headlam group plc

Capital Markets Event

30 January 2018

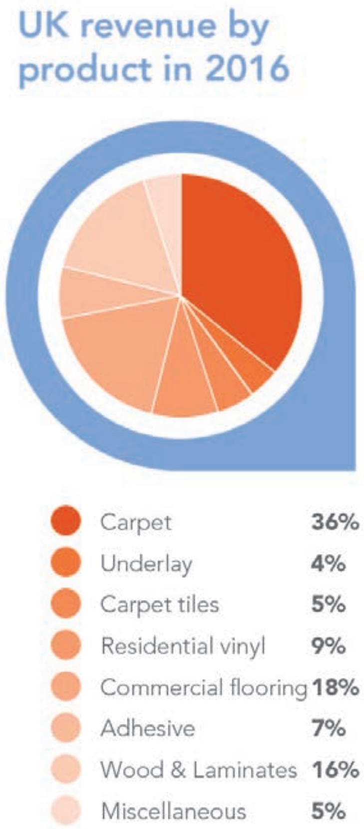
Company Overview

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

Market-Leading Core Business

- High volume of small orders into both the residential and commercial sectors
- Principal customers: independent retailers and flooring contractors
- 5.6 million orders in 2016
- 65 million cubic feet of warehouse capacity
- Next day delivery
- Predominently refurbishment
- Average order cut value in 2016:

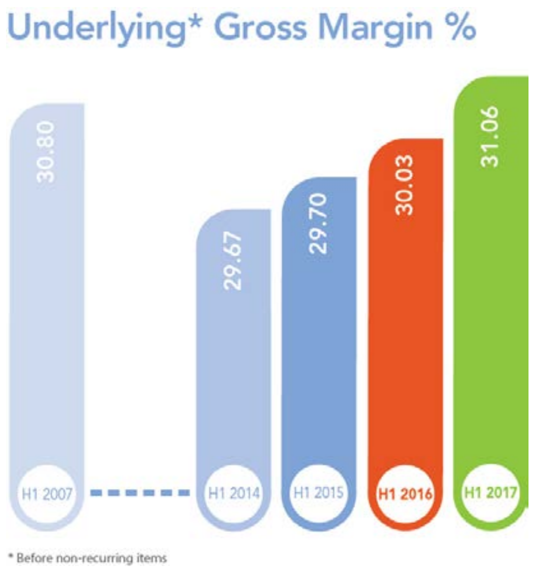
  > Residential carpet £127.44
  > Residential vinyl £68.03



- More affordable purchase than other RMI (Repair, Maintenance & Improvement) expenditure
- Not reliant on consumer credit

Focus on Margin Enhancement and Efficiencies

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



Pre-close Trading Update - 12 months ended 31 December 2017

- Continued revenue growth in the year despite weaker markets in H2 2017, and focus on margins
- Market backdrop considered to be flat in 2017 signalling continued outperformance
- Total revenue +2.1% against 2016 (+1.2% in constant currency)
  - > c +2.4% with comparable working days
- UK like-for-like revenue* +0.5%
- Continental Europe like-for-like revenue* +4.2%

H1 2017 (against H1 2016)

Total revenue +4.0% (+2.6% in constant currency)

- Same number of working days

UK like-for-like revenue* +2.1%

- Residential sector +2.8%
- Commercial sector +0.5%

Continental Europe like-for-like revenue* +3.0%

H2 2017 (against H2 2016)

Total revenue +0.3% (-1.0% in constant currency)

- With comparable working days c +0.8%

UK like-for-like revenue* -0.9%

- Residential sector -0.5%
- Commercial sector -1.8%

Continental Europe like-for-like revenue* +5.2%

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

Pre-close Trading Update - 12 months ended 31 December 2017

- Focus on margin enhancement and efficiencies more than offsetting slightly lower revenue growth

- *Expect to report underlying* 2017 PBT comfortably in-line with consensus market expectations of £42.5m* (per RNS dated 18 January 2018)

- Current 2017 consensus market expectations** versus 2016 (reported):

