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Headlam Group PLC

5 March 2024

Headlam Group plc

('Headlam', the 'Company', the 'Group')

Full Year Results

Good strategic progress and operating cash generation; profits lower year-on-year due to macro and industry headwinds

Headlam Group plc (LSE: HEAD), the UK's leading floorcoverings distributor, today announces its full year results in respect of the year ended 31 December 2023 (the 'Period').

	2023	2022	% change
Revenue	£656.5m	£663.6m	(1.1)%
Gross margin	31.7%	33.1%	(140)bps
EBITDA	£36.7m	£57.9m	(36.6)%
Underlying[1] Operating Profit	£16.1m	£39.2m	(58.9)%
Underlying[1] Profit Before Tax	£11.0m	£37.1m	(70.4)%
Underlying[1] Basic Earnings Per Share	11.0p	35.5p	(69.0)%
Ordinary dividend per share	10.0p	17.4p	(42.5)%
Underlying[1] Operating Cash Flow	£26.0m	£12.8m	103.1%
Net Debt/(Funds)	£29.6m	£(1.8)m	
Leverage	1.3x	0.0x	
Statutory results			
Operating profit	£12.2m	£43.9m	(72.2)%
Operating margin	1.9%	6.6%	(470)bps
Profit before tax	£7.1m	£41.8m	(83.0)%
Basic Earnings Per Share	9.6p	40.1p	(76.1)%

Operational and strategic highlights

- Significant investment for the future, including £6.3 million in cutting tables, sortation units and other warehouse and transport equipment in Regional Distribution to improve the customer proposition for independent retailers
- Strong revenue growth from Larger Customers and Trade Counters, up 26% and 8.5% respectively
- 12 new trade counters and a further 11 refurbished or relocated; performing in line with business case
- 2.7% revenue growth in Own Product Brands in the UK, supported by successful launch of Everyroom brand during the previous year
- Investments in digital capability; new Headlam brand website launched; 34% of revenue now through digital channels
- Ongoing expansion of market-leading position, as we broaden the base of the business to position it well for when the market improves

Financial overview

- Group revenue down 1.1%, with UK flat despite challenging market backdrop, as growth in revenue from Larger Customers (+26%) and Trade Counters (+8.5%) offset decline in Regional Distribution; Continental Europe revenue down 7.7%

- UK volume declined 5%, in line with the market[2], reflecting reduction in residential property transactions (which declined 20% in 2023) and cost of living crisis reducing consumer spending on home improvements
- Underlying Profit Before Tax of £11.0 million (2022: £37.1 million) in line with revised expectations[3]
- Year-on-year decline in profit principally driven by the macro and industry headwinds, including: £11 million profit impact from lower volume, £10 million from operating cost inflation, £5 million unwind of manufacturer-led price benefit in the prior year and £4 million profit reduction from strategic investments; partially mitigated by £10.3 million of efficiencies and cost savings
- Strong cash generation with £26.0 million of positive Underlying Operating Cash Flow (2022: £12.8 million), higher than previous two years, reflecting stabilised working capital
- Net debt increased by £31.4 million (Leverage of 1.3x) after £18.2 million capital expenditure, £6.1 million acquisitions and £17.4 million returns to shareholders (ordinary dividends and share buybacks). £71.0 million of cash and undrawn facilities at year end
- Strong balance sheet position underpinned by freehold properties valued at £149 million, over £100 million of net positive working capital and strong operating cash generation
- Final ordinary dividend of 6.0 pence proposed, taking the full year dividend to 10.0 pence (2022: 17.4 pence); cover lowered to 1.1x reflecting confidence in medium term prospects and strength of balance sheet

Outlook

- The market weakness observed at the end of 2023 has continued into the first few weeks of 2024. We have seen negative volumes across our UK and Continental European businesses, despite continued growth in Larger Customers and Trade Counters. Group revenue in February 2024 was 6% lower than 2023, albeit ahead of January 2024
- External data on housing transactions and consumer spending on home improvements, and latest projections for RMI[4] and flooring spend in 2024, indicate a delayed market recovery
- The medium-term market outlook remains strong; flooring market volumes in 2023 were around 20% lower than in 2019 and we expect volumes to improve significantly over the coming years as the market recovers
- The combination of this market recovery and our strategic initiatives to grow revenue to £200 million in each of Larger Customers and Trade Counters provides opportunity for material uplift to revenue, profit and cash given the operational leverage within the business, boosted by reducing capital expenditure requirements following a period of investment

Commenting, Chris Payne, Chief Executive, said:
"2023 has been a challenging year for the flooring industry, with reduced demand in the residential market and high operating cost inflation, which looks set to continue in 2024. However, I am pleased with the action taken across the Group to partially mitigate the impact and to deliver higher operating cash flow. We continued to invest to broaden the base of the business, providing a foundation for significant profit uplift in the coming years as the market improves."

Presentations

The Group's full year presentation that accompanies this announcement is available on its website at www.headlam.com

The Group will be hosting an in-person presentation for analysts in London today at 9.00am UK time at the offices of Panmure Gordon. To register interest in attending, please email: headlamgroup@headlam.com

The Group will also be hosting an online presentation and Q&A for investors today at 11.00am UK time. The presentation is open to all existing and potential shareholders. Investors can register to attend by clicking on this link: https://bit.ly/HEAD_FY23_results_webinar

A video of the presentation by the Chief Executive and Chief Financial Officer will be made available on the Group's website following the conclusion of the investor presentation, with the Q&A from the online presentation also made available.

Footnotes

1. To supplement IFRS reporting, we also present our results on an underlying basis to show the performance of the business before non-underlying items. These items are detailed in note 2 and principally comprise: amortisation of acquired intangibles and other acquisition-related costs; impairment of intangibles, property, plant and equipment and right-of-use assets; insurance proceeds (following fire); profit on sale of property, plant and equipment; and business restructuring and change-related costs. These underlying measures, along with other alternative financial measures including debt and cash flow metrics, form the Group's Alternative Performance Measures (APMs) that are used internally by management as key measures to assess performance. Further explanation in relation to these measures can be found in the glossary of APMs at the end of this announcement.
2. Source: commissioned specialist research from MTW Research
3. Company-compiled consensus market expectations for revenue and underlying profit before tax, on a mean basis, are available on the Group's website at www.headlam.com
4. RMI = repair, maintenance and improvement
5. THE INFORMATION CONTAINED WITHIN THIS ANNOUNCEMENT IS DEEMED BY THE COMPANY TO CONSTITUTE INSIDE INFORMATION AS STIPULATED UNDER THE MARKET ABUSE REGULATION (EU) NO. 596/2014 AS IT FORMS PART OF UK DOMESTIC LAW PURSUANT TO THE EUROPEAN UNION (WITHDRAWAL) ACT 2018, AS AMENDED. UPON THE PUBLICATION OF THIS ANNOUNCEMENT VIA A REGULATORY INFORMATION SERVICE, THIS INFORMATION IS CONSIDERED TO BE IN THE PUBLIC DOMAIN.

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Notes to Editors

Operating for over 30 years, Headlam is the UK's leading floorcoverings distributor. The Group works with suppliers across the globe manufacturing the broadest range of products, and gives them a highly effective route to market, selling their products into the large and diverse trade customer base. The Group has an extensive customer base spanning independent and multiple retailers, small and large contractors, and housebuilders. It provides its customers with a market leading service through the largest product range, in-depth knowledge, ecommerce and marketing support, and nationwide next day delivery service. To maximise customer reach and sales opportunity, Headlam operates 68 businesses and trade brands across the UK and Continental Europe (France and the Netherlands), which are supported by the group's network, central resources and processes.

Chief Executive's Review

Introduction

Headlam is a clear market leader with strong foundations, and through the implementation of our strategy we are broadening the base of the business, providing good growth opportunities by accessing additional areas of the market. During the year, we successfully serviced an increasingly diverse range of customer types, spanning independent retailers, tradespeople, major multiple retailers, housebuilders, online retailers and contractors.

2023 presented challenging macro and industry-specific headwinds, which hampered financial performance; however, we made good strategic progress and we remain optimistic about our medium-term prospects. Our strategy and the investments we have been making in the business position it well for when the market recovers.

