



VICTORIA PLC

*Objective: to create wealth for  
shareholders*

Capital Markets Day: Westex  
25 January 2017

**Geoff Wilding, Executive Chairman**  
**Mike Scott, Group Finance Director**

# VICTORIA PLC'S WEALTH CREATION STRATEGY



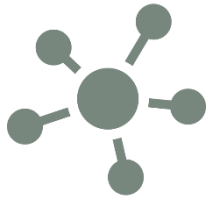
SCALE  
THROUGH  
ACQUISITIONS



SYNERGIES  
- GROW  
MARGINS  
8% ↗ 12%



HIGH FREE  
CASH –  
POTENTIAL  
FOR FUTURE  
DIVIDEND  
YIELD




## SCALE via ACQUISITIONS

- **Flooring is a HUGE market – every building has at least one floor**
  - Massive global market US\$325bn – 19.4bn sqm - in 2018 (Freedonia Market Research)
  - €73bn – 4.7bn sqm - in Western Europe (including the UK)
  - > 250 UK and European flooring manufacturers ‘in frame’
- **Consolidator in a highly-fragmented, inefficient industry**
  - Many retiring owners with no succession planning
  - Too small for IPO, aging trade buyers not interested, slow growth = overlooked by PE
  - VCP perceived as ideal buyer – one of only a few buyers
- **Highly selective acquisitions**
  - Competitive advantage (channels, distribution, product)
  - Growing
  - Sustainable, above average margins
  - Committed management
  - Broad distribution channels
  - Modern plant
  - Fair price





## SYNERGIES – use scale to drive margins

- **Customer-facing (design, branding, sales, marketing) retains independence**
    - **Benefits:**
      - Product and brand differentiation
      - Customer responsiveness
      - Manageable size
  
  - **Operational (procurement, production, logistics, IT) integration drives ‘hard’ synergies**
    - **Benefits:**
      - Lower raw material inputs
      - SKU reduction
      - Logistics
      - Improved financial reporting / controls
      - Manufacturing efficiency
- 
- *These are broadly in order of ease / timing*
  - *Significant progress on the first two; have started on the third and fourth*
  - *Manufacturing efficiency to be addressed*
- **Commercial synergies (bundling of underlay with carpet, product cross-selling)**
    - **Benefits:**
      - Sales growth
      - SKU reduction



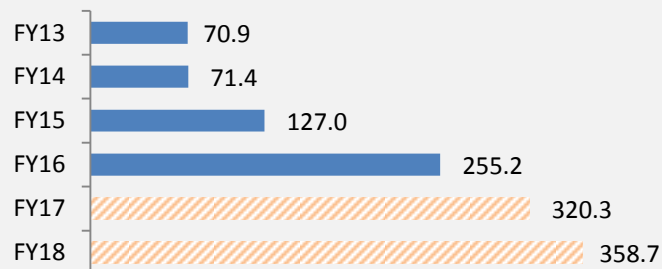
# FREE CASH FLOW = POTENTIAL FOR FUTURE DIVIDEND YIELD

- **Warren Buffet acquired Shaw Industries (world's 2<sup>nd</sup> largest carpet manufacturer) for its free cash flow**
  
- **Victoria PLC**
  - Operating cash flow: before interest and tax: £32.8 million (full year FY16)
  - Free cash flow before exceptional items: £17.2 million (full year FY16)
  
- **High cash conversion**
  - Plant longevity
  - Plant relatively inexpensive
  - Consolidate production capability = increased utilisation
  - Product rationalisation (SKU reduction, increased stock turn)
  
- **Benefit**
  - Rapid debt reduction during acquisition phase
  - High dividend yield once 'steady state'

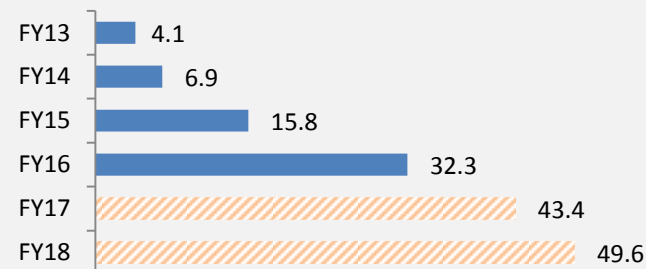
# SO HOW ARE WE DOING?

