

Europe's leading floorcoverings distributor

Final Results Presentation
For the year ended 31 December 2019



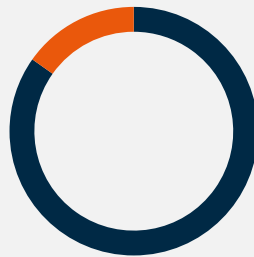
About Us

2019 Revenue



■ Residential sector
63.7%

■ Commercial sector
36.3%

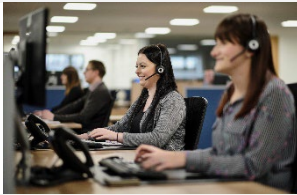


■ UK
84.8%

■ Continental Europe
15.2%

Leading for

28 years



Supplier
countries

19



Employees

2,575



Distribution hubs
and centres

23



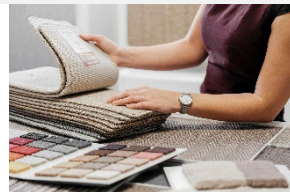
Businesses

66



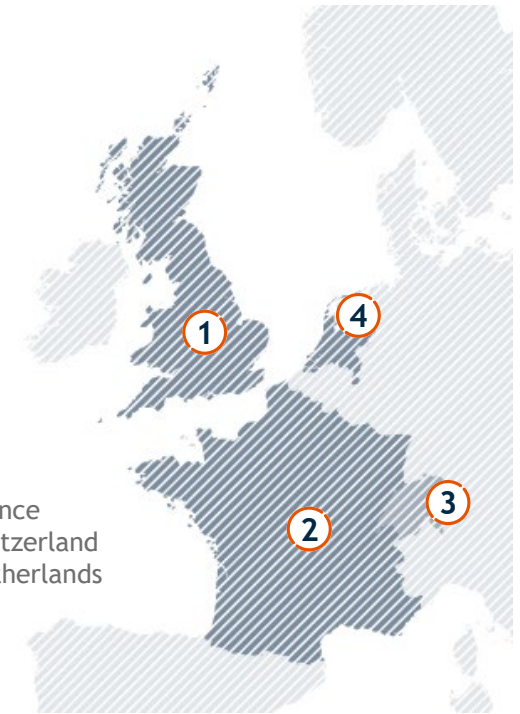
Active customer
accounts

70,458



Countries of operations

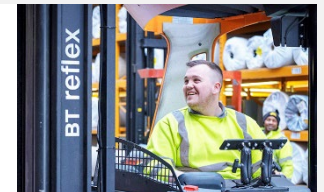
4



1. UK
2. France
3. Switzerland
4. Netherlands

Customer orders
processed

5.3m



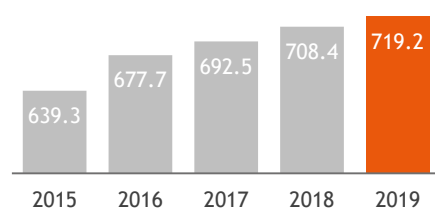
Full Year 2019¹

Financial Track Record (5 years)

Revenue

£719.2m +1.5%

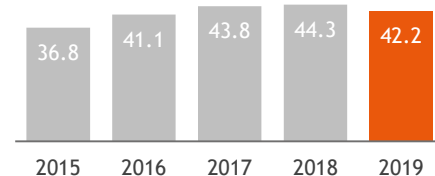
(2018: £708.4m)



Underlying² operating profit

£42.2m -4.8%

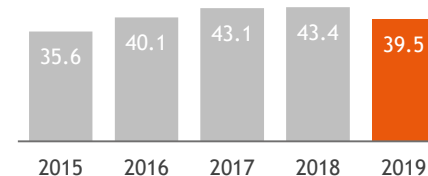
(2018: £44.3m, not restated*)
Statutory operating profit £38.3 million
(2018: £41.3 million, not restated*)



Underlying² profit before tax

£39.5m -9.1%

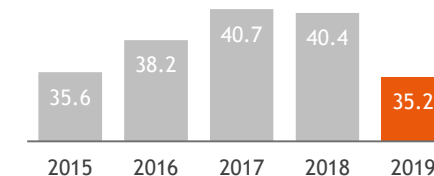
(2018: £43.4m, not restated*)



Statutory profit before tax

£35.2m -13.0%

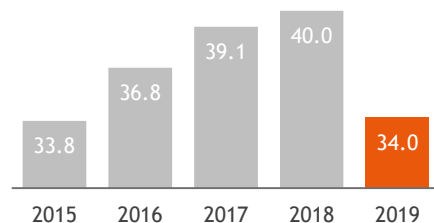
(2018: £40.4m, not restated*)



