



**headlam**<sup>®</sup>  
group plc

**Trading Update Presentation**  
December 2017

# Presentation Team

**Steve Wilson**  
**Chief Executive**

Appointed Chief Executive in September 2016.

Previously Group Finance Director since December 1991, having been with Headlam since it was established.

Currently Non-Executive Director of Conviviality Plc, a UK wholesaler and distributor of alcohol and impulse products, and previously Non-Executive Chairman of Synergy Health plc, which delivers outsourced services to healthcare providers.

Fellow of the Institute of Chartered Accountants.

**Chris Payne**  
**Chief Financial Officer**

Appointed Chief Financial Officer in September 2017.

Joined from Biffa plc, a leading UK integrated waste management company, where he was Group Commercial Finance Director and responsibilities included overseeing all the operational finance teams and divisional Finance Directors.

Previously at Mitie Group plc, the facilities management and consultancy company.

Qualified Chartered Accountant and a fellow of the Institute of Chartered Accountants in England and Wales.

**Catherine Miles**  
**Director of Communications**

Appointed Director of Communications in January 2017.

Oversees all external and internal communications.

Previously Corporate Broking Director at the stockbroker Arden Partners, where she was an adviser to Headlam.

Worked in Corporate Broking for six years advising, and raising money for, public companies predominately in the small/mid-cap space.

Formerly Corporate Communications Director and Company Secretary at an AIM listed company.

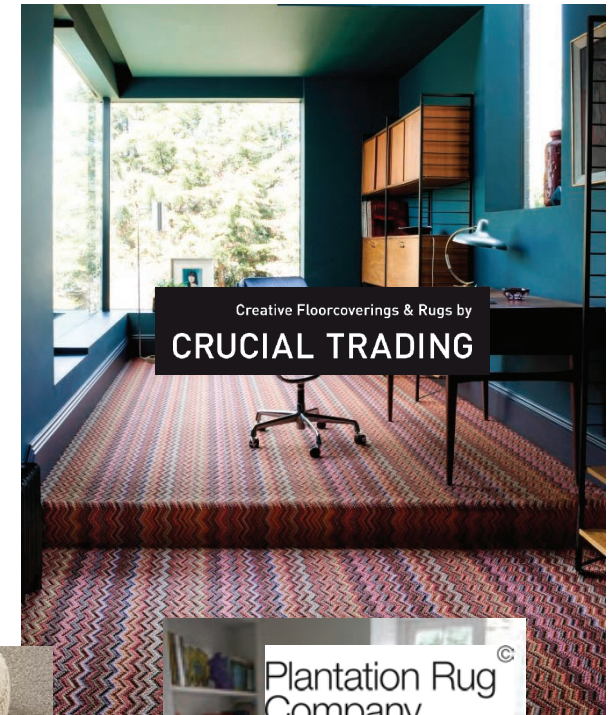
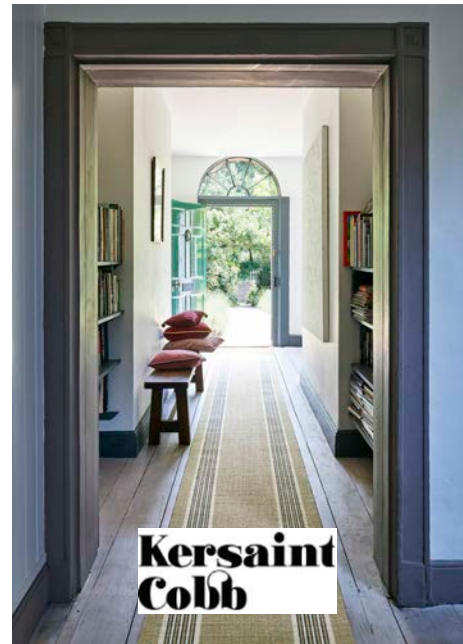


# Company Overview

- Europe's largest distributor of floorcoverings
- Distribution link between suppliers and customers of floorcoverings, linking together a global supplier base and extensive customer base in UK and Continental Europe
- Grown significantly via organic growth and acquisition since 1992, to comprise 62 businesses:
  - > 59 UK and 3 Continental Europe (France, the Netherlands and Switzerland)
  - > Each operate under their own brand and utilise individual sales teams to increase customer penetration
  - > Each benefit from centralised and financial resources
- Engaged with suppliers across 17 countries, whose products cover a significant proportion of the floorcoverings market
- Customers within residential and commercial sectors, comprising principally independent retailers and flooring contractors:
  - > Total revenue split c 68% residential and 32% commercial



