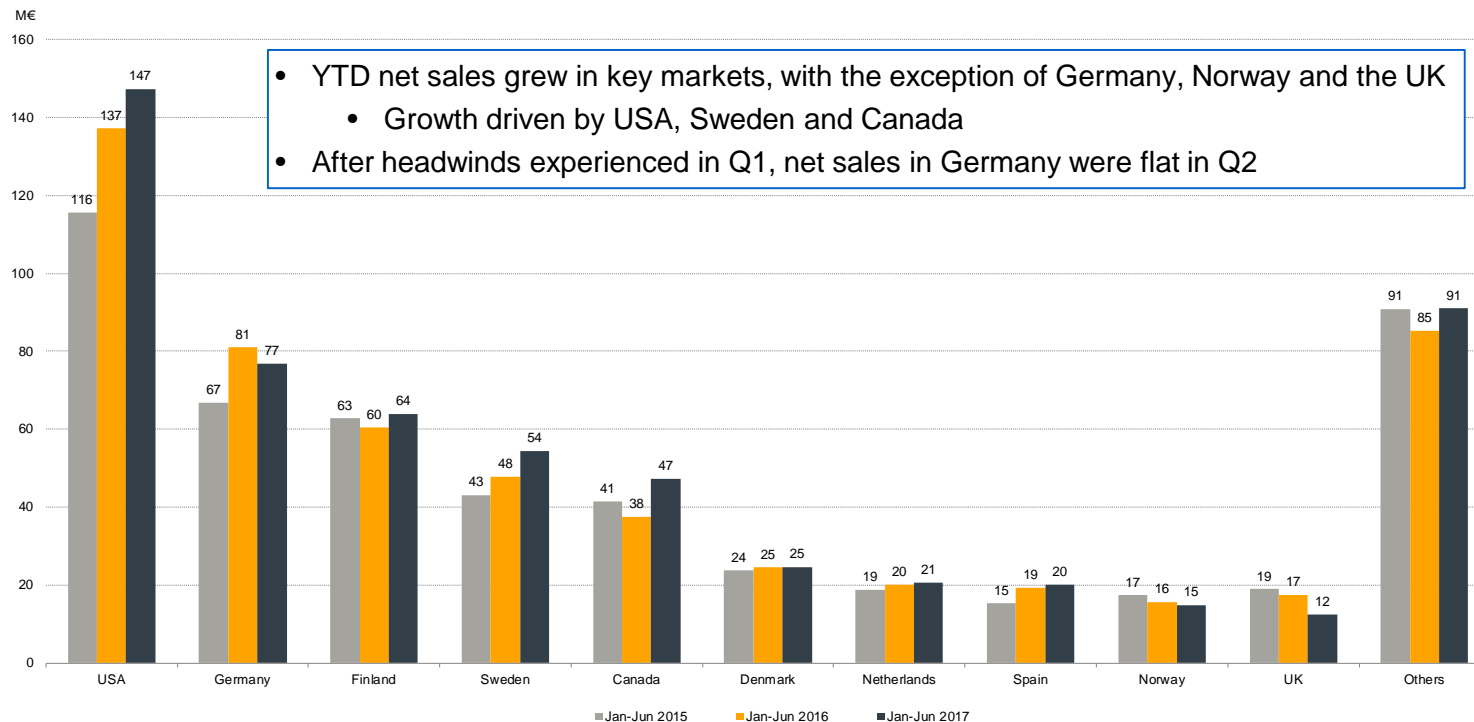
## Comparable operating profit



- **Building Solutions – Europe:** Modest net sales growth (+0.8%), while comparable operating profit declined (-3.9%) due to higher raw material prices and start-up expenses related to Asian operations
- **Building Solutions – North America:** Despite strong Q1, a temporary production issue in Q2 had a measurable impact on net sales (+4.3%) and operating profit (-17.9%)
- **Uponor Infra:** Strong net sales growth (+12.5%) but comparable operating profit stayed below last year (-46.9%) mainly due to higher resin costs and temporary inefficiencies related to production transfers

January – June 2017

# Net sales development by key markets



- YTD net sales grew in key markets, with the exception of Germany, Norway and the UK
  - Growth driven by USA, Sweden and Canada
- After headwinds experienced in Q1, net sales in Germany were flat in Q2

Growth  
% in EUR  
% in Curr.