Statutory basic earnings

34.0p per share -15.0%

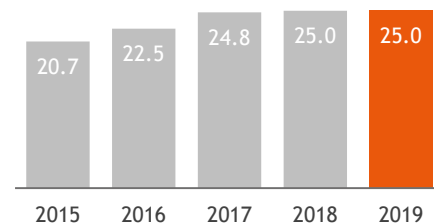
(2018: 40.0p, not restated*)



Total ordinary dividend

25.0p Maintained

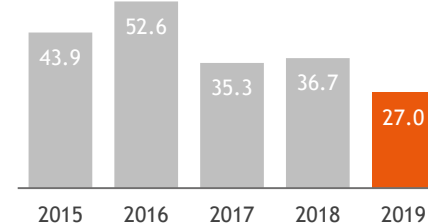
(2018: 25.0p)



Net cash position

£27.0m -26.4%

(2018: £36.7m)



¹The final results for the year ended 31 December 2019 have been prepared in accordance with International Financial Reporting Standards and, therefore, reflect the new IFRS 16 'Leases' accounting standard ('IFRS 16') effective for financial periods beginning on or after 1 January 2019. As the Company has adopted the modified retrospective approach, there has been no restatement of the comparatives for the 2018 reporting period. The impact on the Company's financial statements is summarised in the Chief Executive's Review and Financial Review and impacts the Income Statement, Cash Flow Statement and Statement of Financial Position. There is no overall impact on the Company's cash and cash equivalents.

²Underlying is before non-underlying items which includes amortisation of acquired intangible assets, impairment of goodwill, acquisition related fees and associated restructuring costs, movements in deferred and contingent consideration, finance costs on deferred and contingent consideration, non-recurring pension costs in relation to guaranteed minimum pension ('GMP') equalisation, and non-recurring costs relating to senior personnel changes.

2019 Financial Highlights¹

Results in-line with January 2019 guidance

- Revenue increased by 1.5% to £719.2 million (2018: £708.4 million) despite a soft market backdrop and weakness in the UK residential sector
- Like-for-like² revenue increased by 0.3% and 3.2% in the UK and Continental Europe respectively, resulting in an overall like-for-like² revenue increase of 0.7%
- Gross margin of 31.9% (2018: 32.3%) was fairly resilient despite the expected shift in business mix towards the commercial sector as a result of market conditions
- Underlying³ distribution costs and administrative expenses were marginally up at £187.3 million (2018: £184.8 million, not restated), and flat as a proportion of revenue (2019: 26.0%; 2018: 26.1%)
- Underlying³ operating profit of £42.2 million (2018: £44.3 million, not restated) and statutory operating profit of £38.3 million (2018: £41.3 million, not restated) were lower than 2018 and in-line with guidance given in January 2019
- Underlying³ profit before tax of £39.5 million (2018: £43.4 million, not restated) and statutory profit before tax of £35.2 million (2018: £40.4 million, not restated)
- Cash generation remained strong, with cash generated from operations representing 146% of statutory operating profit, equating to 107% (2018: 121%, not restated) after adjusting for the IFRS 16 lease principal repayments
- Net funds of £27.0 million at year-end (2018: £36.7 million) following an increase in net cash outflows, including £13.4 million outflow on new Ipswich regional distribution centre
- Final ordinary dividend maintained at 17.45 pence per share (2018: 17.45 pence per share) giving a full year dividend of 25.00 pence per share (2018: 25.00 pence per share), in-line with previous guidance

