08 February 2017

Flowgroup plc
("Flow" or the "Company" or the "Group")

Update

Flowgroup plc (AIM: FLOW), which provides a range of innovative energy technologies, energy supply and energy services, is pleased to announce that it expects to announce its results for the year ending 31 December 2016 during May 2017. The Company expects its trading results to be in line with analysts' forecasts. The Group had headline cash of £9.2m on 31 December 2016 of which £3.4m in energy trading accounts.

Energy

Our Flow Energy business has progressed well and is delivering growth, with customer fuel accounts either on supply or processing through the switching cycle of over 270,000 at the end of January 2017. These customers are expected to generate annualised revenues of over £135 million.

Wholesale prices have shown some volatility over the winter period so far, which our hedging strategy has protected us against. The additional actions and measures taken to insulate the Group against potentially highly volatile gas prices because of abnormal weather conditions have been effective in shielding us from additional costs we may otherwise have incurred.

Recently, gross margins have come under pressure as we have priced to compete with a range of new entrants offering reduced tariffs to customers to gain market share. We are investigating several new routes to market to reduce our reliance on the price comparison sites and we regularly review our pricing strategy as the market continues to move and evolve. However, if the trend of new entrants offering reduced tariffs persists, we would expect our growth outlook for 2017 to be more challenging.

Smart boiler business

We continue to make progress in developing our smart boiler business with 364 Flow Eco RF boilers sold in 2016, from a standing start launch in late September 2016. We will continue to refine and strengthen our Flow Brand Ambassador network to deliver national in-home sales during 2017. Additionally, we are in discussions with several large housing associations for volume boiler sales, which may also include home energy contracts.

MicroCHP and strategic review update

As previously announced, the ongoing review by the Department for Business, Energy and Industrial Strategy (BEIS) into the microCHP Feed-in-Tariff (FiT) has had a major impact on our business due to the consequent uncertainty around continuing FiT support. In addition, we have seen a significant increase in manufacturing costs of circa 17% due to the fall in the value of Sterling against the Euro and US Dollar. We initiated a strategic review of our microCHP business in September 2016 and reported back on its progress on 16 November 2016, laying out several possible options.

Whilst the uncertainty of FiT support remains, and with increased manufacturing costs, the Board has reconsidered the business plan for microCHP as we believe that it is uneconomic in the UK market in the near term. However, as noted in our November 2016 update, and consistent with our long-term strategy, we continue to believe that the European market represents a significant opportunity for our microCHP technology. The financial support offered in mainland Europe potentially favours microCHP through various installation incentives that are available. Given our confidence in our technology and recognising the challenges that remain in the UK domestic market, our strategy has been refocused for a full entry into the European market as soon as practicable.

The next step in achieving this is for a series of microCHP boiler pilots to be rolled out in France, Germany, Italy and Belgium, where we are working with our identified partners. Our strategy for the potential of microCHP regarding market acceptance, price and performance will continue to evolve and be evaluated in these regions and, if these pilots progress as planned, volume sales would be possible during 2018. We continue to work very closely with Jabil and their manufacturing team at Livingston, especially on the European opportunities. Over 1,000 working boilers have been manufactured so far and these will be deployed in Flow microCHP pilots in Europe and will also be used in a limited way in the UK.

The Board conclude and reiterate that our microCHP technology has the potential to be market-leading and that the work and investment that has been made in it should be preserved within the Group. However, the uncertainty around FiT means that it is not an optimum time to consider selling that part of the business and, as previously reported, there would be significant costs to be incurred should the Company wish to exit the business at this time.

While conducting the strategic review, the Board received a number of approaches expressing interest in its Flow Energy business, which has continued to perform well in a dynamic and fast-changing market place. The Directors believe that, whilst subject to further due diligence, the terms of the indicative approaches for Flow Energy, which are being considered, could, if completed, provide sufficient funding for the microCHP business through to the point at which the technology is commercialised in Europe. As a result, the Board has concluded that the disposal of Flow Energy is something that it should actively pursue. Any disposal of the Flow Energy business would be conditional on shareholder approval.

If the disposal of Flow Energy does not take place in the coming months, the Directors will consider a number of funding options for the Group, including selling a strategic stake in either its Flow Energy or microCHP businesses or through a placing. The Company looks forward to providing a further update in due course.

This announcement contains inside information.

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