headlam
group plc

Final Results Presentation
For the year ended 31 December 2020

Europe's leading floorcoverings distributor

Presentation Team

headlam group plc

Steve Wilson

Chief Executive

Chris Payne

Chief Financial Officer

Agenda

headlam
group plc

Overview and 2020

- About the Business
- 2020 Overview
- 2020 Financial Overview
- Operational Improvement Programme (OIP) 2020

Looking Ahead

- OIP 2021 and Future
- Growth Opportunities
- Environmental, Social and Governance (ESG) Strategy
- 2021 Trading

headlam
group plc

Overview and 2020

About The Business

headlam
group plc

Headlam is Europe's leading floorcoverings distributor, providing the channel between suppliers and trade customers of floorcoverings

Years operating

29

Businesses

67

Active customer accounts

24,830

Distribution hubs and centres

23

Trade counters

53

Commercial fleet

363

As at 31 December 2020

2020 Overview

headlam
group plc

- Demonstrated the resilience of the business, and its highly cash generative nature despite initial impact of COVID-19
- Quick and ongoing mitigating actions have preserved Balance Sheet strength, and strengthened the business going forward
- Accelerated Operational Improvement Programme providing enhanced growth opportunities, COVID-19 mitigation, and confidence in the future

Q1 2020

Consistent, broadly in-line with equivalent prior year period

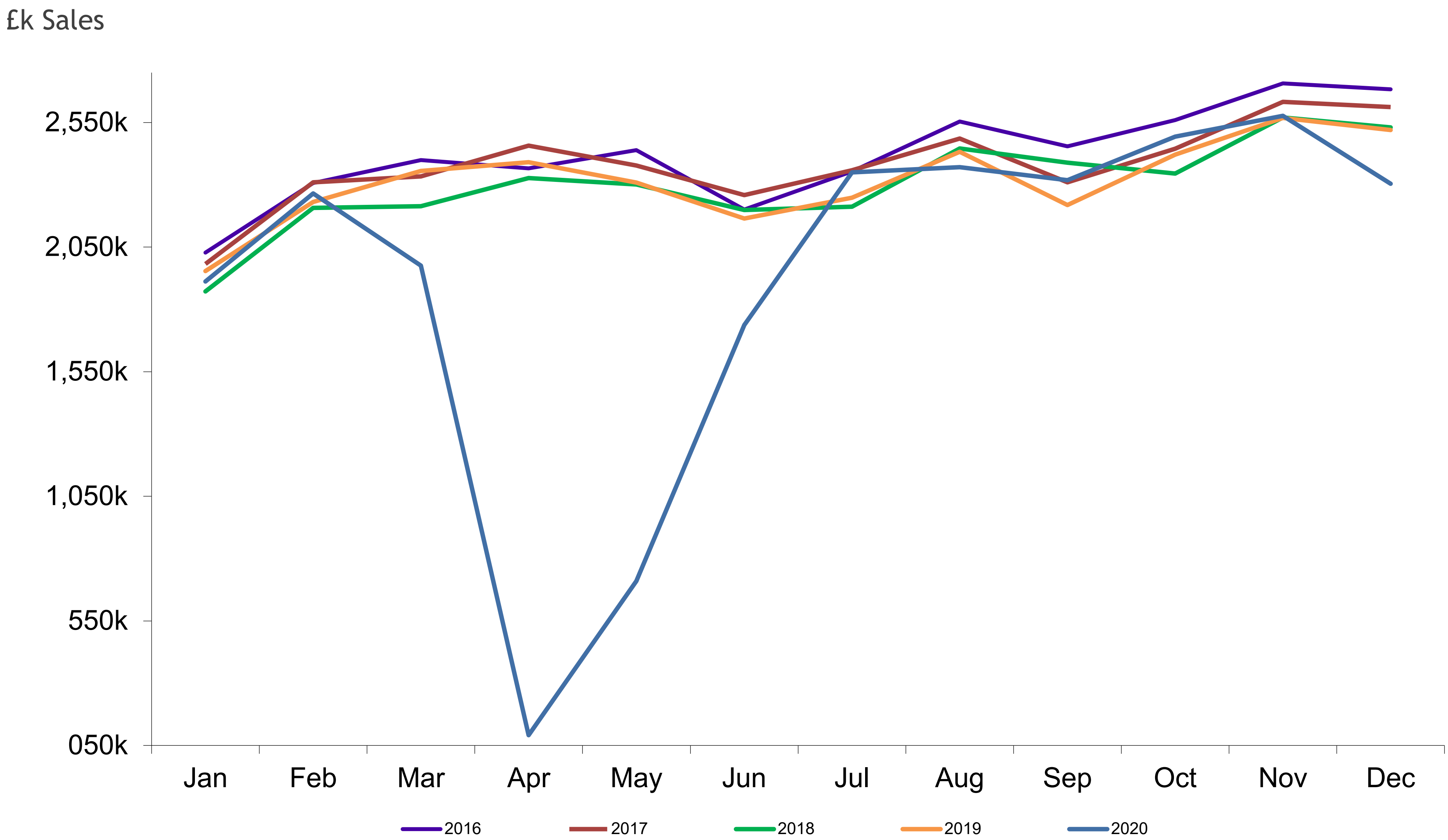
Q2 2020

Initially significantly impacted by COVID-19, return to normalised operations by end H1

H2 2020

Strong and sustained recovery to comparable 2019 levels

UK Distribution Daily Sales*



* *Calculated on a like-for-like basis, being based on activities and businesses that made a full contribution in both the current and previous year and adjusted for any variances in working days*

2020 Financial Overview

headlam
group plc

- Revenue only 15.3% below 2019 at £609.2m (2019: £719.2m), a strong recovery from H1 2020 30.6% below
- Underlying[1] profit before tax of £15.9m (2019: £39.5m), a strong reversal of H1 2020 underlying[1] loss before tax of £1.2m