  > Revenue +1.9% to £707.0m

  > Underlying PBT +6.7% to £42.8m

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

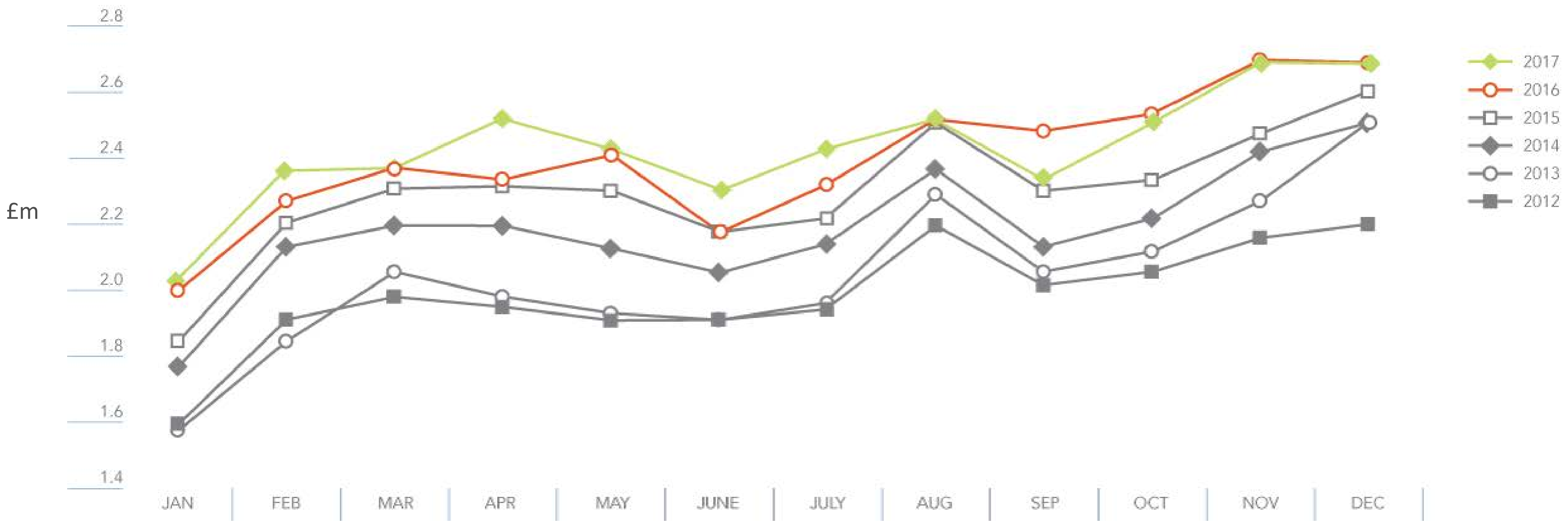
- Additional special dividend policy - linked to underlying net debt ratio of 0.5 of EBITDA:

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

**Before non-recurring items, including intangibles write-off relating to the businesses acquired in 2017, acquisitions fees and non-recurring costs relating to personnel changes*

*** Source: Bloomberg*

UK Daily Sales* - 12 months ended 31 December 2017



- H2 2016 a strong comparator, with H2 2017 characterised by weaker markets
- Trading performance improved in November and December 2017 relative to the first 4 months of H2 2017, with December 2017 positive like-for-like

**On a like-for-like basis - activities and businesses that made a full contribution in both the 2017 and 2016 periods and adjusted for any variances in working days*

Strategic Pillars

Growth

Continue growing market-leading core business

Diversify and broaden overall position in the industry

Accelerate growth through M&A (product, geography, segment)

Customers

Customer service and satisfaction at core of the business model

Expand offering and customer base - support their growth through reciprocal relationship

Evolution and innovation to respond to evolving demands

Dynamic Model

Position at the forefront for another 25 years - 'the partner of choice'

Build the distribution channel model - indispensable part of the chain

Continually appraise opportunities to ultimately reward all stakeholders

Margin Improvement

Optimise the distribution network and processes

Leverage scale to increase returns and operational gearing

Pursue multiple efficiency initiatives (incremental and larger)

