

HEADLAM
FLOORCOVERING GROUP



INTERIM RESULTS PRESENTATION
FOR THE SIX MONTHS ENDED 30 JUNE 2018
AUGUST 2018

COMPANY OVERVIEW

- **Europe's largest distributor of floorcoverings:**
 - Distribution channel between suppliers and customers of floorcoverings
 - Linking together a global manufacturing supply base and the most extensive customer base across the UK and Continental Europe
- **Suppliers:**
 - Global manufacturing supply base (16 primary countries)
 - Multiple product categories (c 22,000 product units)
 - Unparalleled route to market for their products
 - Allowing focus on economic manufacturing without having to replicate costly distribution channel
- **Customers:**
 - Most extensive customer base across the UK and Continental Europe (72,000 active customer accounts)
 - Residential and commercial sectors (principally independent retailers and flooring contractors)
 - Broadest product offering
 - Providing excellent customer service and next day delivery
- **Grown significantly since 1992 via organic growth and acquisition, to comprise 65 businesses:**
 - 61 UK and 4 Continental Europe (France, Switzerland and the Netherlands)
 - Each operate under own trade brand and utilise individual sales team to increase market penetration
 - Relationship-driven and regionalised marketplace
 - Supported by and benefit from significant centralised and financial resources

MARKET-LEADING CORE BUSINESS & BUSINESS MODEL

- **Extensive network and dense geographical footprint:**
 - 67 million cubic feet of warehouse capacity
 - 64 trade counters / showrooms / specification centres
 - Multiple businesses and touch-points
- **Market-leading core business characterised by:**
 - High volume of small value orders into both residential and commercial sectors
 - Revenue split c 64.7% residential and 35.3% commercial
 - Core product range largely within low to middle-end in terms of price points
 - 5.5 million orders processed in 2017
 - £133 average order value in 2017
 - Predominately refurbishment / replacement one room at a time
- **A degree of resilience and robustness against market backdrop:**
 - More affordable purchase than other RMI expenditure
 - Not reliant on consumer credit or key seasonal discount sales periods
 - Demand tending to be inelastic to price increases due to relative infrequency of purchase
- **Strategy to focus on profitability and supplement market-leading core business through acquisition:**
 - Diversify and broaden overall position in the floorcoverings market
 - Complementary acquisitions
 - Expand into different market segments or more niche areas e.g. specification

H1 2018 FINANCIAL HIGHLIGHTS

- Total revenue increased by 1.0% to £337.5 million (H1 2017 restated¹: £334.3 million)
- UK like-for-like revenue² down of 5.2% (H1 2017: up 2.1%) and Continental Europe like-for-like revenue² growth of 1.7% (H1 2017: growth of 3.0%)
- Gross margin improvement of 113 basis points to 32.53% reflecting underlying improvement in UK margins coupled with margin enhancing acquisitions
- Underlying profit³ before tax increased by 0.9% to £17.73 million (H1 2017: £17.57 million)
- Interim dividend for 2018, calculated on a statutory PBT, at 7.55p remains unchanged
- Net funds of £16.0 million (£35.3 million as at 31 December 2017)
- Two acquisitions completed during the period with a further addition in early H2
- Keith Edelman and Alison Littlely to join the Board

¹All references to 'restated' are to present comparatives consistently with 2018.

²All references to 'like-for-like' relate to revenue calculated on constant currency from activities and businesses that made a full contribution in both the 2018 and 2017 periods and adjusted for any variances in working days.

³All references to 'underlying' refer to profit before non-underlying items being intangibles amortisation relating to businesses acquired, acquisitions fees and non-recurring costs relating to personnel changes.