- Statutory loss before tax of £17.1m (2019: £35.2m profit), reflecting a significant level of non-underlying items, the vast majority having arisen as a direct consequence of COVID-19 and non-cash in nature
- Highly cash generative despite initial impact of COVID-19, with an increase in cash of £27.0m (2019: £10.2m decrease) and in part reflects actions taken to preserve Balance Sheet strength
- Average net debt[2] of £8.6m (2019: £3.3m), a material reduction on H1 2020 £35.3m
- Net funds position of £51.6m (exc. lease liabilities) as at 31 Dec 2020 (2019: £27.0m) included the benefit of £12.0m deferred VAT payable by 31 March 2021

2020 Revenue

Residential sector	68.2%
Commercial sector	31.8%

UK	82.8%
Continental Europe	17.2%

[1] *Underlying is before non-underlying items, which includes amortisation of acquired intangible assets, impairment of goodwill, acquisition related fees, movements in deferred and contingent consideration, finance costs on deferred and contingent consideration, business restructuring costs, and non-recurring pension costs in relation to guaranteed minimum pension equalisation.*

[2] *Average net debt is calculated by aggregating the net debt position, excluding lease liabilities, for each business day and dividing by the total number of business days.*

2020 Income Statement

headlam
group plc

Income Statement	2020 £M		2019 £M	
Revenue	**609.2**	**100.0%**	719.2	100.0%
Cost of sales	**(420.3)**	**(69.0)%**	(489.8)	(68.1)%
Gross profit	**188.9**	**31.0%**	229.4	31.9%
Distribution costs	**(121.3)**	**(19.9)%**	(135.7)	(18.9)%
Administrative expenses	**(49.7)**	**(8.2)%**	(51.5)	(7.1)%
Operating profit	**17.9**	**2.9%**	42.2	5.9%
Net Finance costs	**(2.0)**	**(0.3)%**	(2.7)	(0.4)%
Underlying profit before tax	**15.9**	**2.6%**	39.5	5.5%
Non-underlying items	**(33.0)**	**(5.4)%**	(4.3)	(0.6)%
Statutory (loss) / profit before tax	**(17.1)**	**(2.8)%**	35.2	4.9%
Basic (loss) / earnings per share	**(24.2)p**		34.0p	
Interim dividend	-		7.55p	
Nominal dividend	**2.00p**		-	