7.4%  
5.4%

-5.3%

5.9%

13.9%  
17.6%

26.0%  
24.6%

0.3%  
0.1%

3.0%

3.6%

-5.1%  
-6.7%

-28.7%  
-21.8%

6.6%



# January – June 2017: Balance sheet

Uponor Group, M€	30 Jun 2016	30 Jun 2017	Change Y/Y	31 Dec 2016
Property, plant and equipment	221.7	233.8	+12.1	240.9
Intangible assets	121.4	117.3	-4.1	119.0
Securities and long-term investments	21.6	31.9	+10.3	34.7
Inventories	133.6	146.7	+13.1	139.3
Cash and cash equivalents	24.8	24.3	-0.5	16.3
Other current and non-current assets	269.4	271.9	+2.5	217.3
<b>Assets total</b>	<b>792.5</b>	<b>825.9</b>	<b>+33.4</b>	<b>767.5</b>
Total equity	299.2	309.0	+9.8	326.9
Non-current interest-bearing liabilities	139.1	77.5	-61.6	158.2
Provisions	26.5	28.0	+1.5	28.8
Non-interest-bearing liabilities	266.9	255.7	-11.2	236.0
Current interest-bearing liabilities	60.8	155.7	+94.9	17.6
<b>Shareholders' equity and liabilities total</b>	<b>792.5</b>	<b>825.9</b>	<b>+33.4</b>	<b>767.5</b>

- Property, plant and equipment increased mainly due to investments in capacity expansion and efficiency improvement
- Non-controlling interest represents €64.3m of the equity at €309.0m
- €80m bond maturing in June 2018 – refinancing was arranged during Q2 by signing a committed 5-year bilateral loan agreement of €100m. None of the loan was drawn on 30 June 2017

# January – June 2017:

## Cash flow

Uponor Group, M€	1-6 2016	1-6 2017	Change Y/Y	1-12 2016
Net cash from operations	+55.1	+59.2	+4.1	+105.3
Change in NWC	-41.9	-45.9	-4.0	-16.6
Net payment of income tax and interest	-16.6	-11.8	+4.8	-28.8
<b>Cash flow from operations</b>	<b>-3.4</b>	<b>+1.5</b>	<b>+4.9</b>	<b>+59.9</b>
Cash flow from investments	-44.4	-16.8	+27.6	-91.8
<b>Cash flow before financing</b>	<b>-47.8</b>	<b>-15.3</b>	<b>+32.5</b>	<b>-31.9</b>
Dividends paid	-32.2	-33.6	-1.4	-32.2
Other financing	+56.5	+57.3	+0.8	+32.0
<b>Cash flow from financing</b>	<b>+24.3</b>	<b>+23.7</b>	<b>-0.6</b>	<b>-0.2</b>
Conversion differences	+0.1	-0.4	-0.5	+0.2
Change in cash and cash equivalents	-23.4	+8.0	+31.4	-31.9

- Gross investments came to €19.3 (15.7) million, remaining slightly below depreciation
- Cash flow from investments in the comparison period includes a net cash flow effect of -€31.4m from the acquisition of KaMo & Delta Group























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# Outlook for the future

Jyri Luomakoski – President and CEO

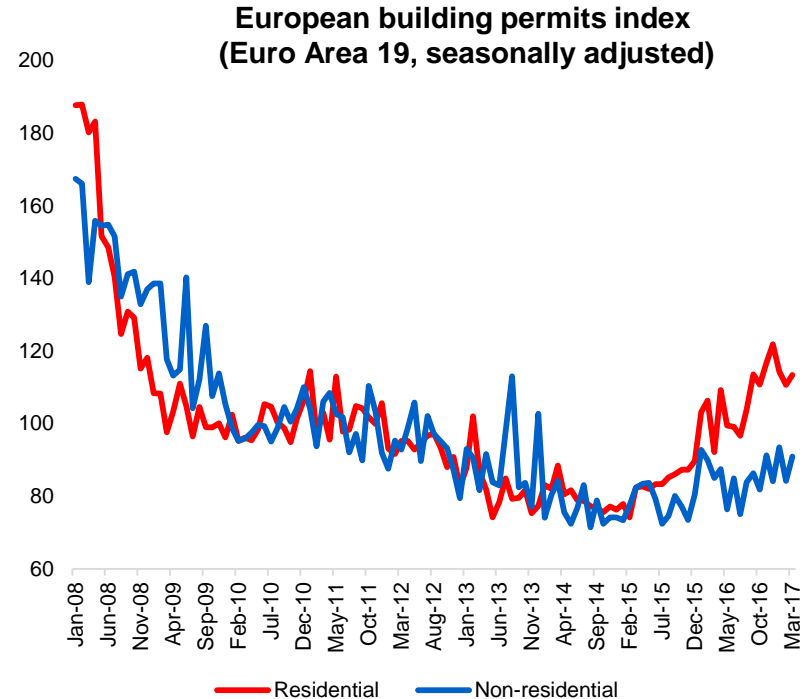
# Leading indicators: Still solid, but growth is slowing