Culture & Ethos

Focus on culture to attract and retain the best talent

Invest in people through training, support and working improvement

Aligned goals, and reward success

Create **value** for the benefit of all stakeholders

Acquisition Strategy

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

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

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

Good pipeline of current opportunities

Domus - Acquisition December 2017

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

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

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

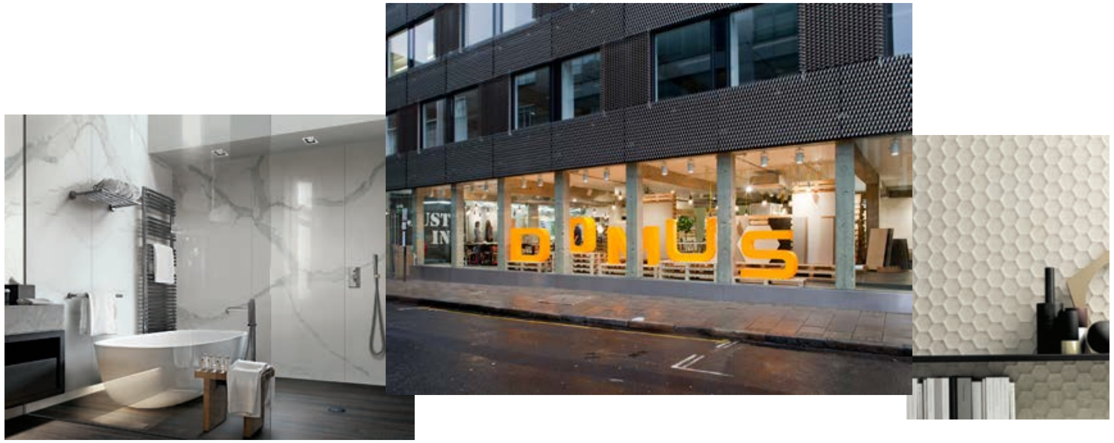
Product specifications and orders achieved by working with architects and interior designers throughout design phase of project

Typical project sales cycle - 15 to 18 months

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

Large-scale schemes completed include:

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



Financial year ended 31 December 16:

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

Domus - Acquisition Terms

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

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

Initial cash consideration of **£29.4** million, funded by existing cash and debt facilities
+
Deferred consideration of **£3.3** million*, payable in cash and Ordinary Shares**
+
Contingent consideration of a maximum of **£2.7** million, payable in cash based on Domus achieving certain EBITDA targets over the three-year period ending 31 December 2020

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

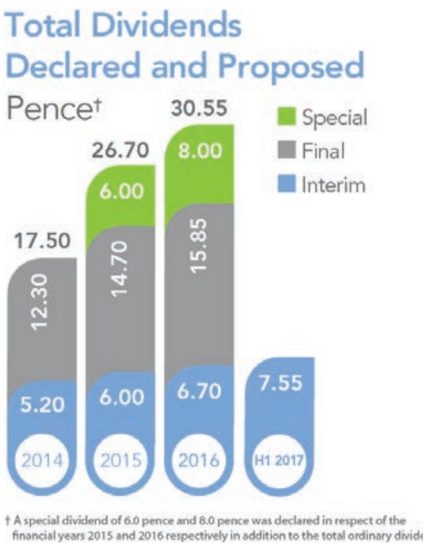
- Domus's gross margin c 45% (Headlam: c 31%)
- Domus's operating margin c 11.5% (Headlam: c 5.9%)

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

**Of which £1.6 million is payable on 7 December 2019 and £1.7 million is payable on 7 December 2020*
*** £1.5 million of the deferred consideration will be satisfied by the issue of new Ordinary Shares, with 88,350 Ordinary Shares to be issued on 7 December 2019 and 187,116 Ordinary Shares to be issued on 7 December 2020, at an issue price of 535.42 pence each*

Strategic Summary

- Continue broadening overall position in the industry
- Maintain growth against market backdrop, with focus on profit growth
- Maintain the gross margin improvement at +31% through a more cohesive approach across the Company
- Continue to focus on operational efficiencies and initiatives
- Evaluate all areas of cost to further enhance profitability
- Continue to elevate and advance margin and growth enhancing acquisitions
- Ongoing investment in the business and people
- Continue the progressive dividend policy



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