H1 FINANCIAL TRACK RECORD (5 YEARS)

Revenue £million

£337.5m

+1.0% (2017 restated: £334.3m)

2018	337.5
2017	334.3
2016	321.3
2015	306.5
2014	294.9

Underlying Operating Profit £million

£18.1m

+1.2% (2017:£17.9m)

2018	18.1
2017	17.9
2016	15.4
2015	13.0
2014	11.3

Underlying Profit before tax £million

£17.7m

+0.9% (2017:£17.6m)

2018	17.7
2017	17.6
2016	15.1
2015	12.3
2014	10.8

Basic Earnings Per Share pence

15.9p

-2.3% (2017:16.2p)

2018	15.9
2017	16.2
2016	14.4
2015	11.7
2014	10.2

Net Cash Position £million

£16.0m

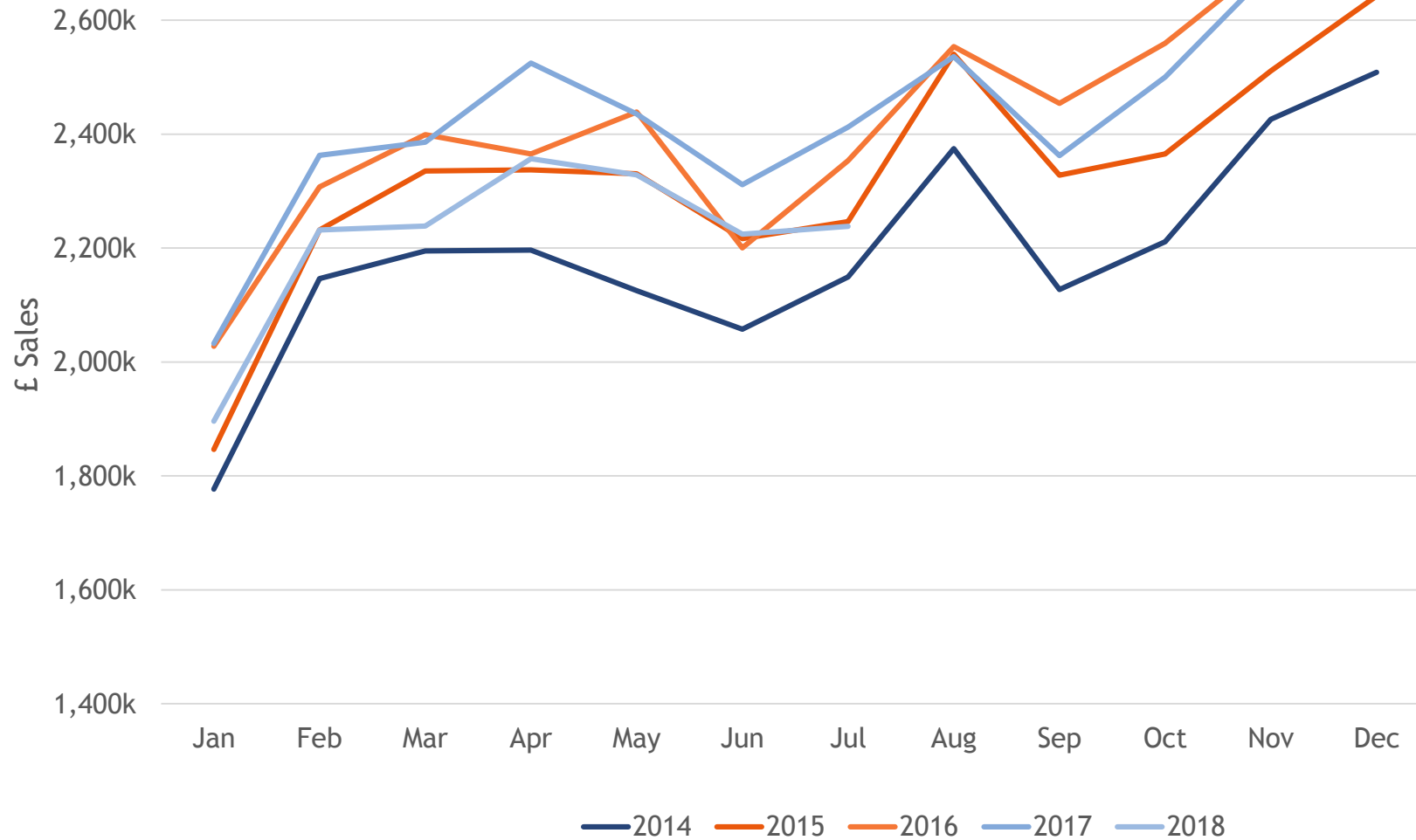
£35.3m (2017: as at 31 December 2017)