## TRACK RECORD – CONSISTENT GROWTH

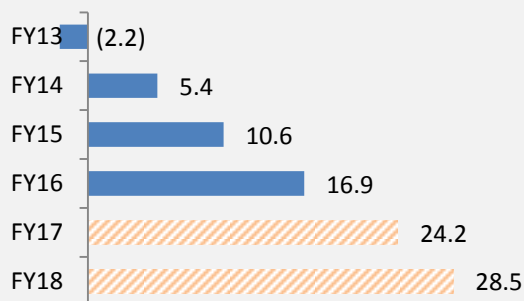
### Revenue (£m)



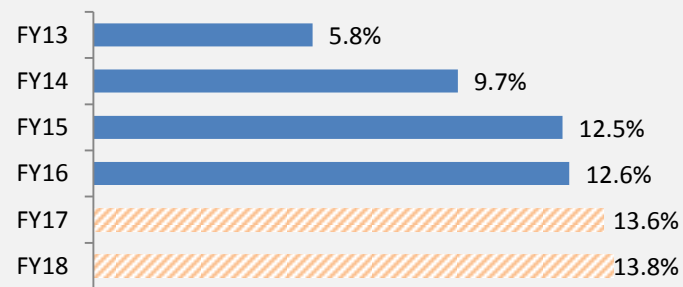
### EBITDA (£m)



### Earnings Per Share (pence)



### EBITDA Margin (%)



#### Notes

1. EBITDA and EPS shown before exceptional and non-underlying items
2. EPS shown as basic, adjusted. Historical figures adjusted for five for one share split effective 12 September 2016
3. EPS figures for FY13 and FY14 are as reported and do not reflect the change in accounting policy on sampling expenditure effected in the year ended 2 April 2016
4. FY17 and FY18 forecast figures represent consensus market estimates EXCLUDING additional acquisitions

## OUTLOOK

- Brexit impact
- Revenue drivers
- Strength in a recession
- Competitive strengths

## BREXIT = NET POSITIVE FOR VICTORIA

- >60% of carpet sold in the UK is imported. Weaker GBP makes imported product materially more expensive
- Less than 20% of our UK cost base is in EUR or USD. So currency fluctuations have limited impact
- European competitors have increased prices 5-7%
- Australia, which represents circa 30% of Group earnings, is operationally and commercially independent. Translational gains in GBP



# REVENUE DRIVERS

- ***Steady market in the UK (+3.5% lfl H1 17)***
- ***Strong market in Australia (+8.9% lfl H1 17)***

## **Redecorating**

- UK: 28 million households (2/3 owner-occupied)
- Australia: 8.1 million households
- Households replace carpet on average every 9 years

## **Housing transactions**

- Steady growth in UK and Australia
- Leading indicator: 12-18 months delay

## **New builds**

- UK: Building c.200,000 new houses pa
- Australia: Building c.100,000 new houses pa

