# Victoria PLC

## Preliminary Results

## For the year ended 30 March 2019

**11 July 2019**

**Geoff Wilding, Executive Chairman**
**Philippe Hamers, Chief Executive**
**Michael Scott, Finance Director**

**Total Shareholder Return 3 Oct 2012* – 30 March 2019: 2,183%**
***New board & management appointed**

# VICTORIA PLC

**Preliminary Financial Results for the year ended 30 March 2019**

# EXECUTIVE SUMMARY

# EXECUTIVE SUMMARY
## Overview

*"2019 was another record year in terms of revenues, margins, and cash generation"*

- **REVENUE: £574.4 million**
- +35% y-o-y growth
- +2% like-for-like growth[1]

- **EBITDA margin[2] 16.8%**
- +160bps y-o-y

- **PBT [2] £57.2 million**
- +40% y-o-y growth

- **Adjusted EPS[2] 35.25p**
- +15% y-o-y growth

- **UNDERLYING OPERATING CASH FLOW[3]: £105.7 million**
  - +64% y-o-y growth
  - 110% conversion from EBITDA
  - Pre-exceptional cash generated of £50.4 million, after tax, interest and replacement capex

- **NET DEBT £339.9 million**
  - = 3.2x EBITDA[4]

***Notes***

1. *LFL revenue growth shown on a constant currency basis and adjusted to remove the impact of acquisitions and restructuring effects*
2. *EBITDA margin, PBT and EPS shown before exceptional and non-underlying items. EPS shown on a fully-diluted basis*
3. *Underlying operating cash flow defined as underlying EBITDA, less non-cash items, plus movement in working capital*
4. *Net debt / EBITDA assessed in line with banking covenants*

# EXECUTIVE SUMMARY
## Segmental Performance

| | Revenue | | | EBITDA[1] | | | EBIT[1] | | |
|---|---|---|---|---|---|---|---|---|---|
| £m | 2018 | 2019 | *LFL Growth[2] %* | 2018 | 2019 | *2019 Margin %* | 2018 | 2019 | *2019 Margin %* |
| UK & Europe – soft flooring | 265.0 | **280.5** | *+7.3%* | 35.2 | **29.2** | *10.4%* | 24.8 | **17.0** | *6.1%* |
| UK & Europe – ceramic tiles | 47.0 | **193.9** | *-1.3%* | 16.2 | **59.2** | *30.5%* | 13.7 | **48.2** | *24.9%* |
| Australia | 112.8 | **100.0** | *-6.9%* | 14.6 | **9.5** | *9.5%* | 11.6 | **6.8** | *6.8%* |
| Central costs | | **-** | - | (1.3) | **(1.6)** | - | (1.3) | **(1.7)** | - |
| **Total** | 424.8 | **574.4** | *+2.0* | 64.7 | **96.3** | *16.8%* | 48.8 | **70.3** | *12.2%* |

- Stable growth across the group with Victoria winning market share amidst a challenging market backdrop
- Strong volume growth in UK, partially offset by mix effect, as consumers traded-down within the mid-price bracket and the business very quickly and effectively responded
- Australia impacted by slower market compared to strong 2017 peak, although more recently lending caps have been removed and Reserve Bank interest has been cut resulting in a more positive outlook
- Ceramic tiles performance remained resilient, with a minor decline in margin due to mix effect of Saloni, which has a slightly lower margin than Keraben and Serra

***Note***

1. *Figures presented are underlying and pre-exceptional*
2. *LFL revenue growth shown on a constant currency basis and adjusted to remove the impact of acquisitions and restructuring effects*