Financial summary and marketplace

During the year, the unprecedented levels of inflation and rising cost of borrowing brought significant headwinds. RMI (repair, maintenance and improvement) spend was projected to have declined 11% in 2023; and residential property transactions declined 20% year-on-year. Consequently, home improvements and DIY was one of worst performing categories of retail spend in 2023, with spend significantly declining year on year, particularly in the latter months. These factors caused volumes to materially decline in the residential sector of the flooring market, which accounts for approximately two-thirds of the value of the market.

The Group's overall UK volumes improved from high single-digit decline at the start of the year to almost flat compared to 2022 in July and August. However, and consistent with observations from similar markets, the market deteriorated significantly in September and this persisted through the rest of the year, albeit we did see an improvement in the Group's trading during our peak residential month of November. Over the year as a whole, the Group's UK volumes declined 5%, in line with the market (according to commissioned external research from MTW Research). Continental Europe revenue declined 7.7%, reflecting weak markets, particularly in the Netherlands.

In addition to the volume weakness in the market, there was £10 million of operational cost inflation, driven by elevated pay and energy costs. Furthermore, the temporary benefit in 2022 from manufacturer-led price increases unwound in 2023, which further impacted profitability. Overall, this resulted in a reduction in underlying profit before tax from £37.1 million in 2022 to £11.0 million in 2023. Further detail on the year-on-year movement in profit is contained in the Financial Review.

Testament to the strength of the business model, operating cash generation was strong, allowing us to continue investing for the future. The Group generated £26.0 million of Underlying Operating Cash Flow, higher than either of the previous two years, reflecting a stabilised working capital position. Additionally, during H2 2023, we agreed a settlement with insurers for the Kidderminster building, which was destroyed by a fire in 2021, and subsequently separately sold the land, resulting in combined cash proceeds, net of fees, of £9.7 million. We invested £18.2 million in capital expenditure, £6.1 million in acquisitions and returned £17.4 million to shareholders in the form of dividends and the share buyback programme, which completed in March 2023. Net debt increased by £31.4 million in the year to £29.6 million, reflecting these investments and shareholder returns.

The Board is recommending a 2023 final ordinary dividend of 6.0 pence per share (2022: 11.2 pence per share), subject to shareholder approval at the forthcoming AGM in May 2024, taking the full year dividend to 10.0 pence per share (2022: 17.4 pence per share). In recommending this final dividend the Board acknowledges that the short-term outlook remains challenging; however, also takes into account that the medium-term prospects remain strong, and that the Group has a strong balance sheet and good operating cash flow generation, supplemented by lower capital expenditure requirements going forward. Furthermore, the Board also recognises the non-underlying cash proceeds received in 2023 in respect of insurance settlement and property disposal, and the intention to release more capital from disposal of surplus property in 2024. Accordingly, and as signalled at the half year results in September 2023, the Group will temporarily lower its dividend cover in respect of the ordinary dividend. The Group intends to retain a lower level of cover through 2024 and then re-evaluate with a view to building back to 2.0x cover over the medium-term as the market and Group earnings improve.

Strategic progress

Despite the macro and industry headwinds, we made good progress in many areas of our strategy, the outputs of which have been masked by the impact of the external headwinds on overall financial performance. We invested in people, in new and enhanced capabilities, and in the network and infrastructure; all supporting growth, efficiency, and customer service. These strategically important investments have strengthened the foundations of the business, and position us well for growth across a broader spectrum of the marketplace. The key strategic growth initiatives delivered good results in the year. Revenue from Larger Customers and Trade Counters in the UK, the two main revenue growth drivers, was up 26% and 8.5%, respectively, compared with 2022, offsetting the 7.0% decline in the Regional Distribution business.

Larger Customers

Revenue grew by 26% in the year to £83.3 million, reflecting the scaling of existing customer relationships, adding further product lines and categories, combined with new customer wins. We successfully grew sales and partnerships with a broader range of customers, including flooring retailers, homeware retailers, builders' merchants, housebuilders and online retailers. Towards the end of the year, we launched trials in a chain of builders' merchants and in a national discount retailer; both involve only a small proportion of their respective estates initially, with the potential for nationwide rollouts over time. Furthermore, at the end of the year, starting with the Boxing Day sale, we significantly increased our share of the flooring category with a nationwide retailer.

We have a dedicated account management team who develop new, and service existing, customer relationships. We increased the size of this team in the year, including sales expertise in particular segments of the market, such as housebuilders, where we look to build upon our initial entry point.

We have a strong pipeline of growth, across both existing and new customers, providing opportunity to grow revenue from Larger Customers to a targeted £200 million over the coming years.

Trade Counters

Revenue for the year was £97.1 million (2022: £89.5 million), an increase of 8.5%, and 2,400 new customer accounts were opened across the trade counter network. Collectively, 'invested' trade counters (new, relocated or refitted) performed in line with the business case, despite the weak market. The key ingredients for a successful trade counter are location and colleagues, supported by a dedicated management team focusing on the rollout and performance management of all sites.

12 new trade counters were opened in the year and a further 11 were refurbished or relocated. This took the total number of trade counters to 67 at the end of the year, of which 47 have been invested in (31 December 2022: 58 total, 24 invested). We closed two sites during the year and also merged two sites.

In 2024, we are targeting to invest in at least 20 sites, around half of which could be new sites, taking our total number of trade counters to around 80.

Our aim is to create a nationwide footprint that services the fitter and general contractor market; a segment of the overall flooring market to which we cannot currently provide nationwide service and, as such, is an important growth opportunity. During the year, we increased our target to a total of 100 invested sites by the end of 2025 (from a previous target of 90), in order to reach 80% of the UK population within a circa 20-minute drive time. We expect this increase in total site numbers to require no increase in the previously expected total capital expenditure due to savings made in the cost of each trade counter investment as we build our expertise and drive efficiencies and economies of scale. Our aim is to grow revenue in Trade Counters to £200 million.

Regional Distribution

Our Regional Distribution business incorporates all our local business brands across the UK and supports operations across the Group through its national network and processing and delivery capabilities. This part of our business, which accounted for 64.2% of total UK revenue in 2023 (2022: 69.0%), was particularly impacted by the trading environment as it predominantly comprises a high volume of smaller individual residential orders, which have been particularly impacted by consumers cutting back their spending on home improvements. Accordingly, revenue declined by 7.0% to £370.8 million (2022: £398.9 million). Competition has also been heightened in this part of the market, with aggressive pricing at times; despite this, our gross margins have been stable and well-controlled.

Despite the industry headwinds, we made considerable progress in upgrading the network to increase the level of service to all customers, whilst also creating operational efficiencies. Investments included new cutting tables and sortation units in three of our largest distribution centres, and the installation of owned solar panels across most of our larger UK sites. The combined capital expenditure in the Regional Distribution business was over £9 million; this was higher than in previous years, reflecting a busy year of upgrade and replenishment, combined with the one-off investment in solar panels, and we expect it to reduce going forwards.

Headlam's scale and reach remains a competitive advantage for its Regional Distribution business, with great service and breadth of product providing compelling reasons to use Headlam.

We have a large portfolio of established Own Product Brands, an important point of differentiation in the marketplace. Revenue from Own Product Brands was up 2.7% in the year and represented 34.5% of the revenue through the Regional Distribution channel. This revenue growth was supported by the successful launch of the Group's newest brand Everyroom in the second half of 2022. Everyroom has quickly won traction and wide recognition, including winning a leading trade award in March 2023.

During 2023, we enhanced the team leading this area of the business, and invested in social media awareness, new B2B2C websites for our leading Crucial Trading and Kersaint Cobb product brands, and new product development to support the increased appeal to a wider cross-section of customers/consumers. Alongside Everyroom, several of our other brands also received prestigious awards during 2023, including Kingsmead Carpets, Kersaint Cobb, Crucial Trading, and Manx Tomkinson.

Digital & IT transformation

34% of revenue in 2023 was through digital channels; this includes electronic ordering from Larger Customers. Digital transformation and ecommerce initiatives serve as an important foundation for all areas of our strategy. We are focused on moving our business to a more digitally-enabled and multi-channel model, providing many benefits including: more efficient order-taking processes; quick and effective automated information flows; better supplier and customer engagement; greater product and brand awareness; and a lower cost to serve.

