

A high-angle photograph of two young children sitting on a light-colored wooden floor. The child on the left is a girl with long blonde hair, wearing a white dress, and is holding a green marker. The child on the right is a boy with curly brown hair, wearing a white sweater and orange pants, and is holding a yellow pencil. They are both focused on drawing on a white sheet of paper. Various drawing supplies like pencils and a red toy car are scattered on the floor around them.

headlam

FINAL RESULTS PRESENTATION
March 2023

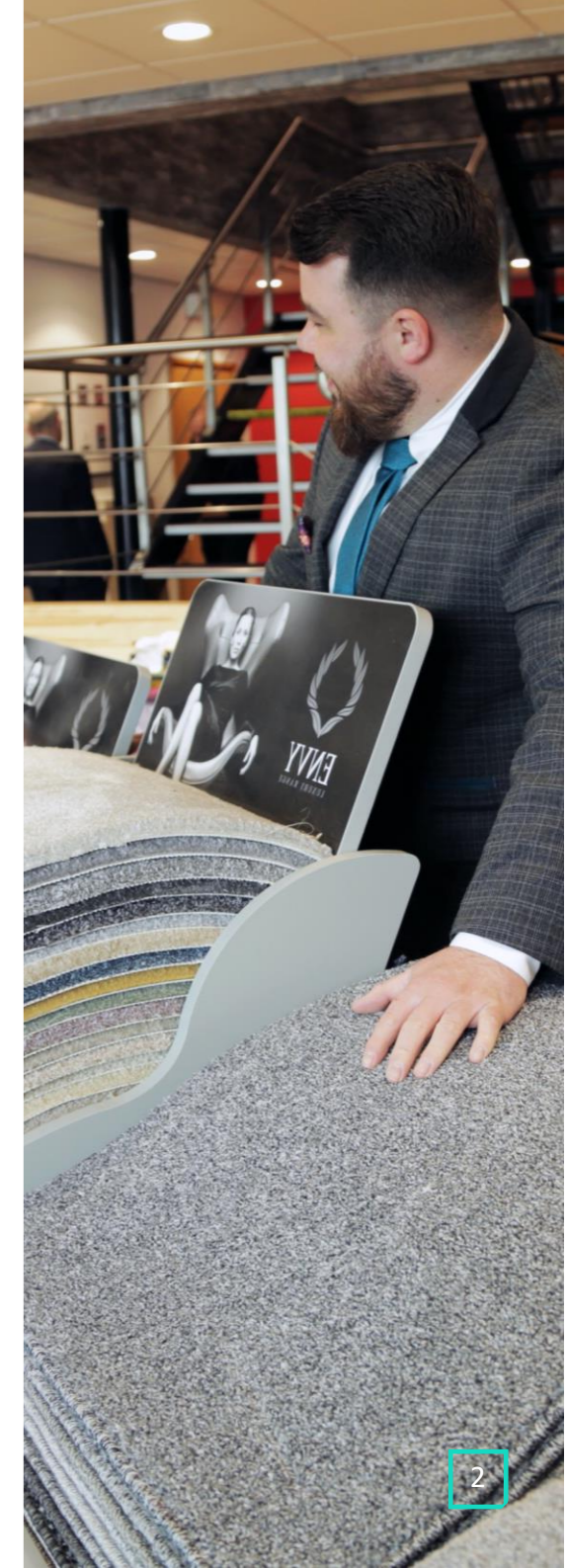
**The leading, most
trusted experts in
flooring**

AGENDA



Chris Payne Chief Executive

- About Us
- 2022 Financial Performance
- Growth Strategy
- ESG Strategy
- Board and Operational Team
- Investments and Shareholder Returns
- Post Year End and Current Trading



ABOUT US

Long heritage, and strong foundations

30 years of operating excellence

- Knowledgeable and long serving colleagues (+2,200)
- 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

- 67 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 (58 sites currently)