- Underlying distribution costs and admin expenses reduced by £16.2m, supported by swift actions to temporarily close operations in Q2 2020 and manage variable costs materially lower
- 93% of UK workforce originally furloughed, <10% by mid-July, use of the Job Retention Scheme ended in Oct 2020 (£11.0m claimed under all furlough schemes)
- Employees paid an enhanced form of the Government's Job Retention Scheme

Non-Underlying Items

	2020 £M	2019 £M
Non-underlying items		
Goodwill impairment	**28.0**	2.1
Amortisation of intangibles	**1.6**	1.4
Movements and finance costs for deferred and contingent consideration	**-**	0.1
Non-underlying non-cash items	**29.6**	3.6
Acquisitions related fees	**0.7**	0.7
Business restructuring costs	**2.4**	–
GMP equalisation	**0.3**	–
Non-underlying cash items	**3.4**	0.7
Non-underlying items before tax	**33.0**	4.3

- Significant level of non-underlying items, with vast majority have arisen as a direct consequence of COVID-19, and being non-cash in nature
- £20.9m of £28.0m goodwill impairment in relation to Domus:
  - Representing full write-down of the remaining residual goodwill
- £2.1m of £2.4m business restructuring costs relate to two OIP projects which will generate net cost savings of £4m+ pa from 2022

2020 Cash Flow Movement

headlam
group plc

	2020 £M	2019 £M
Cash flows from operating activities		
EBITDA	**37.0**	62.5
Change in inventories	**15.3**	(0.6)
Change in receivables	**23.2**	(4.7)
Change in payables	**(4.8)**	(2.0)
Share-based payments and profit on sale of PPE	–	0.7
Cash generated from the operations	**70.7**	55.9
Interest and Tax	**(8.2)**	(10.8)
Capital investment	**(15.0)**	(15.8)
Lease payments	**(15.7)**	(14.9)
Dividends	**(6.3)**	(20.9)
Other	**1.5**	(3.7)
Net cash flows	**27.0**	(10.2)

- Highly cash generative despite the initial impact of COVID-19
- £27.0m increase in cash partly reflects actions taken to preserve Balance Sheet strength during the year and deferred VAT
- Key actions: demand-led purchasing; reducing slow-moving stock; and a focus on customer cash collections, which exceeded expectations following the impact of COVID-19

