



VICTORIA PLC

# Preferred Equity Investment

October 2020

**Geoffrey Wilding, Executive Chairman**

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# Company Update



# 1. Overview

Mission Statement: To create wealth for shareholders

## 2-PRONG STRATEGY

### Organic Growth

***Leverage scale and entrepreneurial management to drive:***

#### 1. Revenue growth:

- scale-enabled service offering (speed of delivery, product availability)
- cross-selling

#### 2. Margin expansion

- leverage scale = synergies (procurement, production, logistics)

#### 3. Cash generation

- high free cash conversion
- leverage reduction

### Acquisitions

***17 successful acquisitions since 2013 due to:***

#### 1. Strict criteria:

- growing businesses
- sustainable, above average margins
- Revenue and/or cost synergies
- broad distribution channels
- modern plant & facilities
- committed management team

#### 2. Risk management

- deep industry expertise
- contingent earn outs
- attractive valuation

## 2. Organic Growth: Trading YTD

Victoria continues to trade very strongly following the initial short-term impact of COVID-19

### Robust performance during 2020

- Victoria's **high degree of operational flexibility and geographic diversification** enabled it to be resilient to the challenges posed by COVID-19
- **Low operational gearing**
  - c. 90% of operating costs are wholly variable or semi-variable
  - Only c.10% are fixed
- **Diversified customer base**
  - Wide geographic spread of customers and manufacturing
  - Creditworthy
  - No customer concentration
- **Trading recovered quickly during May and demand since then has been at record levels**
  - Consumers are consistently focused on home improvement / maintenance vs. travel or leisure
  - Victoria's focus on residential end-markets rather than commercial has been an advantage
- **Cash neutral for the first half of the year**
  - Net debt (pre IFRS-16) at June: c. £385 million
  - Current cash and undrawn credit facility headroom of more than £200 million (prior to the preferred equity investment) – up from £180 million as at 30 June

### Current trading

- Revenue recovered quickly and strongly following the ending of lockdowns during Q1

(£ million)	April	May	June	Total
UK & Europe Soft Flooring	3.1	6.9	24.5	34.5
UK & Europe Ceramic Tiles	11.8	20.2	28.2	60.3
Australia	5.3	9.4	8.6	23.3
<b>Total</b>	<b>20.2</b>	<b>36.4</b>	<b>61.4</b>	<b>118.0</b>
<i>% of Pre-Covid-19 budget</i>	<b>35%</b>	<b>55%</b>	<b>102%</b>	<b>64%</b>

- Q2 revenue (July – September 2020) was ahead of both prior year and of the budget set ahead of COVID-19
- Full H1 update with interim results to be released on 30 November

### Resilient balance sheet

- €500 million (£453 million) of Senior Secured Notes are due July 2024 and in themselves have no maintenance financial covenants
- Since Covid-19, Moody's, Fitch, and S&P all confirmed their credit ratings of B1, BB-, and BB- respectively, albeit with negative outlook



# 2. Organic Growth: Outlook positive

Victoria continues to trade very strongly following the initial short-term impact of COVID-19

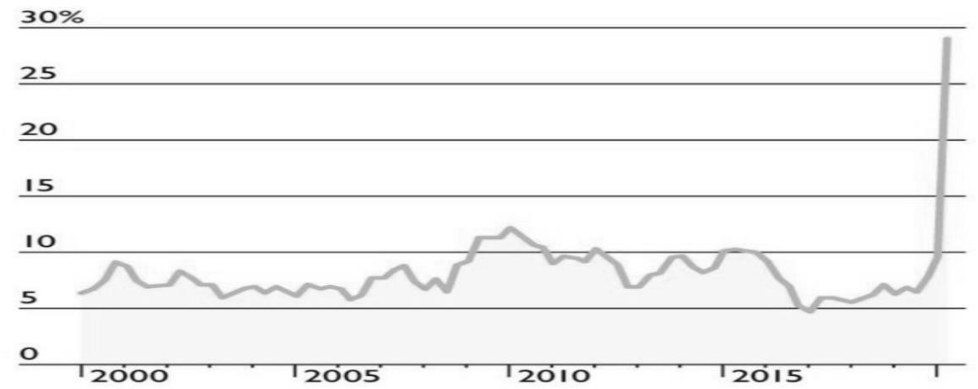
## Economic factors

- Victoria’s key market – residential renovation – has proven to be extremely resilient as consumers are spending more time at home and re-focusing expenditure away from travel and leisure
- As a result of people spending more time at home, household savings have increased dramatically (see chart top right). This savings growth has been weighted towards higher income households – Victoria’s key market
- UK house sales up (see chart bottom right) – which is one of the drivers of renovation (people generally replace flooring 6-12 months after purchase) – have rebounded
- Unemployment biased towards the young (working in retail and hospitality), who tend not to be homeowners
- Shopping for flooring products is more targeted than average consumer activity, with long-planned and fewer trips, and with firmer intentions
- This trend is replicated in other residential decorating sectors