2018	16.0
2017	49.8
2016	33.9
2015	26.0
2014	11.7

2018 OPERATIONAL HIGHLIGHTS

- Two acquisitions completed in H1 2018 and a further business added in early H2 2018
- Acquisitions extend reach, improve market position and build upon existing activities
- Number of businesses in the UK has increased to 61 in the UK and 4 on the Continent
- Latest additions
 - Dersimo, Netherlands - residential/commercial distribution
 - CECO, Northern Ireland - specification
 - Ashmount, England - commercial
- Number of operating efficiency initiatives targeted and enjoying early success
- Continued expansion of the distribution network with 64 trade counters as at 30 June 2018
- Appointment of Keith Edelman and Alison Littlely who join the Company on 1 October 2018 and 1 January 2019 respectively as Non-Executive Directors

H1 2018 UK DAILY SALES*



*Calculated on a like-for-like revenue basis, being based on activities and businesses that made a full contribution in all the periods and adjusted for any variances in working days

H1 2018 INCOME STATEMENT

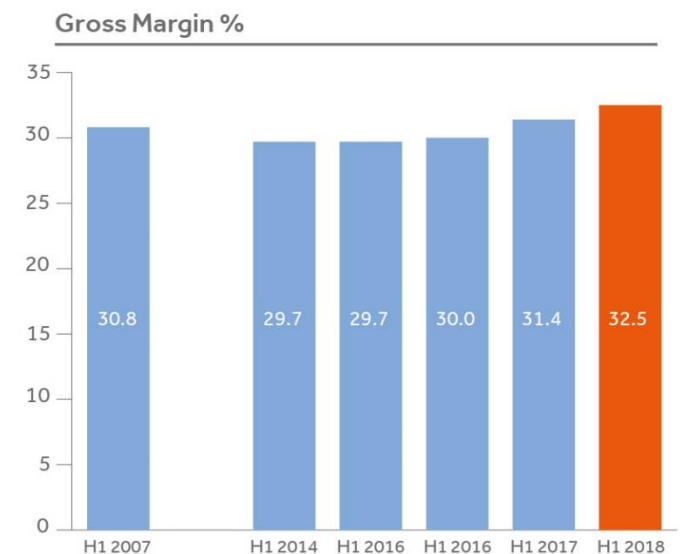
	H1 2018		H1 2017		Variance H1 2018 V 2017
	£000	%	£000	%	%
Revenue	337,489	100.0%	334,273	100.0%	1.0%
Cost of sales	<u>(227,695)</u>	<u>67.5%</u>	<u>(229,316)</u>	<u>68.6%</u>	- 0.7%
Gross Profit	109,794	32.5%	104,957	31.4%	4.6%
Distribution costs	<u>(66,090)</u>	<u>(19.6%)</u>	<u>(63,177)</u>	<u>(18.9%)</u>	4.6%
Administrative expenses	<u>(25,562)</u>	<u>(7.6%)</u>	<u>(23,862)</u>	<u>(7.1%)</u>	7.1%
Operating profit	18,142	5.4%	17,918	5.4%	1.3%
Net finance costs	<u>(410)</u>	<u>(0.1%)</u>	<u>(351)</u>	<u>(0.1%)</u>	16.8%
Underlying profit before tax	17,732	5.3%	17,567	5.3%	0.9%
Non-underlying items	<u>(1,314)</u>	<u>(0.4%)</u>	<u>(800)</u>	<u>(0.2%)</u>	64.3%
Statutory profit before tax	<u>16,418</u>	<u>4.9%</u>	<u>16,767</u>	<u>5.0%</u>	- 2.1%
Basic earnings per share - pence	15.9p		16.2p		-2.3%
Proposed interim dividend - pence	7.55p		7.55p		