	Indicator	YTD % Change	Rolling 12-month % Change	Data through	Trend since Q1 update
 USA	Housing starts	+2% <sup>1)</sup>	N/A	June 2017	
 Germany	Housing permits	-5%	+7%	May 2017	
 Finland	Housing permits	+4%	+10%	April 2017	
 Sweden	Housing starts	+45%	+34%	March 2017	
 Canada	Housing starts	-3% <sup>1)</sup>	N/A	June 2017	
 Denmark	Housing starts	-29%	-1%	March 2017	
 Netherlands	Housing permits	-5%	-5%	December 2016	
 Spain	Housing permits	+12%	+15%	April 2017	
 Norway	Housing starts	+7%	+16%	May 2017	
 UK	Housing starts <sup>2)</sup>	+21%	+14%	March 2017	

<sup>1)</sup> Seasonally adjusted, annualised rate vs. same month in 2016 <sup>2)</sup> England only

# Building permit activity in Europe points towards broad-based strengthening in the residential segment

- Data through March 2017 shows continued growth in residential building permits across Europe compared to the same time last year
  - One notable exception is in Germany, where permit levels have fallen compared to 2016
- Developments in the non-residential segment have been mixed, with about half of all markets making gains while the other half have fallen since the same time last year



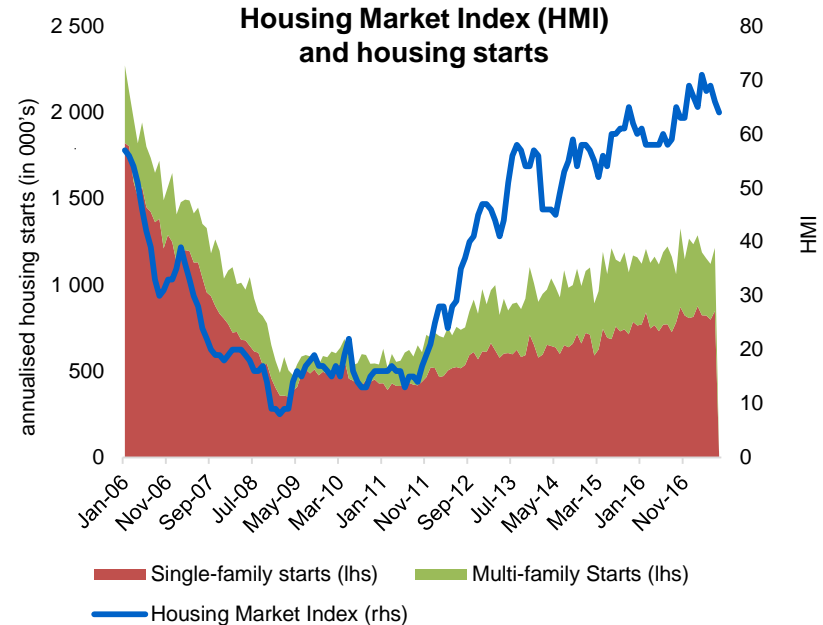
Source: Eurostat (Base year = 2010)

# USA - Continued expansion, but with some reason for caution

The economy continues to expand, but labour shortages in some industries and rising interest rates are tempering growth

Within the construction industry:

- While the housing starts rate has slowed in recent months, residential construction spending continues to grow
- Non-residential spending is flat overall compared to 2016, but has grown in the office and commercial segments
- Home builder confidence has moderated, but remains high