## Victoria unique factors

- Victoria’s diversified exposure to a number of different economies = resilience. Recession or lockdown in one geography is offset by others
- More productivity enhancements to come (without significant cost) – driving further margin expansion
- Victoria’s focus on residential end-markets rather than commercial, and ability to react extremely fast to shut and re-open operations, has been a key advantage
- Customers seeking mid-high end products have been more resilient

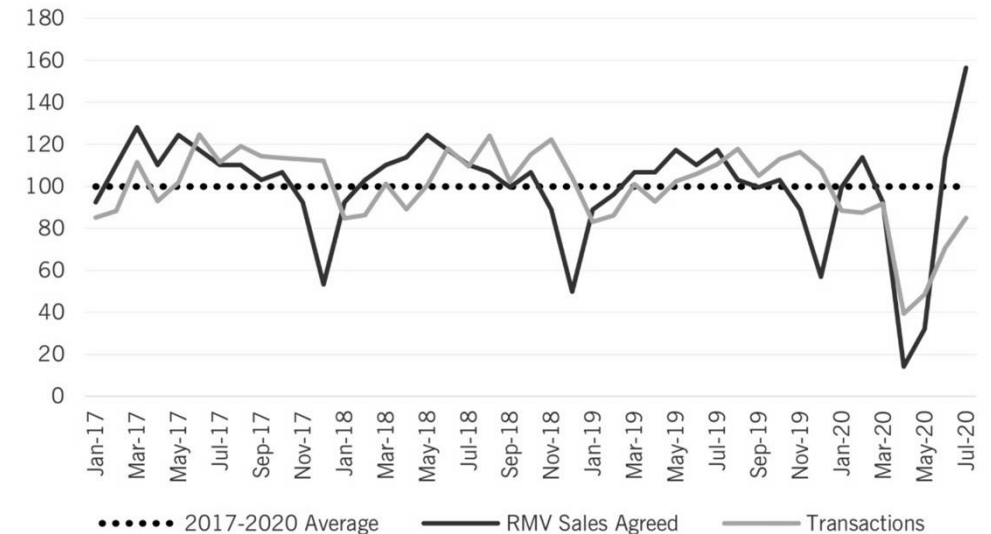
Saving as a percentage of disposable income



Source: ONS

Chart 3: Rightmove sales agreed & HMRC housing transactions (vs 2017-20 average)

