



# shareholder newsletter

## November 2014

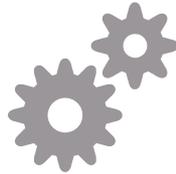
Share price	45.75p
52 week high / low	47p / 13p
FTSE Sector	Electronic & Electrical Equipment
Shares in issue (m)	239.49m
Market cap	£110 million
NOMAD / Financial Adviser / Broker	Investec Bank plc
Financial Adviser / Broker	Cenkos Securities

### Key milestones achieved in 2014

- ✓ Jabil production line put into operation
- ✓ Test boiler marketing campaigns launched
- ✓ Agreements signed with partners for potential international expansion
- ✓ Product roadmap developed to increase the potential of Flowgroup in the UK and abroad

### Key objectives

- ✓ Launch full sales and marketing campaigns in January



### Message from Tony Stiff, Group CEO

"It is with the greatest of pleasure that we announced on the 18th of November that the first of our game-changing Flow boilers has rolled off our production line. This is clearly a defining moment for the business. Design and production of an affordable electricity-generating boiler has long been a sought-after prize in the global heating industry. That Flow has now achieved this is a major step forward and one which, we firmly believe, will allow Flow to become a successful global company.

As one of the world's leading manufacturing partners, Jabil have provided significant support and technical expertise as we have designed and developed production processes. We believe that the combination of Jabil's experience and our engineers' design prowess has resulted in the genuinely game-changing product we always planned to create. Now that volume manufacture has been initiated, the teams will continue to work closely together to refine the production process with the aim to bring down the cost of each boiler so that, in time, the Flow boiler can be retailed at only a marginal additional cost to a standard boiler, enabling a very quick payback period.

Throughout the process of building this business, we have consistently proven that we can deliver. We successfully launched our

home energy business, Flow Energy. We ran a technology pilot that met our expectations on efficiency and reliability. We have brought our revolutionary product to a high quality production standard, and that product is being manufactured by one of the most successful global manufacturers. We have signed agreements with both European and North American partners that could result in mass adoption of our technology in key markets globally. We believe that we will also deliver in our next phase – UK sales, marketing and service delivery.

We have invested a great deal in the service side of our operation. Creating an experience for our existing energy customers that enhances our reputation and that builds trust is vital for a company launching a new technology under a new brand. We believe we have already achieved that. Our official complaint stats put us consistently in the top 3 for the lowest level of complaints received across the entire UK energy industry. We will apply the same principles of customer focus, simple communication and honesty to the wider service operation we are building for our boiler customers, to continue to create a standout experience that will become a major component of our brand.

Of course, in order to service customers we first need to attract them. Throughout our development phase, interest in the unique Flow boiler has remained consistently strong. Our pilot scheme attracted around 6000 customers with no marketing spend at all. Recent PR coverage and small-scale test marketing campaigns have driven over 10,000 customers to express their interest. Based on this, we believe that our full marketing and PR campaigns will deliver the level of traffic we need to meet our sales targets for 2015 and beyond.

It is worth remembering the scale of the opportunity that the Flow boiler brings. There are 1.7m boiler installations in the UK every year. There are over 9m annual boiler installations across Europe and 3-4m in North America. Innovation in home heating is rare and a patented product like the Flow boiler that delivers such unique benefits – the production of low cost, low carbon electricity in the home, significantly lower bills and emissions – will, we believe, be able to make significant inroads into these large and established markets. Once established as a leader in personal power and low carbon technology with a growing customer base, the opportunities for further growth in additional markets could be significant.

Over the years, we have received dedicated support from a range of investors, suppliers and customers – as well as from our own teams, of course. As we reach this defining moment, I'd like to thank everyone who has been involved in the Flow project and say wholeheartedly that I look forward to the success I believe 2015 and beyond will bring."



## Production initiated of the game-changing Flow boiler



After 10 years of development, the first Flow boiler rolled off the production line on 17th November in Livingston, Scotland. The Flow boiler is being manufactured by Jabil Circuit, one of the world's leading OEM manufacturing partners. Jabil has installed the production line successfully and volume production has now begun, on time.

Production will now continue on a pre-arranged schedule and our full marketing, PR and sales campaigns will launch in January.

The Flow and Jabil teams have worked successfully together to create a production environment and processes that ensure the very highest quality product. The supply chain has been connected to the production facility and significant orders of components have been placed. This is the first of up to 390,000 boilers that will be manufacturing under our initial agreement with Jabil. This ground-breaking British designed and manufactured product will, we believe, allow Flow to become a major player in heating markets worldwide and initiating production is the biggest step we have taken towards that goal so far.



## 10,000 prospects for our boiler - and the first sales



We launch our full sales, marketing and PR campaigns for the Flow boiler in January 2015. In preparation, we have been running some small-scale tests of some of the marketing channels we intend to use, which have been encouraging. We now have a database of over 10,000 new customers who have expressed interest in the boiler. This pre-existing pool of potential customers provides an extremely useful resource to target in a controlled manner up to and following launch.

In addition to the above prospect lists, we have older databases of customers who have previously expressed interest in the Flow boiler. Customers on this list have been waiting patiently for our launch and so, as a pre-launch test of our sales process, we contacted several customers – and each one has produced a sale, in principle (we will take payment closer to installation). This is a pleasing start to our sales campaign and we will conduct more testing of our sales approach between now and our full launch in January.