During 2023, we rolled out a drop ship vendor proposition to larger retailers and launched a Headlam brand website (www.headlamgroup.com) to better showcase who we are and our experience, knowledge, products and services.

To support the digital improvements, and to provide a more agile and flexible IT platform to support the future growth of the business, during the year we made the decision to replace the core IT system used in the UK. This will take place over the next three years and will involve modular, cloud-based systems; we will continue to operate the current system and can accommodate a period of dual running until fully ready to switch over, in order to ensure a smooth transition with minimal disruption.

Efficiencies and mitigating actions

Efficiency is a key part of the overall strategy, and further efficiency and mitigating actions were introduced during 2023 to help support margins and better align costs with the weak market backdrop. These included flexing operational headcount, implementing targeted price increases, and ongoing optimisation of transport operations. The latter was centred around the implementation of dynamic route planning, which reduces fuel and other transport costs through the optimisation of journeys.

Efficiency and mitigating actions contributed £10.3 million in 2023, providing a partial offset against the impact of volume decline and operational cost inflation.

During the year we reviewed the size and location of our network and, even after taking account of the volume growth anticipated over the coming years, made the decision to exit our Stockport distribution centre, given an overlapping service presence and stockholding capability in the north of England. In its place we have agreed a lease on a cross-dock facility, which we expect to move into in the coming weeks. Overall, this network optimisation adjustment results in a lower operating cost, whilst still providing capacity for significant growth, and releases capital through the disposal of the Stockport freehold, which we expect to occur over the coming months.

Whilst we have successfully implemented material mitigations in 2023, the flooring distribution business model has an inherent fixed cost element that drives relatively high operating leverage. As volumes decline, this can weigh heavily on profitability. However, as volumes recover, it can also have a significantly positive impact on profit.

Sustainability and our people

We have made good progress on our sustainability agenda during 2023. From an environmental perspective, this has included a reduction in carbon emissions aided by our investment in solar panels; the transition of over 85% of our non-commercial vehicle fleet to low or no emission; and transport efficiencies, which have reduced fuel consumption.

The safety of our colleagues, and any visitors to our sites, is of utmost importance to us. The Board, Executive Team, and site leadership teams widely and regularly communicate safety as Headlam's first behavioural value in order to embed a strong health and safety culture. Every meeting starts with a 'safety moment', and we have seen meaningful improvements in H&S culture and reporting.

Other priorities for our people include having an inclusive and collaborative culture where everyone can succeed. We held a 'Lead the Way' conference in October 2023 for all management colleagues in the UK business, the first time this had been done, with a focus on delivering success together. Building skills to succeed now and in the future is another priority area and is being supported by the comprehensive learning and development programmes being rolled out. During the year we also conducted our first colleague engagement survey, providing valuable insight into what is working well and what we can do better to engage our colleagues.

Outlook

The market weakness observed at the end of 2023 has continued into the first few weeks of 2024. We have seen negative volumes across our UK and Continental European businesses, despite continued growth in Larger Customers and Trade Counters. Group revenue in February 2024 was 6% lower than 2023, albeit ahead of January 2024. External data on housing transactions and consumer spending on home improvements, and latest projections for RMI and flooring spend in 2024, indicate a delayed market recovery.

The medium-term market outlook remains strong; flooring market volumes in 2023 were around 20% lower than in 2019 and we expect volumes to improve significantly over the coming years as the market recovers. The combination of this market recovery and our strategic initiatives to grow revenue to £200 million in each of Larger Customers and Trade Counters provides opportunity for material uplift to revenue and profit given the operational leverage within the business. Furthermore, the Group's capital expenditure requirements are expected to decline in 2024 and then again in 2025, providing a boost to cash generation.

Summary

The Group is well positioned despite the market backdrop, with ongoing expansion of its market-leading position, broadening of its market presence, and ongoing efficiencies; all of which will support future financial performance as the market improves.

We continue to focus on supporting the needs and requirements of all our stakeholders. We are confident in our strategy and look forward to the positive long-term prospects for the Group, and rebuilding of returns for shareholders. The Board thanks all the Group's colleagues for their continued hard work during this challenging period for the flooring market.

Chris Payne

Chief Executive

5 March 2024

Financial Review

Summary income statement

	Underlying[1] result 2023 £m	Non-underlying items 2023 £m	Total 2023 £m	Underlying[1] result 2022 £m	Non-underlying items 2022 £m	Total 2022 £m
Revenue	656.5	–	656.5	663.6	-	663.6
Cost of sales	(448.7)	–	(448.7)	(444.1)	-	(444.1)
Gross profit	207.8	–	207.8	219.5	-	219.5
Operating costs	(191.7)	(3.9)	(195.6)	(180.3)	4.7	(175.6)
Operating profit/(loss)	16.1	(3.9)	12.2	39.2	4.7	43.9
Net finance costs	(5.1)	–	(5.1)	(2.1)	-	(2.1)
Profit/(loss) before tax	11.0	(3.9)	7.1	37.1	4.7	41.8
Tax	(2.2)	2.8	0.6	(7.4)	(0.8)	(8.2)
Profit/(loss) after tax	8.8	(1.1)	7.7	29.7	3.9	33.6

[1] To supplement IFRS reporting, we also present our results on an underlying basis to show the performance of the business before non-underlying items. These items are detailed in note 2 and principally comprise: amortisation of acquired intangibles and other acquisition-related costs; impairment of intangibles, property, plant and equipment and right-of-use assets; insurance proceeds (following fire); profit on sale of property, plant and equipment; and business restructuring and change-related costs.

Revenue

Total revenue in the year was £656.5 million (2022: £663.6 million), a 1.1% decrease reflecting flat year-on-year revenue in the UK offset by 7.7% decline in Continental Europe (France and the Netherlands). The UK and Continental Europe accounted for 87.9% and 12.1% of total revenue, respectively, in the year (2022: UK 87.1%; Continental Europe 12.9%).

The table below shows the breakdown in revenue across the different customer channels in the UK. Revenue from Larger Customers grew by 26% in the year, reflecting growth with existing customers as well as new customer wins. Trade Counters revenue increased by 8.5% as we continued the investment programme; 12 new sites opened, and 11 existing sites refurbished or relocated during the year. The combination of growth in these two channels offset the decline in Regional Distribution, where revenue declined by 7.0%, particularly reflecting the weak residential market, with the commercial sector more resilient. Other UK revenue comprises our two ceramics specification businesses, where revenue growth was strong at 13.0%.

	2023 £m	2022 £m	Year-on-year %
Larger Customers	83.3	66.3	25.6%
Trade Counters	97.1	89.5	8.5%
Regional Distribution	370.8	398.9	(7.0)%
Other	26.1	23.1	13.0%
UK	577.3	577.8	(0.1)%
Continental Europe	79.2	85.8	(7.7)%
Group	656.5	663.6	(1.1)%

For the Group, as set out in the table below, residential sector revenue declined 2.4% in the year and accounted for 64.7% of total revenue (2022: 65.6%), with commercial sector revenue increasing 1.5% and accounting for 35.3% of total revenue (2022: 34.4%).

	2023 £m	2022 £m	Year-on-year %
Residential	424.7	435.3	(2.4)%
Commercial	231.8	228.3	1.5%
Group	656.5	663.6	(1.1)%

During the year, the Group made three small acquisitions: two in the UK and one in the Netherlands. These acquisitions added £9.0 million of revenue in the year.

Gross margin

Gross margin of 31.7% (2022: 33.1%) represented a return to long-term historic average gross margin levels in the range of 31% to 32%, after the temporary uplift in gross margin in 2022 from the unprecedented proliferation of manufacturer-led price increases. During 2023 there were only limited manufacturer-led price increases and the Group had already sold through, in the previous year, the stock it was holding at the pre-increase prices. This led to a year-on-year reduction in gross margin in the first nine months of 2023 whilst the temporary uplift unwound. Excluding this impact, the underlying gross margin was stable and well-controlled despite aggressive competitor pricing in some elements of the market.