Leading customer servicing

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





2022 FINANCIALS



FINANCIAL HIGHLIGHTS

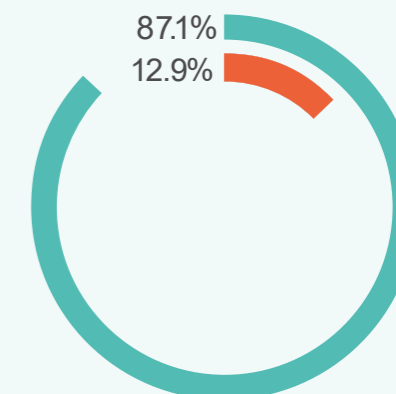
Financial Results	2022	2021	% change
Revenue	£663.6m	£667.2m	-0.5%
Gross margin	33.1%	33.0%	+10bps
Underlying ¹ expenses	£180.8m	£183.2m	-1.3%
Underlying ¹ operating profit	£39.2m	£37.3m	+5.1%
Underlying ¹ operating margin	5.9%	5.6%	+30bps
Underlying ¹ profit before tax	£37.1m	£35.8m	+3.6%
Underlying ¹ basic earnings per share	35.5p	31.5p	+12.7%
Ordinary dividend per share	17.4p	16.4p	+6.1%
Statutory Results:			
Operating profit	£43.9m	£29.1m	+50.9%
Operating margin	6.6%	4.4%	+220bps
Profit before tax	£41.8m	£27.6m	+51.4%

- Revenue maintained despite very challenging industry headwinds, reflecting revenue development actions and support from product price increases
- Gross margin steady, with benefit of price increases offset by reduced proportion of revenue from higher margin residential sector due to impacts of UK cost of living crisis
- Underlying¹ expenses effectively controlled despite significant widespread operational cost inflation
- Statutory results higher than underlying¹ due to insurance claim proceeds following a fire creating a net credit on non-underlying items
- £37.1m of returns to shareholders via ordinary and special dividends, and Share Buyback Programme
- Average net funds excluding lease liabilities of £3.1m (2021: £38.3m)

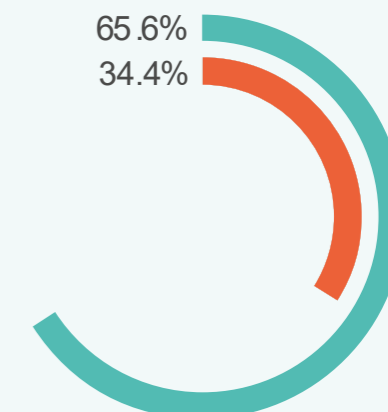
The financial results represent continuing operations only, and exclude the contribution from the Swiss business, Belcolor AG, within the 2021 financial numbers following its disposal in 2021.

¹Underlying is before non-underlying items, which includes i) impairment of intangibles, fixed assets and right of use assets, ii) amortisation of acquired intangibles, iii) property disposal profits, iv) impairment of property, plant and equipment and inventory (following a fire), v) insurance proceeds (following fire) and vi) business restructuring costs in 2021.

Revenue



- UK
- Continental Europe



- Residential sector
- Commercial sector

INCOME STATEMENT

Income Statement	2022		2021	
Continuing operations	£m	%	£m	%
Revenue	663.6	100.0%	667.2	100.0%
Cost of sales	(444.1)	(66.9)%	(446.7)	(67.0)%
Gross profit	219.5	33.1%	220.5	33.0%
Distribution costs	(129.5)	(19.5)%	(125.9)	(18.9)%
Administrative expenses	(51.3)	(7.7)%	(57.3)	(8.6)%
Other operating income	0.5	0.1%	-	-
Operating profit	39.2	5.9%	37.3	5.6%
Net finance costs	(2.1)	(0.3)%	(1.5)	(0.2)%
Underlying profit before tax	37.1	5.6%	35.8	5.4%
Non-underlying items	4.7	0.7%	(8.2)	(1.2)%
Statutory profit before tax	41.8	6.3%	27.6	4.1%
Basic earnings per share	40.1p		23.5p	
Basic underlying earnings per share	35.5p		31.5p	
Interim dividend	6.2p		5.8p	
Declared final dividend	11.2p		8.6p	

- Revenue supported by new revenue development under the strategy, and product price increases
- Gross margin similar at 33.1% (2021: 33.0%), price increases moderating in H2 2022
- Benefit of product price inflation offset by reduced proportion of revenue from higher margin residential sector (2022: 65.6%; 2021: 68.5%)
- Underlying operating margin of 5.9% (2021: 5.6%) due to reduction in expenses
- Non-underlying items a net credit, insurance claim proceeds reduced by non-cash amortisation of acquired intangibles

