

EUROPE'S LEADING
FLOORCOVERINGS
DISTRIBUTOR

28 August 2019

COMPANY OVERVIEW

Europe's leading floorcoverings distributor

- Distribution channel between suppliers and trade customers of floorcoverings
- Linking together a global manufacturing supply base and most extensive customer base across the UK and Continental Europe
- Suppliers receive an unparalleled route to market for their products, and customers' the broadest product offering supported by next day delivery
- 27 years of industry knowledge and expertise, and comprehensive customer service and support
- Grown significantly since 1992 via acquisition and organic growth to comprise 65 businesses (UK: 61, Continental Europe: 4)
- Extensive distribution network of 4 national distribution hubs, 19 regional distribution centres and a supporting network of smaller warehouses, trade counters, showrooms and specification centres
- In 2018, Headlam worked with 199 suppliers in 22 countries and fulfilled over 5.3 million customer orders

H1 2019 FINANCIAL HIGHLIGHTS¹

- Total revenue increased 3.3% to £348.7 million (H1 2018: £337.5 million), with both the residential and commercial sectors in the UK and Continental Europe all contributing positively
- Like-for-like² revenue increased 1.8% and 3.2% in the UK and Continental Europe respectively, resulting in an overall like-for-like² revenue increase of 2.0%
- Gross margin maintained at 32.5% (H1 2018: 32.5%) despite a shift in business mix towards the commercial sector
- Underlying³ operating profit impacted by a £0.4 million increase due to IFRS 16 adoption and flat year-on-year at £18.1 million (H1 2018: £18.1 million, not restated), with early contributors to the operational efficiency programme able to offset general non-employee related year-on-year inflationary pressures
- Statutory operating profit of £17.1 million (H1 2018: £16.8 million, not restated) and statutory basic earnings per share of 15.7 pence (H1 2018: 15.9 pence, not restated)
- Strong cash generation, with cash generated from operations after allowing for lease principal repayments at 94% of statutory operating profit (H1 2018: 27%, not restated)
- Net funds increased by 103.1% to £32.5 million as at 30 June 2019 (£16.0 million as at 30 June 2018)
- Interim dividend maintained at 7.55 pence (H1 2018: 7.55 pence), in-line with intention to maintain full year dividend with that of 2018 despite guidance at the beginning of the year that underlying³ profit before tax is anticipated to be lower than 2018, and the dilutive earnings impact of IFRS 16

¹The interim results have been prepared in accordance with the new IFRS 16 'Leases' accounting standard ('IFRS 16') effective for financial periods beginning on or after 1 January 2019. As the Company has adopted the modified retrospective approach, there has been no restatement of the comparatives for the 2018 reporting period. The impact on the Company's financial statements is fully detailed in the accompanying Notes to the Condensed Consolidated Interim Financial Statements, with adjustments recognised in the Income Statement, Cash Flow Statement and Statement of Financial Position (Balance Sheet). There is no overall impact on the Company's cash and cash equivalents.

²Like-for-like revenue is calculated based on constant currency from activities and businesses that made a full contribution in both the 2019 and 2018 periods and is adjusted for any variances in working days.

³Underlying is before non-underlying items which includes amortisation of acquired intangibles, acquisition related fees, contingent consideration movements, non-recurring pension costs in relation to guaranteed minimum pension ('GMP') equalisation and non-recurring costs relating to senior personnel changes.

H1 FINANCIAL TRACK RECORD (5 YEARS)

Revenue (£million)

£348.7m

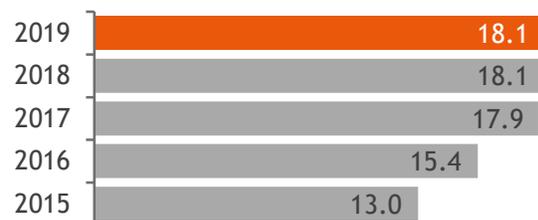
+3.3% (H1 2018: £337.5m)



Underlying* Operating Profit (£million)

£18.1m

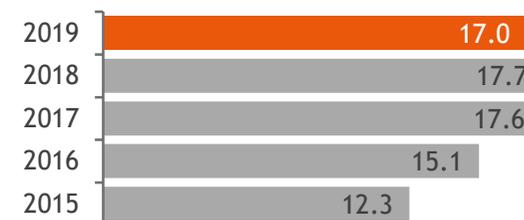
0.0% (H1 2018: £18.1m, not restated)



Underlying* Profit Before Tax (£million)

£17.0m

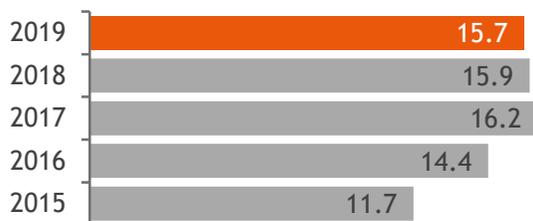
-4.3% (H1 2018: £17.7m, not restated)



Statutory Basic Earnings Per Share (pence)

15.7p

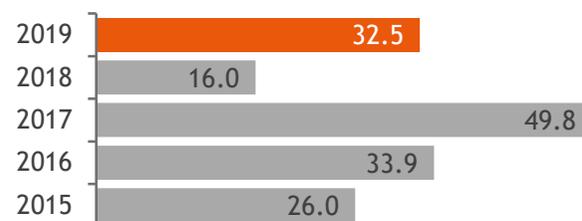
-1.3% (H1 2018: 15.9p, not restated)



Net Funds (£million)

£32.5m

+103.1% (As at 30 June 2018: £16.0m)



The interim results for the six months ended 30 June 2019 have been prepared in accordance with the new IFRS 16 'Leases' accounting standard ('IFRS 16') effective for financial periods beginning on or after 1 January 2019. As the Company has adopted the modified retrospective approach, there has been no restatement of the comparatives for the 2018 reporting period. The impact on the Company's financial statements is fully detailed in the Notes to the Condensed Consolidated Interim Financial Statements accompanying the Interim Results announcement, with adjustments recognised in the Income Statement, Cash Flow Statement and Statement of Financial Position (Balance Sheet). There is no overall impact on the Company's cash and cash equivalents.

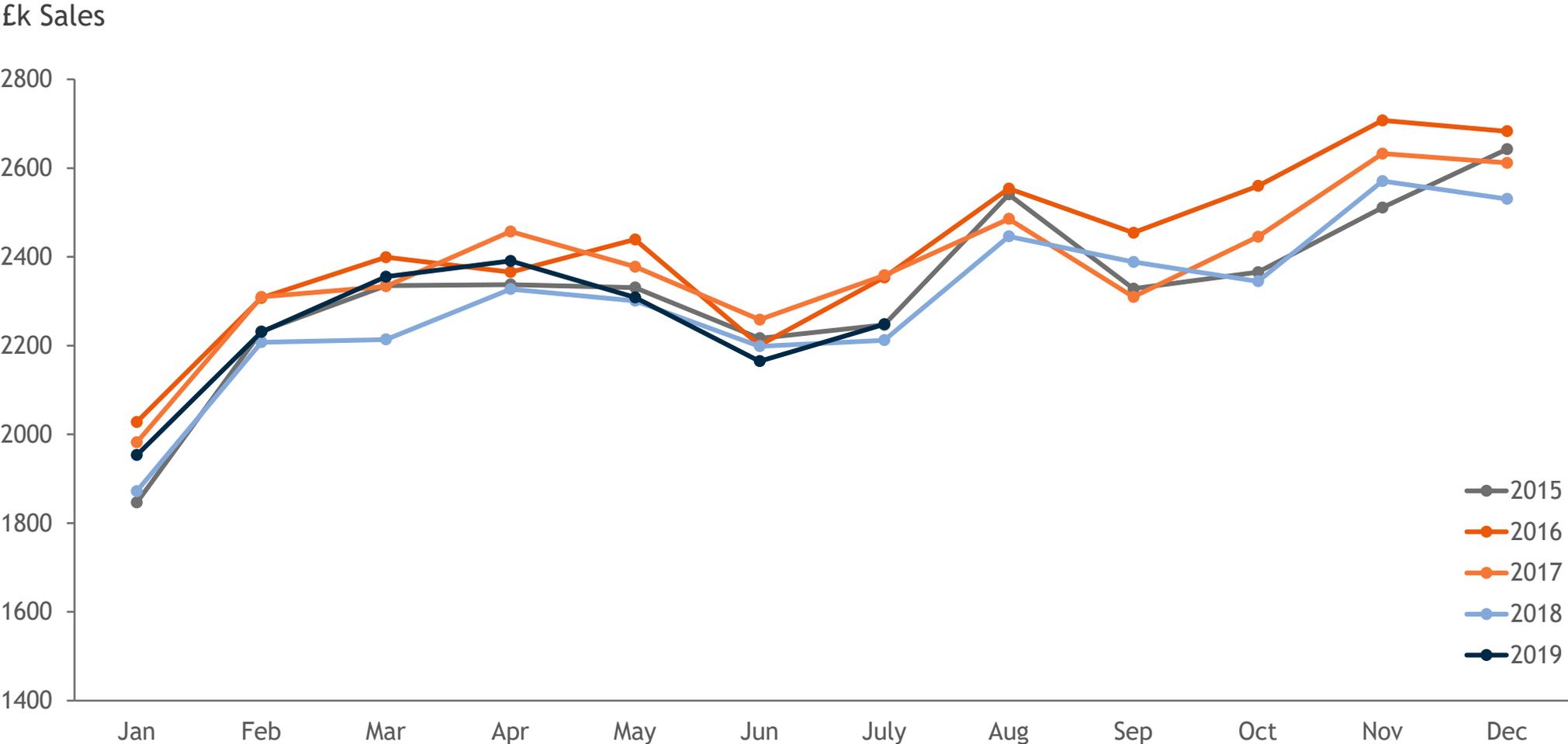
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H1 2019 OPERATIONAL HIGHLIGHTS