H1 2018 REVENUE MOVEMENT

		£000	£000	£000
		UK	Europe	Total
Revenue for six months to 30 June 2017		293,520	48,348	341,868
Restatement for consistency with FY18 categorisation		(6,926)	(669)	(7,595)
Restated revenue for six months to 30 June 2017		286,594	47,679	334,273
	<i>Split %</i>	85.7%	14.3%	
Items contributing to annual growth to six months ended 30 June 2018				
Like for like organic (decline) /growth		(14,795)	746	(14,049)
	<i>LFL%</i>	-5.2%	1.7%	-4.3%
Acquisitions		14,800	2,685	17,485
Translation/working day effect		-	(220)	(220)
Revenue for the six months ended 30 June 2018		<u>286,599</u>	<u>50,890</u>	<u>337,489</u>
	<i>Split %</i>	84.9%	15.1%	

MARGIN INITIATIVES AND IMPROVEMENT

- CONTINUATION OF THE MARGIN ENHANCEMENT FOCUS INITIATED IN 2017
- GROSS MARGIN INCREASED ABOVE HISTORIC LEVEL TO 32.5% THROUGH IMPLEMENTING VARIOUS EFFICIENCY INITIATIVES STREAMLINING OF PROCESSES AND MARGIN ENHANCING ACQUISITIONS
- UPDATE ON MARGIN INITIATIVES:
 - Maintenance of consistent, disciplined pricing practices initiated in H2 2017
 - Stock reordering trials - improving stock reordering and management through a more automated process and supplier production scheduling
 - Focus on higher margin and exclusive products
 - More effective utilisation of delivery fleet - trialling dynamic route planning and consolidation of geographic specific deliveries
 - Success in reducing expenditure on goods and services not for resale (GNFR) - further projects scheduled for H2
 - Operational warehousing and delivery efficiencies creating cost savings to manage LFL revenue reduction
 - Targeted price increases planned for Q4 to reflect recent cost of sale inflation
 - Margin enhancing acquisitions



H1 2018 UNDERLYING OPERATING PROFIT MOVEMENT

	£000
Underlying operating profit 2017	17,918
Gross margin improvement	
Volume benefit	(4,561)
Pricing benefit	1,861
Effect of acquisitions	7,536
	<u>4,836</u>
Expense movement	
Distribution	875
Administration	1,310
Effect of acquisitions	(6,797)
Total increase	<u>(4,612)</u>
Underlying operating profit 2018	<u>18,142</u>