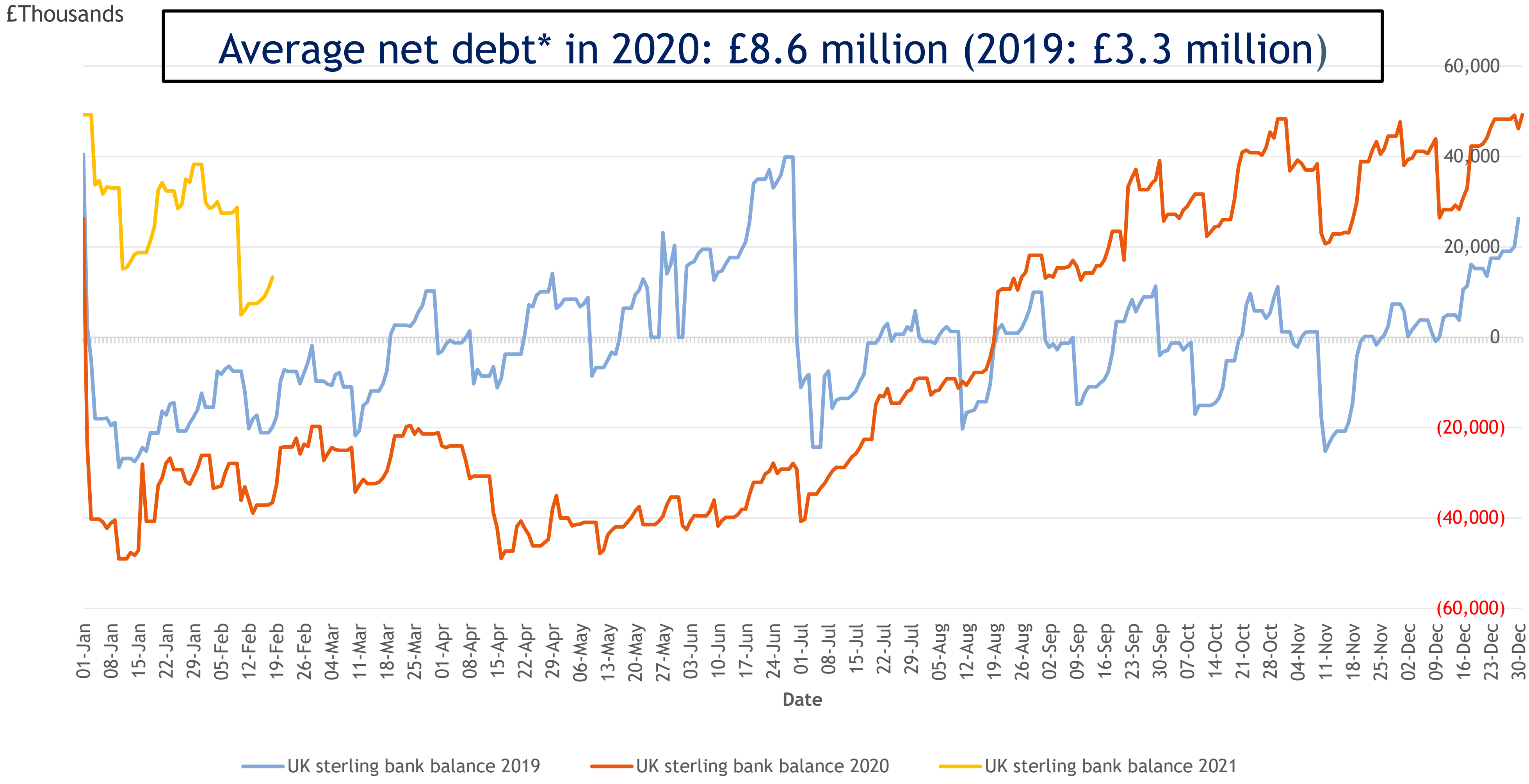
Balance Sheet
As at 31 December 2020

headlam
group plc

Balance Sheet	**2020**	2019
	£M	£M
Property, plant and equipment	**122.9**	114.6
Intangibles	**21.1**	48.5
Inventories	**118.5**	132.4
Trade and other receivables	**101.6**	123.7
Cash	**60.8**	33.4
Trade and other payables	**(178.4)**	(181.9)
Borrowings	**(9.2)**	(6.4)
Other assets and liabilities	**(17.3)**	(19.2)
Net Assets	**220.0**	245.1
Share capital and premium	**57.8**	57.8
Other reserves	**3.4**	1.3
Retained earnings	**158.8**	186.0
Total equity	**220.0**	245.1

- Total banking facilities available of £110.3m as at Y/E, of which £102.8m undrawn
- Prioritised utilising existing inventory, additional benefit of large reduction in slow-moving stock
- Large retained earnings, and freehold property portfolio underpinning Balance Sheet strength
- Capital Allocation Priorities prioritise maintenance of a strong Balance Sheet

UK Sterling Net Debt
Daily Balances



**Average net debt is calculated by aggregating the net debt position, excluding lease liabilities, for each business day and dividing by the total number of business days*

headlam
group plc

Operational Improvement Programme (OIP)

OIP Summary

headlam group plc

Overview:

- A programme of substantial operational change taking place across the business
- Considerable planning and employee engagement to ensure effective implementation
- Material operational and financial improvements
- Several projects accelerated against COVID-19 backdrop to help more quickly realise revenue benefits and cost base improvements

Rationale:

- Improves the relevance of the business model
- Broadens the customer base
- Increases revenue growth opportunities
- Improves customer service
- Reduces the cost base
- Provides greater resilience to economic headwinds

Outcomes:

- Supports the sustainable, long-term success of the business
- Already seen significant improvements flow through
- Material benefits from 2021, and increasing thereafter

OIP Achievements in 2020

Transport Integration

- Accelerated roll-out against the backdrop of COVID-19
- Full national roll-out on-track to be complete by early Q4 2021

Network Consolidation

- Opening of Ipswich distribution centre in July 2020 enabled consolidation activities to commence
- Consolidation on track, with 7 sites / businesses already in

£4m+ net cost savings pa from 2022 from these two projects

Material improvements to customer service

OIP Achievements in 2020

headlam
group plc

E-commerce Capabilities

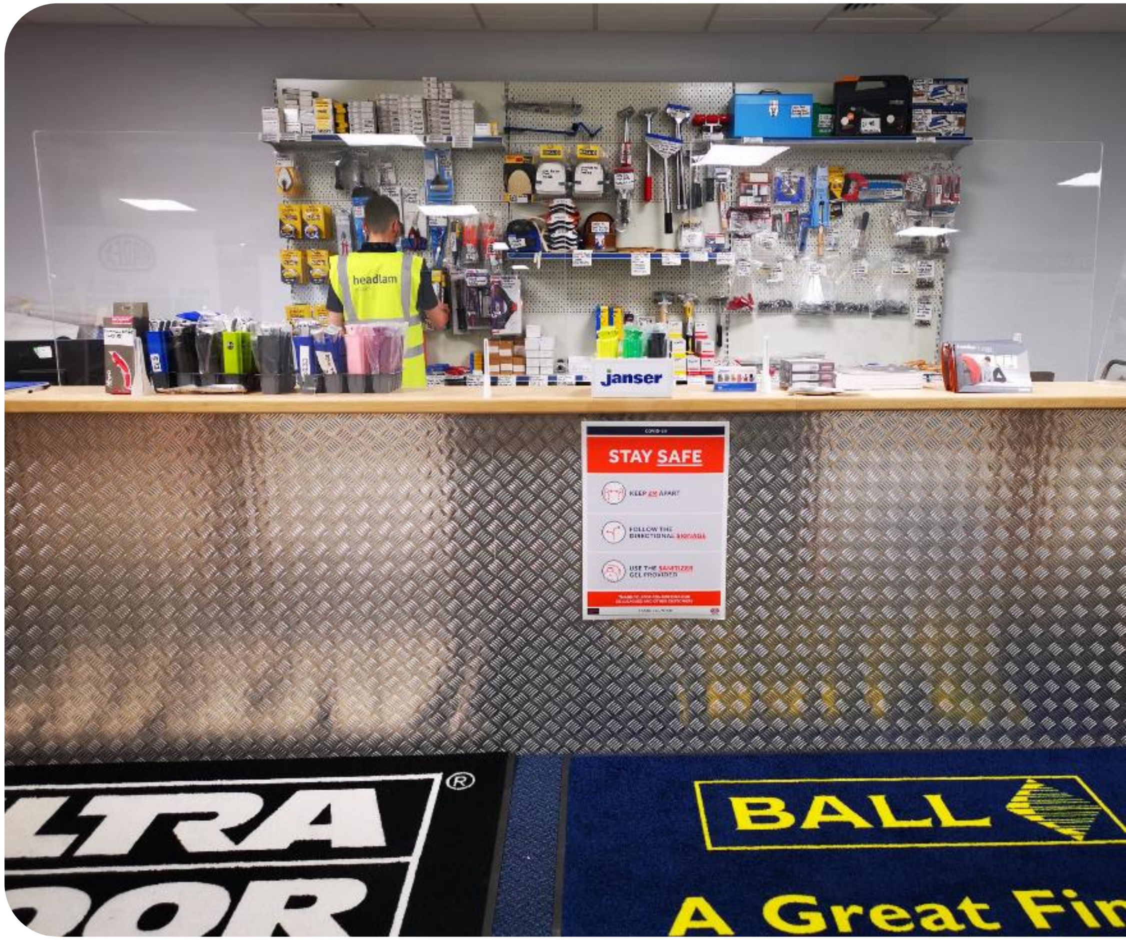
- Relaunched B2B websites with improved functionality
- Development of e-commerce infrastructure to better support larger customers

Trade Counter Proposition

- Finalised plans to enhance the existing sites and expand the national network
- Plan to increase UK network from 53 existing sites to up to 90 by 2025

Enhanced revenue prospects

Broadening of customer base



headlam
group plc

Looking Ahead

OIP 2021 and Future

headlam
group plc

Following extensive planning, two new key projects now being launched alongside ongoing projects

Ongoing Projects

+

Buying

- More strategic group-level approach to product purchasing and ranging
- Improve supply chain efficiencies and benefit to each
- Joint business plans and product-specific tender processes rolled-out

+

Customer Focus

- Sales force effectiveness
- Tailored customer service propositions
- Key account management of larger customers
- Customer-facing activities become more efficient and effective

Material benefits

More quickly realise revenue and cost base improvements

Mitigation against potential COVID-19 related reduction in demand

2021 net benefit	2022 net benefit	2023 ambition
£4m+	£8m+	7.5% UK operating margin

An Example: Opportunity with Large Retailers

headlam
group plc

- Larger retailers (incl. DIY) currently c 10% of total revenue, but +40% of retail sales
- Significant opportunity to increase market penetration and grow revenue in this customer group
- New 'Key Accounts' team already making progress, growing business with the existing 22 larger customers, and winning new accounts

Why a Larger Retailer would use Headlam:

- Exceptional insight into what's selling, and constantly reviewing data / trends
- Able to offer broadest product offering, exclusive products, and recommendations on all products
- Competitive purchase rates due to large group volumes able to be passed to the retailer
- Management of all aspects of inbound from suppliers
- Undertake all storage, processing and dispatch of product to the retailer:
  - Flooring is generally bulky / takes up lots of space especially in un-specialist warehouses
  - Hard to handle, requires specialist lifting and processing equipment
  - Lots of man hours required to unload, process and transport
- Tailored offering, and product distribution to any number of national locations, as frequently as the retailer wants

headlam
group plc

Environmental, Social and Governance (ESG)

ESG Strategy

headlam
group plc

ESG Strategy Report to be published May 2021, with associated KPIs to measure performance

Environmental

- Already engaged in activities to reduce GHG emissions, with Transport Integration meaningfully reducing direct emissions
- Materiality Assessment published in 2020 Annual Report, identifying the most signification ESG-related risks and opportunities and forming the basis for the ESG Strategy
- Scope 3 GHG emissions published in May 2021, and will support acceleration of work with suppliers to improve supply chain efficiencies and promotion of sustainable products

Social

- Completion of all the recommendations from an independent H&S review during 2021
- ‘Culture capture’ exercise carried out in 2020, recommendations being implemented in 2021
- MyHub engagement portal launched in March 2021 providing enhanced internal communications, support and recognition for employees, with a specific ‘wellbeing’ section

Governance

- Supported by two specialist consultancies in relation to ESG activities
- Clear Capital Allocation Priorities articulated in January 2021
- Intention to appoint two new Non-Executive Directors during 2021, bringing further skills on to the Board

2021 Trading

headlam
group plc

- Experienced very limited disruption to product flow to-date from the EU following Brexit
- Trading in Jan and Feb 2021, typically the quietest trading months, soft given lockdowns and non-essential retail businesses closed
- Months ahead to benefit from easing of restrictions, reopening of retail businesses, and the OIP improving performance and revenue growth opportunities
- Accelerated OIP now expected to generate a net benefit of £4m+ in 2021
- 2 pence nominal dividend to be paid May 2021, with a nominal 2021 interim dividend also currently anticipated to be paid in November 2021
- Capital Markets Day to be held at new Ipswich distribution centre in July 2021 covering the OIP and ESG

Overall Summary

headlam
group plc

- Entering 2021 a stronger business through both mitigating actions and OIP
- Following extensive planning, OIP accelerated to more quickly realise revenue benefits and cost base improvements, and mitigate against potential COVID-19 related reduction in demand
- 7.5% UK operating margin ambition for 2023
- New ESG Strategy, and Board Enhancement with two new Non-Executive Directors to be appointed in 2021
- Dividend reinstatement reflecting confidence in future prospects

headlam
group plc

Q&A

headlam
group plc

Headlam Group plc
PO Box 1
Gorsey Lane
Coleshill
Birmingham
B46 1LW

Tel: 01675 433000
Fax: 01675 433030
E-mail: headlamgroup@headlam.com
Sat Nav: B46 1JU

To find out more
visit us online at
www.headlam.com