Source: Rightmove, HMRC, Peel Hunt



# 3. Acquisitions

17 value accretive acquisitions driving EBITDA growth

Consolidator in a fragmented industry

European flooring sector is worth **€23 billion** at factory gate

Motivated sellers – retirement, capital structure under pressure

Deal structure minimises downside risk

Pro-active deal origination – Victoria actively prospects for opportunities

Synergies create strong levers for margin expansion

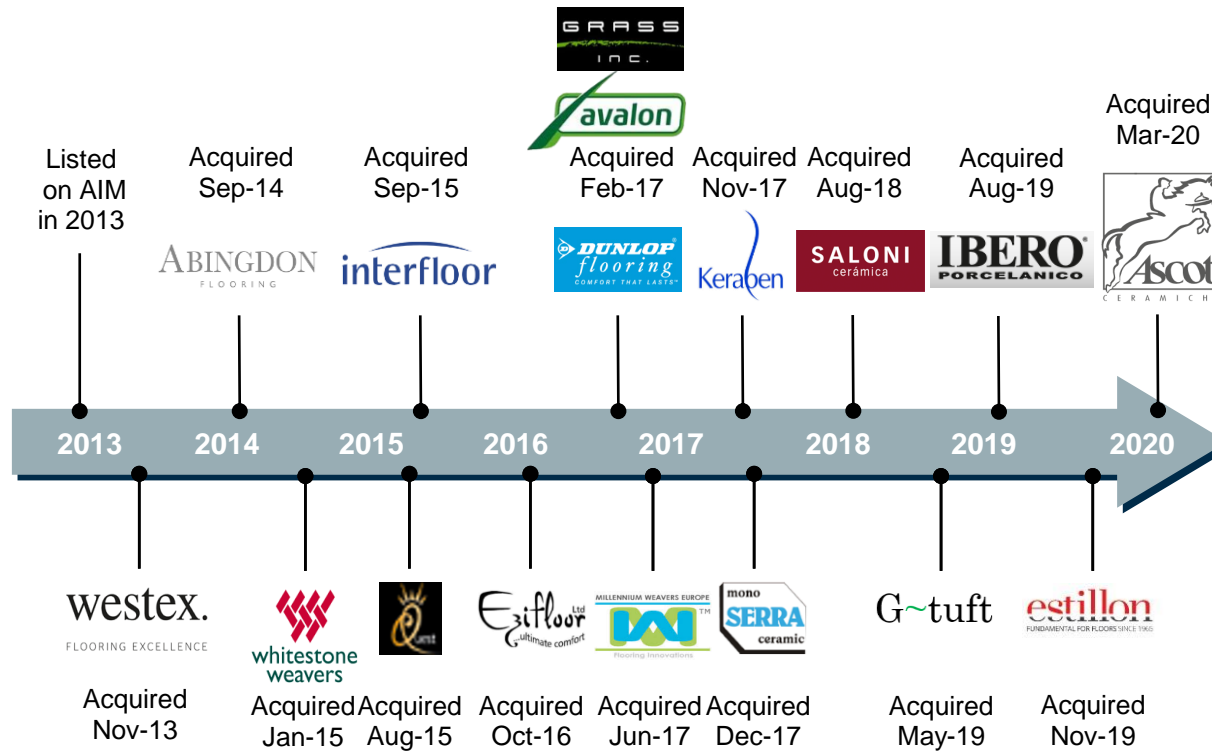
Better buying power on raw materials

Rationalisation of product lines and cross selling via new distribution channels

Ability to affect price increases

Distribution, warehousing and logistics

Consolidation of manufacturing capacity



	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Underlying EBITDA	£2.3m	£5.1m	£15.8m	£32.3m	£45.7m	£64.7m	£96.3m	£107.2m
% margin	3.0%	7.0%	12.4%	12.7%	13.8%	15.2%	16.8%	17.3%

# Koch Equity Development Investment





# 1. Koch Equity Development investment

Victoria has agreed a new preferred equity investment and shareholding by KED, a long-term and supportive partner

## Koch Equity Development (“KED”) becomes a major shareholder and supportive investor in Victoria

- KED has completed extensive due diligence on Victoria’s business, management team, and the market opportunity
- KED will acquire 10% of Victoria’s equity in the secondary market

## KED is also providing £75m (with ability to increase up to £175m) perpetual preferred equity - “fuel in the tank”

- The preferred equity senior only to common equity
- No requirement on Victoria to service the investment with cash; and KED can convert to common equity after 6 years
- Warrants over 9% of Victoria provide additional equity exposure for KED
- General Meeting for shareholder approval

## Preferred equity capital to fund the acquisition of up to £100m of EBITDA

- Preferred equity will be invested in cash-flow generating acquisitions targets in due course

## Victoria will continue its conservative financial policy

- New perpetual preferred equity reinforces its prudent approach to capital management
- Victoria is committed to its financial policy of c. 3x senior net debt/EBITDA post-acquisition, falling to 2x when in ‘steady state’
- If the perpetual preferred equity does not convert, then it may be refinanced via a similar instrument or common equity

***“We are delighted to be partnering with Victoria... we are confident in Victoria’s strategy, its management team, and the size of the market opportunity. We expect our investment to help Victoria accelerate execution of its growth plans.” Blake Ressel, Managing Director, Koch Equity Development***

## 2. Background: Koch Industries and Koch Equity Development

A supportive long-term partner with demonstrated experience in industrial investments

### Koch Industries

- Founded in 1940
- Owned by the Koch family
- Under the leadership of its current CEO, Charles Koch, the company has grown revenues from around US\$400m to \$115bn and is now one of the largest privately-held companies in the US
- Koch owns a diverse group of companies involved in refining, chemicals and biofuels; forest and consumer products; fertilizers; polymers and fibres; electronics, software and data analytics; automotive components; process and pollution control equipment and technologies; commodity trading; minerals; ranching; and investments
- Koch has significant experience and expertise in the flooring sector through its Invista and Stainmaster carpet businesses, predominantly focused on the US markets



