

Epiris' investment in Nuair

The Epiris logo consists of the word "epiris" in a white, lowercase, sans-serif font, positioned within a dark blue triangle that points downwards and to the right.

The Deal

In 2007, Epiris invested £23 million in the £73 million buyout of Nuair.

The Business

Nuair, headquartered in Caerphilly in south Wales, is one of the UK's leading manufacturers of energy-efficient domestic and commercial ventilation systems. Its innovative products help customers to reduce their energy consumption and carbon emissions and are used in all types of commercial and residential buildings in the UK and around the world.

Investment rationale and strategy

The business had grown strongly in the years prior to our investment, with compound sales and profits growth of 9% and 10% respectively.

The plan was for a continuation of this performance as a result of the company's differentiated positioning within an industry which was experiencing regulatory-driven growth.

This differentiation had been achieved by a focus on market-leading delivery and product quality; on speed to market with new product development; and on developing a specification-led sales approach which ensured that Nuair's products were designed into building projects from an early stage.

Market growth was being driven by the increasing focus on energy efficiency. This had resulted in a tightening of the UK's building regulations in order to reduce energy wasted by heating commercial and residential buildings through better insulation, which in turn required improved ventilation to ensure indoor moisture control and air quality. A series of UK and EU legislative steps have supported ventilation market growth of 8% p.a. since 2006.

Business growth

During the period of our ownership, Nuair's profits grew at a compound rate of 10% per annum. This has resulted from the company successfully capitalising on fundamental, long-term growth drivers.

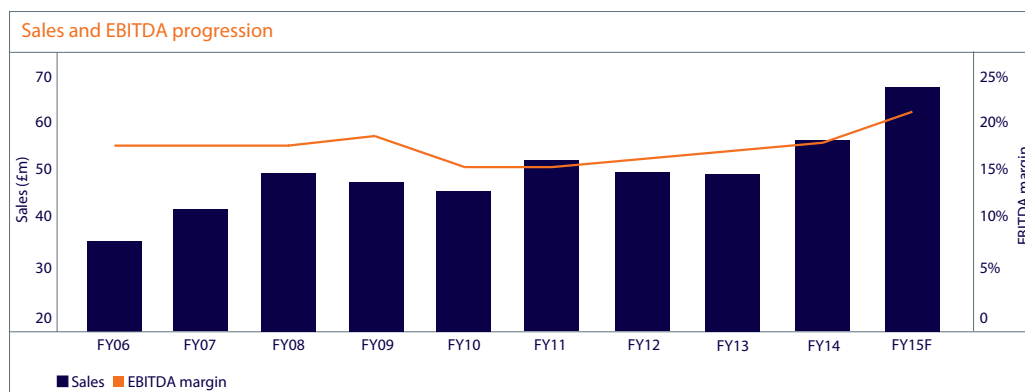
The challenge of constructing more energy-efficient, and so increasingly tightly-sealed, buildings while maintaining indoor air quality has resulted in ventilation systems becoming more complex, incorporating heat recovery technology and, sophisticated controls to reduce energy usage and system losses. It has also driven technology convergence, with an increasing number of HVAC functions being integrated into a single unit.

Nuair has been at the forefront of these developments in the UK. Its technical expertise and track record of engineering innovation have enabled it to launch new products before its competitors, its development skills have enabled it to innovate in areas such as heat recovery, acoustic performance and integrated controls.

Nuair has also successfully grown internationally, its core export markets are in the Middle East and Continental Europe, where building regulations have increasingly been standardised in line with the UK's.

Moreover this growth has been achieved against the backdrop of a construction industry downturn between 2008 and 2012. Nuair's positioning enabled it to outperform the broader ventilation market and meant that it was well-placed for an acceleration in financial performance as the construction industry recovered after 2012.

The Nuair logo features the word "nuair" in a blue, lowercase, sans-serif font, with a blue swoosh or underline that curves under the letters.



Epiris' role

Having had originally identified an opportunity to participate in regulatory-driven growth in the ventilation market in 2006, we identified Nuair as a platform in which we could take an equity interest to benefit from the same growth theme.

In structuring the transaction, a prudent approach to leverage was taken, which meant that the business was able to trade through the recession without becoming financially stressed. Our flexible capital enabled us to adjust its time horizons as the construction cycle softened. This allowed it to develop a strategy to invest in product development and manufacturing capacity during the downturn to create growth momentum in the recovery.

Having created an attractive growth in profits, we initiated and managed a sales process involving both private equity and strategic buyers. This resulted in the business being sold well, at the right time, with the benefits of competitive tension.

Outcome

In August 2015 the interest in Nuair was sold to Polypipe Group plc, a London Stock Exchange-listed manufacturer of plastic piping systems, in a transaction with an enterprise value of £145 million, equivalent to a total return of 3.8x original cost and an 18% IRR.

Earnings growth created favourable conditions for an exit process and drove 45% of the realised profit; strong cash generation contributed 43% with the remainder resulting from the increase in the multiple of earnings at which the company was sold:

