



HALF YEAR RESULTS

6 months ended 30 June 2023

headlam

The leading,
most trusted
experts in flooring

AGENDA

Chris Payne
Chief Executive

Adam Phillips
Chief Financial Officer

Introduction

H1 2023 Financial Performance

Strategic Progress Update

- Strategic Initiatives
- Sustainability and ESG Strategy

Outlook

- Current Trading
- Capital Allocation
- Summary

A high-angle photograph of a brown and white dog, possibly a Border Collie, lying on a light-colored wooden floor. The dog is positioned on the left side of the frame, with its head turned towards the right. A portion of a striped rug with fringed edges is visible in the bottom-left corner. The background is a wooden floor with a prominent grain pattern. The word "INTRODUCTION" is overlaid in large, white, bold, sans-serif capital letters on the right side of the image. A thick orange L-shaped graphic element is located in the bottom-right corner, framing the text.

INTRODUCTION

ABOUT US

Long heritage, and strong foundations

30 years operating excellence

- Knowledgeable and long serving colleagues (+2,000)
- Servicing a large and diverse trade customer base
- Long established supplier relationships across the globe

Broadest and largest product range

- Spanning a wide spectrum of price points and product categories
- Large portfolio of exclusive own brand products, and well recognised brands
- New launches, including sustainable and recyclable products

Nationwide network and operations

- 68 national and regional businesses / brands to maximise reach and sales opportunity
- Next day delivery from extensive distribution network (22 hubs and centres)
- Growing number of trade counter collection sites (59 sites currently)

Leading customer service

- Dedicated sales teams and marketing support
- Tailored service propositions and comprehensive solutions
- Investing in ecommerce and industry leading digital channels



H1 2023 OVERVIEW

Good revenue growth

- Revenue +2.5% at £331.8m despite challenging market backdrop with UK volumes 5% lower
- Strategic initiatives offsetting regional distribution decline: Larger Customers +26.5%; Trade Counters +8.5%; Regional Distribution -2.6%

Profits lower due to macro and industry headwinds

- Underlying PBT £6.0m (H1 22: £17.3m) impacted by macro and industry headwinds of lower UK residential trading volumes (7% lower), limited manufacturer-led price increases, and high operating cost inflation
- Efficiency and mitigating actions providing £5.0m of support in H1 2023, expected to build in H2

Strong cash generation

- Strong cash generation with £19.8m of positive Underlying Operating Cash Flow (H1 22: £15.4m outflow)

Continued strategic progress

- Interim dividend of 4.0p (H1 22: 6.2p), cover lowered to 1.5x reflecting confidence for future and strong balance sheet
- Investing for the future, strategic investment in trade counters, people and capability, and improvements to network



H1 2023 FINANCIAL PERFORMANCE



FINANCIAL SUMMARY

Financial Results	H1 2023	H1 2022	% change
Revenue	£331.8m	£323.8m	+2.5%
Gross margin	31.5%	33.7%	-217bps
Underlying Operating Profit	£8.2m	£17.9m	-54.2%
Underlying Profit Before Tax	£6.0m	£17.3m	-65.3%
Underlying Basic Earnings Per Share	6.1p	16.5p	-63.0%
Underlying Operating Cash Flow	£19.8m	£(15.4)m	
Ordinary dividend per share	4.0p	6.2p	-35.5%
Net (debt)/funds pre lease liabilities	£(19.6)m	£6.0m	
Leverage	0.5x	N/A	

Notes:

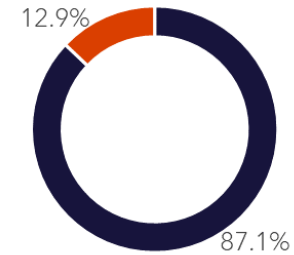
- Underlying is before non-underlying items, which includes amortisation of acquired intangibles and other acquisition-related costs and insurance proceeds (following Kidderminster fire in 2021)
- Leverage = Net Debt excluding leases as a ratio of EBITDA (pre-IFRS 16 basis)

- Revenue growth of 2.5%; strategic growth initiatives offsetting the market impact on regional distribution
- 2023 margin has returned to the pre-2021 average of 31% to 32%; 2022 margin temporarily elevated by the proliferation of price increases due to the unprecedented inflationary environment
- Profit lower due to macro and industry headwinds of lower residential volumes and high operating cost inflation, combined with return to pre-2021 levels of margin %
- Good cash generation with £19.8m Underlying Operating Cash Flow, up £35.2m year-on-year
- Net Debt excluding lease liabilities of £19.6m increased by £21.4m from 31 Dec 2022 after £10.1m capex and £14.2m shareholder returns

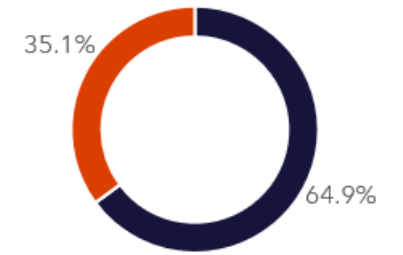
REVENUE

	£m	%	£m	%
H1 2022 Revenue:				
UK	279.6	86.3		
Continental Europe	44.2	13.7		
			323.8	100.0
UK incremental items:				
Like-for-like	2.8	1.0		
Change in working days	2.3	0.8		
Acquisitions	4.2	1.5		
			9.3	3.3
Continental Europe incremental items:				
Like-for-like	(2.6)	(5.9)		
Change in working days	(0.1)	(0.2)		
Translation effect	1.4	3.2		
			(1.3)	(2.9)
Total movement			8.0	2.5
H1 2023 Revenue:				
UK	288.9	87.1		
Continental Europe	42.9	12.9		
			331.8	100.0

	H1 2023 £m	H1 2022 £m	Year-on-year %
Larger Customers	39.0	30.9	26.5%
Trade Counters	45.9	42.3	8.5%
Regional Distribution	190.6	196.2	(2.6)%
Other	13.4	10.2	31.4%
UK	288.9	279.6	3.3%
Europe	42.9	44.2	(2.9)%
Group	331.8	323.8	2.5%



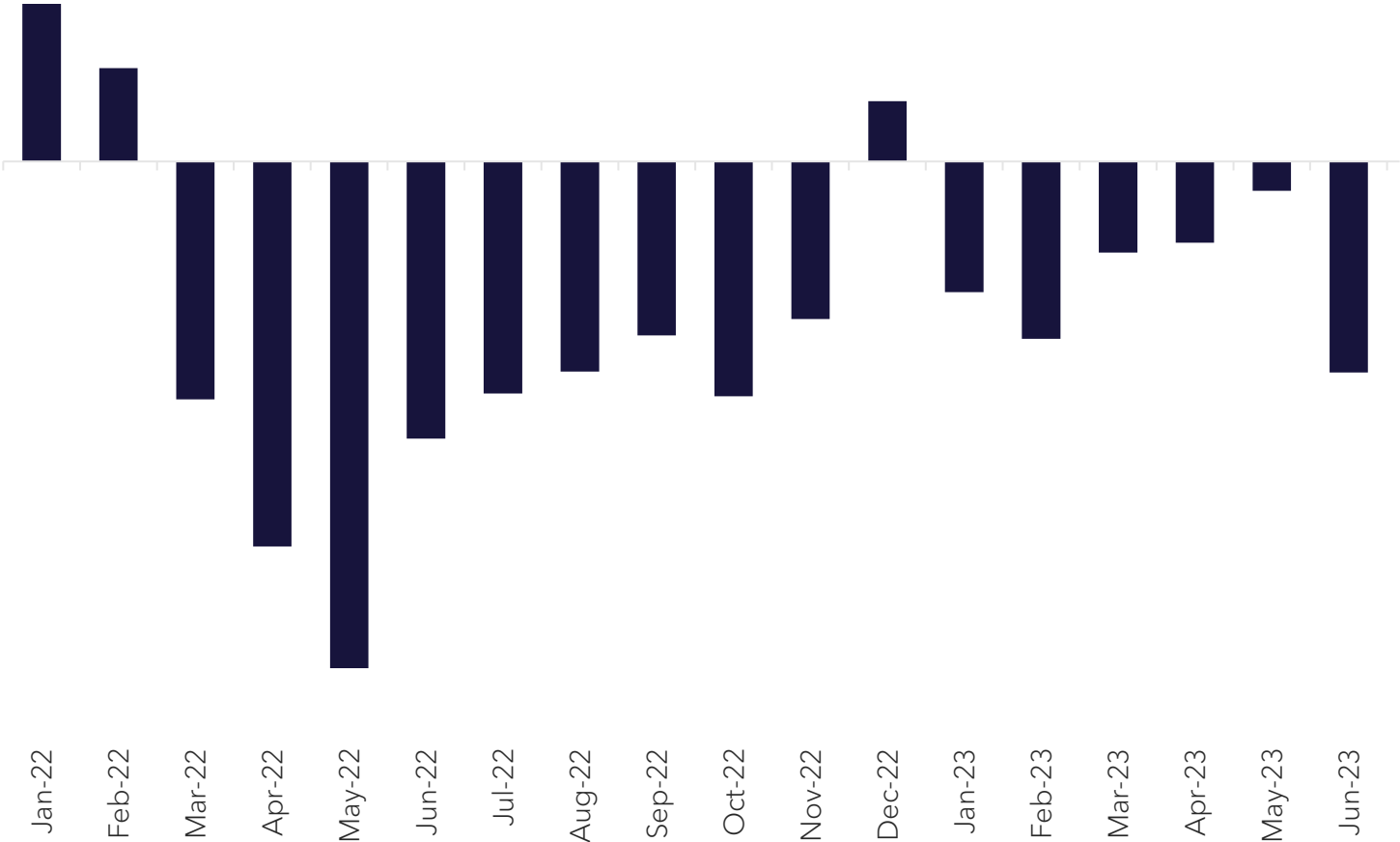
■ UK ■ Continental Europe



■ Residential ■ Commercial

UK DISTRIBUTION VOLUMES

This chart shows the year-on-year volume growth/decline in the UK distribution business. It is on a like-for-like basis and therefore excludes Melrose Interiors

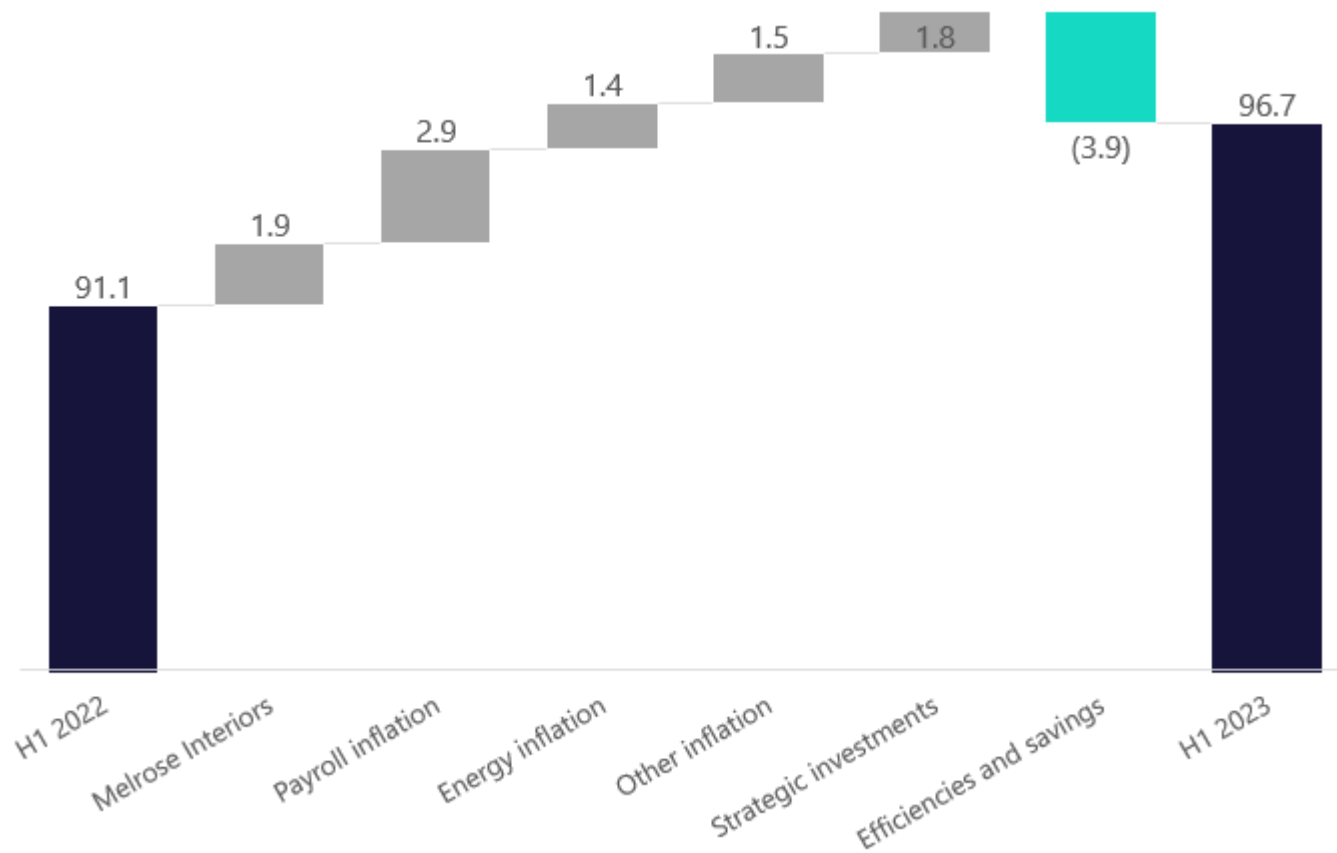


INCOME STATEMENT

	H1 2023 £m	% of revenue	H1 2022 £m	% of revenue
Revenue	331.8	100.0%	323.8	100.0%
Cost of sales	(227.3)	(68.5)%	(214.8)	(66.3)%
Gross profit	104.5	31.5%	109.0	33.7%
Distribution costs	(67.1)	(20.2)%	(64.6)	(20.0)%
Administrative expenses	(29.6)	(8.9)%	(26.5)	(8.2)%
Other operating income	0.4	0.1%	-	
Underlying Operating Profit	8.2	2.5%	17.9	5.5%
Net finance costs	(2.2)	(0.7)%	(0.6)	(0.2)%
Underlying Profit Before Tax	6.0	1.8%	17.3	5.3%
Non-underlying items	(1.5)	(0.5)%	4.3	1.3%
Statutory profit before tax	4.5	1.4%	21.6	6.7%
Basic earnings per share	4.6p		20.6p	
Underlying Basic Earnings Per Share	6.1p		16.5p	
Interim dividend	4.0p		6.2p	

- Revenue growth of 2.5%; strategic growth initiatives offsetting the market impact on regional distribution
- 2023 margin has returned to the pre-2021 average of 31% to 32%; 2022 margin temporarily elevated by the proliferation of price increases due to the unprecedented inflationary environment
- Operating costs* increased by 4.1% on a like-for-like basis (excluding Melrose acquisition) - see separate breakdown
- Operating profit of £8.2m is a reduction of £9.7m - see separate breakdown
- Increased net finance costs due to higher average borrowings and rate increases
- Interim dividend of 4.0p representing 1.5x cover

OPERATING COSTS

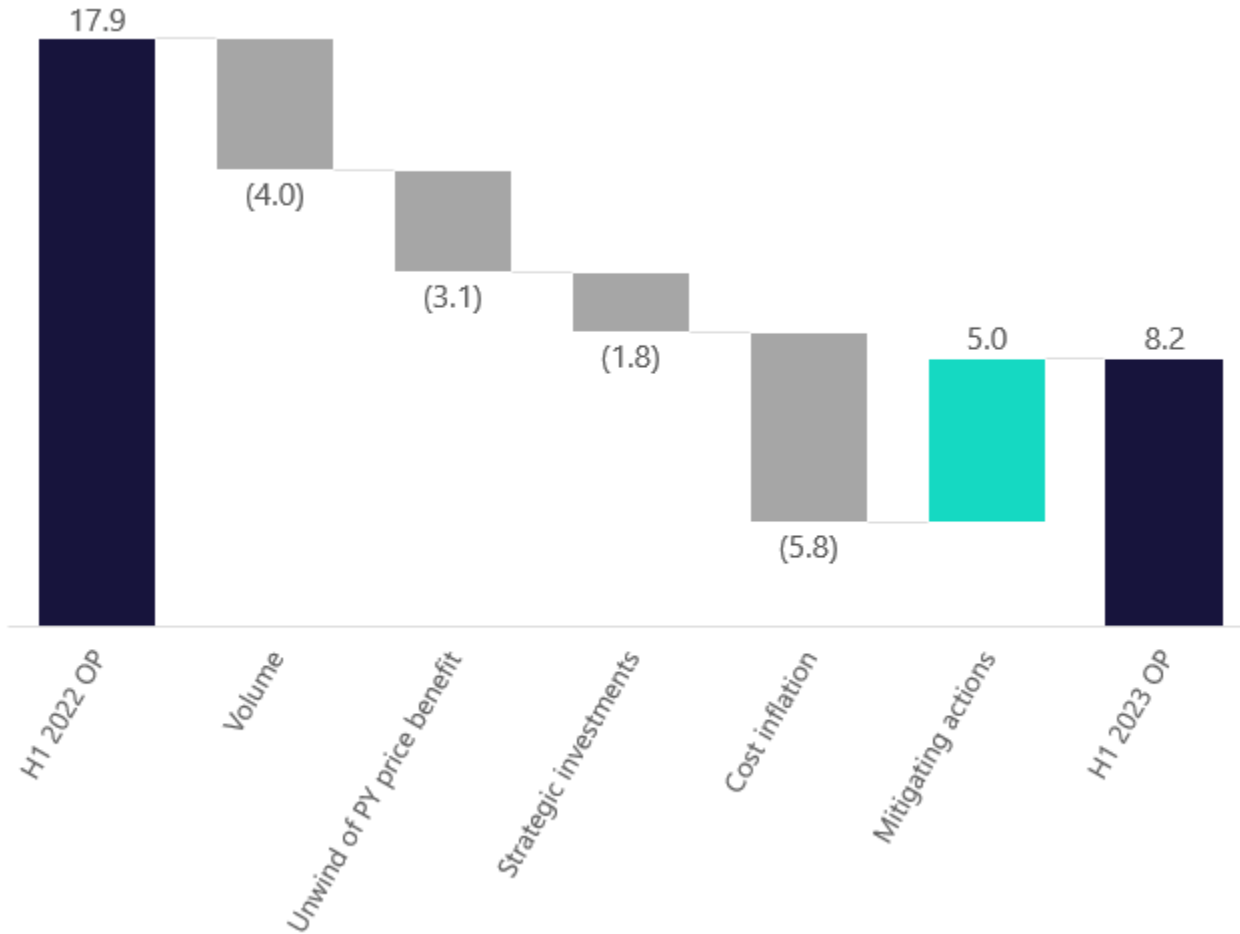


- Like-for-like* operating costs increased by 4.1% (£3.7m)
- Total operating cost inflation of £5.8m, with average pay increase of 6.7%
- Strategic investments increased costs by £1.8m
- Efficiencies and cost savings providing an offset of £3.9m:
 - Lower operational headcount
 - Transport consolidation
 - Lower bonus accruals



* Excluding Melrose Interiors, acquired in January 2023

UNDERLYING OPERATING PROFIT



- UK volumes 5% lower than previous year (net of growth from larger customers and trade counters)
- Unwind of prior year manufacturer price increases has a £3.1m adverse impact
- £1.8m profit impact from strategic investments to support future revenue growth
- Cost inflation of £5.8m principally driven by people and energy
- Mitigating actions provided £5.0m of benefit and will build in H2 23

MITIGATING ACTIONS

Mitigating actions implemented in H1 2023, building on previous efficiency initiatives

These included:

- Reducing operational headcount to reflect lower volumes
- Transport centralisation
- Renegotiation of fuel contracts
- Targeted price rises
- Other cost savings, including lower bonus accruals

Actions contributed £5m in H1 2023; expected to increase in H2

Provides partial offset against cost of ongoing strategic investment, volume declines and operational cost inflation



NON-UNDERLYING ITEMS

Non-underlying items	H1 2023 £m	H1 2022 £m
Amortisation of acquired intangibles and other acquisition-related costs	1.3	0.7
Non-underlying non-cash items	1.3	0.7
Insurance proceeds (following fire)	-	(5.0)
Other acquisition-related costs	0.2	-
Non-underlying cash items	0.2	(5.0)
Non-underlying items before tax	1.5	(4.3)

- Higher amortisation of acquired intangibles and other acquisition-related costs due to Melrose Interiors acquisition in January 2023
- H1 2022 credit due to insurance proceeds following 2021 fire at Kidderminster site
- Further proceeds from the insurance claim expected in H2 2023

CASH FLOW

Cash Flow Movement	H1 2023 £m	H1 2022 £m
Underlying EBITDA	18.0	26.6
Change in inventories	(6.9)	(16.9)
Change in receivables	4.0	(4.4)
Change in payables	4.0	(21.3)
Other	0.7	0.6
Underlying Operating Cash Flow	19.8	(15.4)
Interest and tax	(5.7)	(3.2)
Acquisition of subsidiary, net of cash acquired	(3.7)	-
Capital investment	(10.1)	(2.8)
Lease payments	(7.2)	(5.8)
Dividends and acquiring own shares	(14.2)	(25.8)
Non-underlying	(0.2)	5.0
Other	-	0.2
Net cash flow before movement in borrowings	(21.3)	(47.8)
Movement in borrowings	36.8	18.0
Net cash flow	15.5	(29.8)

- Strong operating cash generation with Underlying Operating Cash Flow of £19.8m, a year-on-year increase of £35.2m
- Working capital broadly flat compared to £33.8m outflow in previous year
- Melrose Interiors acquired in January 2023 for £3.7m; two small acquisitions in H2 to date totaling £2.3m
- Capital investment of £10.1m principally comprising £3.3m trade counters, £2.8m cutting tables and £1.5m solar panels
- £14.2m of shareholder returns:
 - £9.0m ordinary dividends
 - £5.2m share buy backs (completed March 2023)