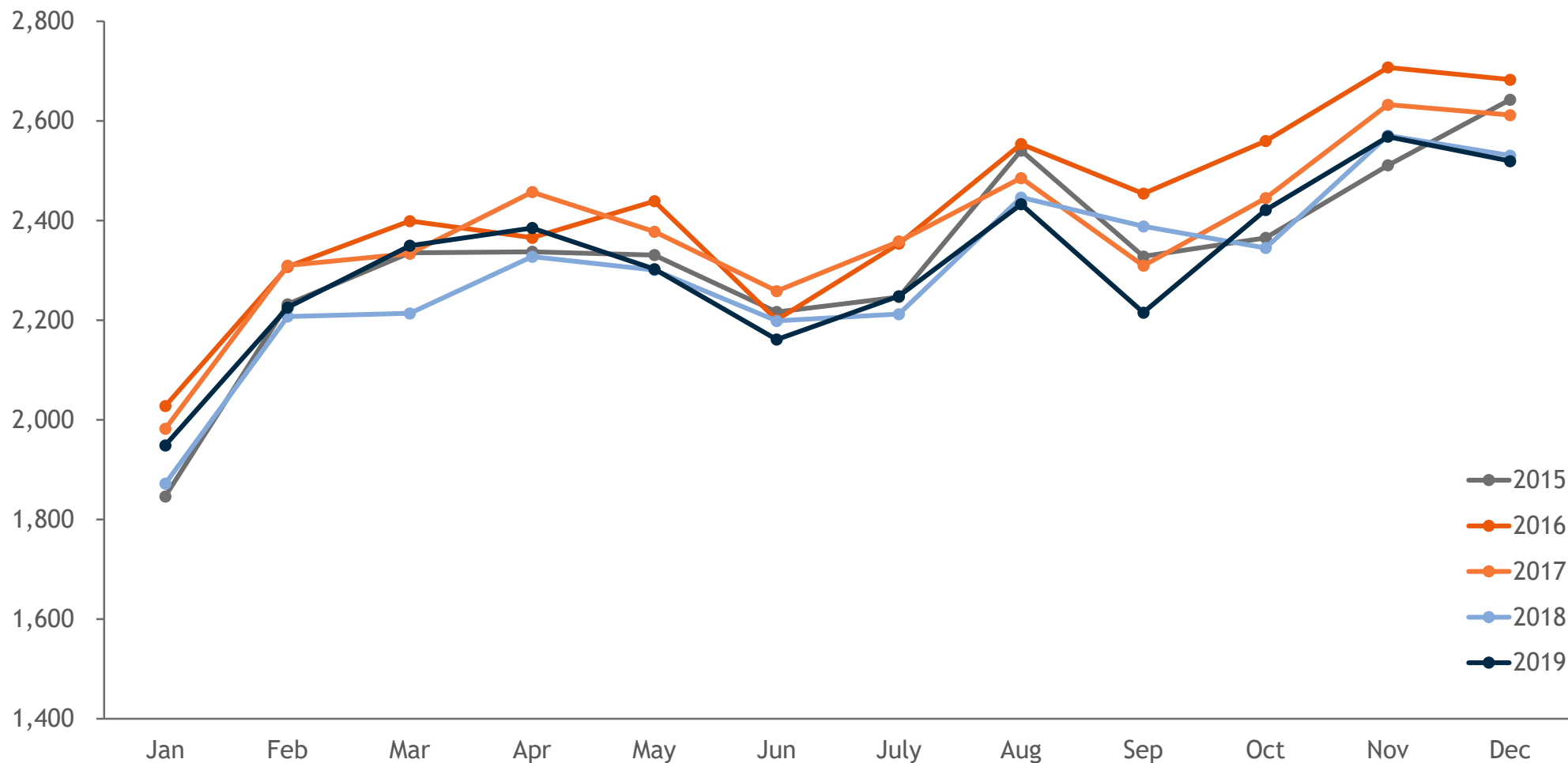
¹ Per disclosure on page 2

² Like-for-like revenue is calculated based on constant currency from activities and businesses that made a full contribution in both the 2019 and 2018 periods and is adjusted for any variances in working days.

³ Underlying is before non-underlying items which includes amortisation of acquired intangible assets, impairment of goodwill, acquisition related fees and associated restructuring costs, movements in deferred and contingent consideration, finance costs on deferred and contingent consideration, non-recurring pension costs in relation to guaranteed minimum pension ('GMP') equalisation, and non-recurring costs relating to senior personnel changes

2019 UK Distribution Businesses Daily Sales*

£k Sales



2019 Income Statement

	2019 £000		2018 £000		Variance 2019 v 2018
Revenue	719,237	100.0%	708,423	100.0%	1.5%
Cost of sales	(489,825)	68.1%	(479,349)	67.7%	2.2%
Gross Profit	229,412	31.9%	229,074	32.3%	0.1%
Distribution costs	(135,738)	(18.9%)	(134,316)	(19%)	1.1%
Administrative expenses	(51,520)	(7.1%)	(50,485)	(7.1%)	2.1%
Operating profit	42,154	5.9%	44,273	6.2%	(4.8)%
Net finance costs	(2,694)	(0.4%)	(884)	(0.1%)	204.8%
Underlying profit before tax	39,460	5.5%	43,389	6.1%	(9.1)%
Non-underlying items	(4,291)	(0.6%)	(2,942)	(0.4%)	45.9%
Statutory profit before tax	35,169	4.9%	40,447	5.7%	(13.0)%
Basic earnings per share - pence	34.0p		40.0p		(15.0)%
Interim dividend - pence	7.55p		7.55p		
Proposed final dividend - pence	17.45p		17.45p		
Total dividend in respect of 2019 - pence	25.0p		25.0p		

2019 Revenue Movement

		£000 UK	£000 Europe	£000 Total
Revenue for the year ended 31 December 2018		604,150	104,273	708,423
	<i>Split</i>	85.3%	14.7%	
Incremental items during the 12-month period to 31 December 2019:				
Like for like organic growth		1,897	3,157	5,054
	<i>LFL</i>	0.3%	3.2%	0.7%
Acquisitions		6,591	2,562	9,153
Working day and translation effect		(2,396)	(997)	(3,393)
Revenue for the year ended 31 December 2019		<u>610,242</u>	<u>108,995</u>	<u>719,237</u>
	<i>Split</i>	84.8%	15.2%	

2019 Movement in Net Expenses

	Total Expenses £000		Distribution £000		Administration £000	
Expenses for 2018	187,743		134,316	71.5%	53,427	28.5%
Significant movements in 2019:						
People cost	136	3.9%	1,185	78.4%	(1,049)	(52.2)%
Vehicle expenses	(1,564)	(44.4)%	(1,651)	(109.2)%	87	4.3%
Legal and professional fees	1,191	33.8%	-	-	1,191	59.2%
Occupancy Costs	626	17.8%	-	-	626	31.1%
Effect of acquisitions	1,888	53.6%	1,247	82.4%	641	31.9%
Impact of IFRS 16	(1,116)	(31.7)%	-	-	(1,116)	(55.5)%
Other	1,420	40.3%	731	48.4%	689	34.2%
Underlying sub total	2,581	73.2%	1,512	100.0%	1,069	53.1%
Non-underlying	943	26.8%	-	-	943	46.9%
Total before currency translation	3,524	100.0%	1,512	100.0%	2,012	100.0%
Currency translation	(124)		(90)		(34)	
Expenses for 2019	191,143		135,738	71.0%	55,405	29.0%

2019 Underlying Operating Profit Movement

	£000
Underlying operating profit 2018	44,273
Gross margin improvement	
Volume benefit	532
Mix change	(660)
Pricing benefit	(1,174)
Anticipated trade creditor settlement discount	(1,049)
Effect of acquisitions	<u>2,689</u>
	338
Expense movement	
Distribution	(175)
Administration	(394)
Effect of acquisitions	<u>(1,888)</u>
Total increase	<u>(2,457)</u>
Underlying operating profit 2019	42,154

2019 Non-Underlying Items

	2019 £000	2018 £000
Impairment of goodwill	2,100	-
Amortisation of acquired intangibles	1,424	1,763
Acquisitions related fees	686	513
Release of contingent consideration	(325)	(1,384)
Finance cost on deferred and contingent consideration	406	-
Non-recurring people costs	-	836
GMP equalisation	-	1,214
	<u>4,291</u>	<u>2,942</u>

IFRS 16 and Adjustments Recognised on Adoption

Impact on the income Statement	Financial year ended 31 December 2019	
	Under new standard £000	Under previous standard £000
Costs charged to operating profit	15,260	16,375
Interest expense	1,688	-
Total costs charged to the income statement	16,948	16,375
Net impact and effect on statutory basic earnings per share	573	0.6 pence

Impact on the Statement of Financial Position	As at 1 January 2019
	£000
Operating lease commitments as disclosed at 31 December 2018	50,436
Additional liabilities on adopting IFRS 16	4,065
Discount effect	(4,673)
Lease liability recognised at 1 January 2019	49,828
Of which current liabilities	13,930

2019 Cashflow Movement

	2019 £000	2018 £000
Net cash flow from operating activities		
Profit before taxation	35,169	40,447
Depreciation, amortisation and impairment	8,898	7,038
Depreciation of right-of-use asset	15,260	-
Profit on sale of property, plant and equipment	(60)	(50)
Net finance cost	3,100	884
Share-based payments	807	1,478
Working capital changes	(7,213)	209
Cash generated from operations	55,961	50,006
Interest paid	(3,407)	(1,426)
Tax paid	(8,289)	(7,789)
Pension contributions	-	(747)
Net cash from operating activities	44,265	40,044
Net cash flow from investing and financing activities		
Acquisition of subsidiaries net of cash acquired	(4,448)	(9,141)
Repayment of acquired borrowings on acquisition	-	(435)
Acquisition of property, plant and equipment	(15,777)	(4,384)
Share movements	825	(4,764)
Net movement on borrowings	(229)	211
Dividends paid	(20,941)	(20,969)
Principle elements of lease payments	(14,880)	-
Other	987	1,004
Net increase/(decrease) in cash	(10,198)	1,566

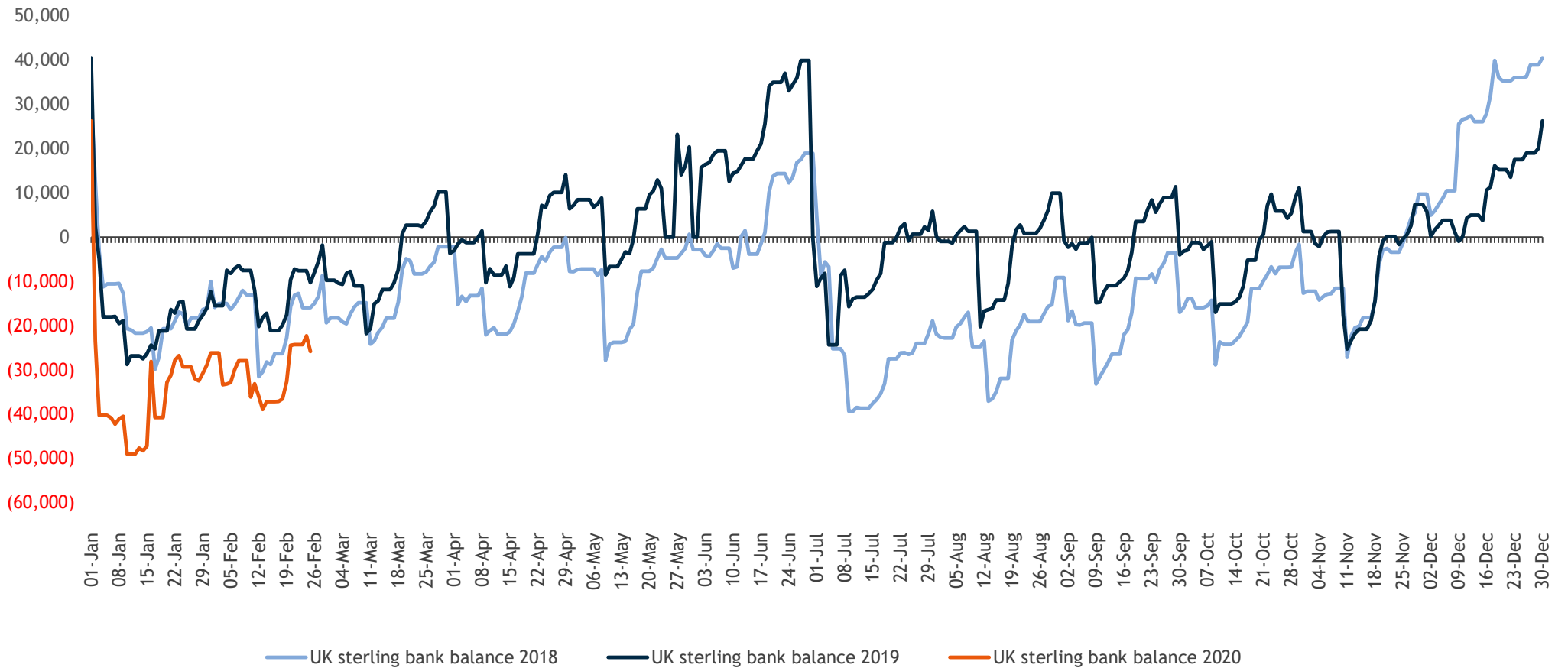
Balance Sheet as at 31 December 2019

	2019 £000	2018 £000
Non-current assets		
PPE	114,573	102,048
Right of use assets	43,865	-
Intangible assets	48,514	50,924
Deferred tax assets	692	516
	<u>207,644</u>	<u>153,488</u>
Current assets		
Inventory	132,474	132,704
Receivable	123,705	119,007
Cash	33,385	44,005
	<u>289,564</u>	<u>295,716</u>
Total assets	<u>497,208</u>	<u>449,204</u>
Current liabilities		
Bank Overdraft	(10)	(221)
Loans	(222)	(236)
Lease liabilities	(13,921)	-
Payables	(181,845)	(181,300)
Tax	(5,037)	(6,730)
	<u>(201,035)</u>	<u>(188,487)</u>
Non-current liabilities		
Other interest-bearing loans and borrowings	(6,201)	(6,805)
Lease liabilities	(30,734)	-
Trade and other payables	-	(2,592)
Provisions	(2,299)	(2,249)
Deferred tax liabilities	(7,608)	(8,063)
Employee benefits	(4,263)	(5,888)
	<u>(51,105)</u>	<u>(25,597)</u>
Total Liabilities	<u>(252,140)</u>	<u>(214,084)</u>
Net assets	<u>245,068</u>	<u>235,120</u>

UK Sterling Net Debt

Daily Balances

£ Thousands



Average net debt in 2019: £3.3 million (2018: £16.9 million)

Our Marketplace and Customer Base

UK Market Value*

£2.1 billion



Our Strategy

Our strategy is to build a successful company, positively impacting all stakeholders, and delivering sustainable long-term value

Mission

Provide our customers with a market leading service with unparalleled product knowledge and solutions across the broadest range of floorcoverings by working in partnership with our suppliers.