## **Insurance replacement**

- Economic cycle irrelevant

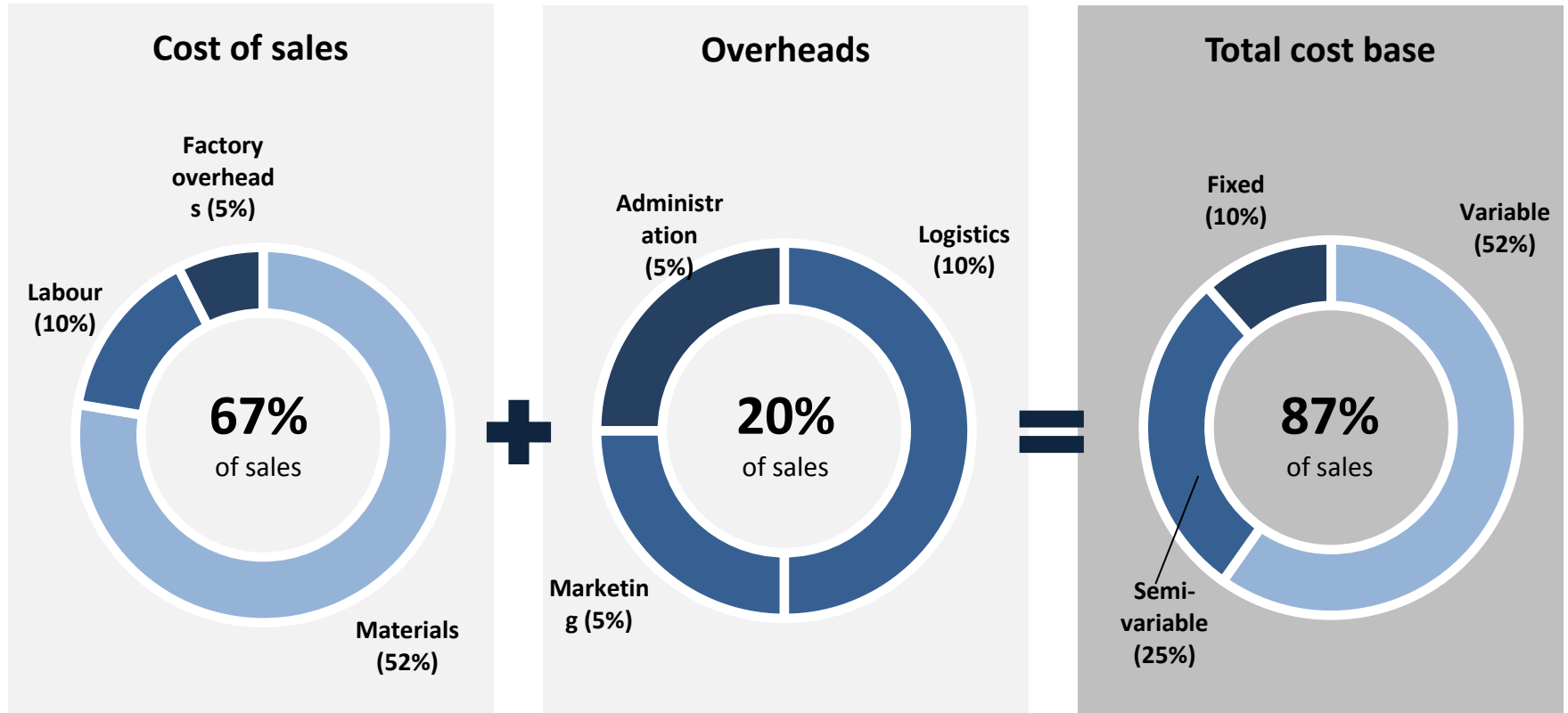
➤ ***H1 like-for-like organic growth of 8%  
(5% on a constant currency basis)<sup>1</sup>***

### Note




1. H1 year-on-year organic growth normalised for full impact of acquisitions and adjusted for 26 week period versus 27 weeks in the prior year

# STRENGTH THROUGH THE CYCLE (1)

- Low operational gearing:



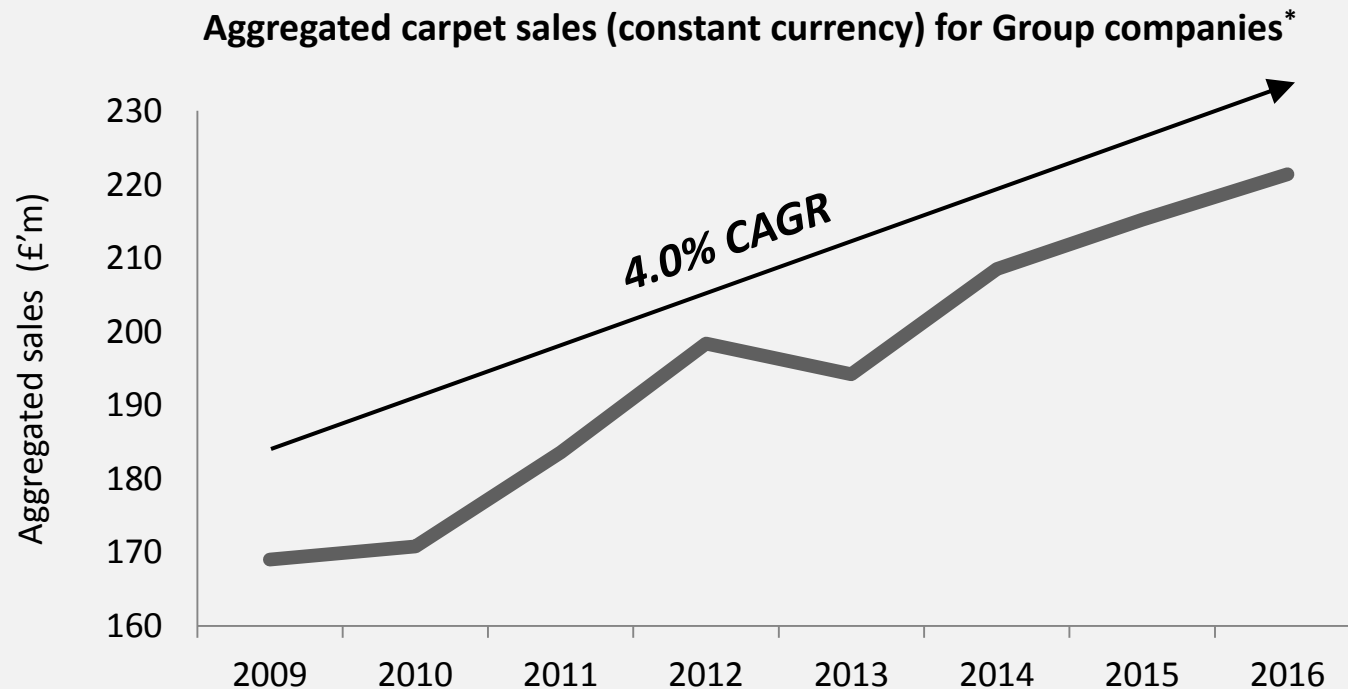
**Key**

-  Variable cost – varies directly with sales
-  Semi-variable cost – flexibility within a few months
-  Fixed cost (can still be subject to synergies)

**Note**  
Illustrative analysis based on pro-forma annualised figures

## STRENGTH THROUGH THE CYCLE (2)

- **Real time visibility of consumer orders**
  - Consumer buys today, retail orders from Victoria tonight, Victoria delivers tomorrow
  - Enables matching of production schedule to order intake
- **Very limited de-stocking exposure**
  - Retailers carry little/no stock
- **Sales strength**



\*Indicative figures not including underlay; not corrected for differing financial year-ends

# COMPETITIVE STRENGTHS

## NOW:

- **Management team**
  - Proven, entrepreneurial management
  - Highly motivated
- **Distribution**
  - **More than 3,000 customers:**
    - independent retailers,
    - buying groups,
    - distributors,
    - large retailers (JLP, Carpetright, ScS etc.)
- **Extremely loyal distribution**
- **Strong retailer brand awareness**
- **Low operational gearing**

## DELIVERING:

- **Logistics/Service**
  - Sales density lowers delivery cost and improves customer service
- **Lowest cost producer**
  - Scale = lower raw material prices
  - Rationalise production facilities