# EXECUTIVE SUMMARY

## Consistent strong operational cash generation

| £m | FY15 | FY16 | FY17 | FY18 | FY19 | FY15-19 CAGR |
|---|---|---|---|---|---|---|
| Revenue | ***127*** | ***255*** | ***330*** | ***425*** | ***574*** | **46%** |
| *% growth* | *77.9%* | *100.9%* | *29.5%* | *28.6%* | *35.3%* | |
| *% Like for like growth* | *-0.2%* | *2.8%* | *4.6%* | *1.6%* [1] | *2.0%* [1] | |
| **Underlying EBITDA** | ***16*** | ***32*** | ***46*** | ***65*** | ***96*** | **57%** |
| *% margin* | *12.4%* | *12.7%* | *13.8%* | *15.2%* | *16.8%* | |
| Non-cash items | (0.2) | (0.1) | (0.5) | (0.2) | (0.8) | |
| Underlying movement in working capital | 2.2 | 0.1 | (1.6) | (0.2) | 10.2 | |
| **Operating Cash Flow before interest, tax and exceptional items** | **18** | **32** | **44** | **64** | **106** | **56%** |
| *% EBITDA conversion* | *112.7%* | *99.7%* | *95.4%* | *99.4%* | *109.8%* | |
| Interest paid | (1) | (3) | (4) | (7) | (17) | |
| Income tax paid | (2) | (3) | (6) | (11) | (16) | |
| Replacement capex | (5) | (10) | (11) | (14) | (24) | |
| Proceeds from fixed asset disposals | 1 | 1 | 0 | 2 | 1 | |
| **Free Cash Flow before exceptional items** | **10** | **17** | **24** | **35** | **50** | **49%** |
| *% EBITDA conversion* | *63.3%* | *51.4%* | *51.9%* | *54.1%* | *51.4%* | |
| Expansionary capex | - | - | - | (14) | (21) | |
| Deferred consideration and earn-out payments | (1) | (8) | (10) | (15) | (9) | |
| Exceptional cash items | - | - | - | (3) | (19) | |
| Dividends | - | - | - | - | - | |

***Note***

1. *LFL revenue growth shown on a constant currency basis and adjusted to remove the impact of acquisitions and restructuring effects*

# EXECUTIVE SUMMARY
## Investment in synergy projects – summary

- Significant one-off investment of £33.6m in margin-enhancing synergy projects across the Group in FY19

- Comprising four key projects:
    1. **UK manufacturing**: consolidation of UK carpet manufacturing and optimisation of production facilities at South Wales factory
    2. **UK logistics**: consolidation of UK logistics operations with the introduction of two new large distribution centres in the South of England and the Midlands
    3. **Spain integration**: integration of Saloni (acquired in August 2018) with existing ceramic tiles business (Keraben), involving rationalisation of production and integration of procurement and central functions
    4. **Australia manufacturing**: reorganisation of Australian underlay manufacturing, consolidating production into a single factory and enhancing efficiency

- These projects are now substantially complete, with benefits forthcoming in FY20

# EXECUTIVE SUMMARY

## Investment in synergy projects – summary

| Investment in synergy projects | Exceptional reorganisation costs £m | Growth capex £m | Total £m |
|---|---|---|---|
| Project 1 - UK manufacturing | 4.0 | 5.3 | 9.3 |
| Project 2 - UK logistics | 1.9 | 0.3 | 2.2 |
| Project 3 - Spain integration | 2.9 | 7.4 | 10.3 |
| Project 4 - Australia manufacturing | 2.4 | 0.9 | 3.3 |
| Other, smaller projects | 1.5 | 7.0 | 8.5 |
| **Total** | **12.7** | **20.9** | **33.6** |

# EXECUTIVE SUMMARY
## Investment in synergy projects – exceptional reorganisation costs

| Reorganisation costs | Redundancy £m | Legal & professional £m | Asset impairment (non cash) £m | Other £m | Total £m |
|---|---|---|---|---|---|
| Project 1 - UK manufacturing | 2.2 | 0.1 | 1.3 | 0.5 | 4.0 |
| Project 2 - UK logistics | 0.1 | 0.2 | - | 1.6 | 1.9 |
| Project 3 - Spain integration | 2.2 | - | 0.7 | - | 2.9 |
| Project 4 - Australia manufacturing | 1.3 | 0.3 | 0.5 | 0.3 | 2.4 |
| Other projects | 0.1 | 0.9 | - | 0.5 | 1.5 |
| **Total** | **5.9** | **1.5** | **2.5** | **2.9** | **12.7** |