# Selected Company Businesses



# Market-Leading Core Business

- High volume of small orders into both the residential and commercial sectors
- Principal customers: independent retailers and flooring contractors
- 5.6 million orders in 2016
- Next day delivery
- Predominantly refurbishment
- Average order cut value in 2016:
  - > Residential carpet £127.44
  - > Residential vinyl £68.03
- More affordable purchase than other RMI (Repair, Maintenance & Improvement) expenditure
- Not reliant on consumer credit

UK revenue by product in 2016

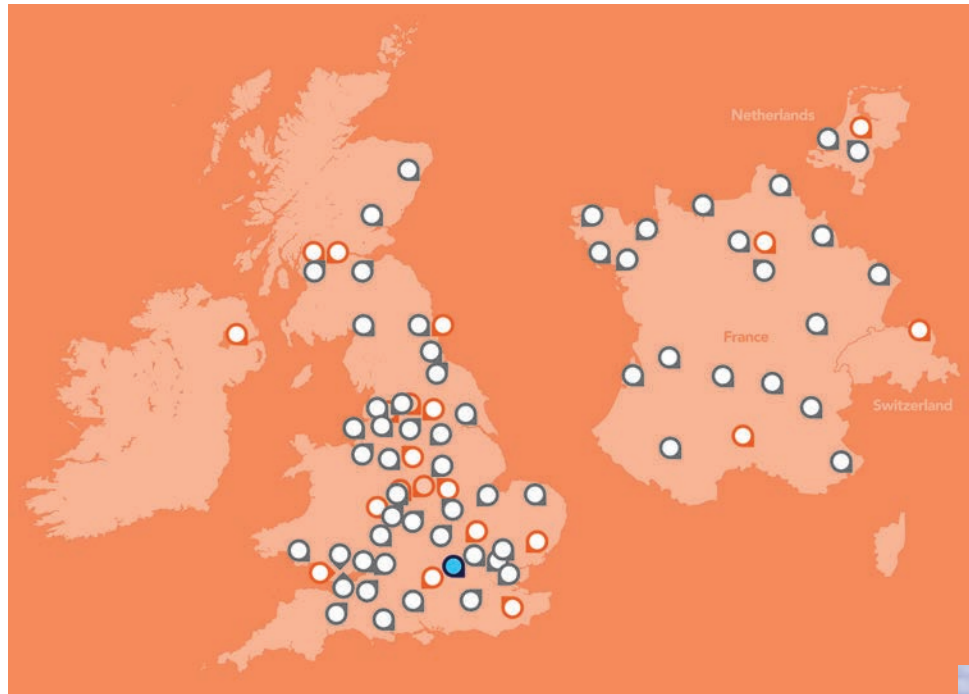


Carpet	36%
Underlay	4%
Carpet tiles	5%
Residential vinyl	9%
Commercial flooring	18%
Adhesive	7%
Wood & Laminates	16%
Miscellaneous	5%



# Extensive Distribution Network

All 22 Distribution Hubs/Centres owned freehold or long-leasehold



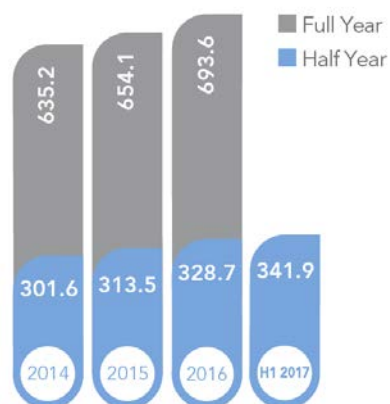
NETWORK	NO.	APPROX. AVERAGE SIZE (cubic feet)
 Distribution Hub	4	6,900,000
 Distribution Centre	18	1,800,000
 Trade Counter	60	90,000
 Corporate Showroom	1	N/A



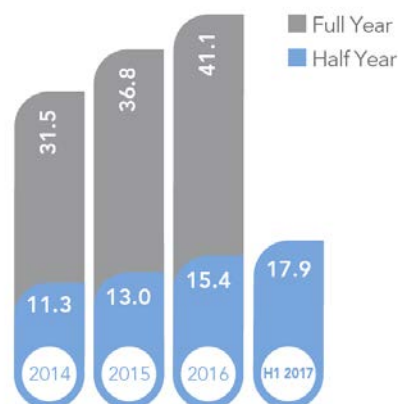
New Trade Counter opened for Wilkies in Darwen, Blackburn