## Brands



## APPENDICES

- Financial overview H1 2017
- Shareholder register
- Business overview



## **Financial overview – H1 2017**

# EXECUTIVE SUMMARY:

## H1 FY17



**£153.4 million**  
(+45%)

H1 FY17 REVENUE



**13.2%**  
(+128bps)

H1 FY17 EBITDA MARGIN



**£12.3 million**  
(+92%)

H1 FY17 PBT



**£67.7 million**  
(= 1.93x EBITDA)

H1 FY17 NET DEBT

- **Strong start to FY17 (+4.9% like-for-like revenue growth)**

- **Positive outlook**

#### Notes

1. Revenue growth on a reported basis
2. Increase in EBITDA margin on a reported basis
3. EBITDA margin and profit before tax shown before exceptional and non-underlying items
4. Net debt / EBITDA assessed in line with banking covenants

# INCOME STATEMENT

Income Statement £m	H1 FY17	H1 FY16
<b>Continuing operations</b>		
<b>Revenue</b>	<b>153.4</b>	<b>105.6</b>
<b>Gross profit</b>	<b>50.4</b>	<b>35.2</b>
<b>EBITDA</b>	<b>20.2</b>	<b>12.6</b>
Depreciation	(5.8)	(4.7)
<b>Underlying operating profit</b>	<b>14.4</b>	<b>7.9</b>
Underlying finance costs	(2.1)	(1.5)
<b>Underlying profit before tax</b>	<b>12.3</b>	<b>6.4</b>
Amortisation of acquired intangibles	(1.9)	(0.2)
Exceptional and non-underlying items	(2.0)	(2.3)
<b>Reported profit before tax</b>	<b>8.4</b>	<b>3.9</b>
<b>Earnings per share (basic adjusted) (pence)</b>	<b>10.43</b>	<b>6.59</b>
Underlying operating profit margin (%)	9.4%	7.5%
Underlying EBITDA margin (%)	13.2%	11.9%



# BALANCE SHEET

Balance Sheet £m	1 Oct 2016	3 Oct 2015
Goodwill, Intangibles, investments and deferred tax asset	96.1	80.4
Property, plant & equipment	41.2	35.2
<b>Non-current assets</b>	<b>137.3</b>	<b>115.6</b>
Current assets	131.6	108.5
Current liabilities	(74.9)	(66.8)
Non-current liabilities	(120.6)	(99.8)
<b>Net assets</b>	<b>73.4</b>	<b>57.5</b>
<b>Net debt</b>	<b>67.7</b>	<b>80.5</b>
Adjusted net debt / EBITDA <sup>1</sup>	1.93x	2.25x
<b>Operating assets<sup>2</sup></b>	<b>141.1</b>	<b>138.0</b>

## Notes

1. Leverage as calculated for bank covenant purposes. Adjusted net debt excludes the £10m loan notes with the Business Growth Fund. Adjusted EBITDA is calculated on a 12 month historical basis including annualised figures for acquisitions
2. Operating assets excludes financing items. Return on operating assets = LTM underlying operating profit (pre exceptional and non-underlying items) / operating assets

# CASH FLOW

Cash Flow £m	H1 FY17	H1 FY16	FY16
<b>Operating profit (pre-exceptional)</b>	<b>14.4</b>	<b>7.9</b>	<b>21.9</b>
Add back: Depreciation	5.8	4.7	10.4
<b>EBITDA</b>	<b>20.2</b>	<b>12.6</b>	<b>32.3</b>
Other non-cash adjustments	-	(0.2)	(0.1)
Foreign exchange	0.2	(0.4)	0.5
Movement in working capital	(5.8)	(1.9)	0.1
<b>Operating free cash flow (pre-exceptional)</b>	<b>14.6</b>	<b>10.1</b>	<b>32.8</b>
Capital expenditure	(6.0)	(4.9)	(10.2)
Proceeds of asset disposals	0.1	0.8	1.0
Interest	(1.8)	(1.4)	(3.2)
Tax	(2.7)	(1.6)	(3.2)
<b>Net free cash inflow</b>	<b>4.2</b>	<b>3.0</b>	<b>17.2</b>