### Koch Equity Development (“KED”)

- Koch Equity Development is Koch’s acquisition and investment subsidiary and has the primary responsibility in investing the firm’s excess capital
- It has invested \$30 billion since 2012
- With its long-term investment horizon, KED is an attractive partner for Victoria and will bring expertise and market access alongside its shareholding and capital contribution
- KED has high structuring and duration flexibility and a streamlined decision making process, with a minimum investment of \$100m

# 3. KED Transaction Summary – 4 key strategic objectives

KED's investment into common and preferred equity will enable Victoria to achieve its strategic objectives without shareholder dilution

## 1 Introduce new supportive industrial investor

- KED will be a supportive long-term partner to enable Victoria to continue investing in opportunities to continue to diversify its business in resilient markets
- Koch has significant experience and expertise in the flooring sector

## 2 Raise equity capital for acquisitions

- COVID-19 has led many owners of smaller businesses to consider their priorities between business and family, providing good opportunities for Victoria to continue to selectively invest to drive diversification and resilience
- Victoria remains conservative in its assessment of targets and will only acquire businesses that are resilient and offer immediate upside to the group, creating value for bondholders /shareholders, and which allow rapid deleveraging
- Victoria avoids failing or turnaround businesses

## 3 Resolve perceived 'overhang'

- One of Victoria's current major shareholders, who has been a highly supportive investor in Victoria for many years, has seen changes to its own fund that now require it to reduce its investment
- KED intends to buy its 10.0% stake from this investor, which, alongside Victoria's purchase of 6.8% and 2.9% by Spruce House (a significant existing shareholder), entirely removes this shareholder

## 4 Continue Victoria's conservative financial policy

- c. 3x senior leverage for attractive acquisitions with rapid deleveraging post-acquisition, <2x leverage in steady-state
- Maintain significant liquidity headroom and flexibility

## 4. Share Buy-back – concentrates benefits of value creation

**Victoria's directors believe the shares are very materially under-valued**

### **Decision to proceed taken after reviewing:**

- Trading outlook. The Board has been encouraged by the sustainability of the trading recovery previously advised to shareholders as revenue has continued to strengthen each month – even in those markets which have been open for many months.
- Liquidity. Victoria has a resilient balance sheet with more than £200m of cash and undrawn credit-lines (up from £180m as at 30 June) to which it continues to add each month. (Prior to the Koch investment).
- Alternative uses for excess cash.

**The buy-back reduces Victoria's ordinary shares outstanding by 6.8%, thereby increasing current and future EPS and FCF per shares by 7.3%.**

**The share buy-back forms part of the KED preferred equity investment.**

**It is important to stress that the buy-back does not imply a departure from the Company's financial policy, either in terms of leverage appetite or payment of dividends.**

**The Directors are firmly of the view that the buy-back as proposed, in conjunction with the new preferred equity being raised, is the best use of the capital at this time and will be value-enhancing for shareholders.**

# Investment Highlights





# Key investment highlights

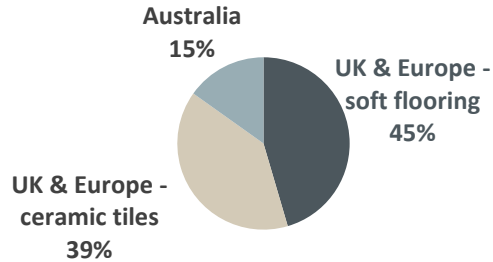
The Victoria Group presents a unique equity story

- 1 Global business with a focus on the mid to high-end products
- 2 Diversified business across products, customers and geographies
- 3 Stable flooring market underpinned by the resilient improvement and repair segment
- 4 High structural barriers to entry
- 5 Low operational gearing through a flexible cost base and limited capex intensity
- 6 Proven acquisition track record and ability to realize synergies
- 7 Experienced management team with proven track record of sustainable value creation

# 1 Global business with a focus on the mid to high-end products

**Ceramic tiles (39% FY20 Revenue)**  
(28% Adj. EBITDA margin<sup>1</sup>)

Strong market positions across key markets



Source: FY20 Company information.