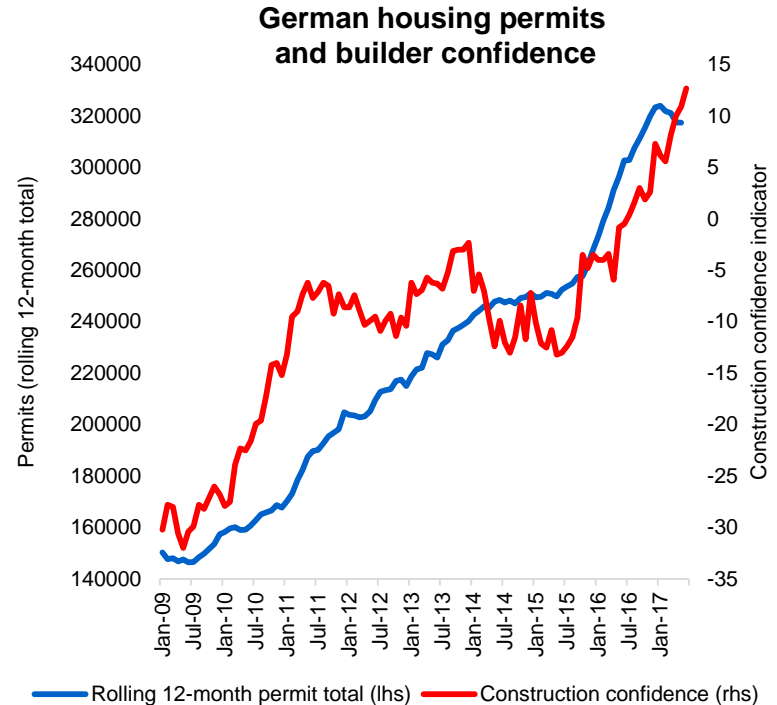
Source: US Census, NAHB/Wells Fargo

# Germany - A strong labour market is supporting residential investment

With unemployment at a record low and business confidence at a record high, the economy continues to expand at a moderate pace

Within the construction industry:

- Builders continue to be very positive with regard to the evolution of order books and current building activity
- Growth remains concentrated in the new, multi-family segment, while the renovation segment is essentially flat
- Residential building permits have moderated from their 2016 highs



Source: Destatis and Eurostat

# Management agenda for 2017

- Speed up the rollout of the strategic offerings in Building Solutions – Europe while fully utilising the renewed operational setup and market presence
- Satisfy the consistently high demand of pipe and fittings among the customers in North America, while securing smooth operations and increasing manufacturing capacity
- Establish stronger foothold in Asia with the new Chinese factory operational
- Promote Uponor's digital transformation and launch new ground-breaking digital offerings





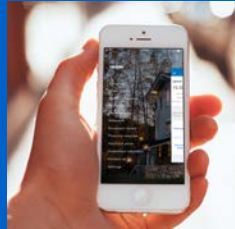
# Guidance 2017

- No sign of changes visible in the market place, which could materially change demand forecasts for 2017
- Subject to the acquisition of the U.S. manufacturing facility and real estate, announced on 20 July 2017, the Group's capital expenditure is estimated to exceed €60 million (excluding any investment in shares) in 2017
- Assuming that economic development in Uponor's key geographies continues undisturbed, Uponor reiterates earlier guidance from February 2017:

**The Group's net sales and comparable operating profit  
are expected to improve from 2016**

## Q&A

**Uponor IR site:** [investors.uponor.com](https://investors.uponor.com)



**Uponor IR app:**



*An updated version coming soon!*

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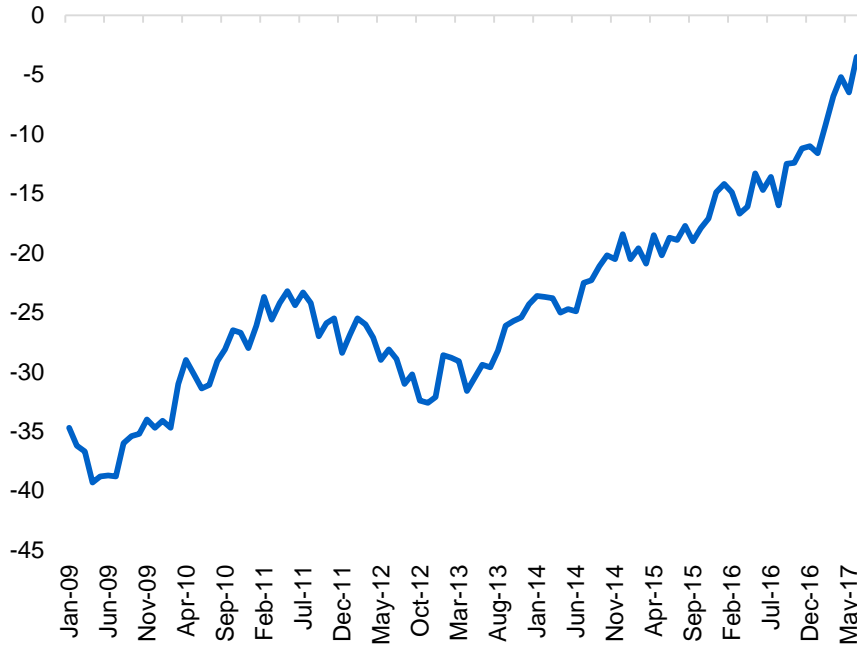
**YouTube:** Uponor Group

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# Appendix

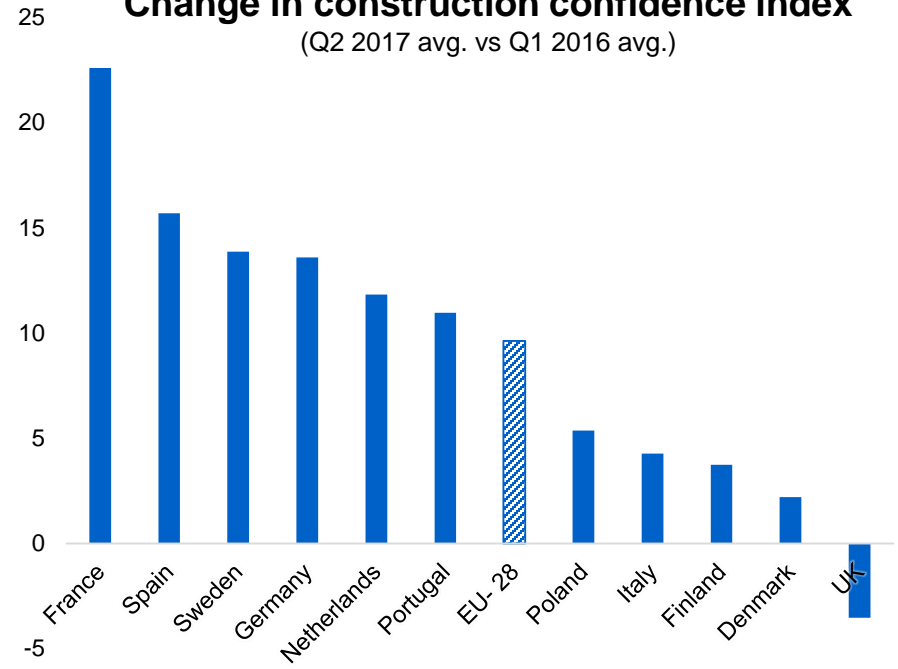
# Builder confidence continues to strengthen in most European markets

## EU construction confidence index



## Change in construction confidence index

(Q2 2017 avg. vs Q1 2016 avg.)



Source: Eurostat

# Finland - The recovery continues

Both consumers and exports are supporting solid growth in the economy that is above the European average

Within the construction industry:

- Residential starts have continued to post significant year-over-year gains, while permit levels have levelled off
- Non-residential permits have grown in the commercial and office space segments, driven by a handful of large projects
- Construction confidence has plateaued, but remains relatively high