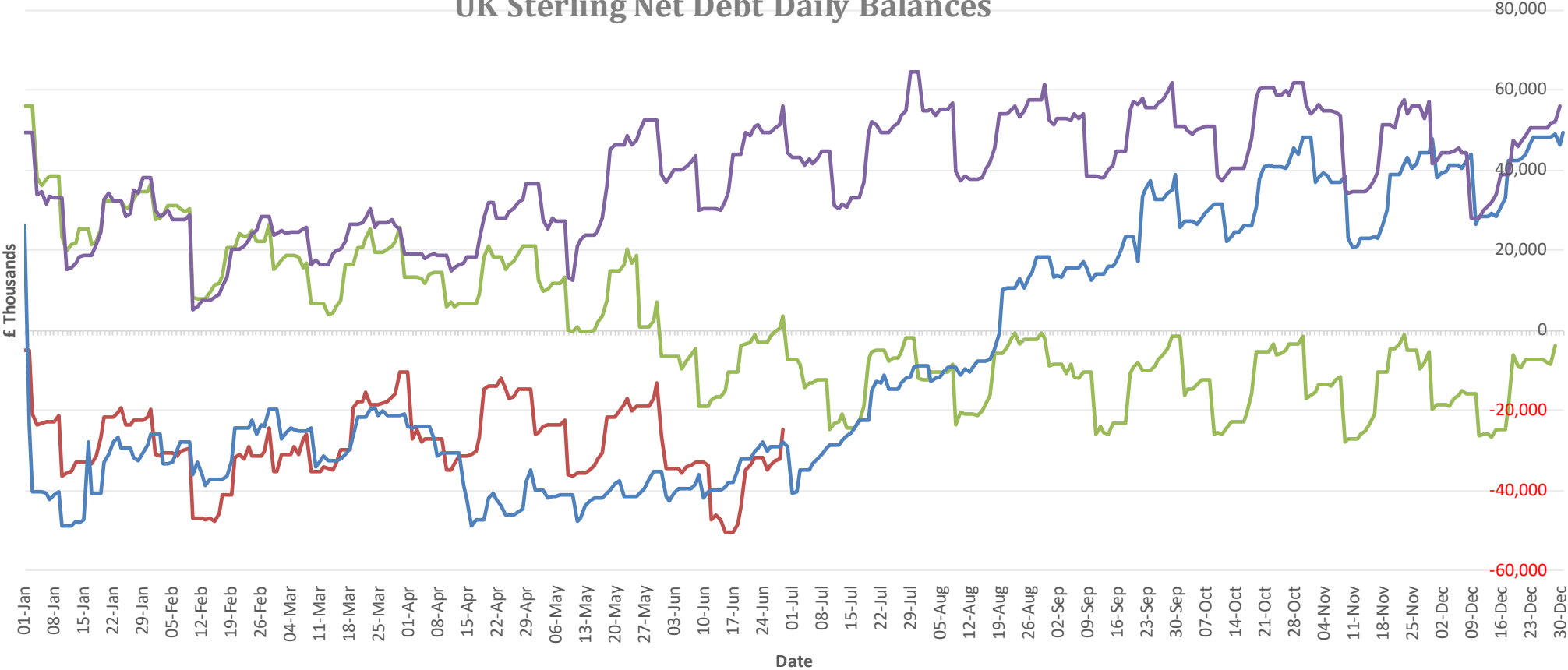
BALANCE SHEET

Balance Sheet	June 2023 £m	June 2022 £m
Property, plant and equipment	126.7	112.9
Intangibles	21.3	17.9
Inventories	147.5	148.1
Trade and other receivables	115.5	118.8
Cash	17.5	31.5
Trade and other payables	(154.9)	(169.3)
Borrowings	(37.1)	(25.5)
Other assets and liabilities	(16.6)	(21.0)
Net Assets	219.9	213.4
Share capital and premium	57.8	57.8
Other reserves	(15.7)	(16.0)
Retained earnings	177.8	171.6
Total Equity	219.9	213.4
Net (debt)/funds pre lease liabilities	(19.6)	6.0
Leverage	0.5x	N/A

- Strong balance sheet position underpinned by freehold property portfolio (valued at £148.8m in January 2023) and inventory (£147.5m at June 2023)
- Significant liquidity headroom: cash and undrawn banking facilities totaled £79.8m at June 2023
- Net Debt excluding leases of £19.6m at the end of June 2023 which represented Leverage of 0.5x

DAILY NET DEBT

UK Sterling Net Debt Daily Balances



— UK Sterling 2023 — UK sterling 2022 — UK sterling 2020 — UK sterling 2021

STRATEGIC PROGRESS UPDATE

STRATEGIC PILLARS



Maximising sales through great service, solutions, pricing and range

- Secure and increase share with independent and progressive retailers through service, price and range offerings
- Latest customer survey shows we remain number 1 for service
- New award-winning product launches taking market share



Developing new opportunities for future growth

- Expand share through tailored propositions for larger commercial customers, contractors and housebuilders - significant growth in H1
- Deliver and expand the Trade Counter service - strong growth in H1
- Online brand awareness and engagement - ongoing ecommerce and brand development



Improving our operational capabilities and effectiveness

- Optimise the branch network and transport - national transport network delivering efficiency
- Invest in sites and equipment to support growth - £2.8m of new cutting tables in H1



Leading on sustainability and environmental responsibility

- Updated ESG strategy launched in March 2023
- Notification to SBTi of intention to submit Net Zero and interim emission targets
- Achieved AAA ESG rating with MSCI



Making Headlam a great place to work, for everyone

- Building on significant changes introduced in 2022
- Inclusive open engagement with Employee Forum and CEO town halls on site
- Revised values launched "Headlam Way" with safety as first value
- Increased focus and training on H&S leadership

STRATEGIC GROWTH



Multiple Retailers and Other Larger Customers

- ✓ Actively targeting this segment where Headlam is significantly underweight
- ✓ Estimated £1 billion market opportunity, Headlam had c £60m in 2021
- ✓ Grow business with broad spectrum of new and existing customers



Trade Counters

- ✓ Accelerating roll-out of new and improved sites across the UK
- ✓ Filling in areas where no physical presence, will be only flooring distributor to have national standalone network
- ✓ Appeal to a wider range of customers, capturing market share



Products and Brands

- ✓ Leveraging Headlam's established large portfolio of own product brands
- ✓ Investing in social media awareness, marketing and new product development
- ✓ Launch new brands in underweight product or pricing categories