REVENUE MOVEMENT

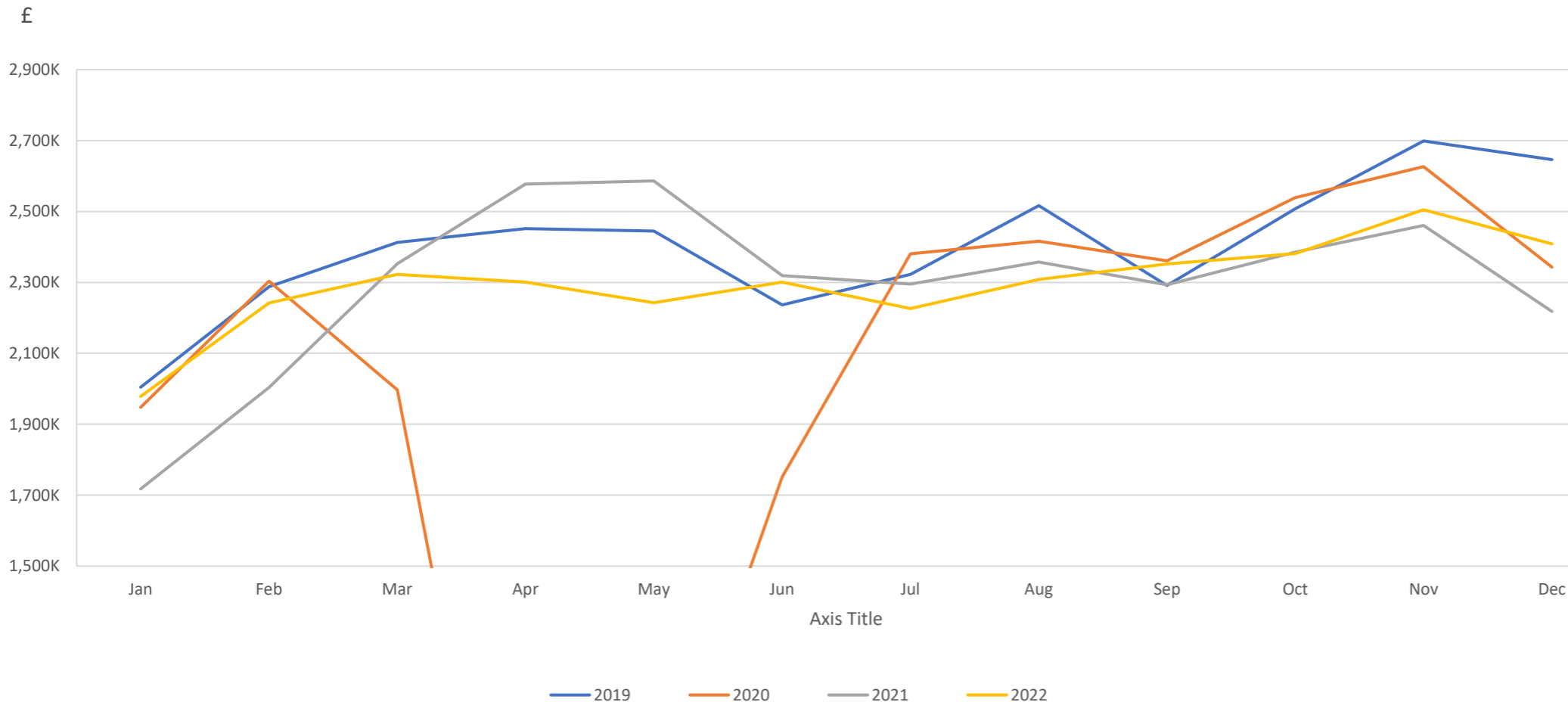
Revenue

Continuing operations	£m	%	£m	%
2021 Revenue:				
UK	585.8	87.8		
Continental Europe	81.4	12.2		
			667.2	100.0
UK incremental items:				
Like-for-like*	(0.9)	(0.2)		
Change in working days	(7.1)	(1.2)		
			(8.0)	(1.4)
Continental Europe incremental items:				
Like-for-like*	4.5	5.5		
Change in working days	0.2	0.2		
Translation effect	(0.3)	(0.3)		
			4.4	5.4
Total movement			(3.6)	(0.5)
2022 Revenue:				
UK	577.8	87.1		
Continental Europe	85.8	12.9		
			663.6	100.0

- Positive contributions from Continental Europe and commercial sector offsetting weak UK
- 5.4% uplift in Continental Europe (France and the Netherlands)
- 1.4% decline in UK related to market weakness in residential sector
- Residential sector impacted by UK inflationary environment, and knock-on reduced spend on discretionary items
- Early contributions from new larger customer wins helping to offset UK residential weakness

*Like-for-like revenue is calculated based on constant currency from activities and businesses that made a full contribution in both the 2022 and 2021 periods, and is adjusted for any variances in working days

UK DISTRIBUTION DAILY SALES*



- Strong overall recovery from impact of COVID-19 in H1 2020
- Commercial sector weak in both 2020 and 2021 following COVID-19, recovery in 2022
- Residential sector previously a beneficiary of COVID-19 due to limited opportunities to spend
- Residential progressively weaker in 2022 as inflationary environment led to cost of living crisis
- Underlying residential volumes significantly down in 2022

Typical sales seasonality

- Q1 quietest quarter
- Q2 'spring cleans'
- Summer important for commercial sales
- Q4 busiest quarter, important for residential sales

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

UNDERLYING OPERATING PROFIT MOVEMENT

Operating Profit Continuing operations	Underlying £m	Non- underlying £m	Total £m
2021 Operating profit / (loss)	37.3	(8.2)	29.1
Gross margin movement	(1.0)	-	(1.0)
Other operating income	0.5	6.2	6.7
Expenses changes:			
People costs (inc. bonus)	4.9	-	4.9
Operational cost inflation	(3.5)	-	(3.5)
Bad debt provision	1.3	-	1.3
Other	(0.3)	6.7	6.4
Total increase	1.9	12.9	14.8
2022 Operating profit	39.2	4.7	43.9

- Underlying distribution costs and administrative expenses decreased by £2.4m
- Widespread operational cost inflation offset by efficiency measures, including transport integration and cost control in areas such as headcount
- Performance-related bonus costs lower, helping to offset wage inflation
- Reduction in amounts provided for bad and doubtful debts, ongoing good cash collection

Costs to be adversely impacted in 2023

- Significant rise in energy costs of c £2.4m against 2022
- People costs anticipated to be over 6% higher due to wage inflation

NON-UNDERLYING ITEMS

Non-underlying items	2022	2021
Continuing operations	£m	£m
Impairment of goodwill and intangibles	-	2.1
Amortisation of intangibles	1.5	1.6
Impairment of PPE and inventory (following fire)	-	7.3
Non-underlying non-cash items	1.5	11.0
Insurance proceeds (following fire)	(6.2)	-
Property disposal profit	-	(5.1)
Business restructuring costs	-	2.3
Non-underlying cash items	(6.2)	(2.8)
Non-underlying items before tax	(4.7)	8.2

- In 2021 non-underlying impairment of £7.3m recognised following fire that destroyed Kidderminster distribution centre
- £6.2m of insurance proceeds recognised
- To include full settlement of inventory losses plus interim payments for losses relating to building and contents
- £1.5m non-cash amortisation of acquired intangibles
- Total non-underlying items before tax providing net credit of £4.7m

CASH FLOW MOVEMENT

Cash Flow Movement	2022 £m	2021 £m
Underlying EBITDA	57.9	56.4
Change in inventories	(8.3)	(26.6)
Change in receivables	(3.5)	(16.6)
Change in payables	(34.2)	5.4
Other	0.9	1.0
Cash generated from operations (underlying)	12.8	19.6
Interest and tax	(6.4)	(3.5)
Disposal proceeds (inc. discontinued)	-	16.2
Capital investment	(13.8)	(6.9)
Lease payments	(14.0)	(15.0)
Movement in borrowings	(7.3)	(1.2)
Dividends and acquiring own shares	(37.1)	(6.6)
Non-underlying	6.2	(2.3)
Other	0.2	0.7
Net cash flow	(59.4)	1.0

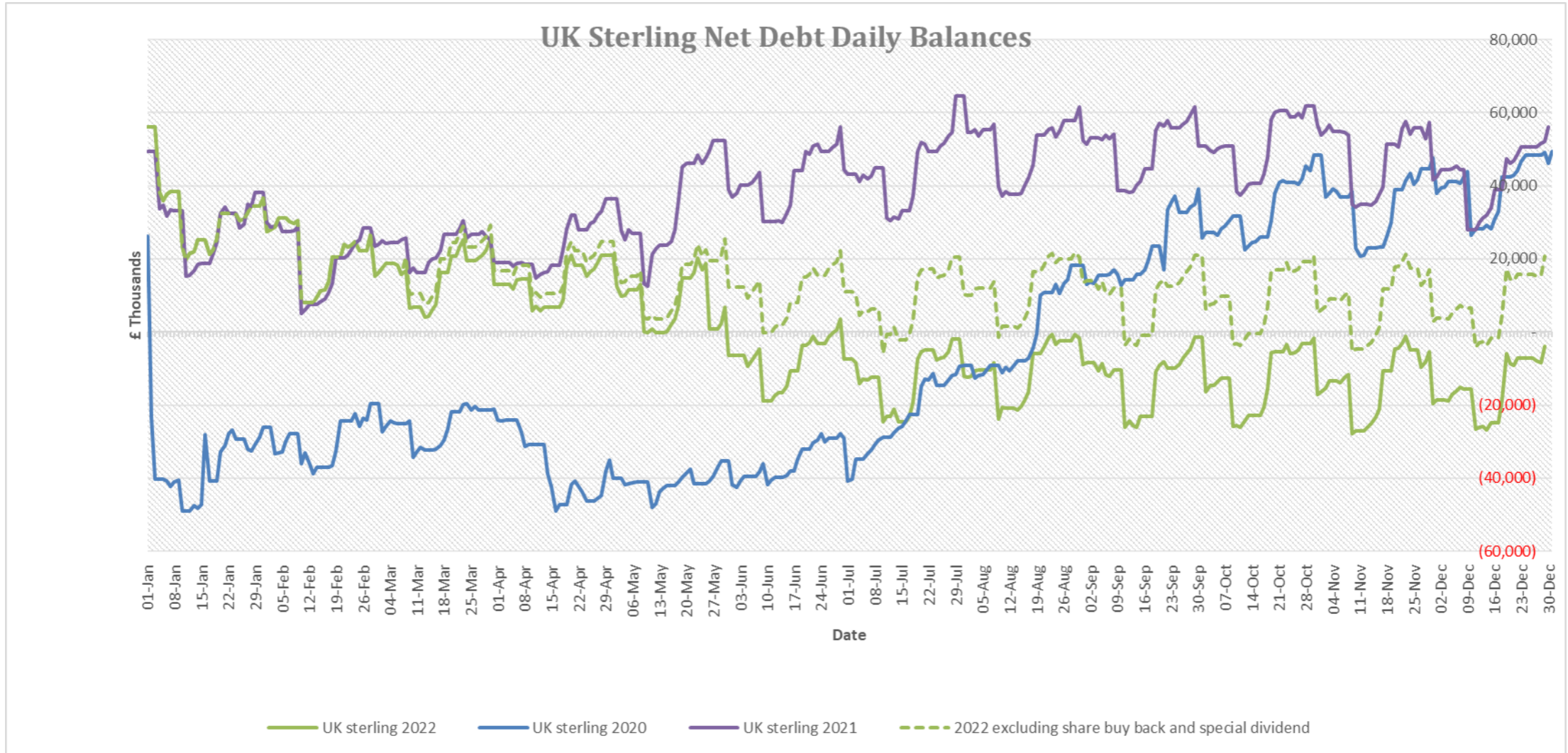
- Net cash outflow of £59.4m in the year.
- Includes £37.1m of shareholder returns
- £27.3m dividend outflow (ordinary and special payments) plus £9.8m outflow in relation to total £15m Share Buyback Programme commenced March 2022
- Working capital outflow relating to £8.3m investment in inventory and decrease in payables of £34.2m
- Build in inventory position towards end of 2021 to protect against product supply issues and in support of new product launches

BALANCE SHEET

Balance Sheet	2022 £m	2021 £m
Property, plant and equipment	119.9	113.3
Intangibles	17.8	18.1
Inventories	139.8	130.9
Trade and other receivables	119.1	114.0
Cash	2.1	61.2
Trade and other payables	(153.2)	(178.0)
Borrowings	(0.3)	(7.5)
Other assets and liabilities	(20.4)	(19.9)
Net Assets	224.8	232.1
Share capital and premium	57.8	57.8
Other reserves	(15.8)	(1.6)
Retained earnings	182.8	175.9
Total Equity	224.8	232.1

- Strong balance sheet underpinned by inventory, property portfolio, and net funds position
- Uplift in inventory partly due to price inflation
- UK freehold properties revalued at £138.5m in January 2023 (Jan 2020: £101.4m), but held at cost in balance sheet
- In addition, European freehold properties valued for first time at £10.3m
- Average net funds excluding lease liabilities of £3.1m
- Undrawn total committed banking facilities of £81.5m at 31 Dec 22

UK STERLING NET DEBT DAILY BALANCES





**Screed &
Adhesives**

**Screed &
Adhesives**

**Customer
Service**

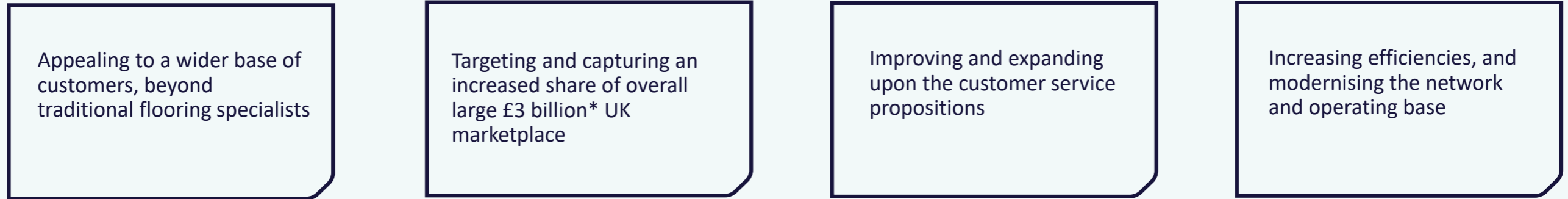
**Customer
Service**

General Tools

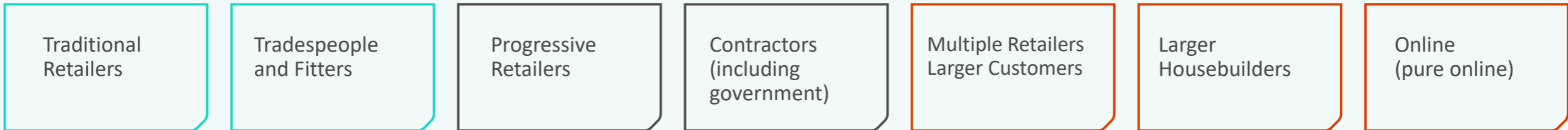
**STRATEGY AND
OPERATIONS**

GROWTH STRATEGY

Driving new revenue growth from a more efficient and modernised operating base



Trade customer segments



■ Good weighting ■ Underweight ■ Very underweight

*Source: LEK Consulting, 2020, calculated at distributors' selling price and inclusive of sales direct from manufacturers

KEY NEW REVENUE GROWTH DRIVERS



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



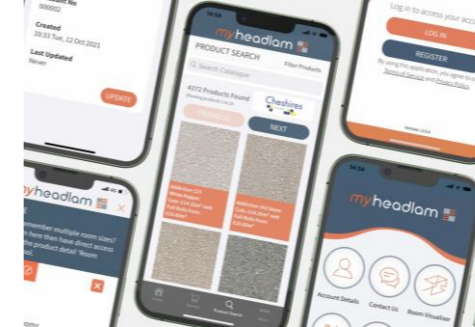
Trade Counters

- ✓ 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



Digital Strategy

- ✓ Enhanced digital and ecommerce capabilities and applications
- ✓ Appealing to and supporting a wider customer base
- ✓ Important foundation for all revenue drivers, and helps lower the cost to serve



Ambition to add new revenue of well in excess of £200m within next 5 years

MULTIPLE RETAILERS AND LARGER CUSTOMERS

Overview

Good track record of servicing larger customers, but never actively targeted

Dedicated team assembled

Investment in the service proposition, including digital enabling work

Able to offer compelling and comprehensive service, tailored to specific needs

Service reduces cost and complexity for both customer and supplier

Aim to grow revenue by £100m within 5 years (2021: £60m)



Progress

- ✓ Several new customers won including Homebase, builders merchant, furniture retailer, a top 10 UK housebuilder
- ✓ Successfully grown business with existing customers, including Tapi
- ✓ Considerable potential for scalability from initial SKUs with each customer, through adding new lines and product categories
- ✓ Operating margins strong due to scale benefits, modest incremental investment required to support targeted revenue growth

Comprehensive service offering

Headlam is able to provide larger customers with all or any of the following:

- Product insight
 - Competitive purchase rates
 - Exclusive products
 - Supply chain management
 - Stockholding and storage solutions
 - Processing expertise
 - National distribution (any location / frequency)
- All this serves to reduce time, cost and complexity for customers, and suppliers

Successfully added a number of new customers in the year, each with considerable potential for scalability

HOMEBASE



TRADE COUNTERS



Overview

Target of 90 invested* sites by end 2025, 53 uninvested sites in 2021

Convenient, one-stop shop for all customers who supply / fit flooring as part of offering

- ✓ Collection service (from any site)
- ✓ Walk-in service
- ✓ Exclusive products, accessories and workwear
- ✓ Knowledgeable advice