Vision

To build on our market leading position by offering excellent customer service and solutions across all areas of the floorcoverings industry, and work with suppliers to support the manufacture and marketing of innovative and sustainable products.

Our Strategic Objectives

Strategic Area		Strategic Objectives		
	Industry position	<ul style="list-style-type: none"> Grow leading position through improved performance and increased sales across all customer groups. 	<ul style="list-style-type: none"> Broaden presence in the industry through growing in underweight product categories, customer groups and market segments. 	<ul style="list-style-type: none"> Ongoing investment in the network and people to support future growth and the sustainability of the Company.
	Operational Performance	<ul style="list-style-type: none"> Roll-out of the operational improvement programme to improve both the operational and financial performance of the Company. 	<ul style="list-style-type: none"> Improve inventory management and product availability, while creating capacity for growth. 	<ul style="list-style-type: none"> Continued collaboration between the Company's businesses and greater network optimisation.
	Customers and Service	<ul style="list-style-type: none"> Continue to improve the customer service proposition through greater insight into the differing customer groups' preferences and requirements. 	<ul style="list-style-type: none"> Continue developing tailored propositions specific to each customer group in both the residential and commercial sectors. 	<ul style="list-style-type: none"> Enhance e-commerce support for customers, including an improved transactional B2B website.
	Product and Expertise	<ul style="list-style-type: none"> Remain leaders in product knowledge and expertise, with improvements in sales force development and CRM systems. 	<ul style="list-style-type: none"> Enhance the product offering through increased product differentiation and exclusivity. 	<ul style="list-style-type: none"> Grow sustainable product offerings and support recyclable products.
	Suppliers	<ul style="list-style-type: none"> Build upon existing partnerships with suppliers through increased engagement and a shared value proposition. 	<ul style="list-style-type: none"> Work with suppliers to improve production scheduling and buying. 	<ul style="list-style-type: none"> Support suppliers in new product development and the marketing of innovative and sustainable products.
	People and Communities	<ul style="list-style-type: none"> Continue to develop a positive workplace culture through colleague engagement, and embed a clear set of values and behaviours in the business. 	<ul style="list-style-type: none"> Focus on the provision of a safe and inclusive working environment where everyone can fulfil their potential. 	<ul style="list-style-type: none"> Reduce the Company's direct environmental footprint including through transport efficiency initiatives and energy efficient technologies.

2019 Operational Highlights

Strategic focus on improving, growing and broadening position within the floorcoverings industry

- Scope of ongoing operational improvement programme enlarged, with the constituent projects designed to grow revenue and improve the customer service proposition, operating performance and margin
 - Roll-out of inventory management and automated stock re-ordering system completed as planned in 2019, with benefits including improved product availability and warehouse capacity becoming increasingly evident
 - Trial successfully completed in 2019 under the transport consolidation project, with phased roll-out stage now commenced ultimately leading to a decrease in the cost to serve
 - New regional distribution centre in Ipswich remains on track, with the facility due to become operational next month at a total cost of approximately £26.0 million
- ISO 45001:2018 accreditation, the world's first international standard for occupational health and safety management, achieved across all 18 UK national distribution hubs and regional distribution centres

Operational Improvement Programme

Designed to grow revenue and improve the customer service proposition, operating performance and margin

- | | |
|---|--|
| <ul style="list-style-type: none">• Scope of ongoing operational improvement programme enlarged | <ul style="list-style-type: none">• 2019: Earlier stage contributions of over £1 million able to offset general non-employee related year-on-year inflationary pressures |
| <ul style="list-style-type: none">• Ongoing implementation and roll-out of constituent projects, with increasing momentum | <ul style="list-style-type: none">• 2020: Additional year-on-year benefit of approx. £1 million will cover additional supporting investment required |
| <ul style="list-style-type: none">• Provides broad foundation for delivery of an improving operating margin | <ul style="list-style-type: none">• 2021 and beyond: Progressive net contributions |

Operational Improvement Programme *continued*

Group procurement approach

- Including in the area of GNFR and extension of commercial and motor vehicle leasing contracts

Inventory management and automated stock-reordering

- Benefits of improved product availability, stock-turn, warehouse capacity and improved supplier production scheduling
- Coleshill: 3.5% improvement in customer availability, 4% improvement on best selling lines

Transport consolidation project

- Focused on more effective delivery fleet utilisation
- Successful trial in South Wales: 21.6% increase in average orders delivered per vehicle per day
- Now commenced phased roll-out stage