STRATEGIC GROWTH

LARGER CUSTOMERS

- Continue to enhance the bespoke and value add service
- Revenue +26% to £39.0m
- Relationships including Tapi and Homebase
- Recent new relationships including Screwfix
- Several other new customers planned from Q4 2023
- Expanded DSV capability to include palletised goods



Tapi

SCREWFIX

HOMEBASE

STRATEGIC GROWTH

TRADE COUNTERS

- Revenue +8.5% to £45.9m
- 12 further invested* sites in H1 2023
- 59 sites at 30 June 2023, of which 36 invested
- Invested sites collectively performing inline with business case
- 1,000+ customer accounts opened in H1 2023
- Lower capital investment per new site due to building of expertise
- Further 11 invested sites planned for H2 2023
- Now targeting total of 100 sites by end 2025 (previous target 90)

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*Opened, relocated or refitted



New trade counter in Exeter opened in 2023



Stockport trade counter, refitted in 2023

STRATEGIC GROWTH

OWN PRODUCT BRANDS

- Revenue +7.4% to £72.5m
- Performance comes despite brands being mainly residential focused
- £11.1m new revenue contribution from newest brand Everyroom launched in H2 last year
- Further new launches in pipeline, including fully recyclable ranges
- Investing in customer engagement/acquisition strategies
- New B2B2C websites launched for two brands
- Two small strategic acquisitions made in H2 2023 to date, increasing product range and inhouse capabilities (total consideration £2.3m)

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Everyroom.



SUSTAINABILITY AND ESG

- Ongoing progression and development of ESG Strategy, closely aligned with overall strategy
- ESG rating agencies assigning good and 'low risk' scores

Environmental

Reducing environmental impact and contribution to climate change

- Reduce direct Greenhouse Gas ('GHG') emissions (Scope 1 and 2), and contribution to climate change
- Increasing focus on sustainable products and recycling, including to capture growing consumer demand
- Work with all stakeholders to increase the sustainability of the industry as a whole, and transition to a circular economy

Social

Making Headlam a great place to work with a positive impact on local communities

- Continual focus on support, wellbeing, and health and safety to keep people safe and well
- Increasing development opportunities to make Headlam a great place to work, and attract / retain the best people
- Creating an inclusive and collaborative culture to help drive business performance, and develop a DEI¹ strategy

Governance

Managing risk, with robust controls and frameworks in place

- Focus on business integrity, transparency, and robust controls including to ensure reputation
- Supplier engagement on supply chain risk, ethical business, and commercial / strategic opportunities
- IT systems which are both resilient and scalable, including to support the Company's growth strategy

- Recent formal notification to SBTi of intention to submit Net Zero and interim targets for Scope 1, 2 and 3 emissions for validation
- Key current undertakings for Social include: comprehensive Learning and Development plan; Inclusion and Wellbeing strategy; and Health and Safety and Mental Health training





OUTLOOK

CURRENT TRADING

Full year 2023 expectations unchanged

- UK volumes in July and August 2023 broadly in line with expectations
- Full year 2023 expectations unchanged
- However, macro and industry headwinds expected to persist into 2024

Material profit uplift opportunity over medium term as volumes improve

- With rolling annual volumes currently 20% lower than 2019, volumes expected to significantly improve over the medium-term providing opportunity for material uplift to profit due to high operational gearing
- Future profitability also supported by strategic initiatives maturing

CAPITAL ALLOCATION

- A revised and refreshed Capital Allocation framework
- More effectively utilising the strong balance sheet whilst maintaining its strength

Framework	Rationale
New target average leverage* range of 0.5-1.0x	Considered prudent given substantial freehold property portfolio plus inventory position
Ordinary dividends remain the first shareholder method of shareholder return	1.5x cover for interim payment, cover to be re-evaluated as market and earnings improve
Equal prioritisation given to share buybacks / M&A / special dividends	Choice at any given time dependent on both market conditions and available opportunities

- Leverage* 0.5x at end of June 2023

SUMMARY

Well positioned, with strong foundations and good cash generation

Clear market leader; ongoing market share gains

Increased revenue streams and ongoing efficiencies

Delivering on strategic initiatives; broadening the base

Meaningful revenue and profit growth expected in medium term

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THE LEADING,
MOST TRUSTED
EXPERTS IN FLOORING





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Q&A