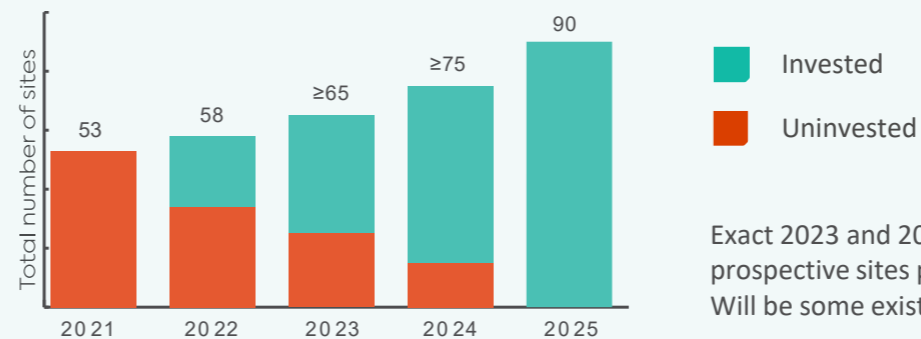
Target to add c £120m revenue to c £80m in 2021

Relatively modest total capital investment of c £25m

*Invested: new, relocated or refitted

Progress

- ✓ 24 invested sites (5 new)
- ✓ Demonstrating strong KPIs against uninvested (revenue, margin, new account openings)
- ✓ New sites cumulatively ahead of budget
- ✓ Revenue from invested sites +10% against uninvested sites
- ✓ Accelerating roll-out, good pipeline of sites
- ✓ £6m capex incurred thus far by 31 Dec 22



Typical new trade counter site:

- Town / conurbation, no physical presence
- Area with existing trade footfall, located alongside complementary trade businesses
- 28 minute drivetime catchment area
- c 5,000 sq ft property (leased)
- Total capital investment c £300k
- Breakeven end of year 2
- Sales maturity in year 5
- Operating under well-recognised local business brand
- Co-branded Headlam

Exact 2023 and 2024 sites profile is subject to prospective sites pipeline, good pipeline currently. Will be some existing site closures / consolidations



PRODUCT AND BRANDS



Overview

Large portfolio of well recognised and regarded own product brands

Branding an important point of differentiation in marketplace, typically higher margin

Refreshing and relaunching brands

- ✓ Increased digital presence
- ✓ Marketing investment
- ✓ New product development
- ✓ New operational capability added

Increased social media awareness appealing to wider customer base

Launching new products and brands in under represented areas

Sustainable and recyclable products



Progress

- ✓ Over 30 product launches / relaunches in 2022
- ✓ New and affordable Everyroom brand launched in H2 2022
- ✓ Feedback and sales very positive
- ✓ Over £8m sales since launch, and finalist for a leading trade award
- ✓ Expect to launch over 40 new products in 2023, including sustainable ranges
- ✓ Tamworth undergone major site refurbishment
- ✓ Innovation hub for customers and suppliers to discuss collaborations

New Everyroom brand generating + £1m of sales per month since launch in H2 2022



DIGITAL STRATEGY



Overview

Important foundation for all revenue growth opportunities

- ✓ Improves supplier and customer engagement
- ✓ Quick and effective automated information flows
- ✓ Improved service propositions
- ✓ Increases product and brand awareness
- ✓ More efficient order taking processes
- ✓ Helps lower cost to service



Progress

- ✓ 26% of sales now coming from digital channels, 11% in 2019
- ✓ Investment in core operating system and further systems integration
- ✓ PIM allowing quick automated distribution of product data to customers and suppliers
- ✓ Better showcasing of product specifications, and upselling and cross selling
- ✓ OMS to improve customer service through near real-time inventory feeds
- ✓ Drop Ship Vendor (DSV) proposition introduced





MELROSE INTERIORS



Overview

Largest independent supplier to the UK online rug industry

Based in Bradford, trading for +50 years

Many larger customers, including major high street and online retailers

Operations in third-party logistics, proven B2B and B2C fulfilment

In-house rug, sampling and pattern book department

Upcycling of surplus carpet from across the industry

Well established and award winning [Re]lay brand of recycled rugs

Synergies

- ✓ Introduces a number of new larger customers to Headlam
- ✓ Headlam underweight in rug product category
- ✓ Builds upon Headlam’s DSV and digital capabilities
- ➔ Market leading sustainability credentials
- ✓ Brings some sampling / pattern book production in-house
- ✓ Capability at Bradford site to support growth

Support each other to grow revenue opportunities



ESG STRATEGY

Well developed strategy to ensure sustainability and long-term success

Overview

Real opportunity from continuing to progress the ESG Strategy

- ✓ Reduces contribution to climate change
- ✓ Mitigates risk, and addresses regulation
- ✓ Confers greater efficiency, reduces future operating costs
- ✓ Competitive advantage with customers, particularly larger
- ✓ Attracts and retains colleagues
- ✓ Captures greater market share, for example sustainable products