- Resource focused on evaluating and implementing various constituents of the operational efficiency programme to improve operating performance, the customer service proposition and margin
- Early contributors to performance include the roll-out of a group procurement approach to Goods Not For Resale ('GNFR') and extended vehicle leasing contracts upon renewal or replacement
- Roll-out of inventory management and automated stock re-ordering system to all UK sites to be completed by year-end, with the accruing benefits of improved product availability for customers, improved stock-turn and warehouse capacity
- Trial targeting more effective delivery fleet utilisation successfully completed in South Wales resulting in an increased number of order drops per commercial vehicle, with roll-out to next geographic area
- Construction commenced at new 190,000 sq ft regional distribution centre in Ipswich, with anticipated timetable (operational for Easter 2020) and capital investment of £26 million unchanged



UK DISTRIBUTION BUSINESSES DAILY SALES



H1 INCOME STATEMENT

	H1 2019 £000		H1 2018 (not restated) £000		Variance
Revenue	348,660	100.0%	337,489	100.0%	3.3%
Cost of sales	(235,448)	67.5%	(227,695)	67.5%	3.4%
Gross profit	113,212	32.5%	109,794	32.5%	3.1%
Distribution costs	(68,376)	(19.6%)	(66,090)	(19.6%)	3.5%
Administrative expenses	(26,699)	(7.7%)	(25,562)	(7.6%)	4.4%
Underlying operating profit	18,137	5.2%	18,142	5.4%	0.0%
Net finance costs	(1,160)	(0.3%)	(410)	(0.1%)	182.9%
Underlying profit before tax	16,977	4.9%	17,732	5.3%	-4.3%
Non-underlying items	(1,009)	(0.3%)	(1,314)	(0.4%)	-23.2%
Statutory profit before tax	15,968	4.6%	16,418	4.9%	-2.7%
Statutory basic earnings per share - pence	15.7p		15.9p		-1.3%
Proposed interim dividend - pence	7.55p		7.55p		0.0%

H1 2019 REVENUE MOVEMENT

	UK £000	Continental Europe £000	Total £000
Revenue for six months ended 30 June 2018	286,600	50,889	337,489
<i>Split %</i>	84.9%	15.1%	
Items contributing to annual growth to six months ended 30 June 2019			
Like-for-like organic growth	5,210	1,248	6,458
<i>LFL %</i>	1.8%	3.2%	2.0%
Acquisitions	4,981	2,080	7,061
Translation/working day effect	(2,285)	(63)	(2,348)
Revenue for six months ended 30 June 2019	294,506	54,154	348,660
<i>Split %</i>	84.5%	15.5%	

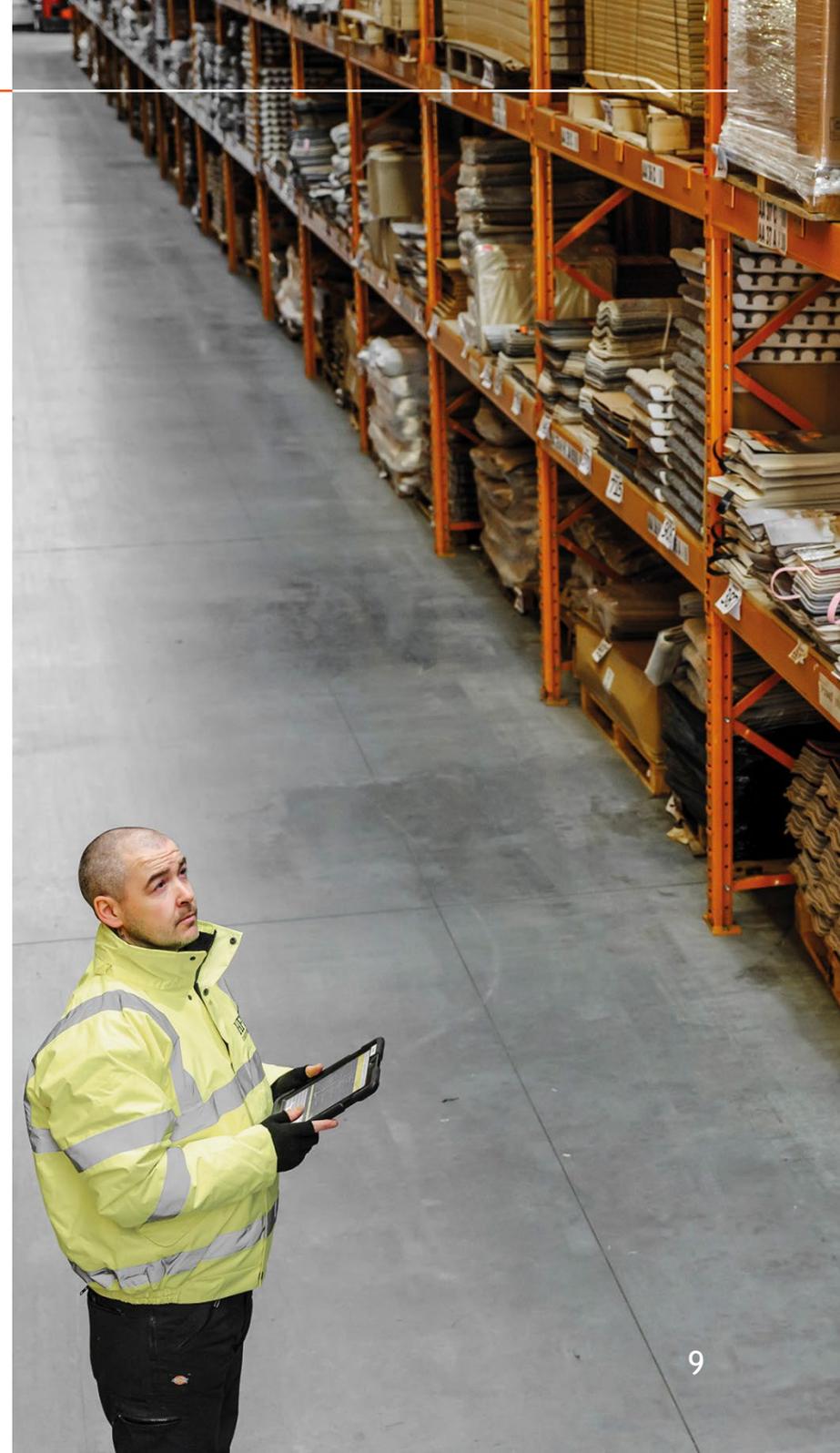
ADJUSTMENTS RECOGNISED ON IFRS 16 ADOPTION

Income Statement Impact	H1 2019	
	Under new standard £000	Under previous standard £000
Costs charged to operating profit	7,603	8,028
Interest expense	836	-
Total costs charged to the income statement	8,439	8,028
Net impact	411	

Balance Sheet Impact	Impact as at 1 Jan 2019
	£000
Operating lease commitments as disclosed at 31/12/2018	50,436
Additional liabilities on adopting IFRS16	2,219
Discount effect	(3,673)
Lease liability recognised at 1/1/2019	48,982
Of which current liabilities	13,819

H1 2019 UNDERLYING OPERATING PROFIT MOVEMENT

	£000
Underlying operating profit 2018	18,142
Gross margin improvement	
Volume benefit	1,674
Pricing benefit	(388)
Effect of acquisitions	2,132
Total change in gross profit	3,418
Expense movement	
Distribution	(1,214)
Administration	(599)
Effect of acquisitions	(1,610)
Total increase	(3,423)
Underlying operating profit 2019	18,137



H1 CASH FLOW MOVEMENT

	2019 £000	2018 £000	2017 £000
Net cash flow from operating activities			
Profit before taxation	15,968	16,418	16,767
Depreciation, amortisation and impairment	3,385	3,229	3,203
Depreciation of right of use asset	7,603	-	-
Profit on sale of property, plant and equipment	(13)	(24)	(44)
Net finance cost (including leases)	1,160	410	351
Share-based payments	838	658	517
Working capital changes	(4,776)	(16,102)	(181)
Cash generated from operations	24,165	4,589	20,613
Interest paid (including leases)	(1,532)	(670)	(545)
Tax paid	(5,259)	(5,287)	(5,077)
Pension contributions	-	(930)	(1,079)
Net cash from operating activities	17,374	(2,298)	13,912
Net cash flow from investing and financing activities			
Acquisition of subsidiaries net of cash acquired	-	(5,478)	(1,942)
Acquisition of property, plant and equipment	(7,757)	(2,522)	(2,069)
Share movements	19	(2,891)	(579)
Net movement on borrowings	19,886	29,885	14,887
Principal elements of lease payments	(8,028)	-	-
Dividends paid	(6,322)	(6,372)	(12,369)
Other	454	218	304
Net cash flow from investing and financing activities	(1,748)	12,840	(1,768)
Net increase/(decrease) in cash	15,626	10,542	12,144