# EXECUTIVE SUMMARY

## Investment in synergy projects – growth capex

| Growth capex | | Key synergy projects £m | Other £m | Total £m |
|---|---|---|---|---|
| **Carpet** | Additional / upgraded carpet finishing line | 5.3 | 0.9 | 6.2 |
| | Other (including new tufting, lab and sampling equipment) | 0.3 | 0.4 | 0.7 |
| **Ceramics** | Additional floor tile production lines | 6.6 | 3.9 | 10.5 |
| | Investment to allow different tile sizes | 0.9 | 0.1 | 1.0 |
| **Underlay** | Upgraded cutting, wrapping, packaging, sorting | 0.8 | 1.7 | 2.5 |
| **Total** | | **13.9** | **7.0** | **20.9** |

# SALONI CASE STUDY

# How Victoria generates value through M&A – a case study on Saloni

**Summary overview**

- As part of the due diligence into Saloni prior to acquisition, a detailed review was conducted of potential operational and integration synergies
- Immediately post-acquisition on 7 August 2018, a plan was refined and put into action
- The project is now largely complete and the benefits are apparent in the latest operational data. The year to March 2019 had material benefits from the project, but not a full-year effect due to:
  - Some aspects not completed until Q2
  - Manufacturing savings only materialise in the income statement once the stock is turned and the newly manufactured stock is being sold. Saloni was acquired with a greater level of stock than needed under Victoria management – c.190 days, which is planned to almost halve
- Estimated annual savings in excess of €5 million

**The project is split between operational initiatives and central cost initiatives**

**1 Operational**

**Atomised Clay**
- Saloni acquiring atomized clay 'in house' from Keraben as opposed to externally
- Budgeted c.20% saving in atomised white clay – already achieved. Further porcelain savings by Q2

**Production Allocation**
- Re-arranging production between the Keraben and Saloni factories to maximise utilisation
- Budgeted c.8% saving in porcelain tile manufacturing cost – already achieved
- Currently operating only 3 out of the 7 production lines at Saloni (but with production levels as required to support sales)

**Saloni Production Efficiency**
- A number of efficiency improvements identified at the Saloni factory and in procurement
- Efficiency – c.7-14% saving in white and porcelain tile production cost – already achieved
- Procurement – e.g. >10% saving in glazes and up to c.40% saving in certain packaging

**2 Central cost**

**Administration**
- Savings in HR, IT, finance and management
- Completed at end of Q1 2020

**Sales and logistics**
- To be completed in Q2 2020

# OUTLOOK

# OPPORTUNITY

## Victoria continues to adopt a consistent strategy, as applied over the last six years

### 1 Sustainable organic and acquisitive growth

**A Organic growth initiatives**

- Development of new brands and new product ranges, broadening target markets
- Development of entirely new, self-designed LVT range in UK and Australia
- Leveraging of cross-selling opportunities
- Co-ordinated cross-product approach to contract and market specification

**B Complementary strategic acquisitions**

- Cautious origination and execution process
- 13 acquisitions made since 2013, diversifying the Group's products and end-markets

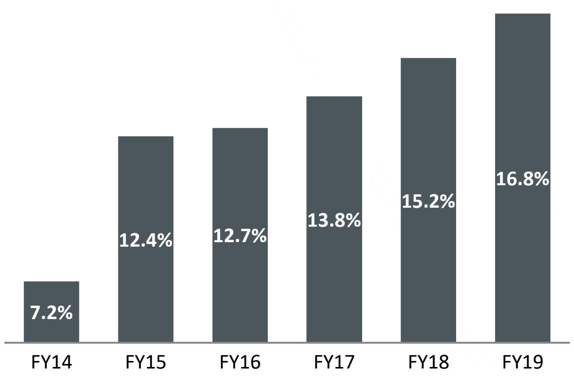
**Acquisition criteria**

- Growing businesses
- Sustainable above average margins
- Broad distribution channels
- Modern plant and facilities
- Committed management team

### 2 Synergies and integration to drive margin

- ✓ Customer-facing activities (design, branding, sales and marketing) are maintained independently
- ✓ Operational synergies (procurement, production, logistics and IT) drive margin expansion
- ✓ Commercial synergies drive revenue growth