Enhanced customer service

- Including better tailored support and fulfilment propositions for different customer groups
- Customer insight work conducted, including customer surveys
- Resource added in the areas of customer engagement and key account management

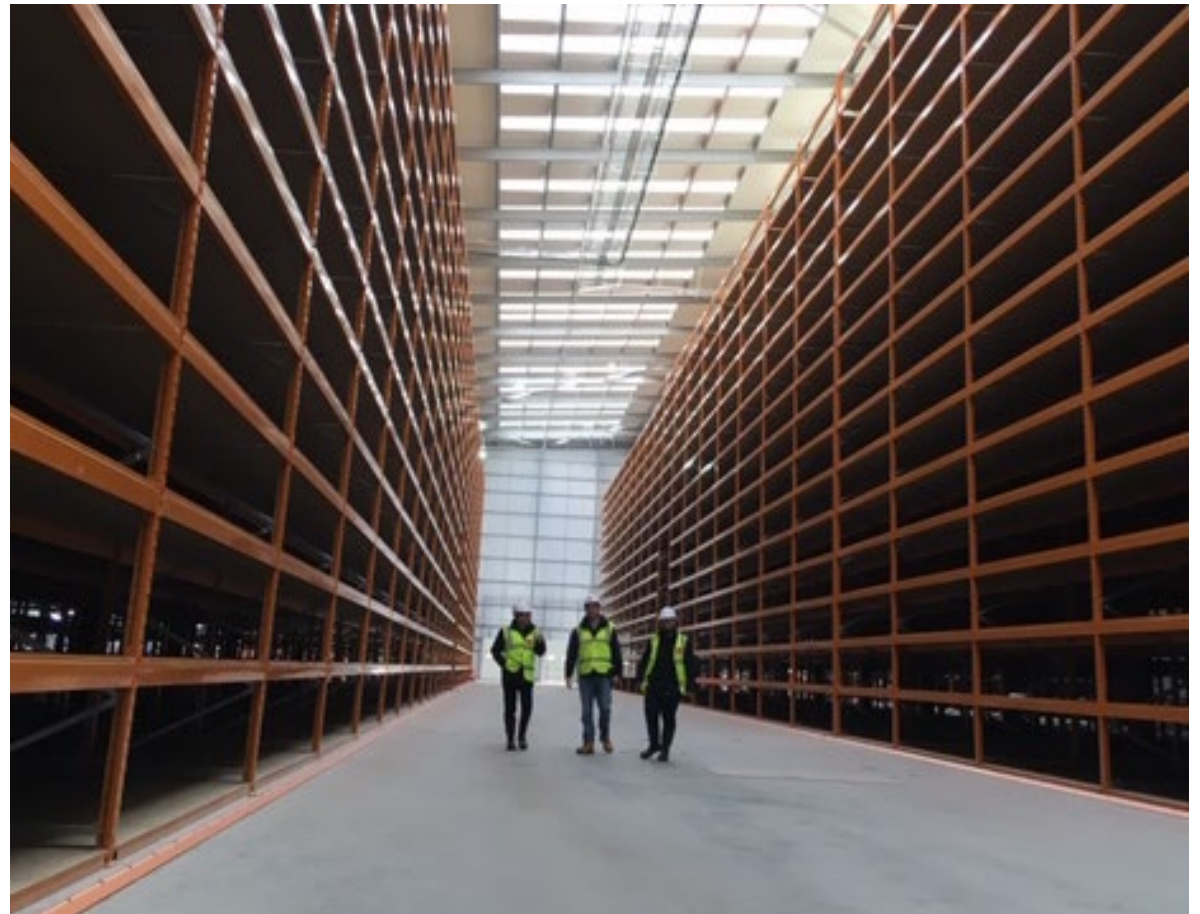
New Ipswich regional distribution centre

- Enabling greater network optimisation and operational efficiency
- Improved customer service throughout the South East
- Expected to become earnings enhancing during 2021

New Ipswich Regional Distribution Centre

Operational in April 2020

- On-track in terms of both cost and timing
- Total capital investment of £26 million, including land cost of £4 million
- Brownfield site
- 190,000 square feet
- State-of-the-art, with 10.6 million cubic feet of capacity
- Creating a significant number of additional jobs in the local area



Corporate Responsibility and ESG

Activities Overview



Independent Health and Safety audit commissioned

An independent Health and Safety audit commissioned, with the resulting recommendations being actioned to strengthen the provision of a safe working environment which positively impacts not only our workforce but also the communities in which we operate.



Voluntary early compliance with SECR scheme

Voluntary early compliance with the UK government's new Streamlined Energy and Carbon Reporting ('SECR') scheme introduced to encourage organisations to become more energy efficient, and engagement with an external energy data collation and verification company to assist in identifying additional energy saving actions.