Operating costs

Underlying operating costs increased by 6.3% (£11.4 million) to £191.7 million (2022: £180.3 million). £4.6 million of this related to acquisitions; excluding these, like-for-like underlying operating costs increased by 3.8% (£6.8 million). This reflected a combination of inflationary pressures and strategic investments, partially offset by cost efficiencies. Cost inflation totalled £10.2 million of which £5.3 million was payroll-related with pay inflation averaging 6.7% for the year. Energy costs increased by £2.0 million, reflecting the end of the previous fixed-rate contract in the UK in September 2022 in which prices had been fixed prior to the Ukraine war and, hence, were much lower than spot rates. Other cost inflation included business rates following the review in April 2023; the previous review having been in 2017.

The Group also made strategic investments, including the roll-out of trade counters along with investments in capability and resource to deliver on the other strategic growth areas.

All of the above cost increases were partially offset by cost savings. These included flexing down the operational headcount to account for the lower year-on-year volumes; cost savings from transport consolidation; the implementation of dynamic planning in the transport network (which was phased in during H2); and lower bonus accruals. In the second half, the Group also benefitted from renegotiated electricity pricing (albeit still at elevated levels compared to 2022) and a reduction in electricity consumption as a result of the solar panel investments.

Furthermore, operating costs benefited from a £2.3 million reduction (2022: £2.5 million reduction) in the loss allowance for trade receivables due to an improved receivables profile and an update of the expected loss rates, based on latest experience.

Profit

Underlying Operating Profit of £16.1 million (2022: £39.2 million) was a reduction of £23.1 million and reflected the decline in volumes, normalisation in gross margin, cost inflation, and strategic investments, as explained above. Consequently, underlying operating profit margin was 2.5% in 2023 (2022: 5.9%). The table below breaks down the year-on-year movement:

	Underlying Operating Profit £m
2022	39.2
Volume	(11.1)
Unwind of prior year impact of manufacturer-led price increases	(5.1)
Strategic investments	(3.9)
Cost inflation	(10.2)
Continental Europe	(3.1)
Mitigating actions	10.3
2023	16.1

Volume decline, in the UK, contributed to a £11.1 million reduction in profit; volumes were 5.0% lower year-on-year in the UK business (residential and commercial combined) and even lower in Continental Europe. This was net of volume growth from Larger Customers and Trade Counters.

As explained above, the lack of manufacturer-led price increases resulted in a return in gross margin back to pre-2021 levels; this equated to an adverse £5.1 million profit impact.

Strategic investments also contributed to a £3.9 million reduction in profit. These investments comprised the initial operating losses on newly invested trade counters; a new dedicated management team for the Trade Counter business; and incremental investments in people and capability to deliver on other elements of the strategy (including digital, brand and customer enhancements).

Cost inflation was a £10.2 million headwind as explained above. The operating profit generated by our French and Dutch businesses declined by £3.1 million, of which £2.4 million related to the Netherlands where the flooring market has been particularly weak, with suppliers reporting volume reductions of over 20%.

Mitigating actions provided £10.3 million of offsetting benefit. These actions included cost savings, efficiency programmes and targeted price increases on certain ranges.

Interest costs of £5.1 million (2022: £2.1 million) were £3.0 million higher year-on-year reflecting higher average borrowings, principally due to the deployment of capital in the previous year by way of a special dividend and share buybacks, combined with the base interest rate increases.

Reflecting the movement in Underlying Operating Profit, and the increase in interest costs, Underlying Profit Before Tax reduced to £11.0 million (2022: £37.1 million).

The statutory profit before tax for the year was £7.1 million (2022: £41.8 million), after a net non-underlying expense before tax of £3.9 million (2022: net non-underlying income of £4.7 million before tax).

Non-underlying items

Total non-underlying items before tax reflected a net expense of £3.9 million in the year as set out below. The cash impact of non-underlying items in 2023 was a net cash inflow of £6.5 million.

	2023 Cash £m	2023 Non-cash £m	2023 Total £m	2022 Cash £m	2022 Non-cash £m	2022 Total £m
Amortisation of acquired intangibles & other acquisition-related costs	(0.5)	(1.8)	(2.3)	-	(1.5)	(1.5)
Insurance proceeds (following fire)	8.6	-	8.6	6.2	-	6.2
Property disposal	1.8	(0.7)	1.1	-	-	-
Business restructuring and change-related costs (including impairment)	(3.4)	(7.9)	(11.3)	-	-	-
Non-underlying income / (expense) before tax	6.5	(10.4)	(3.9)	6.2	(1.5)	4.7

Amortisation of acquired intangibles and other acquisition-related expenses of £2.3 million (2022: £1.5 million) comprised £1.4 million (2022: £1.5 million) of amortisation of acquired intangibles and £0.9 million (2022: £nil) of other acquisition-related expenses, comprising professional fees and the amortisation of the fair value adjustment to acquired inventories.

£8.6 million income, all of which was received in cash in the year, was recognised in respect of the final settlement of the buildings and contents insurance claim on the Kidderminster building, which was destroyed by fire in 2021. In the previous year £6.2 million income was recognised in respect of claims on contents and inventory insurance, also in relation to the Kidderminster building.

Following the settlement of the insurance claim, the Group then disposed of the land on which the Kidderminster building had been sited, generating a £1.1 million profit.

Business restructuring and change-related costs totalled £11.3 million and comprised: £5.6 million in respect of the write-off of previously capitalised software development costs and termination payments owing to the software developer, following the decision to replace the existing ERP; £2.3 million of restructuring costs in relation to network optimisation (which are expected to be non-recurring), principally representing stock and fixed asset impairments at the Stockport site; £2.2 million of headcount reduction costs; and £1.2 million of change-related costs, including the cost of terminating vehicle leases as a result of lower vehicle requirements arising from the dynamic route planning project and consultancy fees.

In addition to the non-underlying insurance item, £0.4 million (2022: £0.5 million) has been recognised as underlying other operating income, relating to compensation for business interruption, which offsets lost revenue and related costs recognised through underlying profit.

Tax

The Group's consolidated underlying effective tax rate for the year was 20.0% (2022: 20.1%). This is lower than the standard rate of corporation tax in the UK, primarily due to the recognition of previously unrecognised tax losses. The Group's underlying effective tax rate in 2024 is expected to be around 26%, broadly in line with the standard rate of corporation tax in the UK. The Group's statutory effective tax rate for the year was 8.5% (credit) (2022: 19.6% (charge)).

The Company is committed to being fully compliant with the relevant tax laws and compliance obligations regarding the filing of tax returns, payment and collection of tax. The Company maintains an open relationship with HM Revenue & Customs and currently operates within a level of tax compliance risk that is rated as 'low' (2022: 'low').

Earnings per share ('EPS')

Basic earnings per share on an underlying basis decreased from 35.5 pence per share in the prior year to 11.0 pence per share, reflecting the factors set out above. The share buyback programme, which completed in March 2023, reduced the weighted average number of shares for 2023 compared to the prior year, as detailed in note 4. Statutory basic earnings per share was 9.6 pence (2022: 40.1 pence); the decrease of 76.1% also reflected the factors set out above, combined with a net non-underlying expense after tax of £1.1 million in 2023 compared to a net non-underlying income after tax of £3.9 million in 2022.

Cash flow and Net Debt

	2023 £m	2022 £m
Underlying operating profit	16.1	39.2
Depreciation and other non-cash items	20.6	18.7
EBITDA	36.7	57.9
Change in inventories	10.0	(8.3)
Change in receivables	2.7	(3.5)
Change in payables	(24.0)	(34.2)
Other	0.6	0.9
Underlying Operating Cash Flow	26.0	12.8
Interest and Tax	(9.1)	(6.4)
Lease payments	(13.0)	(14.0)
Capital expenditure	(18.2)	(13.8)
Property disposal and insurance settlement	10.4	6.2
Other non-underlying items	(3.9)	-
Acquisitions	(6.1)	-
Dividends	(12.2)	(27.3)
Payments to acquire own shares (share buyback programme)	(5.2)	(9.8)
Other	-	0.2
Net cash flow before movement in borrowings	(31.3)	(52.1)
Movement in borrowings	49.7	(7.3)
Net cash flows	18.4	(59.4)

Underlying Operating Cash Flow in the Period was £26.0 million compared to £12.8 million in 2022. This is despite the profit headwinds from lower volumes, cost inflation and strategic investments, and reflects good underlying cash generation plus a stabilisation in the working capital requirements after the impact of unprecedented levels of inflation on inventory costs in the previous two years.