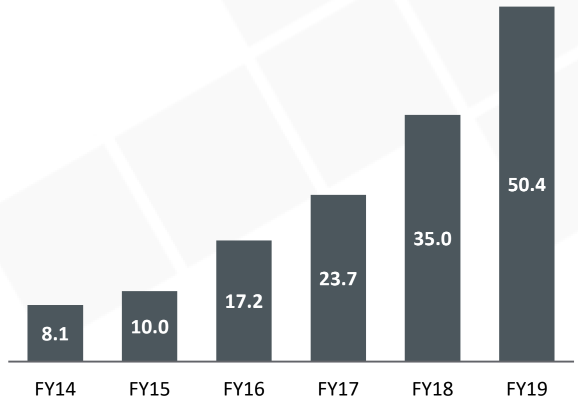
Underlying EBITDA margin (%)




### 3 Generation of free cash flow to enable deleveraging

- High free cash conversion
- Leverage reduction

Free Cash Flow before exceptional items (£m)



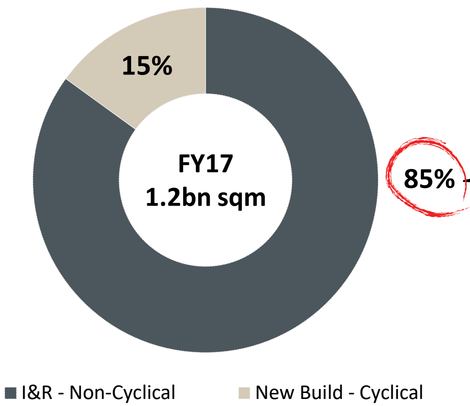

Source: Company information.

(1) Operating cashflow is calculated as underlying EBITDA, plus the movement in working capital, less maintenance capex and less non-cash items.

# 1 KEY RISKS - MACRO

## Stable flooring market underpinned by the resilient improvement and repair segment

### Improvement & repair is the primary driver of the Western European and Australian residential flooring markets



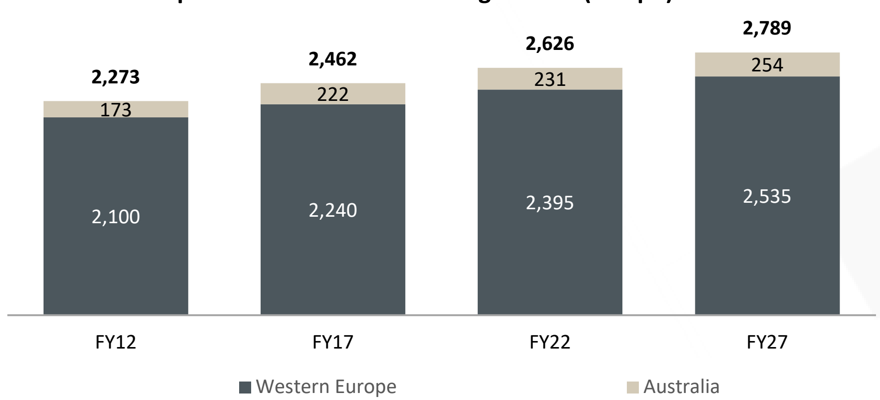

I&R end market **5-6x larger** than new construction

Key advantages of I&R vs. new build

- End users less price sensitive
- More stable through the cycle given lower cost vs. new build

### We operate in developed markets with steady growth drivers

**Western European and Australian flooring market (m sqm)**




| | | |
|---|---|---|
| | **CAGR FY12-17** | **CAGR FY17-22** |
| Total | 1.6% | 1.3% |
| Australia | 5.1% | 0.8% |
| Western Europe | 1.3% | 1.3% |

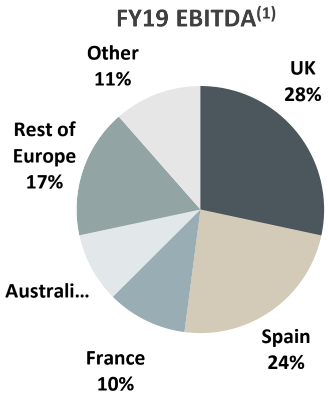
Source: Freedonia Global Flooring Market Report (Jan-19)