Market position

Brands span from mid-end mass market up to high-end covering every price point

atlantictiles

IBERO  
PORCELANICO

CASAINFINITA

METROPOL

Ascot  
CERAMICHE

Keraben

SALONI  
cerámica

mono  
SERRA  
ceramic

Dom  
CERAMICHE

**Soft flooring (61% FY20 Revenue)**  
(14% Adj. EBITDA margin<sup>1</sup>)

UK & Europe

Australia

#1  
in UK  
Carpets<sup>(2)</sup>

#1  
in UK Underlay  
and  
accessories<sup>(2)</sup>

#2  
in  
Carpets<sup>(3)</sup>

#1  
in Underlay  
and  
accessories<sup>(3)</sup>

Artificial grass

GRASS  
LIFE

avalon

LVT

westex.  
FLOORING EXCELLENCE

Distinctive™  
FLOORING

Underlay and accessories

Duralay  
Underlay Systems Since 1992

tredaire  
It's what's underneath that matters.

estillon  
FUNDAMENTAL FOR FLOORS SINCE 1962

Gripperrods

SoftStep

STIKATAK

Super Step

Carpet

westex.  
FLOORING EXCELLENCE

MILLENNIUM WEAVERS EUROPE  
The art of weaving

THE LOVE STORY  
COLLECTION

HUGH MACKAY  
carpets

whitestone  
weavers

THOMAS WITTER  
CHANGING OF THE GUARD

WILTON ROYAL

VICTORIA CARPETS  
ESTABLISHED 1925

gaskell  
carpets

STAINFREE™  
The original and the most popular grey low pile carpet

G-tuft

LVT

HEARTRIDGE  
FLOORS BY DUNLOP

frontier  
FLOORING

Underlay and accessories

DUNLOP  
flooring  
COMFORT THAT LASTS™

Carpet

VICTORIA CARPETS®  
ESTABLISHED 1925

Quest  
Quest Carpets

(1) Adj. EBITDA margin is post IFRS 16 and before credit loss provision.

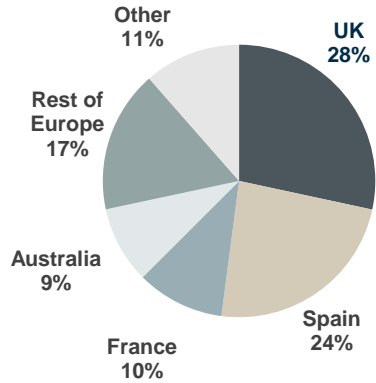
(2) Largest UK manufacturer by volume.

(3) By sales.

# 2 Diversified business across products, customers and geographies

## Highly diversified geographic exposure

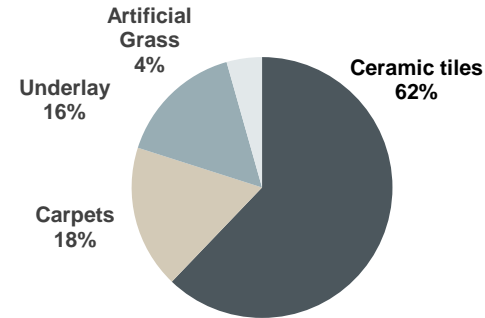
Split of EBITDA by destination country<sup>(1)</sup>



Flexibility to produce in and serve multiple geographies

## Well balanced product portfolio

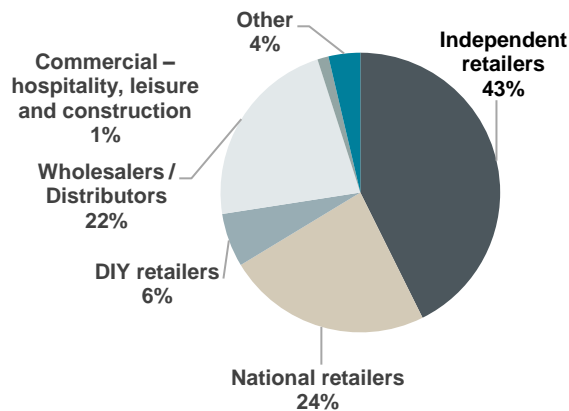
Split of EBITDA by product category<sup>(1)</sup>



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

## Multi-channel customer base

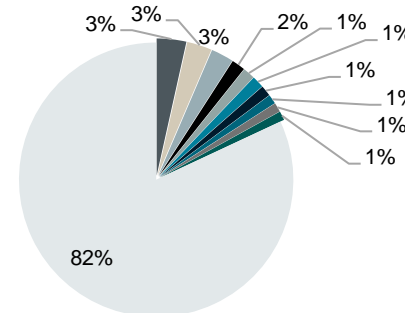
Split of revenue by customer type<sup>(2)</sup>