Environmental

Reducing environmental impact and contribution to climate change

- Net Zero and SBTi aligned interim targets for Scope 1 and 2 emissions*
- Actively engaged in many decarbonisation actions
- Installing owned solar panels across all larger UK sites
- Target of 80% UK non-commercial fleet electric / low emission by YE 2023
- Trialling electric commercial vehicles
- Good Energy workshops
- Launching recyclable ranges

Social

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

- Improvements made to financial and non-financial support
- National Real Living Wage, and tiered approach to annual pay award (lower salaried receiving higher % increase)
- Recognition schemes and increased engagement
- Roll out of mental health support
- Local Communities Programme
- DEI strategy being established

Governance

Managing risk, with robust controls and frameworks in place

- Executive ESG Committee established
- Improvements to Risk Committee and Employee Forum formats
- New independently managed whistleblowing platform
- Refreshed Values and Behaviours
- Investment in IT, and monthly cyber training
- Increased supplier engagement Ethical Code of Conduct, and Sustainability Charter

Judged to have best sustainability credentials amongst direct peer group

*Net Zero by 2035; Interim 46% reduction by 2030 against 2019 baseline



**BOARD AND
OPERATIONAL
TEAM**

BOARD AND OPERATIONAL TEAM

Board refreshed and enhanced, and significant operational capability added, all in support of delivery and oversight of the strategy

Keith Edelman
Non-Exec
Chairman

Chris Payne
Chief
Executive

Stephen Bird
Senior Indep
Director

Karen Hubbard
Independent
NED

Robin Williams
Independent
NED

Jemima Bird
Independent
NED

Adam Phillips
Chief Financial
Officer

New operational capability

Chief Information Officer

- Overseeing resilience and scalability of IT systems and infrastructure
- Including in support of the growth strategy

Chief Customer Officer

- Leading customer and digital strategy
- Customer communications, brand development, marketing and ecommerce

Chief People Officer

- Focused on all forms of support, attracting and retaining great colleagues
- Developing DEI, mental health, and health and safety culture strategies

MD of Trade Counters

- Managing Director to head-up the accelerating roll-out
- Moving to national model and own business unit, with 3 regional directors

Everyroom

A HEADLAM BRAND

PROUD TO BE NOMINATED

TCF 2023 FINALIST

VOTE
Everyroom
NOW



INVESTMENTS AND
SHAREHOLDER
RETURNS

INVESTMENTS AND SHAREHOLDERS RETURNS



Investments

- ✓ Investment to improve the service proposition and support revenue growth
- ✓ Ongoing investment in sites, equipment and systems, with trade counters main capex
- ✓ Investment to support ESG strategy, including +£3.7m in solar panels
- ✓ Modest investment required to deliver on overall strategy
- ✓ Upfront nature of some investment, year 3 return for trade counters and solar panels

Shareholder Returns

- ✓ Ordinary dividends in line with targeted cover ratio of around 2x earnings for total annual pay out
- ✓ Total £30m surplus capital return announced 2022
- ✓ £15m special dividend paid May 2022
- ✓ £15m Share Buyback Programme commenced March 2022
- ✓ Considered effective mechanism of return due to level of ordinary shares

Capital Allocation Priorities:

- 1 Maintain a strong balance sheet
- 2 Investment in business (growth and ESG strategies)
- 3 Ordinary dividend income for shareholders
- 4 Funding of potential M&A
- 5 Potential return of surplus capital

Necessary balance of firstly ensuring financial stability, followed by investment to support growth and long term success, and shareholder returns



**POST YEAR END
AND CURRENT
TRADING**

POST YEAR END AND CURRENT TRADING

Post Year End

- ✓ Already delivering synergies with Melrose, Headlam's existing rug operations transferred to Melrose and jointly targeting increased revenue opportunities
- ✓ Transport integration project (reducing commercial fleet and associated costs) completing April 2023, moving to continuous improvement phase
- ✓ Share Buyback Programme completed early March 2023, and earnings enhancing

Current Trading

- ✓ Relatively robust revenue performance to date in 2023 despite market backdrop
- ✓ Larger customer contributions and steady commercial sector helping offset continued weak UK residential sector due to cost of living crisis
- ✓ Growing business with both new and existing customers, including Tapi
- ✓ Revenue growth projects having accelerating contributions from 2023 onwards, although residential weakness may offset
- ✓ Modest incremental infrastructure and investment required to support targeted new revenue growth of well in excess of £200m within 5 years

Highly confident in the strategy and future success