Inventories and receivables were well controlled and reduced by £10.0 million and £2.7 million, respectively. Payables declined by £24.0 million, partially reflecting the reduction in stock and partially reflecting timing of supplier payments; the latter is expected to reverse in 2024, with a consequential cash flow benefit. Overall, working capital movements generated a £11.3 million outflow, driven by the timing difference on payables; excluding this timing difference, working capital would have been broadly flat.

Capital expenditure was £18.2 million (2022: £13.8 million) in what was a busy year for replenishment capital expenditure, combined with growth investment. The investments included £6.3 million in cutting tables, sortation units and other warehouse and transport equipment; £5.7 million in trade counters; and £2.5 million in solar panels. Capital expenditure for 2024 is expected to be around £12 million. Investment of around £3 million is also expected in the Group's new IT system; however, as the new systems are likely to be cloud-based, software-as-a-service, the accounting treatment is such that the development costs will need to be expensed. We therefore expect to expense around £3 million of development costs, which will be recorded as a non-underlying item.

The settlement of the Kidderminster insurance claim and the subsequent sale of the land generated cash proceeds of £10.4 million; in the previous year the insurance claim proceeds totalled £6.2 million. There was a £3.9 million cash outflow in respect of other non-underlying items, comprising acquisition-related expenses and restructuring and business change costs.

£6.1 million, net of cash acquired, was invested in the acquisitions of Melrose Interiors (UK, January 2023), Het Stoffen Gilde (Netherlands, July 2023) and PD Patterns (UK, September 2023). There were no acquisitions in the previous year.

£17.4 million of shareholder returns were made in the year, comprising £5.2 million of payments to acquire own shares under the share buyback programme (2022: £9.8 million) and £12.2 million of ordinary dividend payments (2022: £27.3 million, comprising £12.4 million ordinary and £14.9 million special dividends). The share buyback programme completed on 2 March 2023, with a total of 4,689,343 ordinary shares purchased and all held in treasury.

Net Debt excluding lease liabilities was £29.6 million at the end of the year, an increase of £31.4 million from 31 December 2022. This equates to Leverage of 1.3x, being the ratio of Net Debt excluding leases to EBITDA (pre-IFRS16 basis). The Group targets a long-term average Leverage range of 0.5x to 1.0x. We expect Net Debt to reduce during 2024, with ongoing operating cash generation boosted by the timing difference on payables and the disposal of one or two surplus freehold properties.

Net Debt including lease liabilities was £73.0 million at 31 December 2023 (2022: £35.9 million).

At the end of the year, the Group had total banking facilities available of £100.6 million (31 December 2022: £100.3 million), of which £81.5 million (31 December 2022: £81.5 million) were committed. These facilities expire in October 2027. The Group had £71.0 million of cash and undrawn facilities at 31 December 2023 (31 December 2022: £102.1 million). The Group's banking facilities are subject to two covenants: interest cover (defined as the ratio of EBITDA to net interest expense) and leverage (defined as Net Debt as a ratio of EBITDA). Both covenants are on a pre IFRS 16 basis and are tested at 30 June and 31 December each year. The interest cover ratio was amended from an EBIT to an EBITDA basis going forward in February 2024.

Dividends

As detailed in the Chief Executive Review, the Board has proposed a final ordinary dividend of 6.0 pence per share (2022: final ordinary dividend 11.2 pence per share). If approved by shareholders at the 2024 AGM to be held on 23 May 2024, it will be payable on 7 June 2024 to shareholders on the register as at 10 May 2024 and is expected to be a cash outflow of £4.8 million.

Capital allocation priorities

The Board regularly reviews and follows a clear capital allocation framework, which is set out below. During the year, and as previously published in September 2023, this was modified slightly as follows:

- the introduction of a long-term average target Leverage range of 0.5-1.0x Net Debt to EBITDA (on a pre-IFRS16 basis, i.e. excluding capitalised leases); and

- equal prioritisation given to share buybacks, M&A, and special dividends, with the choice at any given time dependent on both market conditions and available opportunities.

The target Leverage range is considered prudent by the Board and has been set with reference to the balance sheet underpin provided by the Group's substantial freehold property portfolio (with an independent market valuation of £148.8 million at January 2023) plus its inventory position (£131.5 million at 31 December 2023), and the strong cash generation characteristics of the business, whilst also recognising the increased cost of debt compared to recent years. The target range is a long-term average and, as such, the Board is comfortable with the Group's Leverage being below or above the target range over the short-term (for example, as a consequence of an acquisition or disposal), with the intention of reverting back to within the range in a reasonable timescale.

Priority		Rationale
1	Maintain a strong balance sheet	Ensures the financial stability and long-term sustainability of the Group. Long-term average Leverage target range of 0.5 to 1.0x.
2	Investment in the business	Investment to optimise performance and support growth, in turn leading to improved financial performance. Key areas would be in support of delivering on the strategy to drive new revenue, and ESG actions to enhance the sustainability of the Group. 2023 investments included trade counters, network (sites and equipment) and solar panels.
3	Ordinary dividend income for shareholders	Recognising shareholders' expectation of dividend income due to the cash generative nature of the Company, market-leading position, and relatively modest investment required to deliver on the strategy. A targeted bi-annual distribution (paid out of cash) and long-term average cover ratio of around 2x earnings for the total annual pay-out (higher weighting to final dividend). The Board proposes a temporary relaxation of the cover ratio, during the period of market weakness, on the basis of the Group's strong balance sheet and cash generative characteristics, combined with the positive medium-term prospects.
4	Acquisitions and/or return of surplus capital	After all of the above priorities have been fulfilled, the Board would consider M&A or a return of surplus capital to shareholders. The two options have equal priority, with the selection being determined by whichever the Board assesses would provide the best long-term value at the relevant time, taking into account factors such as the prevailing share price. Potential investment in acquisition opportunities would be aimed at growing the Group's position and market share, including in new/underweight product categories and customer segments. An example would be the acquisition of Melrose Interiors, which adds new, larger customers to the Group's customer base, and meaningful entry into the rugs and sampling market. Surplus cash would be considered after considering all anticipated cash requirements as well as the prevailing factors at the time, including the economic environment and market backdrop.

Pensions

The accounting valuation for the legacy defined benefit pension scheme showed a surplus of £4.4 million as at 31 December 2023 (31 December 2022: £2.1 million surplus). However, as the Company does not have an unconditional right to a surplus refund, the pension scheme is recorded as a deficit of £2.3 million as at 31 December 2023 (31 December 2022: £3.2 million deficit) reflecting the level of deficit recovery plan payments that the Company committed to following the last actuarial valuation as at 31 March 2020.

Viability and Going Concern

The Board reviewed the Group's resilience to principal risks and uncertainties by considering stress testing forecasts through a downside scenario, which involves modelling a significant reduction in market demand, on top of the significant market decline observed in 2023. The impact of inflation on the results for the year and the inflationary impact on consumer spending, which could contribute to the occurrence of these scenarios, has been considered as part of the assessment. The testing indicated that the Group would be able to operate within its current facilities and meet its financial covenants.

Mitigating actions, which are within the Board and management's control, are included in the downside modelling and include a reduction in the cost base to better align it with market demand and revenue performance, suspension of ordinary dividend(s), and a freeze on non-critical capital spend.

As above, as at 31 December 2023 the Group had a Net Debt position excluding lease liabilities of £29.6 million and had total banking facilities available of £100.6 million, including £81.5 million of committed facilities. The Group had cash and undrawn facilities of £71.0 million at 31 December 2023. Having reviewed the financial projections and the downside modelling, and having considered the available mitigating actions, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of this assessment. Furthermore, the Board believes there are reasonable grounds for stating that the Group has adequate resources to continue in operational existence for a period no shorter than 12 months from the date of this Financial Review, and it is appropriate to adopt the going concern basis in preparing the Group's Financial Statements.