## Additional research coverage



As part of our ongoing efforts to provide existing and potential investors with as much information and analysis on the Company as possible we have appointed Equity Development to provide additional research coverage, particularly at this key stage as we move into volume production. Their first piece of analysis has just been published and they will provide updates on a regular basis. The research is written by Paul Hill and can be viewed here: [www.equitydevelopment.co.uk](http://www.equitydevelopment.co.uk)

## Growth in our energy business



We re-entered the energy market in April with exactly the same tariff as we originally launched in 2013 – the Thames tariff. Keeping our tariff exactly the same (when so many other energy companies had raised their prices in the same period), we believe, enhanced our reputation for providing great value to customers. While we paid commissions to price comparison sites and took on customers quickly in 2013, this time round we made the decision to take on customers organically, with no acquisition costs. While this has reduced the number of customers we have gained, it has increased the profitability per customer.

We won over 12,000 new customers accounts between 2nd April and 31st August, when we withdrew the tariff to avoid taking on customers over the winter period. Taking on a new energy customer is always a cash-intensive proposition, since it requires lodging a deposit with our wholesale energy provider. It is particularly so in winter. In winter, customers are, in general, paying for less energy than they actually use, because they are paying a fixed direct debit amount but using more energy than normal (in summer, they generally pay for more energy than they use). Although we have now negotiated improved trading arrangements for energy and can pay lower levels of deposit, the combination of deposits and winter energy usage means that continuing to grow the energy business into the winter would have tied up capital that has been better spent on the final stages of development of our game-changing boiler. We will continue to analyse the energy market over the winter and will make a decision on next year's energy-only growth plans before spring.

## Industry interest grows



Our sales team have continued to target the installer community with great success. We now have over 2,200 installers who have expressed interest in becoming accredited installers of the Flow boiler. Since recommendation of the Flow boiler by installers directly to customers is a primary route to market, this is encouraging. The activity of the sales team has increased our profile in the industry. Exhibiting at events has also helped. Flow exhibited at Phex Manchester, one of the biggest industry events targeting the installer community. Flow's stand attracted a huge amount of interest and our sales team collected the details of over 250 individual plumbing firms representing over 1000 individual heating engineers. As proof that Flow's brand recognition is growing, many installers stated they had heard about Flow on the installer grapevine and had come to the stand specifically to request more information. We intend to exhibit at all major industry events in 2015 and beyond to further increase registrations under our installer programme and our brand exposure.

## Significant PR coverage

While we intend to drive significant levels of media coverage following launch, we have been forging alliances with journalists from a range of publications and releasing some information to begin the process of increasing our profile. We have secured initial coverage in some high profile outlets, including the Daily Mail and BBC Radio. A full list of coverage is shown here. We believe the Flow story has many elements that are interesting to a range of journalists – money saving, green technology, UK innovation, UK jobs – and that, therefore, we may be able to generate significant exposure for our business via PR in 2015.

### PR coverage gained in

- Home.BT.com
- This is Money
- Daily Mail
- Money.aol.co.uk
- uSwitch
- Love Money
- BBC Radio Suffolk
- Renewable Energy Installer
- East Anglian Daily Times
- Liverpool Echo



## European and US testing agreements in place

We now have testing agreements in place for the Flow boiler in both Europe and North America. In Europe, we are working with one of the world's largest energy companies. Conducting this initial test and evaluation of a Flow boiler with a major European energy player, at their facility, supports the objective of launching the Group's unique electricity-generating products across Europe. The market for gas fired heating products in Europe is c.9m units per year according to BRG Building Solutions, with many key markets such as Germany, Italy, France and Netherlands providing incentives and regulations for low carbon heating. This results in attractive market conditions for microCHP in these geographies.

In North America we have partnered with NRG Energy, a Fortune 250 company with considerable vision for the energy businesses of the future and one which has already demonstrated leadership in this sector. The purpose of the trial is to assess the Flow boiler for its potential for commercialisation in the USA. The companies will now commence a planning and preparation phase for the trial in advance of two Flow boilers being delivered for evaluation to begin. The trial units will be deployed in a dedicated facility in Texas. The evaluation will examine the performance characteristics and the various heating applications together with installation and service requirements for the product in the US market. The testing is planned to take place in three stages and be completed in the Spring of 2015. During the final stage Flowgroup and NRG Energy will assess the potential for commercialisation before deciding whether or not to progress to the planning of a subsequent commercialisation in the US.

The US has 79.5 million natural gas connected homes with the average annual gas consumption 46% greater than the UK average. In addition, the electricity price is three times higher than natural gas prices in twenty states. Flowgroup therefore believes that the market and economics for microCHP are attractive in the US.

## Flow Battery nominated for IET Innovation Award



Flow Battery's already award-winning technology has been nominated for another – they are a finalist in this year's Institution of Engineering and Technology (IET) Innovation Awards, in the Sustainability Innovation category. The finalists for these prestigious awards have been chosen from over 400 entries. The awards celebrate the very best in British engineering and we have our fingers crossed for the Flow Battery team for the 19th November.

## Heads of Terms agreement signed with Mears



In August, Flow signed a Heads of Terms agreement with Mears Group for the provision of national surveying, high volume installation and managing agent services and aftercare for Flowgroup's game-changing microCHP boiler. Mears repair and maintain over 700,000 social homes across the UK. It is intended that Mears will provide nationwide coverage for installation of the Flow boiler, as well as ongoing servicing and maintenance 24/7, 363 days a year under an extremely competitive servicing package to Flowgroup's customers. Flowgroup believes that Mears' extensive network of experienced engineers, working alongside the Company's previously announced installation partners, will allow the provision of a high quality installation and support services and will give the Company the capacity to compete with the largest boiler providers in the UK. Since signing this agreement, the Flow and Mears teams have been working closely together to map installation resource and plan extensively for January's launch.



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 February 2015.