# KEY RISKS - MACRO

2

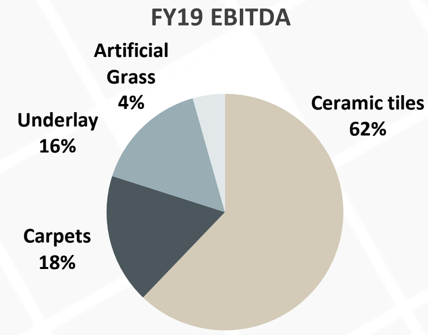
## Diversified business across products, customers and geographies

### Highly diversified geographic exposure



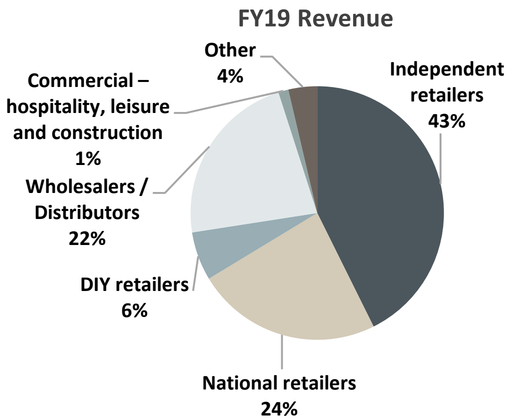

Flexibility to produce in and serve multiple geographies

### Well balanced product portfolio



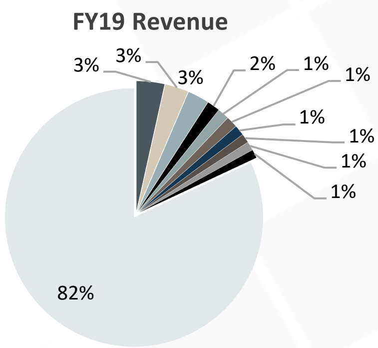

Wide product offering increases cross selling opportunities, visibility and pricing power

### Multi-channel customer base(2)




Largest group of customers are independent flooring retailers having brand loyalty and long term relationships

### Low customer concentration(2)




Top 10 customers account for 18% sales with largest customer accounting for 3%

Source: Company information.

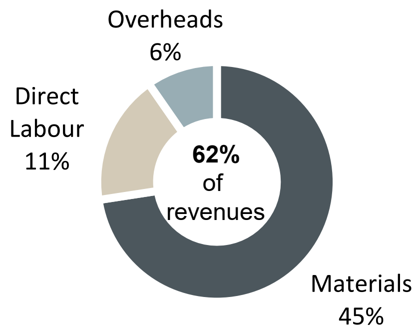
(1) Based on underlying EBITDA split by destination.

(2) Based on pro-forma revenues.