Introduction of Environmental as a Principal Risk

Enhanced risk assurance activities and introduction of Environmental as an additional Principal Risk in recognition of the critical issue of Climate Change, and to generate a greater focus on our actions in mitigating our direct environmental impact and working as part of the overall floorcoverings industry in reducing its environmental footprint.



Development of a positive workplace culture

Development of a positive workplace culture through new Values and Behaviours workshops, launch and roll-out of apprenticeship schemes to develop skills and aid succession across the business, and establishment of an Employee Forum for employee feedback to be considered directly by the Board.



Greater focus on sustainability

Greater focus on ensuring the long-term sustainability of the business through the acceleration of the operational improvement programme designed to improve operating and financial performance, the customer service proposition, as well as reducing environmental impact through more effective delivery fleet utilisation.

Strategy, Investments and Acquisitions

Strategy to improve, grow and broaden our position within the floorcoverings industry

- Remain underweight in certain product categories, customer groups and market segments
- Presents revenue and margin growth opportunities

Ongoing investment to support future growth and improved operational and financial performance

- Capital expenditure of £18.3 million in 2019
- Substantial level of investment to be continued into 2020, with final tranche of £10 million on Ipswich forming the majority

Acquisitions in support of strategy

- Telenzo, the nationwide UK distribution company for Edel Carpets, completed in October 2019
- Supertex, residential sector distributor based in the North West, completed post year-end
- Continue to monitor targeted pipeline of acquisitions in-line with strategy of growing and broadening presence in the wider industry

Dividend, Current Trading and Outlook

Dividend

- 2019 full year dividend maintained in-line with Board's previously stated intention
- Final ordinary dividend of 17.45 pence (2018: 17.45 pence), giving a full year dividend of 25.0 pence (2018: 25.0 pence)

Current Trading and Outlook

- No direct impact from the spread of Coronavirus to date
- Mitigation plans in place, supported by extensive inventory position (£132.5 million) and large geographical spread of suppliers (190 suppliers in 19 countries)
- Continue to anticipate 2020 financial performance to show a modest improvement compared with 2019 despite trading to date in 2020 being marginally below Board's expectations
- In-line with progressive dividend policy, Board's intention to reflect any increase in 2020 statutory basic EPS in 2020 full year dividend

Appendices



Investment Case

Significant scale and longevity of operations underpinned by capital efficiency, progressive dividend policy, and operational improvement programme to improve performance.

Exposure to future UK economic growth.

Market Leader	<ul style="list-style-type: none"> 28 years of operations, with market-leading position, people and expertise. 	<ul style="list-style-type: none"> Significant scale and market penetration, with centralised resources and multiple businesses. 	<ul style="list-style-type: none"> Increasing sustainability by broadening presence in the industry and growing in underweight product categories, customer groups and market segments.
Financial Strength and Dividend	<ul style="list-style-type: none"> Strong balance sheet and cash generation, with cash generated from operations at 146% of statutory operating profit in 2019. 	<ul style="list-style-type: none"> Net cash of £27.0 million as at period-end, and following capital expenditure of £18.3 million on new Ipswich regional distribution centre and existing network in the period. 	<ul style="list-style-type: none"> Total ordinary dividend of 25.0 pence in 2019, and ongoing commitment to a progressive dividend policy.
Long established Relationships	<ul style="list-style-type: none"> Long-established supplier partnerships, working with 190 suppliers in 19 countries during 2019. 	<ul style="list-style-type: none"> Exceptionally broad and diverse customer base, with 5.3 million orders processed in 2019. 	<ul style="list-style-type: none"> Modest average order value of £136 reflecting RMI spend towards the lower-end of the range, with little reliance on larger projects and new construction activity.
Operational Improvement Programme	<ul style="list-style-type: none"> Comprehensive programme underway to improve operating performance, the customer service proposition and margin. 	<ul style="list-style-type: none"> Early-stage financial contributions able to offset general non-employee related year-on-year inflationary pressures in 2019, with increasing future contributions able to enhance margin. 	<ul style="list-style-type: none"> Improvements to customer service already evident through increased product availability and more efficient delivery operations, which additionally reduces carbon footprint.
Extensive Network	<ul style="list-style-type: none"> Extensive network and inventory supporting the customer service proposition, with inventory position of £132.5 million at period-end and improved management creating growth capacity. 	<ul style="list-style-type: none"> Largely freehold property portfolio underpinning value, with property, plant and equipment assets totalling £114.6 million. 	<ul style="list-style-type: none"> Substantial time and resources required to replicate network and service levels, creating a significant barrier to entry.

Commitment to the highest levels of corporate responsibility and governance further reinforces the Investment Case.

headlam

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