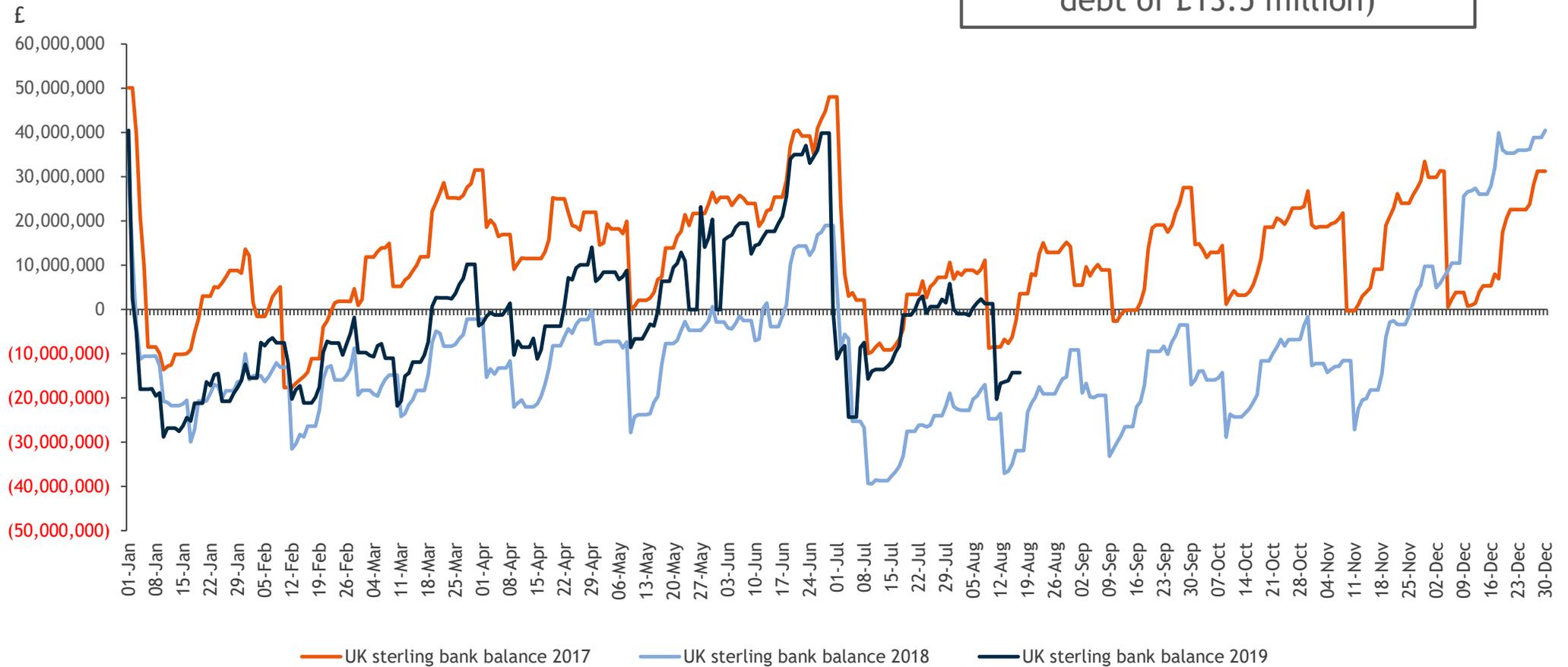
BALANCE SHEET AS AT 30 JUNE

	2019 £000	2018 £000
Non-current assets		
PPE	107,363	101,836
Right-of-use assets	46,116	-
Intangible assets	50,218	50,085
Deferred tax assets	572	460
	204,269	152,381
Current assets		
Inventory	142,463	136,743
Receivable	125,928	129,560
Cash	60,721	52,560
	329,112	318,863
Total assets	533,381	471,244
Current liabilities		
Bank overdrafts	(1,363)	-
Loans	(235)	(232)
Lease liabilities	(14,047)	-
Payables	(192,114)	(179,654)
Dividends payable	(14,617)	(14,596)
Tax	(4,495)	(4,175)
	(226,871)	(198,657)
Non-current liabilities		
Other interest-bearing loans and borrowings	(26,666)	(36,378)
Trade and other payables	(2,592)	(5,905)
Lease liabilities	(32,696)	-
Provisions	(2,249)	(2,048)
Deferred tax liabilities	(8,063)	(7,274)
Employee benefits	(6,853)	(8,641)
	(79,119)	(60,246)
Total liabilities	(305,990)	(258,903)
Net assets	227,391	212,341



UK STERLING NET DEBT DAILY BALANCES

Average net debt of £1.6 million in H1 2019 (H1 2018: average net debt of £13.5 million)



OPERATIONAL EFFICIENCY PROGRAMME

GNFR

Continued roll-out of a group procurement approach to Goods Not For Resale ('GNFR') to leverage group purchasing to deliver cost savings and service improvement

Live:

- Mobile Telecommunications
 - Packaging
 - Print
 - Continuous Stationery
-

In Progress:

Waste and Recycling (in negotiation for a group-wide service agreement)

Future:

Review of other categories, including fuel and uniforms

Fleet

Extended vehicle leasing contracts entered into upon renewal or replacement to deliver reduced lease costs and other associated cost savings

Commercial Vehicles:

- 59% of existing fleet already converted to new 7-year lease term
 - 16% been ordered for replacement on the new term in 2019
 - 25% to be phased in at lease-end over next 2 years
-

Company Cars:

- 26% of existing fleet already converted to new 4-year lease term
- As the fleet comes up for renewal, replacements are naturally migrating to the revised term
- Fuel management app introduced to record business mileage and support discretionary opt-out of fully expensed fuel scheme, with financial benefits for both the employee and Company

OPERATIONAL EFFICIENCY PROGRAMME **CONTINUED**

Inventory Management

A stock re-ordering and management algorithm to i) improve stock-turn and increase warehouse capacity; ii) reduce stock-outs and improve customer service; iii) focus working capital investment on fastest-moving products; and iv) enable improved supplier production scheduling

Status:

- Roll-out to all UK sites to be completed by year-end
 - Accruing benefits of improved product availability, improved stock-turn and warehouse capacity
 - Roll-out initially leads to an absolute rise in inventory levels, which helps support Brexit preparations
-

Delivery Fleet Utilisation

Consolidation of geographic specific deliveries, whereby deliveries from different Headlam businesses to the same customer are consolidated into a delivery from the nearest warehouse location. Leading to enhanced customer service and improved operating efficiencies through reducing the cost to serve

Status:

- South Wales trial successfully completed
 - Resulting in an increased number of order drops per commercial vehicle, and a reduction in the number of vehicles needing to service the local area
 - Roll-out to next geographic area
-

Ipswich Distribution Centre

New 190,000 sq ft regional distribution centre to support customers throughout the South East of England and enable greater network optimisation and operational efficiency

Status:

- Construction timetable and anticipated capital investment remains unchanged
 - Operational for Easter 2020
 - Total capital investment of c £26 million
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CONSTRUCTION OF IPSWICH DISTRIBUTION CENTRE



CURRENT TRADING & OUTLOOK

Brexit Preparations

Preparations made around potential impact of Brexit, including maintaining a modest level of contingency stock across the fastest-moving products to preserve levels of customer service

Continued Growth

Continued growth post the Period-end, with a small overall like-for-like revenue increase to-date in H2

Expectations Maintained

Ahead of proceeding further into the traditionally stronger H2, and mindful of a backdrop of political uncertainty, the Board currently maintains its expectations for the full year

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