# SEGMENTAL PERFORMANCE

First Half	Revenue		EBITDA		EBIT		
	£m	FY16	FY17	FY16	FY17	FY16	FY17
UK		81.1	112.1	10.2	15.7	6.4	11.1
Australia (A\$m)		50.2	75.1	5.9	9.7	4.1	7.5
Australia (£m)		24.5	41.3	2.9	5.3	2.0	4.1
PLC		-	-	(0.5)	(0.8)	(0.5)	(0.8)
<b>Total</b>		<b>105.6</b>	<b>153.4</b>	<b>12.6</b>	<b>20.2</b>	<b>7.9</b>	<b>14.4</b>

**Note**

1. All numbers are underlying and pre-exceptional

# DEBT POSITION

- **Supportive banks – Barclays and HSBC**
- **£200m club facility (including accordion)**
- **Net debt**
  - £80.5m at 3 Oct 2015
  - £67.7m at 1 Oct 2016
- **Net debt / EBITDA<sup>1</sup>**
  - H1 FY16            2.25x
  - H1 FY17            1.93x
- **Interest cover<sup>1</sup>**
  - H1 FY16            7.08x
  - H1 FY17            9.84x

**Note**

1. Assessed in line with banking covenants



# SHAREHOLDER REGISTER

Rank	Investor Name	Holding as of 30 DEC 2016	%
1	Mr Geoffrey Wilding	30,438,650	33.46
2	Schroder Investment Mgt	5,373,347	5.91
3	Hargreave Hale	4,953,680	5.45
4	BlackRock Investment Mgt	2,996,670	3.29
5	Old Mutual Global Investors	2,921,629	3.21
6	River & Mercantile Asset Mgt	2,707,410	2.98
7	JPMorgan Asset Mgt	2,326,525	2.56
8	Shore Capital Stockbrokers	1,829,275	2.01
9	Hargreaves Lansdown Asset Mgt	1,760,370	1.94
10	Mr Charles Anton	1,613,775	1.77
11	AXA Investment Mgrs	1,508,475	1.66
12	TD Direct Investing	1,487,352	1.64
13	Henderson Volantis	1,315,155	1.45
14	Mr Rodney Style	1,280,000	1.41
15	Broadwalk Asset Mgt	1,109,300	1.22
16	Miss Georgina Anton	1,006,500	1.11
17	Miss Francesca Anton	1,000,000	1.10
18	Halifax Share Dealing	915,323	1.01
19	Mr Peter Anton	882,300	0.97
20	Rowan Dartington & Co	840,810	0.91
	<b>TOTAL</b>	<b>68,266,546</b>	<b>75.04</b>




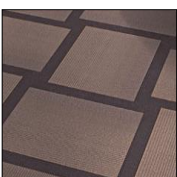

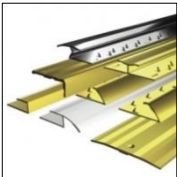


## Business overview

# FAST FACTS

- Victoria is an international designer, manufacturer and distributor of innovative floorcoverings
- Established in 1895, it listed on the London Stock Exchange in 1963.
- It has 1800 employees in the UK and Australia
- It set up its first factory in Australia in 1954. It now operates from three sites in the state of Victoria and one in Sydney
- The largest carpet manufacturer in the UK and second-largest in Australia, the Victoria Group is a major supplier to the independent retail sector, the insurance replacement market, and national retail chains such as Carpetright, ScS, and the John Lewis Partnership
- The Group manufactures broadloom carpets, carpet tiles, underlay and flooring accessories
- Also markets and distributes a complementary range of third-party manufactured carpets, luxury vinyl tiles and hardwood flooring
- Products are primarily within the mid-to-upper end of the market in terms of retail price
- The Group owns a large number of strong, well known flooring brands
- Victoria Carpets was awarded the Queen's Royal Warrant in January 2013

**Key products**

	
<p style="text-align: center;"><b>Tufted broadloom carpet</b></p>	<p style="text-align: center;"><b>Underlay</b></p>
	
<p style="text-align: center;"><b>Woven broadloom carpet</b></p>	<p style="text-align: center;"><b>Carpet tiles</b></p>
	
<p style="text-align: center;"><b>Luxury Vinyl Tile (LVT) and hardwood flooring</b></p>	<p style="text-align: center;"><b>Accessories</b></p>