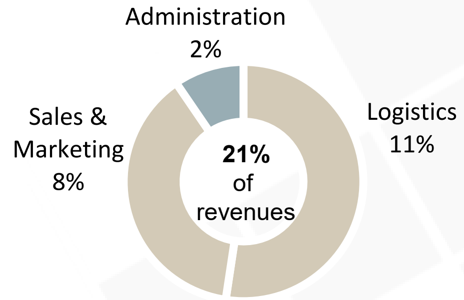
# 3 KEY RISKS - MACRO

## Low operational gearing through a flexible cost base and limited capex intensity

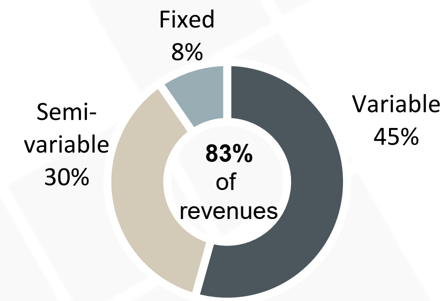
**Cost of sales[(1)]**




**SG&A[(1)]**




**Total cost base[(1)]**

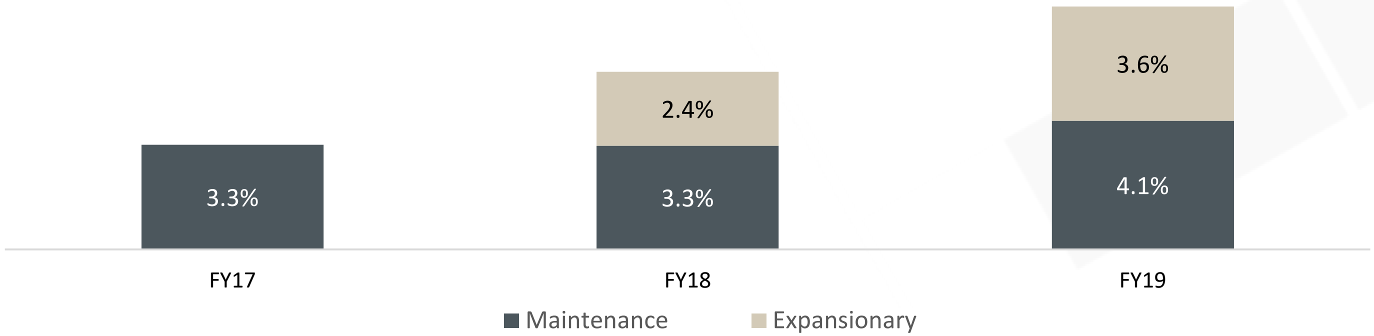



Variable cost – varies directly with revenues

Semi-variable cost – flexibility within a few months

Fixed cost (can still be subject to synergies)

**Capex as a % of revenue**




Note: Based on underlying FY19 figures.

(1) Represent costs within underlying EBITDA.

# KEY RISKS – BREXIT

## A net positive for Victoria

**The UK now represents only 28% of underlying EBITDA within the Victoria Group**

**Trade barriers?**

- Victoria has negligible cross-border trade
- Raw materials primarily sourced outside the EU but around Brexit Victoria will hold additional raw materials to ensure continuity of supply
- Makes imported product (c.60% of flooring imported) less competitive

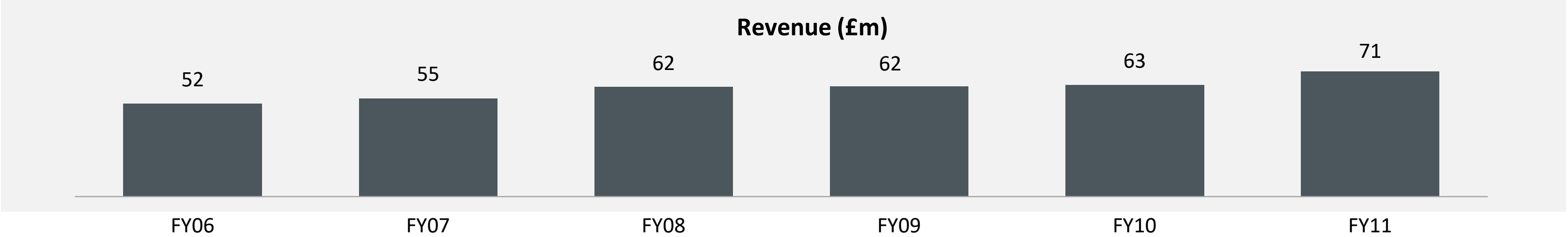
**Currency depreciation?**

- Cost of raw materials but VCP has pricing power (e.g. 2016)
- Makes imports (c.60% of the market) more expensive and less competitive
- Translation gains for c.70% of earnings

**UK consumer confidence?**

- Proven ability to grow market share (>+7% FY19 YTD LFL in UK in declining market)
- Low operational gearing – 45% of costs fully variable; 30% semi-variable
- Diversification of revenues and earnings – 72% outside the UK
- Outsourcing provides a buffer
- Proven historical resilience – constant sales growth during GFC

