

# Our marketplace

Flowtech Fluidpower plc, is the UK's leading specialist supplier of technical fluid power products. Employing over 300 people, the Group has established a key position in the fluid power supply chain with a focused product range in three main categories:

- Pneumatics (products that enable the use of gases to provide mechanical motion)
- Hydraulics (products that enable the use of fluids to provide mechanical motion)
- Industrial hose (products and accessories that act as conduits for gases and liquids)

The focus on core competencies within the fluid power market has been central to our success and this focus will support the Group's long term strategy. The Flowtech Group continues to deliver and develop its added value services to support its customers through organic development of its product ranges and acquisition of complementary businesses.

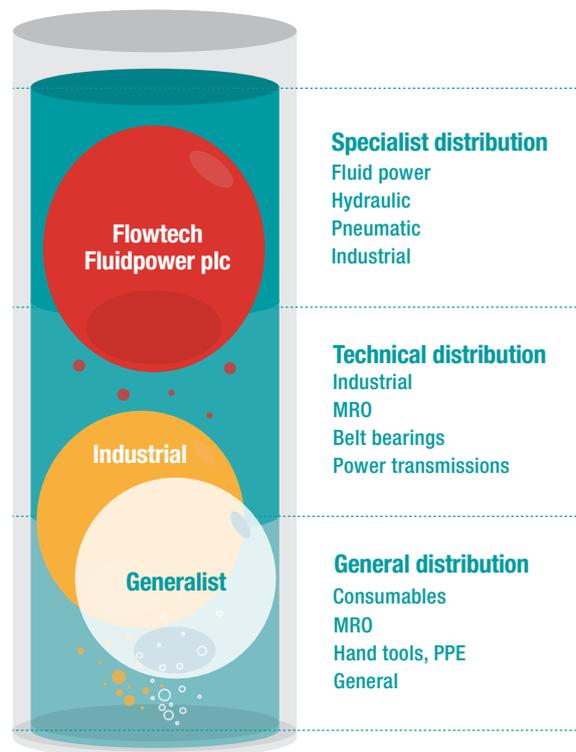
All three of the Group's divisions have overlapping product sets, allowing procurement synergies to be exploited.

Flowtech Fluidpower is focused on being a specialist products and services provider. Our aim is to exploit our position and become the market leader in the specialist fluid power sector.

The Flowtech Group is developing both strength and depth across its product portfolio, customer reach and, following recent acquisitions, it has been able to widen the geographical areas and the industrial fluid power markets it serves. We continue to develop a theme based on being a "specialist" rather than a "generalist" and the margin opportunities this allows.

Since joining AIM in 2014 the Group has:

- Expanded its portfolio through the launch of over 10,000 new lines across existing and new product categories
- Completed seven acquisitions: Primary, Albroco, Nelson, Indequip, Hydravalve, TSL and HTL
- Established three clearly-focused divisions: Flowtechnology, Power Motion Control and Process
- Developed new strategic sales refinements and data processing resources which will deliver improved operating efficiencies across the organisation in the long term



## Our competitive edge in the market place

- Unique position within the fluid power supply chain
- Scale – one-stop shop supplier, access to over 500,000 products
- Aligned with both the global supply base and the distributor network
- Global brands complemented by Exclusive Brands
- Bespoke fully integrated trading platform and IT systems
- Dedicated distribution and logistics centres
- Technical 'know-how' and high service levels
- Multi-channel development strategy, extended through to OEM and end users
- Strong acquisition strategy

## MACROECONOMIC LANDSCAPE AND BREXIT

The Group has shown its resilience during recent economic turbulence focused around the Brexit vote and still delivered growth through careful planning and stock buying and its strong relationships with both customers and suppliers. As our acquisition programme continues the Group continues to broaden its markets and is not overly exposed to any one customer or sector.

## OUR KEY TRENDS

The British Fluid Power Association (BFPA) economic forecast is predicting continued growth, albeit slow, in the UK hydraulic and pneumatic markets with an average annual growth rate of 2.4% for hydraulics and 1.8% for pneumatics during 2017 to 2020. This is a reduction from last year's forecasts of 2.5% hydraulic and 3.0% pneumatic, with hydraulics been expected to suffer from the knock-on impact of oil prices in sensitive industries such as automotive. Positive factors in the UK economy include the strength of the service sector as customer demand remains robust and strong export opportunities whilst currency weaknesses improve the UK's competitiveness.