# HISTORICAL ACQUISITIONS

## United Kingdom

### Westex

Acquired: December 2013

Enterprise Value: £12.2m<sup>†</sup>

*Deferred consideration: £8.0m over 3 years contingent on hitting EBITDA target, plus share of profits above target over 5 years*

### Abingdon

Acquired: September 2014

Enterprise Value: £14.7m<sup>†</sup>

*Deferred consideration: £4.5m over 3 years contingent on hitting EBIT target, plus share of profits above target over 3 years, plus share of working capital improvement*

### Whitestone Weavers

Acquired: January 2015

Enterprise Value: £8.1m<sup>†</sup>

*Deferred consideration: £6.6m over 3 years, plus £1.5m contingent on hitting EBITDA target over 3 years*

### Interfloor

Acquired: September 2015

Enterprise Value: £65.0m<sup>†</sup>

*Deferred consideration: None*

### Ezi Floor

Acquired: September 2016

Enterprise Value: £13.0m<sup>†</sup>

*Contingent consideration: £6.5m over 4 years contingent on hitting EBITDA target, plus share of profits above target over 4 years*

## Australia

### Victoria Carpets Australia

Established, Melbourne, 1954

### Quest

Acquired: August 2015

Enterprise Value: A\$25m<sup>†</sup>

*Deferred consideration: A\$10.5m over 3 years*

### Dunlop Flooring

Acquired: December 2016

Enterprise Value: A\$34m

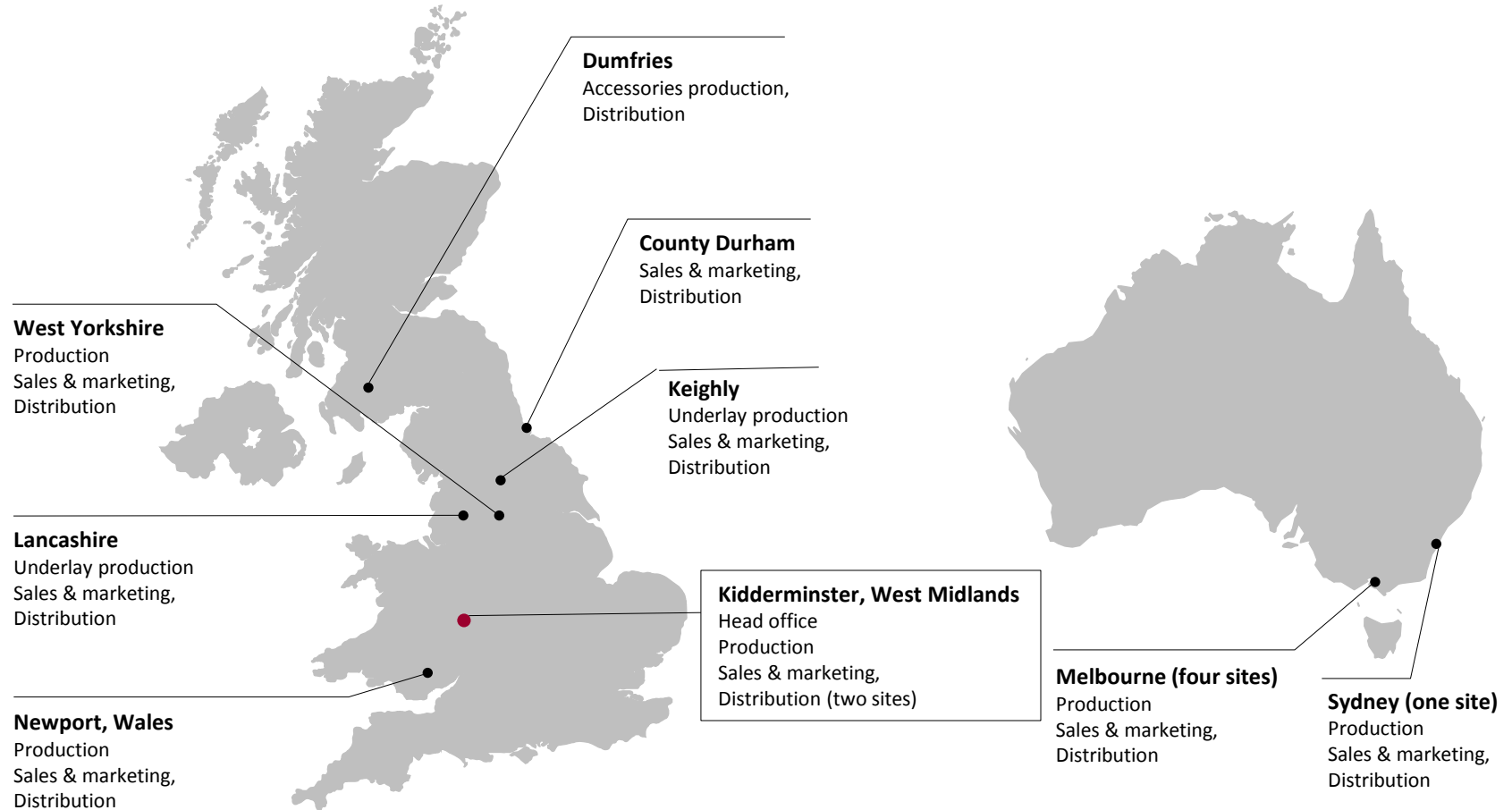
Completion scheduled early 2016

<sup>†</sup> Note: Enterprise Value on a cash-free, debt-free basis, not including any deferred or contingent consideration

# GROUP COMPANIES AND BRANDS OVERVIEW

	Company	Key Brands	Market Position
UK		   	Mid level
			Mid – Upper
			High End
		   	Mid – Upper
Underlay		   	Underlay
		 	Underlay
Australia & New Zealand			Mid level (Aus)
		 	Underlay and hard flooring (Aus)

# SITE OVERVIEW



<b>Employees</b>	<b>UK: 1,400</b>	<b>Australia: 400</b>
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# BOARD OF DIRECTORS

## **Geoff Wilding**

### *Executive Chairman*

Geoff Wilding is a former investment banker. He set up his own investment company in New Zealand in 1989. Geoff was appointed Executive Chairman at the General Meeting on 3 October 2012.