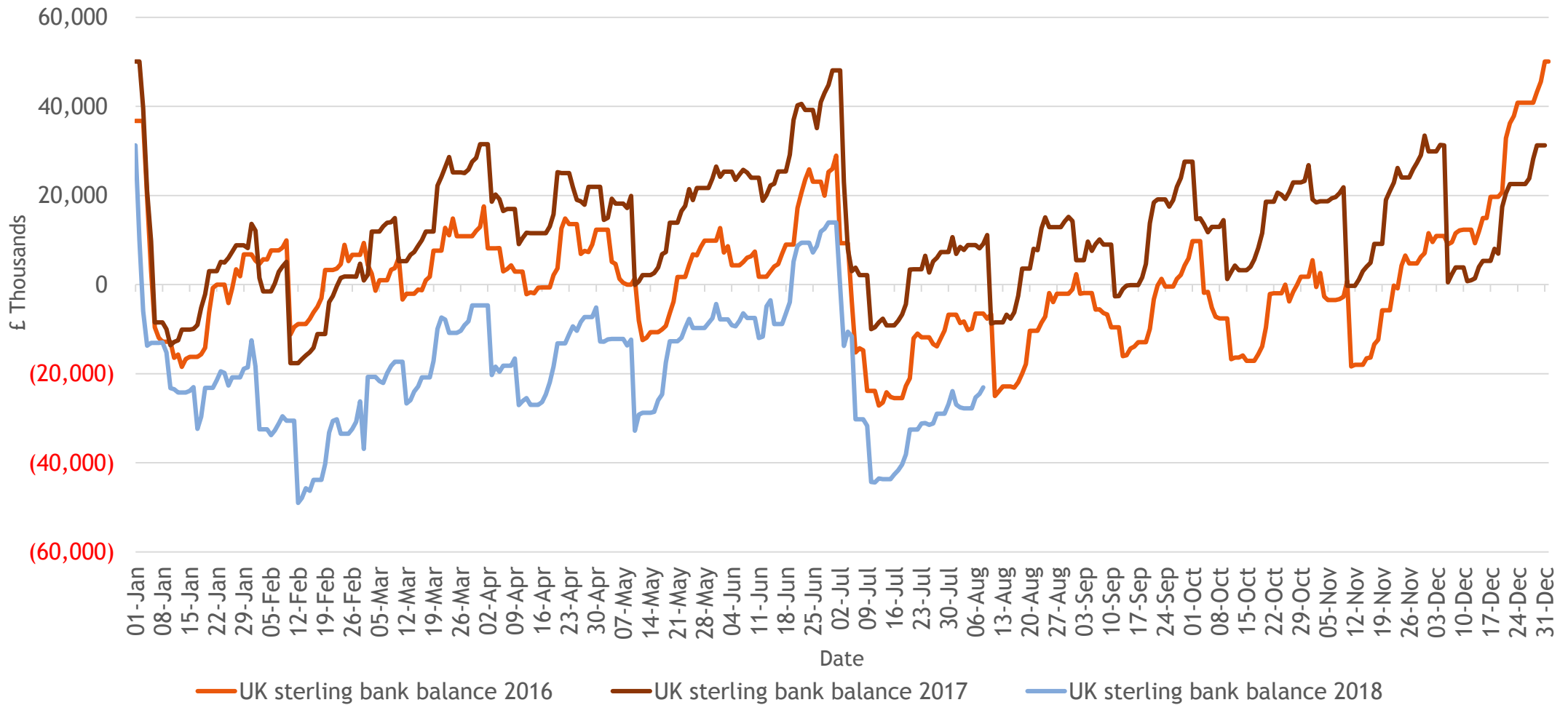
H1 2018 CASH FLOW MOVEMENT

	Six months ended 30 June		
	2018 £000	2017 £000	2016 £000
Net cash flow from operating activities			
Profit before taxation	16,418	16,767	15,111
Depreciation, amortisation and impairment	3,229	3,203	2,389
Profit on sale of property, plant and equipment	(24)	(44)	(11)
Net finance cost	410	351	254
Share-based payments	658	517	714
Working capital changes	<u>(16,102)</u>	<u>(181)</u>	<u>(11,767)</u>
Cash generated from operations	4,589	20,613	6,690
Interest paid	(670)	(545)	(487)
Tax paid	(5,287)	(5,077)	(4,306)
Pension contributions	(930)	(1,079)	(1,121)
Net cash from operating activities	<u>(2,298)</u>	<u>13,912</u>	<u>776</u>
Net cash flow from investing and financing activities			
Acquisition of subsidiaries net of cash acquired	(5,478)	(1,942)	-
Acquisition of property, plant and equipment	(2,522)	(2,069)	(1,456)
Share movements	(2,891)	(579)	4
Net movement on borrowings	29,885	14,887	(5,000)
Dividends paid	(6,372)	(12,369)	(10,096)
Other	218	304	549
Net cash flow from investing and financing activities	<u>12,840</u>	<u>(1,768)</u>	<u>(15,999)</u>
Net increase/(decrease) in cash	<u>10,542</u>	<u>12,144</u>	<u>(15,223)</u>