# £176m

Estimated UK pneumatic equipment market

# £605m

Estimated UK hydraulic component market

# £169m

Estimated UK export market

# £617m

Estimated UK export market



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## Pneumatic

Traditionally the pneumatics market has been more resilient to downward global trends than hydraulics and was expected to show some growth, however the BFPA are now expecting a much slower rate of growth, mainly due to reduced automotive spending in the UK. However, the BFPA are predicting growth in the food processing industry which is a core sector for the Group's new Process division. UK pneumatic distributors have performed above industry expectations and this trend is expected to continue through the next four years.

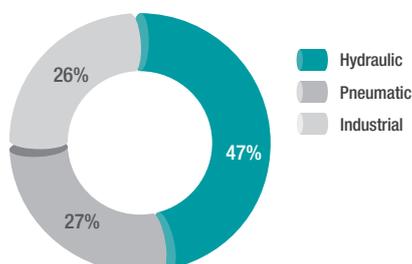
## Hydraulic

As with the pneumatic sector the BFPA are now expecting a much slower rate of growth remaining at 2.2% until 2020. The impact of Brexit uncertainty is expected to affect the UK domestic construction market for the next few years. Offsetting this there are indications of increased government infrastructure spend which will boost demand for industrial hydraulics. Whilst the Chinese economy and demand for imports has shown a slowdown in 2016 they are expecting to start increasing imports of construction and off road machinery this year, a key sector for our PMC division. Like the pneumatic sector, hydraulic distributors continue to perform above industry expectations and this trend is expected to continue, particularly where MRO services are offered.

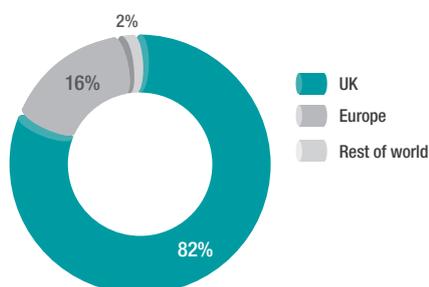
## Industrial

The Group has a wide and varied customer base which in turn services an extensive range of industrial sectors, spreading the risk of adverse market conditions. The engineering sector is predicted to experience slower growth rates than the first half of the decade, but is expecting growth in key pneumatics-using sectors. In contrast, the construction sectors, of residential, non-residential and civils are all demonstrating a positive outlook supported by ongoing government initiatives. Extensive projects such as Crossrail and the likely upcoming expansion of London's airport capacity should ensure that transportation construction will remain robust over the coming years. This has direct benefits to the PMC and Process divisions and FTUK is impacted indirectly through its customer base.

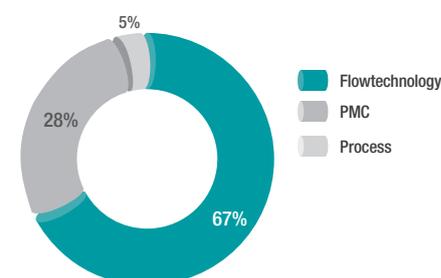
Sales split by sector



Sales split by area



Sales split by division



# Our marketplace continued

## Our supply chain

### Supplier relationships

The Group prides itself on building long-standing partnerships with its OEM suppliers and has significantly improved its Parker Hannifin product offering through two new ranges: Parker Triple-Lok™, a fluid conveyance tube fitting and Parker Fluid Control Solenoid Valves. Parker Hannifin is one of the largest motion control technology companies in the world and operate in sectors including aerospace, climate control, electromechanical, filtration, fluid and gas handling, hydraulics, pneumatics, process control, sealing and shielding. FTUK are extremely pleased to be working with Parker Hannifin on these ranges. The addition of Indequip has brought their lengthy relationship with Metal Work Pneumatic products; Indequip are the UK and Ireland's biggest distributor of Metal Work products.

Whilst the Group aims to exploit procurement synergies wherever possible as we grow by acquisition, individual business units still operate independently in purchasing decisions. Group benefits are still achievable in this situation; Hydravalve have negotiated significantly improved prices since acquisition due to supplier consolidation and overlapping product set.

### Exclusive brands

The Group constantly looks to optimise its product offering. The business therefore nurtures its relationships with UK and European OEM suppliers whilst developing its complementary Exclusive Brands. The ability to develop and extend the range of Exclusive Brands in line with industry requirements has been accomplished by developing stronger relationships and working closely with the Far East supply base. This ensures targets in consistency of quality, high technical specification and product performance are achieved. Two new Exclusive Brands were launched in 2016, bringing the total to 28.

### Strategic procurement

Recognising the importance of our Far East supply base we have established a small logistics facility in Guangdong province, Southern China, this is the first step in a long term plan to extend resources in the region and support future growth across the Group. This will facilitate a more efficient stockholding strategy in time reducing the UK footprint and cost base, and streamline the overall Far East supply chain.