## **Philippe Hamers**

### *Chief Executive*

Philippe Hamers, 53, has over 25 years experience in the flooring industry and headed Europe's largest carpet manufacturing operation at Balta Group, for the previous seven years. Prior to joining the Balta Group, Philippe was General Manager of the Tufted and Woven Division of Beaulieu International Group. Philippe will be joining the company on 20 March 2017, following the expiry of a non-compete with his former employer.

## **Michael Scott**

### *Group Finance Director*

Prior to his appointment in January 2016, Michael spent eight years at Rothschild where, as part of their Global Financial Advisory business, he worked across a wide range of public and private company transactions, M&A and debt and equity-related fund raisings. He qualified as a Chartered Accountant with PricewaterhouseCoopers.

## **Alexander Anton**

### *Non-Executive Director*

Alexander Anton, a member of the founding family of Victoria, was appointed to the main Board in 1995 and is a former Chairman. He is currently Chairman of Legacy Portfolio.

## **Andrew Harrison**

### *Non-Executive Director*

Andrew Harrison has more than twenty years as a solicitor in private practice, specialising in company law. He has advised on a wide variety of corporate transactions, including management buy-outs and buy-ins, corporate acquisitions and disposals and listed company take-overs.

## **Gavin Petken**

### *Non-Executive Director*

Gavin Petken is the Business Growth Fund's Regional Director for the Midlands and has developed the firm's local investment activities in the Midlands region for smaller entrepreneurial companies. He has also been actively involved with their major strategic initiative to extend the firm's provision of growth capital to listed companies, providing similar access to long term funding.



# VICTORIA PLC

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Michael Scott, Group Finance Director

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