### Strong performance with resilience through the global financial crisis



# FINANCIAL RESULTS OVERVIEW

# FINANCIAL OVERVIEW
## Income Statement

| £m | 2019 | 2018 | 2019 margin |
|---|---|---|---|
| Revenue | **574.4** | 424.8 | |
| Cost of sales | (370.1) | (279.4) | |
| **Gross profit** | **204.3** | **145.4** | **35.6%** |
| Distribution and admin. expenses | (137.1) | (98.0) | |
| Other operating income | 3.1 | 1.4 | |
| **Underlying operating profit** | **70.3** | **48.8** | **12.2%** |
| Underlying finance costs | (13.1) | (8.0) | |
| **Underlying PBT** | **57.2** | **40.8** | **10.0%** |
| Amortisation of acquired intangibles | (22.5) | (11.2) | |
| Exceptional costs | (23.8) | (11.2) | |
| Non-underlying finance costs | (14.6) | (5.0) | |
| **Reported PBT** | **(3.7)** | **13.4** | |

# FINANCIAL OVERVIEW
## Balance Sheet

| £m | 31 March 2019 | 30 March 2018 |
|---|---|---|
| Goodwill, Intangibles, investments and deferred tax asset | 471.1 | 404.8 |
| Property, plant & equipment | 190.6 | 142.9 |
| **Non-current assets** | **661.7** | **547.7** |
| Current assets | 322.9 | 242.5 |
| Current liabilities | (179.0) | (125.5) |
| Non-current liabilities | (485.7) | (399.1) |
| **Net assets** | **319.9** | **265.6** |
| **Net debt** | 339.9 | 258.7 |
| Adjusted net debt / EBITDA[1] | 3.2x | 2.7x |

***Notes:***

1. *Leverage as calculated for bank covenant purposes.*

# FINANCIAL OVERVIEW
## Cash Flow

| £m | FY19 | FY18 |
|---|---|---|
| **Operating profit (pre-exceptional)** | **70.3** | **48.8** |
| Add back: underlying depreciation and amortisation | 26.0 | 15.9 |
| **EBITDA** | **96.3** | **64.7** |
| Other non-cash adjustments | (0.8) | (0.2) |
| Movement in working capital | 10.2 | (0.2) |
| **Operating cash flow before interest, tax and exceptional items** | **105.7** | **64.3** |
| Replacement capex | (23.5) | (14.1) |
| Proceeds of fixed asset disposals | 0.9 | 2.1 |
| Interest paid | (16.5) | (6.7) |
| Corporation tax paid | (16.2) | (10.6) |
| **Free cash flow before exceptional items** | **50.4** | **35.0** |

# APPENDIX

# SHAREHOLDER REGISTER

| Rank | Investor Name | Holding as of 31 May 2019 | % |
|---|---|---|---|
| 1 | Invesco Perpetual Asset Mgt | 36,229,974 | 28.89 |
| 2 | Mr Geoffrey Wilding | 22,438,650 | 17.89 |
| 3 | Spruce House Investment Mgt | 18,570,000 | 14.81 |
| 4 | Camelot Capital Partners | 7,694,103 | 6.14 |
| 5 | Mubadala Investment Company | 3,955,611 | 3.15 |
| 6 | Columbia Threadneedle Investments | 2,448,999 | 1.95 |
| 7 | Danske Capital Mgt | 2,220,438 | 1.77 |
| 8 | Interactive Investor | 2,034,564 | 1.62 |
| 9 | Banque Syz & Co | 1,820,000 | 1.45 |
| 10 | Hargreaves Lansdown Asset Mgt | 1,652,419 | 1.32 |
| 11 | Mr Charles Anton | 1,520,550 | 1.21 |
| 12 | Mr Rodney Style | 1,480,000 | 1.18 |
| 13 | BMO Global Asset Mgt | 1,367,929 | 1.09 |
| 14 | BlackRock Investment Mgt - Index | 1,154,306 | 0.92 |
| 15 | Didner & Gerge Fonder AB | 1,050,000 | 0.84 |
| 16 | Miss Georgina Anton | 1,006,500 | 0.80 |
| 17 | Miss Francesca Anton | 1,000,000 | 0.85 |
| 18 | Mr Ian Alexander Anton | 994,025 | 0.79 |
| 19 | Baillie Gifford & Co | 989,548 | 0.79 |
| 20 | Redmayne Bentley Stockbrokers | 941,249 | 0.75 |

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