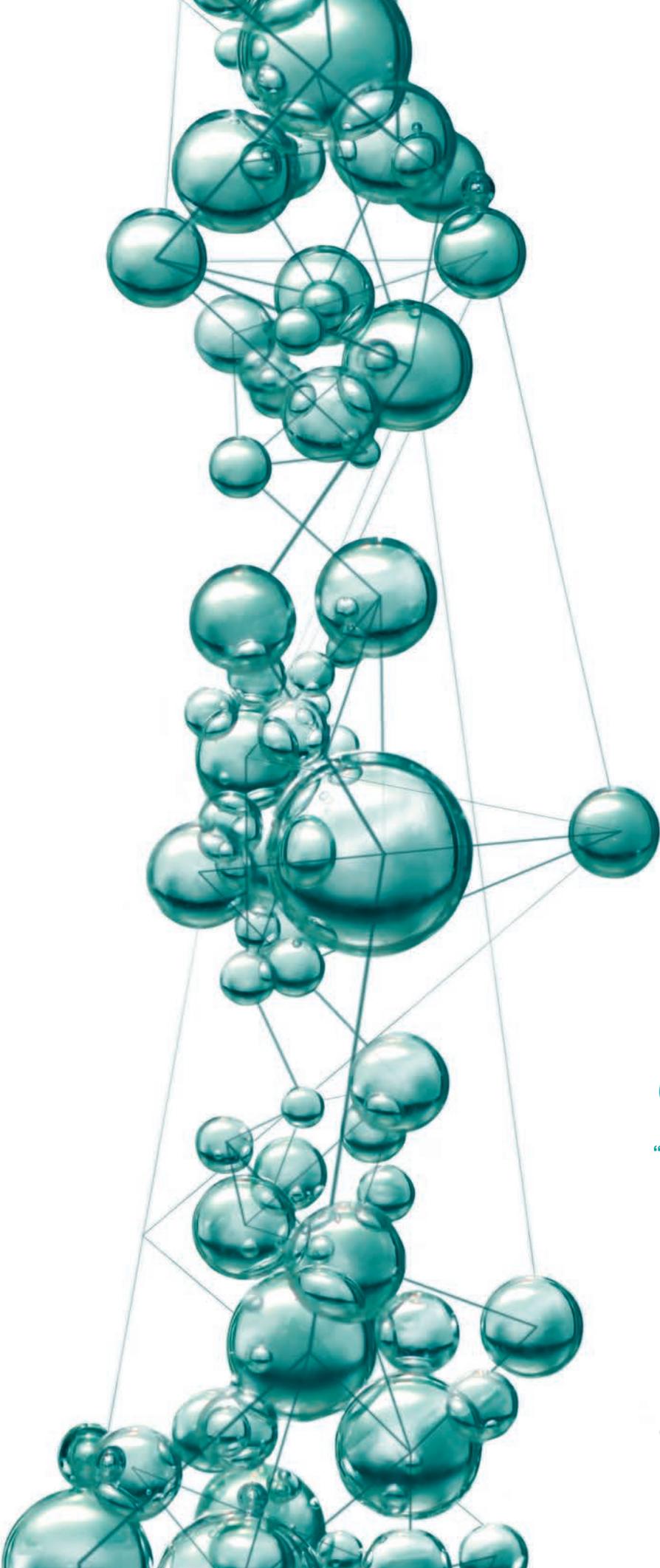
We have a small team based in Shanghai who visit existing suppliers to review quality control procedures and visit potential new suppliers to check that they reach the required standard expected by the Group. They support a Group Strategic Buying Team which includes representatives from each division. Their aim is to ensure that our supply base operates on the same principles that drive the Flowtech Fluidpower Group and to ensure the ability of these suppliers to deliver "Excellence" in both supply chain and manufactured product. The Group Strategic Buying Team are fully involved in the Group quality control process and work closely with our chosen suppliers to develop and improve the product quality and ranges they supply.

The Group Strategic Buying Team visits the Far East twice a year with additional visits by individual buyers in specific product areas as and when required. The aim of these visits is to set and monitor a programme of continuous improvements with existing suppliers and to seek out new suppliers that will fit the Group purchasing requirements.

### Modern Slavery Act

We do not use child labour, nor do we use forced labour. We make regular supplier visits worldwide to ensure our supply chain maintains the same standards of integrity and is free from modern slavery.





“We believe that the result achieved is further justification that our focused approach in maintaining strong gross margins, while developing market share and commercial synergy by acquisition, is creating an expanding and resilient platform for long-term profitable growth.”

**Bryce Brooks**  
Chief Financial Officer