# Financial Track Record

Revenue £million



Underlying\*  
Operating Profit £million



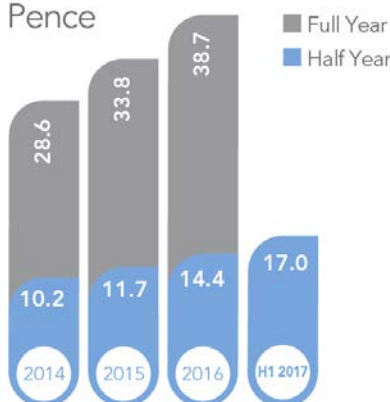
\* Before non-recurring items

Underlying\*  
Profit Before Tax £million



\* Before non-recurring items

Underlying\*  
Basic Earnings Per Share  
Pence



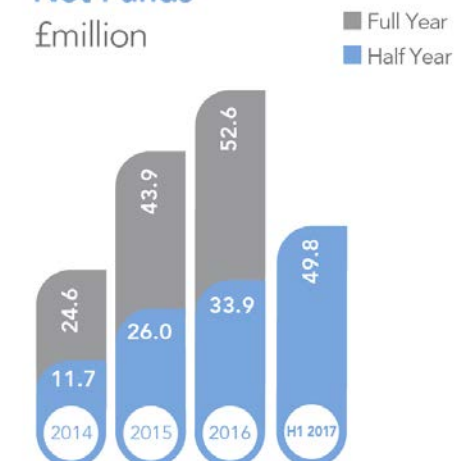
\* Before non-recurring items

Total Dividends  
Declared and Proposed  
Pence†



† A special dividend of 6.00 pence and 8.00 pence was declared in respect of the financial years 2015 and 2016 respectively in addition to the total ordinary dividend

Net Funds  
£million



# H1 2017 Financial Highlights

- Total revenue increased by 4.0% to £341.9 million (H1 2016: £328.7 million)
- UK like-for-like revenue\* growth of 2.1% (H1 2016: 3.4%) and Continental Europe like-for-like revenue\* growth of 3.0% (H1 2016: 2.8%)
- Gross margin improvement of 103 basis points to 31.06% reflecting efficiency initiatives and more effective organisation and streamlining of the Company's businesses' practices
- Profit before tax increased by 11.0% to £16.8 million (H1 2016: £15.1 million)
- Basic earnings per share increased by 12.5% to 16.2p (H1 2016: 14.4p)
- Interim dividend increased by 12.7% to 7.55p (2016 interim dividend: 6.70p), equivalent to the uplift in basic earnings per share
- Net funds of £49.8 million as at 30 June 2017 (£33.9 million as at 30 June 2016)

*\* Like-for-like revenue is calculated based on constant currency from activities and businesses that made a full contribution in both the 2017 and 2016 periods and is adjusted for any variances in working days*



# Gross Margin Initiatives and Improvement

- Focused on delivering gross margin improvement in 2017
- Gross margin returned to historic level of 31% at H1 2017 through implementing various efficiency initiatives and more effective organisation and streamlining of the Company's businesses' practices
- Initiatives undertaken and ongoing include:
  - > Improving stock reordering and management through a more automated process
  - > Reduction in the inventory aged profile
  - > Merging of financial and IT platforms
  - > De-duplication of inventory in locations in close proximity
  - > Warehouse reconfiguration to improve capacity to support growth
  - > Focus on higher margin and exclusive products
  - > Elimination of inconsistent pricing practice coupled with the move towards a more unitised pricing policy

Underlying\* Gross Margin %



\* Before non-recurring items

# Acquisition Strategy

**Recent history** focused on acquiring small, bolt-on and underperforming businesses within Headlam's core area, predominately to achieve greater geographic coverage in UK

**Now** largely refocused on acquiring market-leading, financially strong businesses that:

- Broaden Headlam's overall market position in the industry
- Bring strategic benefit
- Accelerate growth and margin improvement
- Widen geographic coverage and provide UK and International expansion opportunities
- Expand footprint in existing Continental European countries
- Increase / expand presence into certain product lines
- Increase / expand presence into certain market segments

***Good pipeline of current opportunities***

# Domus - Acquisition

UK's leading specification consultant and supplier of hard surfaces for premium construction and refurbishment projects

Core product offering - premium ceramic tiles and engineered flooring (engineered wood, LVT and laminate)

Total revenue split - c 48% residential and 52% commercial

Product specifications and orders achieved by working with architects and interior designers throughout design phase of project

Typical project sales cycle - 15 to 18 months

30 sales people operating from 3 award-winning London specification centres - Clerkenwell, Battersea and W1