Principal risks and uncertainties

The Group is exposed to a number of principal risks which may affect its business model, future performance, solvency or liquidity. The group has a well-established framework for reviewing and assessing these risks on a regular basis; and has put in place appropriate processes, procedures and actions to mitigate against them. However, no system of control or series of mitigations can completely eliminate all risks. The principal risks and uncertainties that may affect the group were last reported on within the 2022 Annual Report and Accounts and have been considered and updated for the 2023 Annual Report and Accounts.

No new principal risks have been identified. The risk ratings of a number of the principal risks have been amended slightly; however, the scope of the principal risks remain broadly unchanged since last reported.

Adam Phillips

Chief Financial Officer

5 March 2024

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2023

	Note	Underlying 2023 £M	Non-underlying (Note 2) 2023 £M	Total 2023 £M	Underlying 2022 £M	Non-underlying (Note 2) 2022 £M	Total 2022 £M
Revenue	1	656.5	–	656.5	663.6	–	663.6
Cost of sales		(448.7)	–	(448.7)	(444.1)	–	(444.1)
Gross profit		207.8	–	207.8	219.5	–	219.5
Distribution costs		(131.3)	–	(131.3)	(129.5)	–	(129.5)
Administrative expenses		(60.8)	(12.5)	(73.3)	(51.3)	(1.5)	(52.8)
Other operating income		0.4	8.6	9.0	0.5	6.2	6.7
Operating profit/(loss)	1	16.1	(3.9)	12.2	39.2	4.7	43.9
Finance income		0.3	–	0.3	0.7	–	0.7
Finance expenses		(5.4)	–	(5.4)	(2.8)	–	(2.8)
Net finance costs		(5.1)	–	(5.1)	(2.1)	–	(2.1)
Profit/(loss) before tax		11.0	(3.9)	7.1	37.1	4.7	41.8
Taxation	3	(2.2)	2.8	0.6	(7.4)	(0.8)	(8.2)
Profit/(loss) for the year attributable to the equity shareholders		8.8	(1.1)	7.7	29.7	3.9	33.6
Earnings per share							
Basic	4	11.0p		9.6p	35.5p		40.1p
Diluted	4	10.9p		9.6p	35.2p		39.8p
Ordinary dividend per share							
Interim dividend for the financial year	5			4.0p			6.2p
Final dividend declared	5			6.0p			11.2p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

	2023 £M	2022 £M
Profit for the year attributable to the equity shareholders	7.7	33.6
Other comprehensive (expense)/income		
Items that will never be reclassified to profit or loss		
Remeasurement of defined benefit plans	(0.3)	0.1
Related tax	0.1	–
	(0.2)	0.1
Items that are or may be reclassified to profit or loss		
Exchange differences arising on translation of overseas operations	(0.2)	0.4
	(0.2)	0.4
Other comprehensive (expense)/income for the year	(0.4)	0.5
Total comprehensive income attributable to the equity shareholders for the year	7.3	34.1

STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	Note	2023 £M	2022 £M
Assets			
Non-current assets			
Property, plant and equipment		127.6	119.9
Right of use assets		41.6	36.7
Intangible assets		19.4	17.8
Deferred tax assets		0.9	–
		189.5	174.4
Current assets			
Inventories		131.5	139.8
Trade and other receivables		117.1	119.1
Income tax receivable		3.1	–
Cash and cash equivalents		21.1	2.1
		272.8	261.0
Total assets	1	462.3	435.4
Liabilities			
Current liabilities			
Bank overdrafts		(0.7)	–
Other interest-bearing loans and borrowings		(50.0)	(0.3)
Lease liabilities		(11.9)	(11.4)
Trade and other payables		(129.1)	(153.2)
Employee benefits		(1.1)	(1.0)
Income tax payable		–	(1.9)
		(192.8)	(167.8)
Non-current liabilities			
Lease liabilities		(31.5)	(26.3)
Provisions		(2.6)	(1.7)
Deferred tax liabilities		(13.2)	(12.1)
Employee benefits		(1.8)	(2.7)
		(49.1)	(42.8)
Total liabilities	1	(241.9)	(210.6)
Net assets		220.4	224.8
Equity attributable to equity holders of the parent			
Share capital		4.3	4.3
Share premium		53.5	53.5
Other reserves		(15.5)	(15.8)
Retained earnings		178.1	182.8
Total equity		220.4	224.8

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	Note	Share capital £M	Share premium £M	Capital redemption reserve £M	Special reserve £M	Translation reserve £M	Treasury reserve £M	Retained earnings £M	Total equity £M
Balance at 1 January 2022		4.3	53.5	0.1	1.5	1.7	(4.9)	175.9	232.1
Profit for the year attributable to the equity shareholders		–	–	–	–	–	–	33.6	33.6
Other comprehensive income		–	–	–	–	0.4	–	0.1	0.5
Total comprehensive income for the year		–	–	–	–	0.4	–	33.7	34.1
Transactions with equity shareholders, recorded directly in equity									
Share-based payments		–	–	–	–	–	–	0.9	0.9
Share options exercised by employees		–	–	–	–	–	0.4	(0.2)	0.2
Deferred tax on share options		–	–	–	–	–	–	(0.2)	(0.2)
Repurchase of own shares		–	–	–	–	–	(15.0)	–	(15.0)
Dividends to equity holders	5	–	–	–	–	–	–	(27.3)	(27.3)
Total contributions by and distributions to equity shareholders		–	–	–	–	–	(14.6)	(26.8)	(41.4)
Balance at 31 December 2022		4.3	53.5	0.1	1.5	2.1	(19.5)	182.8	224.8
Balance at 1 January 2023		4.3	53.5	0.1	1.5	2.1	(19.5)	182.8	224.8
Profit for the year attributable to the equity shareholders		–	–	–	–	–	–	7.7	7.7
Other comprehensive expense		–	–	–	–	(0.2)	–	(0.2)	(0.4)
Total comprehensive (expense)/income for the year		–	–	–	–	(0.2)	–	7.5	7.3
Transactions with equity shareholders, recorded directly in equity									
Share-based payments		–	–	–	–	–	–	0.6	0.6
Share options exercised by employees		–	–	–	–	–	0.5	(0.5)	–
Deferred tax on share options		–	–	–	–	–	–	(0.1)	(0.1)
Dividends to equity holders	5	–	–	–	–	–	–	(12.2)	(12.2)
Total contributions by and distributions to equity shareholders		–	–	–	–	–	0.5	(12.2)	(11.7)
Balance at 31 December 2023		4.3	53.5	0.1	1.5	1.9	(19.0)	178.1	220.4

CASH FLOW STATEMENT

For the year ended 31 December 2023

	Group 2023 £M	2022 £M
Cash flows from operating activities		
Profit before tax for the year	7.1	41.8
Adjustments for:		
Depreciation and impairment of property, plant and equipment, amortisation and impairment of intangible assets and other acquisition-related costs	14.0	7.7
Depreciation and impairment of right-of-use assets	13.9	12.5
Finance income	(0.3)	(0.7)
Finance expense	5.4	2.8
Insurance proceeds for property, plant and equipment (following fire)	(8.6)	(1.7)
Profit on sale of property, plant and equipment	(1.1)	–
Share-based payments	0.6	0.9
Operating cash flows before changes in working capital and other payables	31.0	63.3
Change in inventories	10.0	(8.3)
Change in trade and other receivables	2.7	(3.5)
Change in trade and other payables	(22.1)	(34.2)
Cash generated from/(used in) the operations	21.6	17.3
Interest paid	(4.7)	(1.2)
Interest received	0.3	0.6
Tax (paid)/received	(4.7)	(5.8)
Net cash flow from operating activities	12.5	10.9
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	2.3	–
Acquisition of subsidiary, net of cash acquired	(6.1)	–
Acquisition of property, plant and equipment	(17.4)	(12.6)
Insurance proceeds for property, plant and equipment following fire	8.6	1.7
Acquisition of intangible assets	(0.8)	(1.2)
Net cash flow from investing activities	(13.4)	(12.1)
Cash flows from financing activities		
Proceeds from the issue of treasury shares	–	0.2
Payment to acquire own shares*	(5.2)	(9.8)
Proceeds from borrowings	110.0	25.0
Repayment of borrowings	(60.3)	(32.3)
Principal elements of lease payments	(13.0)	(14.0)
Dividends paid	(12.2)	(27.3)
Net cash flow from financing activities	19.3	(58.2)
Net increase/(decrease) in cash and cash equivalents	18.4	(59.4)
Cash and cash equivalents at 1 January	2.1	61.2
Effect of exchange rate fluctuations on cash held	(0.1)	0.3
Cash and cash equivalents at 31 December	20.4	2.1