BALANCE SHEET AS AT 30 JUNE 2018

	H1 2018 £000	H1 2017 £000
Non-current assets		
PPE	101,836	102,744
Intangible assets	50,085	10,673
Deferred tax assets	460	920
	<u>152,381</u>	<u>114,337</u>
Current assets		
Inventory	136,743	129,709
Receivable	129,560	131,062
Cash	52,560	71,566
	<u>318,863</u>	<u>332,337</u>
Total assets	<u>471,244</u>	<u>446,674</u>
Current liabilities		
Loans	(232)	(230)
Payables	(179,654)	(187,244)
Dividends payable	(14,596)	(13,360)
Employee benefits	-	(2,205)
Tax	(4,175)	(4,640)
	<u>(198,657)</u>	<u>(207,679)</u>
Non-current liabilities		
Other interest-bearing loans and borrowings	(36,378)	(21,563)
Trade and other payables	(5,905)	
Provisions	(2,048)	(1,531)
Deferred tax liabilities	(7,274)	(4,039)
Employee benefits	(8,641)	(18,444)
	<u>(60,246)</u>	<u>(45,577)</u>
Total Liabilities	<u>(258,903)</u>	<u>(253,276)</u>
Net assets	<u>212,341</u>	<u>193,398</u>

UK STERLING NET DEBT DAILY BALANCES



EXPANSION OF NETWORK

ACQUISITIONS

- Two acquisitions completed during the period building on the Company's market presence with a third added in early H2
- Dersimo BV, located in the Netherlands and CECO, located in Northern Ireland
- Ashmount flooring supplies added during July
- Total net consideration for the three acquisitions of £9.2 million
- Good pipeline persists but rate of conversion deliberately slowed
- Focus remains on opportunities that bring either bring strategic and/or geographic benefits to the company or expand certain product lines

EXPANSION OF NETWORK (CONTINUED)

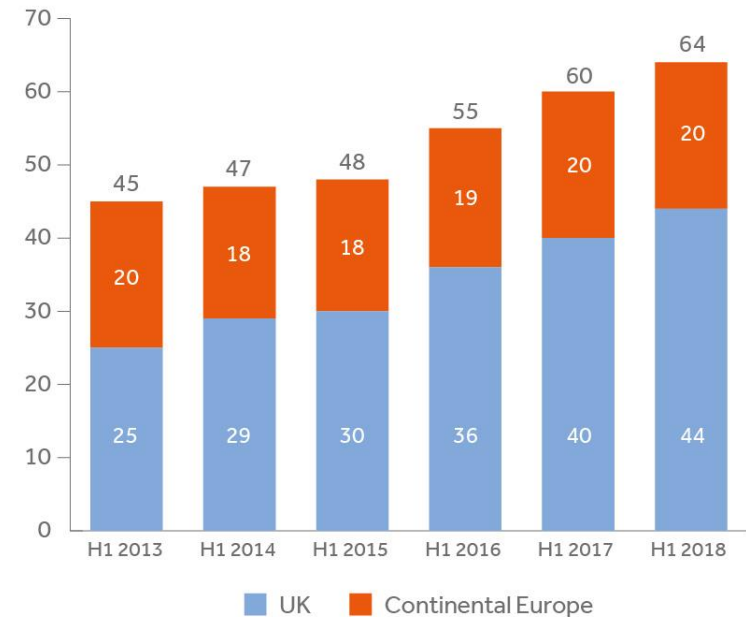
Ipswich

- Plans for a new the Distribution Centre submitted to the local planning authority with a decision expected during September 2018
- Construction packages entering the tender process
- Current timeline should deliver an operational facility Q1 2020

Trade Counters

- Aimed at generating increased revenues
- Expansion of physical footprint
- Closer to our customers
- Enhancing the regional service proposition
- Increased trade brand awareness
- Appeals to customer base who prefer to collect

Growth in Number of Trade Counters



CURRENT TRADING AND OUTLOOK

- Trading in the early part of the second half broadly consistent with H1
- Order intake in August to date is in line with expectations as a result of refurbishment activity in the education sector
- Softness in UK market continues to persist and the indications are that this situation will probably continue
- UK price increases to be introduced from 1 September 2018 ranging from 2.0% to 10.0% and averaging 3.0%
- Continue to focus on and drive through our efficiency initiatives
- The Board now believes that the full year outcome will be trending towards the lower end of market expectation