Large-scale schemes completed include:

- Battersea Power Station
- Wembley Stadium
- Heathrow Airport, Terminals 2 and 5
- U.S. Embassy in Nine Elms, South London

Financial year ended 31 December 16:



Revenue	EBITDA	PBT	Gross assets	Closing order book	No. of projects completed (approx)	Average order size (approx)
£29.6 million	£4.4 million	£2.9 million	£20.4 million	£7.8 million	3,500	£8,500



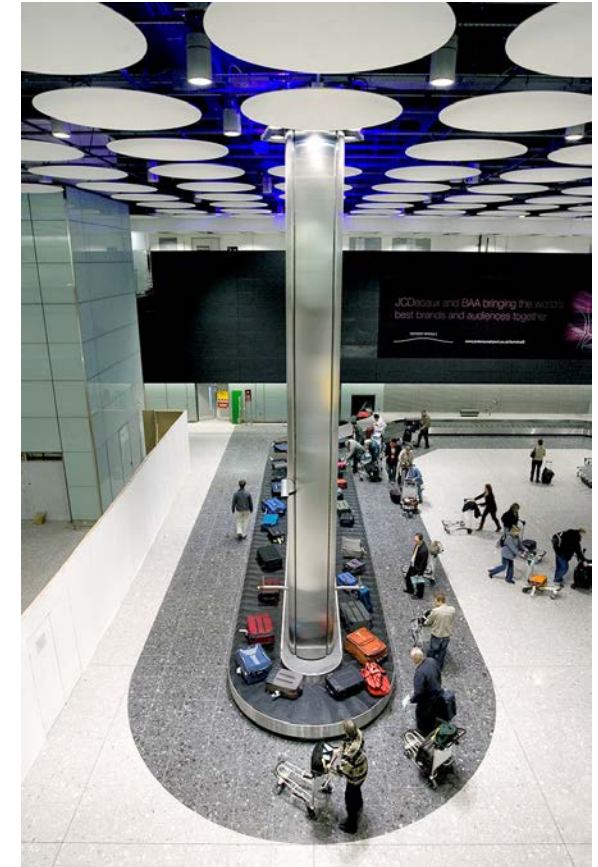
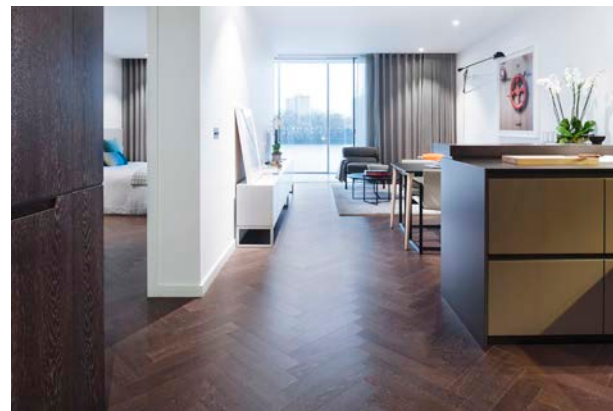
# Domus - Projects



BBC Television City



Battersea Power Station



Heathrow T5

# Domus - Acquisition Terms

Total minimum consideration of £32.7 million - 2017(e) EBITDA multiple 7.2x

Total maximum consideration of £35.4 million - 2017(e) EBITDA multiple 7.8x



DOMUS®

Initial cash consideration of **£29.4** million, funded by existing cash and debt facilities

+

Deferred consideration of **£3.3** million\*, payable in cash and Ordinary Shares\*\*

+

Contingent consideration of a maximum of **£2.7** million, payable in cash based on Domus achieving certain EBITDA targets over the three-year period ending 31 December 2020

Acquisition expected to be immediately earnings enhancing and will improve Headlam's overall margin mix:

- > Domus's gross and operating margin - c 45% and 11.5%

Will continue to be operated under the Domus brand by the incumbent management team as a distinct business unit of Headlam

*\*Of which £1.6 million is payable on 7 December 2019 and £1.7 million is payable on 7 December 2020*

*\*\* £1.5 million of the deferred consideration will be satisfied by the issue of new Ordinary Shares, with 88,350 Ordinary Shares to be issued on 7 December 2019 and 187,116 Ordinary Shares to be issued on 7 December 2020, at an issue price of 535.42 pence each*

# Current Trading - 10 months to October 2017

Total revenue +2.7% against the comparable period in 2016 (+1.7% in constant currency)

UK and Continental Europe like-for-like revenue\* +0.7% and +4.5% respectively

H2 2017 characterised by weaker markets:

H1 2017
Total revenue +4.0% (+2.6% in constant currency)
UK like-for-like revenue* +2.1%
<ul style="list-style-type: none"><li>Residential sector +2.8%</li><li>Commercial sector +0.5%</li></ul>
Continental Europe like-for-like revenue* +3.0%

First 4 months H2 2017
Total revenue +1.5% (+0.6% in constant currency)
UK like-for-like revenue* -1.1%
<ul style="list-style-type: none"><li>Residential sector -0.4%</li><li>Commercial sector -2.6%</li></ul>
Continental Europe like-for-like revenue* +6.6%

Continue to expect 2017 PBT in-line with consensus market expectations due to focus on margin enhancement and efficiencies

Progressive ordinary dividend policy - growing in line with EPS, and linked to cover ratio of 1.6x

Additional special dividend - linked to underlying net debt ratio of 0.5 of EBITDA:

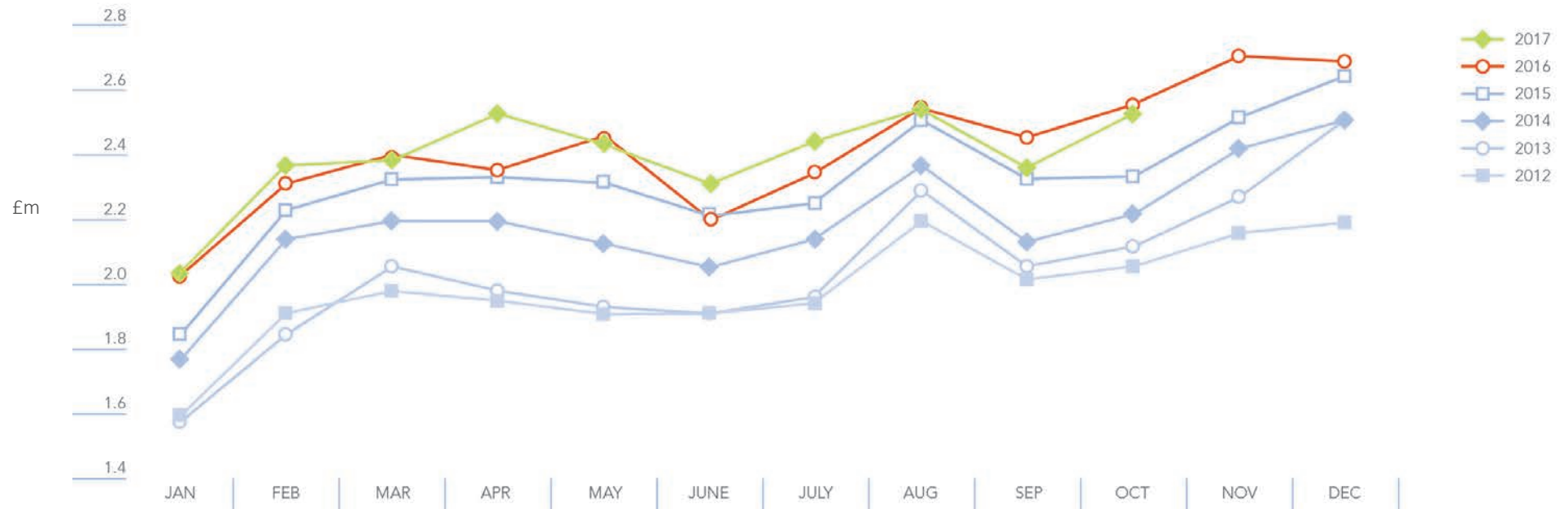
> Investment capex and M&A lessens the prospect of annual and/or progressive special dividend

*\*Like-for-like revenue is calculated based on constant currency from activities and businesses that made a full contribution in both the 2017 and 2016 periods and is adjusted for any variances in working days*



# UK Daily Sales\* - 10 months to October 2017

Q4 - most important trading period, with redecoration in residential accommodation in run-up to Christmas



November 2017: UK like-for-like revenue\* marginally improved compared with first four months H2 2017 at c -0.8%

*\*on a like-for-like basis*

## Strategic Summary

- Continue broadening overall position in the industry
- Maintain grow against market backdrop, with focus on profit growth
- Maintain the gross margin improvement through a more cohesive approach across the Company
- Continue to focus on operational efficiencies and initiatives
- Evaluate all areas of cost to further enhance profitability
- Continue to elevate and advance margin and growth enhancing acquisitions
- Investment in the business and people
- Progressive dividend policy



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