* During the period 1,566,622 (2022: 3,122,721) shares were acquired for £5.2 million (2022: £9.8 million) under the Group's Share Buyback Programme

NOTES TO THE FINANCIAL STATEMENTS

1 Segment reporting

As at 31 December 2023, the Group had 16 operating segments in the UK and three operating segments in Continental Europe. Each segment represents an individual distribution centre operation, and each operation is wholly aligned to the sales, marketing, supply and distribution of floorcovering products. The operating results of each operation are regularly reviewed by the Chief Operating Decision Maker, which is deemed to be the Chief Executive. Discrete financial information is available for each segment and used by the Chief Executive to assess performance and decide on resource allocation.

The operating segments have been aggregated to the extent that they have similar economic characteristics. The key economic indicators considered by management in assessing whether operating segments have similar economic characteristics are the products supplied, the type and class of customer, method of sale and distribution and the regulatory environment in which they operate.

As each operating segment is a trading operation wholly aligned to the sales, marketing, supply and distribution of floorcovering products, management considers all segments have similar economic characteristics except for the regulatory environment in which they operate, which is determined by the country in which the operating segment resides.

The Group's internal management structure and financial reporting systems differentiate the operating segments on the basis of the differing economic characteristics in the UK and Continental Europe and accordingly present these as two separate reportable segments. This distinction is embedded in the construction of operating reports reviewed by the Chief Executive, the Board and the executive management team and forms the basis for the presentation of operating segment information given below.

	UK		Continental Europe		Total	
	2023 £M	2022 £M	2023 £M	2022 £M	2023 £M	2022 £M
Revenue						
External revenues	577.3	577.8	79.2	85.8	656.5	663.6
Reportable segment underlying operating profit	22.0	36.8	0.2	3.4	22.2	40.2
Reportable segment assets	359.4	371.0	35.6	40.7	395.0	411.7
Reportable segment liabilities	(209.8)	(173.8)	(18.9)	(22.8)	(228.7)	(196.6)

During the year there were no inter-segment revenues for the reportable segments (2022: £nil).

In the UK the Group's freehold properties are held within Headlam Group plc and a rent is charged to the operating segments. In the current year this rent has been allocated to the operating segments to better reflect their performance.

Reconciliations of reportable segment profit, assets and liabilities and other material items:

	2023 £M	2022 £M
Profit for the year		
Total underlying operating profit for reportable segments	22.2	40.2
Non-underlying items	(3.9)	4.7
Unallocated expense	(6.1)	(1.0)
Operating profit	12.2	43.9
Finance income	0.3	0.7
Finance expense	(5.4)	(2.8)
Profit before taxation	7.1	41.8
Taxation	0.6	(8.2)
Profit for the year	7.7	33.6

	2023 £M	2022 £M
Assets		
Total assets for reportable segments	395.0	411.7
Unallocated assets:		
Intangible assets	0.1	3.0
Income tax receivable	3.1	-
Deferred tax assets	0.9	-
Cash and cash equivalents	63.2	20.7
Total assets	462.3	435.4
Liabilities		
Total liabilities for reportable segments	(228.7)	(196.6)
Unallocated liabilities:		
Income tax payable	-	(1.9)
Deferred tax liabilities	(13.2)	(12.1)
Total liabilities	(241.9)	(210.6)

	UK £M	Continental Europe £M	Reportable segment total £M	Unallocated £M	Consolidated total £M
Other material items 2023					
Capital expenditure	17.1	0.3	17.4	–	17.4
Depreciation	6.7	0.4	7.1	–	7.1
Depreciation of right of use assets	12.0	1.5	13.5	–	13.5
Impairment of property, plant and equipment	1.9	–	1.9	–	1.9
Impairment of intangible assets	–	–	–	3.6	3.6
Impairment of right of use assets	0.4	–	0.4	–	0.4
Non-underlying items (excluding impairment)	(2.3)	0.1	(2.2)	0.2	(2.0)
Other material items 2022					
Capital expenditure	12.1	0.5	12.6	–	12.6
Depreciation	5.9	0.3	6.2	–	6.2
Depreciation of right of use assets	10.7	1.8	12.5	–	12.5
Non-underlying items	(4.8)	0.1	(4.7)	–	(4.7)

The Chief Executive, the Board and the senior executive management team have access to information that provides details on revenue by principal product group for the two reportable segments, as set out in the following table:

Revenue by principal product group and geographic origin is summarised below:

	UK		Continental Europe		Total	
	2023 £M	2022 £M	2023 £M	2022 £M	2023 £M	2022 £M
Revenue						
Residential	377.2	382.8	47.5	52.5	424.7	435.3
Commercial	200.1	195.0	31.7	33.3	231.8	228.3
	577.3	577.8	79.2	85.8	656.5	663.6

2 Non-underlying items

In order to illustrate the underlying trading performance of the Group, presentation has been made of performance measures excluding those items which it is considered would distort the comparability of the Group's results. These non-underlying items are defined as those items that are associated with the acquisition of businesses or other items which by virtue of their nature, size and expected frequency require adjustment to show the performance of the Group in a consistent manner which is comparable year-on-year.

The following are the principal items classed as non-underlying:

- Insurance proceeds (following fire) and related loss on disposal of items under construction and profit on sale of property, plant and equipment as these are non-recurring items;
- Amortisation of acquired intangibles and other acquisition-related items as they relate to the acquisition of businesses;
- Impairment of intangibles, property, plant and equipment and right of use assets as, in totality, they are significant, non-recurring items relating to the decision to replace the ERP system and the decision to close certain sites; and
- Business restructuring and change-related costs which is a significant item in 2023 comprising £3.4 million cash costs and £2.0 million non-cash costs and relate to the period from January to December 2023. No further costs are currently expected. See note 3 for further details.

See the Group's Annual Report and Accounts for details on alternative performance measures.

Non-underlying expense after tax of £1.1 million (2022: income of £3.9 million) relate to the following:

	2023 £M	2022 £M
Amortisation of intangibles and other acquisition-related costs	2.3	1.5
Impairment of property, plant and equipment, intangible assets and right of use assets	5.9	–
Insurance proceeds (following fire)	(8.6)	(6.2)
Profit on sale of property, plant and equipment	(1.1)	–
Business restructuring and change-related costs	5.4	–
	3.9	(4.7)
Taxation on non-underlying items	(2.8)	0.8
	1.1	(3.9)

Included within impairment is £3.6 million impairment of intangible assets, £1.9 million impairment of property, plant and equipment and £0.4 million impairment of right of use assets. The impairment charges relate to the write off of software development costs following the decision to replace the existing ERP system and the write down of assets following the decision to close certain sites.

Insurance proceeds relates to an insurance claim for losses arising from the Kidderminster fire in December 2021. Profit on sale of property, plant and equipment includes £1.2 million loss on disposal of items under construction relating to previously capitalised costs associated with the rebuild of the Kidderminster site, including site clearance fees and professional adviser fees incurred before the decision was made to dispose of the site and also a £2.3 million profit on sale relating to the ultimate disposal of the Kidderminster land.

Business restructuring and change-related costs relate to network optimisation, including headcount reduction costs as a result of the restructuring, together with the cost of closing certain sites and the implementation of dynamic transport planning which led to further headcount reductions and vehicle termination costs. The costs comprise £3.4 million cash costs and £2.0 million non-cash costs and relate to the period from January 2023 to December 2023. No further cash or non-cash costs are currently expected in 2024.