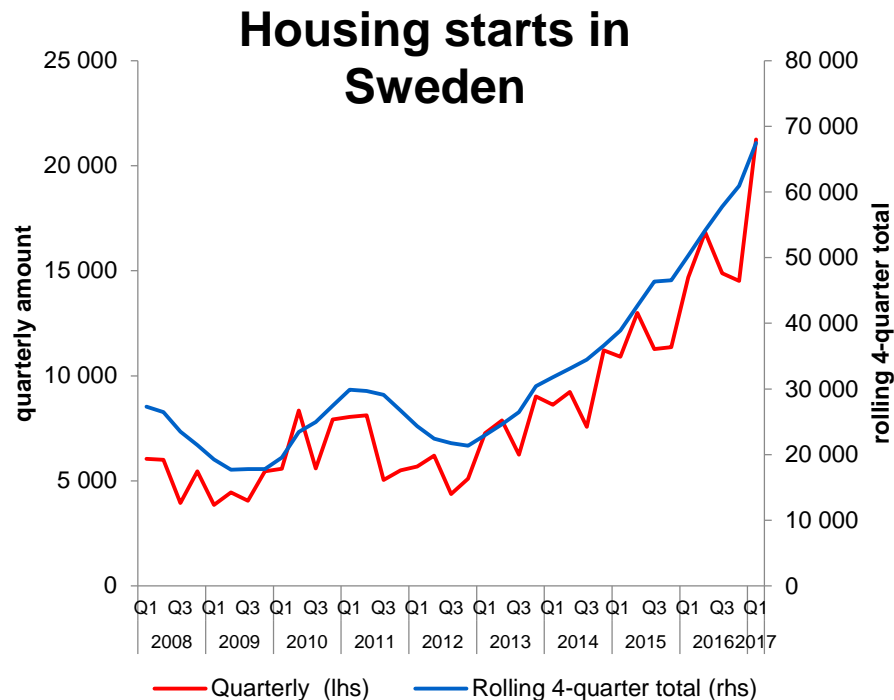
Source: Statistics Finland & Eurostat

# Sweden - Fundamentals remain solid

Economic fundamentals remain solid and growth, although showing signs of moderating, is robust

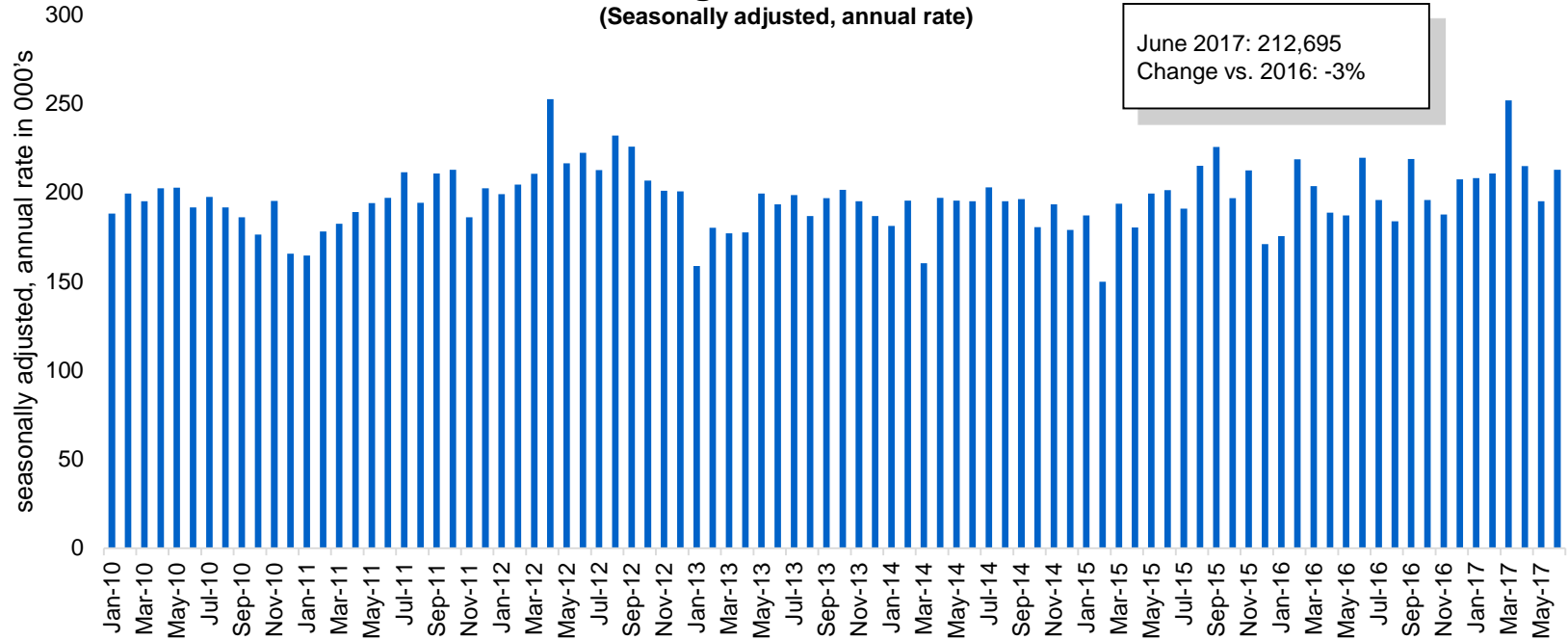
In the construction industry:

- Housing starts continue to rise, especially in the multi-family segment
- Builders report strong order books and confidence
- Property prices have continued to rise, prompting some concerns



Source: Statistics Sweden

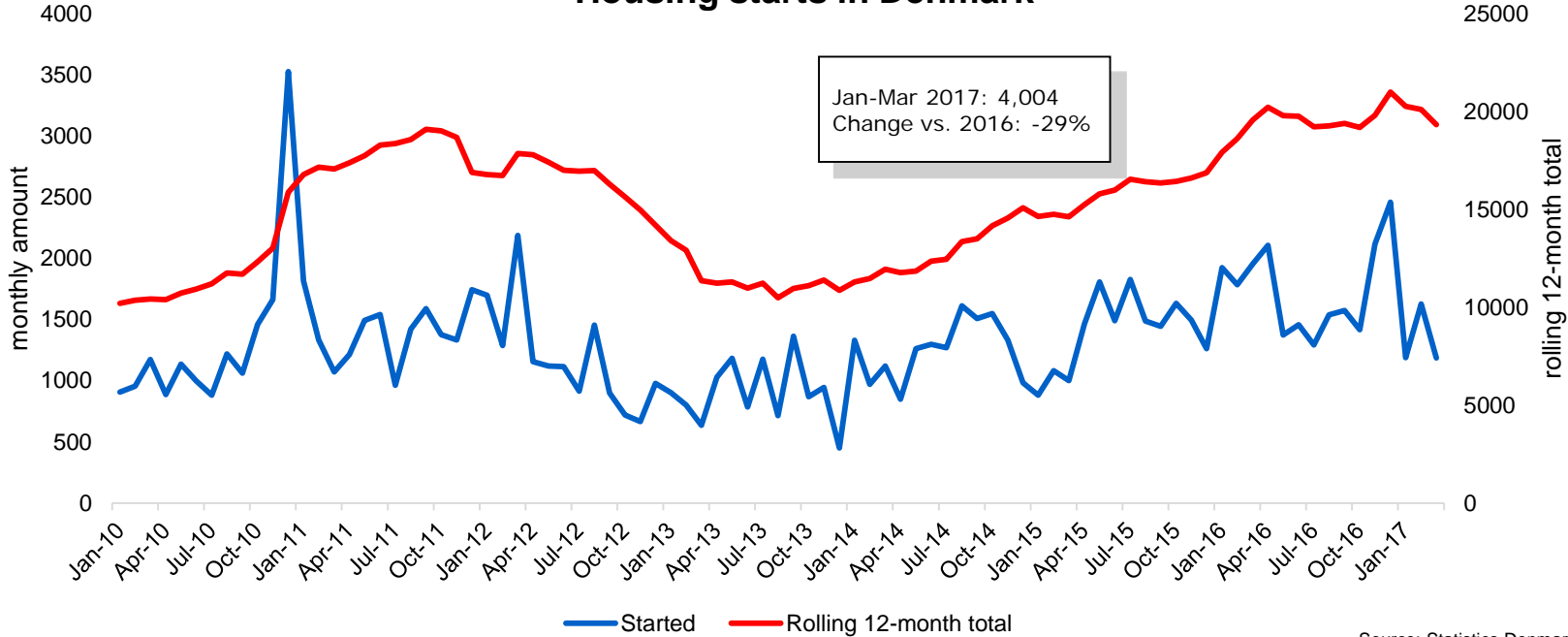
## Housing starts in Canada (Seasonally adjusted, annual rate)



Source: CMHC/ Statistics Canada

# Denmark

## Housing starts in Denmark



Source: Statistics Denmark



# Norway

