



# shareholder newsletter

## January 2014

Share price	15.88p
52 week high / low	35p / 9p
FTSE Sector	Electronic & Electrical Equipment
Shares in issue (m)	239.4m
Market cap	£38.0 million
NOMAD / Broker	Genkos Securities

## Key milestones achieved in 2013



- ✓ Exclusive manufacturing services agreement signed with Jabil for the production of 390,000 Flow microCHP boilers
- ✓ First production-standard boilers installed in customer homes in November 2013 under pilot programme
- ✓ £15.9m of funding secured in a significantly over-subscribed placing and further £1.5m secured via an open offer
- ✓ Energy business, Flow Energy, successfully launched with c.50,000 customer accounts gained
- ✓ Flow Battery won a 3 year framework agreement with National Grid.

## Key objectives for 2014



- Q1 2014 – complete 120 domestic pilot installations
- H1 2014 – deliver a detailed product roadmap including the combi version specification;
- H2 2014 – complete technology transfer to Jabil and achieve full production capability. Gain full accreditation (CE and MCS) and move to volume production; and H2 2014 - begin customer sales

## Message from Tony Stiff



Tony Stiff, Group CEO

I'd like to thank both our existing shareholders for their continuing support and our new shareholders for coming on board at such an exciting time in our Company's development following the successful fundraise in December 2013.

The Group starts 2014 from a very strong position with a strengthened balance sheet in addition to a beneficial manufacturing agreement with a world-leading manufacturer. We have already begun to install production-standard boilers in customer homes as part of our domestic pilot and believe we're on a clear path to commercialisation during 2014.

Reflecting on 2013 and looking forward to this year brings into focus the opportunity the Flow microCHP boiler delivers. Affordable domestic microCHP has never been achieved in the UK to date. But Flowgroup has successfully developed a microCHP technology and a business model that has the potential to shape the future of home energy and make serious inroads into the UK and worldwide energy markets.

We believe that our objective to create a large, successful and profitable energy services company is entirely achievable and is on track. The team that we have assembled to deliver this objective is extremely strong and will be further strengthened both at operational and Board level this year.

I look forward to updating you on our progress on a regular basis throughout the year.

## Flow boiler pilot launched



We are very pleased to announce that the Flow domestic boiler pilot began on time, with the first boilers being installed in November. To date, we have installed 25 production-standard Flow boilers in customer homes with weekly installs of the remaining 95 boilers (including 20 installed by Calor in LPG customer homes) taking place over the coming months.

The pilot is planned to run over the next 12 months and will collect the broadest range of useful data. The boilers will run in both heat-only and heat-and-power modes throughout the pilot, providing a range of efficiency, reliability and generation data. This real-world data supplements the thousands of hours of lab data we have, and allows us to optimise the Flow boiler unit for volume production by Jabil. We will provide an update on the pilot in due course.



As well as providing vital data, the Flow boiler pilot allows us to refine our marketing, surveying and installation procedures for our volume launch in the second half of this year, helping us to construct a reputation-enhancing customer experience, from initial contact through to final installation.

The boilers that are now in situ have been running well and customer satisfaction with the Flow boiler is high. We've already received a significant amount of positive feedback.

Installing real boilers in real homes truly brings the Group's goals and ambitions to life. It illustrates the capability of the Group to deliver its plan to commercialise microCHP technology for the domestic market, at volume, for the first time, with all the benefits that brings for the Group and its shareholders.



“ Having not seen the boiler prior to installation, we were pleasantly surprised – it's fresh and modern looking.

The installation team were friendly, efficient and very clean and tidy. When they had left, the only indication that they had been there was the shiny new Flow boiler on the wall.

The Flow boiler heats our house up much more quickly than our old boiler and it runs very quietly. All in all, we're very impressed so far. ”

M Lonsdale, Flow boiler customer, Lancashire



## Manufacturing agreement in place with Jabil



One of 2013's central goals for our business was to put in place a volume manufacturing agreement that de-risked manufacture of the microCHP solution. One of the biggest risks that any new technology manufacturer faces is the need to buy and hold components and materials for many months before production, which requires significant levels of working capital before sales revenues come in.

Our exclusive deal with Jabil, one of the world's leading manufacturing solutions partners, provides working capital for up to 390,000 boilers, which is very positive news for our business and shareholders.

Providing production working capital for this number of Flow boilers represents a significant commitment by Jabil to the Company. We don't believe Jabil would have made such a commitment without a positive view on the Company, its technology and its prospects. Jabil made this commitment to Flowgroup following an extensive and detailed due diligence exercise in which they assessed the boiler's technical performance, the Group's supply chain, business model and the Group's market opportunity. Jabil concluded that Flowgroup is in a position to become a world-leader in microCHP and made their commitment to the Group as a consequence.

As well as the above, Jabil will assist Flowgroup with the ongoing design of an economical and effective supply chain as well as logistics and other support for international expansion in due course. Considering the terms of the agreement, and the fact that the Flow boiler will now be manufactured in its entirety in the UK, with all the positive sentiment that brings, we feel this is an exceptional deal to have done.

## Flow Battery now quoting for business

We announced last year that Flow Battery was awarded a framework agreement with National Grid, to replace conventional lead-acid backup power units as they reach the end of their service life. We are very pleased to say that Flow Battery is now quoting for work within the framework agreement. We anticipate releasing more information about this in the coming weeks. As predicted, this agreement represents a significant potential revenue stream for the Group. Flow Battery will continue to pursue additional business both here and abroad.

## Energy supply business continues to exceed expectations

We timed our entry into the energy market in 2013 well, riding a wave of consumer sentiment in favour of small suppliers as the Big 6 fell out of favour. Taking on around 50,000 customer accounts provided invaluable insight into the market. It also created a significant database of satisfied customers into which we can effectively market the microCHP boiler. Perhaps most importantly, our energy customers are currently generating an annualised £30m of revenue, which we believe is a very impressive achievement in itself.

The UK energy market in 2014 looks just as attractive, if not more attractive, than it did in 2013. We will be evaluating the energy market again in the coming weeks with that in mind, to assess the possibility of releasing another competitive energy-only tariff.

## Funding secured

We announced in the annual report earlier this year that we would need additional funding to take the Flow business through to the point at which it can support itself. This was due to the need to undertake further development of the boiler and to expand the teams both in Capenhurst and Ipswich. We went to the stock market in December and both existing and new investors were impressed with what the business has achieved to date and with our plans for the future, so much so that the placing was significantly over-subscribed. We secured £15.9m of funding, before costs, in a firm placing and an additional £1.5m from an open offer. Our ability to secure this level of funding from a diverse group of shareholders illustrates their belief in our ability to create the large, successful and profitable company that we have planned.

The proceeds will be used to:

- continue volume product optimisation
- continue domestic pilot phase
- transfer technology to Jabil for manufacturing
- set up sales, servicing and installation infrastructure for volume launch in H2 2014
- create combination boiler and cascade operation prototypes to extend market reach
- fund set up costs for Flow Battery framework agreement with National Grid

Feedback or questions: please contact [flowgroup@walbrookpr.com](mailto:flowgroup@walbrookpr.com) or 020 7933 8780

The next quarterly shareholder newsletter will be released in March.