3 Taxation

Recognised in the income statement

	2023 £M	2022 £M
Current tax (credit)/expense:		
Current year	-	7.2
Adjustments for prior years	(0.3)	(0.6)
	(0.3)	6.6
Deferred tax (credit)/expense:		
Origination and reversal of temporary differences	(0.5)	0.8
Effect of change in UK tax rates	-	0.3
Adjustments for prior years	0.2	0.5
	(0.3)	1.6
Total tax	(0.6)	8.2

	2023 £M	2022 £M
Tax relating to items (credited)/charged to equity		
Deferred tax on:		
Share options	0.1	0.2
Deferred tax on other comprehensive expense:		
Defined benefit plans	(0.1)	–
Total tax reported directly in reserves	-	0.2

Factors that may affect future current and total tax charges

The UK headline corporation tax rate for the year was 23.5% (2022: 19.0%). In the Spring Budget of 2021, the UK Government announced that from 1 April 2023 the rate of UK corporation tax would increase from 19.0% to 25.0%. This new law was substantively enacted on 24 May 2021. UK deferred tax assets and liabilities have been calculated at a rate of 25.0% (2022: 25.0%).

The Group is within the scope of the OECD Pillar Two model rules. The Pillar Two legislation was enacted on 11 July 2023. The Group does not expect the Pillar Two legislation to have any material impact.

Reconciliation of tax (credit)/charge

	2023 £M	2022 £M
Profit before tax	7.1	41.8
Tax using the UK corporation tax rate of 23.5% (2022: 19.0%)	1.7	7.9
Effect of change in UK tax rate	-	0.3
Local tax incentives	-	(0.3)
(Non-taxable income)/non-deductible expenses	(1.3)	0.5
Impact of losses not recognised	-	(0.1)
Recognition of deferred tax on losses	(0.9)	-
Adjustments in respect of prior years	(0.1)	(0.1)
Total tax in income statement	(0.6)	8.2
Add back tax on non-underlying items	2.8	(0.8)
Total tax charge excluding non-underlying items	2.2	7.4
Profit before tax before non-underlying items	11.0	37.1
Adjusted effective tax rate excluding non-underlying items	20.0%	20.1%
Total effective tax rate (credit)/charge	(8.5)%	19.6%

4 Earnings per share

	2023 £M	2022 £M
Earnings for basic and diluted earnings per share	7.7	33.6
Earnings for underlying basic and underlying diluted earnings per share	8.8	29.7

	2023	2022
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	80,270,756	83,626,126
Effect of diluted potential ordinary shares:		
Weighted average number of ordinary shares at 31 December	80,270,756	83,626,126
Dilutive effect of share options	107,110	615,584
Weighted average number of ordinary shares for the purposes of diluted earnings per share	80,377,866	84,241,710
Earnings per share		
Basic	9.6p	40.1p
Diluted	9.6p	39.8p
Underlying basic	11.0p	35.5p
Underlying diluted	10.9p	35.2p

At 31 December 2023, the Company held 5,449,419 shares (2022: 4,046,617) in relation to treasury stock and shares held in trust for satisfying options and awards under employee share schemes. These shares have been disclosed in the treasury reserve and are excluded from the calculation of earnings per share.

5 Dividends

	2023 £M	2022 £M
Final dividend for 2021 of 8.6p paid 27 May 2022	-	7.2
Special dividend of 17.7p paid 27 May 2022	-	14.9
Interim dividend for 2022 of 6.2p paid 28 November 2022	-	5.2
Final dividend for 2022 of 11.2p paid 2 June 2023	9.0	-
Interim dividend for 2023 of 4.0p paid 28 November 2023	3.2	-
	12.2	27.3

The Board of Directors have declared a final dividend of 6.0p per share which if approved by shareholders at the forthcoming AGM, will be payable on 7 June 2024.

The total value of dividends proposed or declared but not recognised at 31 December 2023 is £4.8 million (2022: £9.0 million).

6 Additional information

The financial information set out above does not constitute the Group's statutory accounts for the years ended 31 December 2023 or 2022 but is derived from those accounts. Statutory accounts for 2022 have been delivered to the registrar of companies, and those for 2023 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The Group anticipates that the Group's statutory accounts will be posted to shareholders during March 2024 and will be displayed on the Group's website at www.headlam.com during March 2024. Copies of the statutory accounts will also be available from the Company’s registered office at Headlam Group plc, Gorsey Lane, Coleshill, Birmingham, B46 1JU.

This final results announcement for the year ended 31 December 2023 was approved by the Board on 5 March 2024.

ALTERNATIVE PERFORMANCE MEASURES ('APMs')

Glossary of Alternative Performance Measures	Closest equivalent statutory measure	Definition and purpose
Underlying Administrative Expenses	Administrative expenses	Calculated as administrative expenses before items associated with the acquisition of businesses and other items which by virtue of their nature, size and expected frequency require adjustment to show the performance of the Group in a consistent manner which is comparable year-on-year
Underlying Operating Profit	Operating profit	Calculated as operating profit before items associated with the acquisition of businesses and other items which by virtue of their nature, size and expected frequency require adjustment to show the performance of the Group in a consistent manner which is comparable year-on-year
Underlying Operating Profit Margin	None	Calculated as underlying operating profit divided by revenue. This measure is used to assess how effective the Group is at converting revenue into underlying operating profit
Underlying Profit Before Tax	Profit before tax	Calculated as profit before tax before items associated with the acquisition of businesses and other items which by virtue of their nature, size and expected frequency require adjustment to show the performance of the Group in a consistent manner which is comparable year-on-year. Underlying profit before tax is used in the determination of Executive Directors' annual bonuses
Underlying Profit After Tax	Profit after tax	Calculated as profit after tax before items associated with the acquisition of businesses and other items which by virtue of their nature, size and expected frequency require adjustment to show the performance of the Group in a consistent manner which is comparable year-on-year
Underlying Basic Earnings Per Share	Basic earnings per share	Calculated as basic earnings per share before items associated with the acquisition of businesses and other items which by virtue of their nature, size and expected frequency require adjustment to show the performance of the Group in a consistent manner which is comparable year-on-year
Underlying Diluted Earnings Per Share	Diluted earnings per share	Calculated as diluted earnings per share before items associated with the acquisition of businesses and other items which by virtue of their nature, size and expected frequency require adjustment to show the performance of the Group in a consistent manner which is comparable year-on-year
EBIT	None	Calculated as underlying operating profit adjusted to exclude the impact of IFRS 16 and share-based payments
EBITDA	None	Calculated as underlying operating profit excluding the impact of depreciation and amortisation
Underlying Operating Cash Flow	None	Calculated as shown in the table in the Financial Review. This metric is used to assess underlying cash generation
Net Debt / Funds including lease liabilities	None	Calculated as cash and cash equivalents less other interest-bearing loans and borrowings and less lease liabilities. This is used as a measure of liquidity
Net Debt / Funds	None	Calculated as cash and cash equivalents less other interest-bearing loans and borrowings This is provided for use by investors, who used this metric before the adoption of IFRS16 and continue to do so

Average Net Debt / Funds	None	Calculated by aggregating the net debt / funds position for each business day and dividing by the total number of business days. This is used as a measure of liquidity maintained throughout the year
Like for Like Revenue Growth	None	Calculated as year-on-year revenue growth, expressed as a percentage and adjusted to normalise currency and for consistent working days, for businesses making a full year's contribution. This allows a consistent measure of year-on-year performance
Underlying selling, general and administrative costs	None	Calculated as distribution costs and underlying administrative expenses divided by revenue and expressed as a percentage. This measure shows how effective the Group is at converting gross profit into underlying operating profit
Return on Capital Employed	None	Calculated as underlying operating profit measured as a percentage of average capital employed, being total equity less non-current other interest-bearing loans and borrowings less cash and cash equivalents This demonstrates the relative level of profit generated by the capital employed
Cash Conversion	None	Calculated as Underlying Operating Cash Flow divided by Underlying Operating and expressed as a percentage This cash conversion measure demonstrates the success of the Group in converting profit to cash, which underpins the quality of earnings and reflects the effectiveness of working capital management