APPENDICES

STRATEGIC PILLARS

WITH THE STRATEGIC AIM OF CREATING VALUE FOR THE BENEFIT OF ALL STAKEHOLDERS

GROWTH

- Continue growing market-leading core business
- Diversify and broaden overall position in the industry
- Accelerate growth through M&A (product, geography, segment)

CUSTOMERS

- Customer service and satisfaction at core of the business model
- Expand offering and customer base - support their growth through reciprocal relationship
- Evolution and innovation to respond to evolving demands

DYNAMIC MODEL

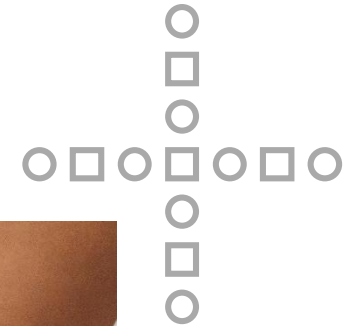
- Position at the forefront for another 25 years - 'the partner of choice'
- Build the distribution channel model - indispensable part of the chain
- Continually appraise opportunities to ultimately reward all stakeholders

MARGIN IMPROVEMENT

- Optimise the distribution network and processes
- Leverage scale to increase returns and operational gearing
- Pursue multiple efficiency initiatives (incremental and larger)

CULTURE & ETHOS

- Focus on culture to attract and retain the best talent
- Invest in people through training, support and working environment
- Common purpose and aligned goals to deliver success



INVESTMENT CASE

SIGNIFICANT BARRIERS TO ENTRY CREATED THROUGH YEARS OF INVESTMENT AND DEVELOPMENT OF OPERATIONAL EXPERTISE

1. MARKET LEADER

Market-leading position, significant scale, and longevity of operations

- Nearest competitors currently <1/6th of size in terms of revenue
- Significant barriers to entry

2. RELATIONSHIPS

Depth and breadth of supplier and customer relationships

- Typically, suppliers' largest UK customer, with purchasing economies of scale
- Supporting the growth and development of all participants, particularly independent retailers and flooring contractors

3. CURRENCY EXPOSURES

Management of transactional currency risk

- Buy in sterling from the majority of suppliers so supplier manages the currency risk
- Supplier price increases passed along chain and not absorbed by the business
- Negative aspects of currency deflation avoided by product re-engineering

4. DEGREE OF RESILIENCE

Resilient core business characterised by high volume small value orders

- More affordable purchase than other RMI expenditure
- £133 average order value in 2017
- Not reliant on consumer credit

5. DISTRIBUTION NETWORK

Extensive distribution network with value underpinned by a largely freehold asset portfolio

- Significant time and resources to replicate
- Dense geographical footprint underpinning customer service proposition
- Freehold portfolio enables flexible response to change

6. OPERATIONAL GEARING

Operational gearing from increasing revenue and leveraging of the business model

- 19.1% underlying drop-through rate as a % of incremental revenue in 2017
- Combination of increased gross margin and a more efficient overhead base creating improved operating margin

7. FOCUS ON MARGIN

Focus on margin enhancement and efficiencies to increase level of profitability

- A number of efficiency initiatives underway and to be implemented
- Gross and operating margin improvements of 50 and 30 basis points respectively in 2017

8. STRONG FINANCIALS

Strong cash flow and balance sheet

- Net funds of £35.3 million as at 31 December 2017
- Cash from operations of £54.5 million in 2017
- Strong operating cash generation at 109.8% of underlying EBITDA in 2017

9. DIVIDEND

Progressive dividend policy

- Ordinary dividend payments correlated to the increase in basic EPS, with total ordinary dividend payment of 24.8 pence in respect of 2017
- Additional policy of returning surplus cash to shareholders via special dividends when circumstances permit

10. GROWTH

Growing and broadening overall position in the industry

- Growing market-leading core business
- Supplementary growth and increased industry penetration through acquisition



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