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

## Low customer concentration

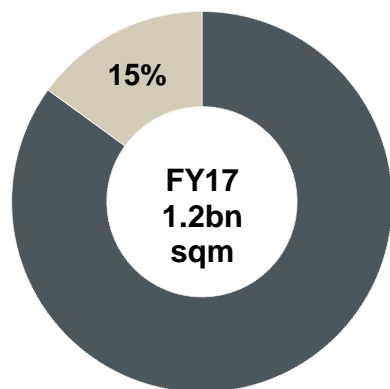
Split of revenue by key customer<sup>(2)</sup>



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

# 3 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 - Non-Cyclical    ■ New Build - Cyclical

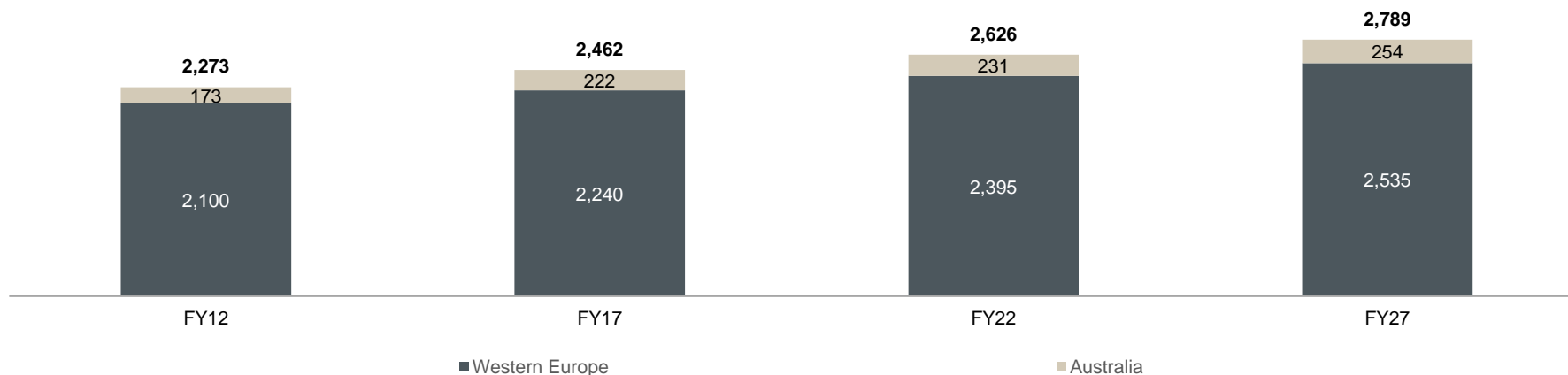
I&R end market **5-6x larger** than new construction

### 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

1.6%    1.3%

5.1%    0.8%

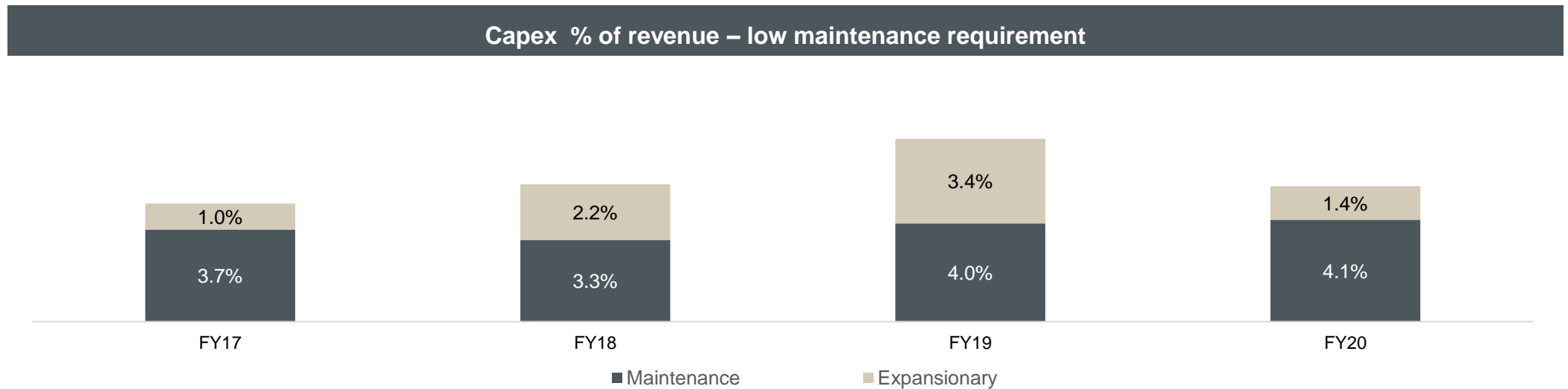
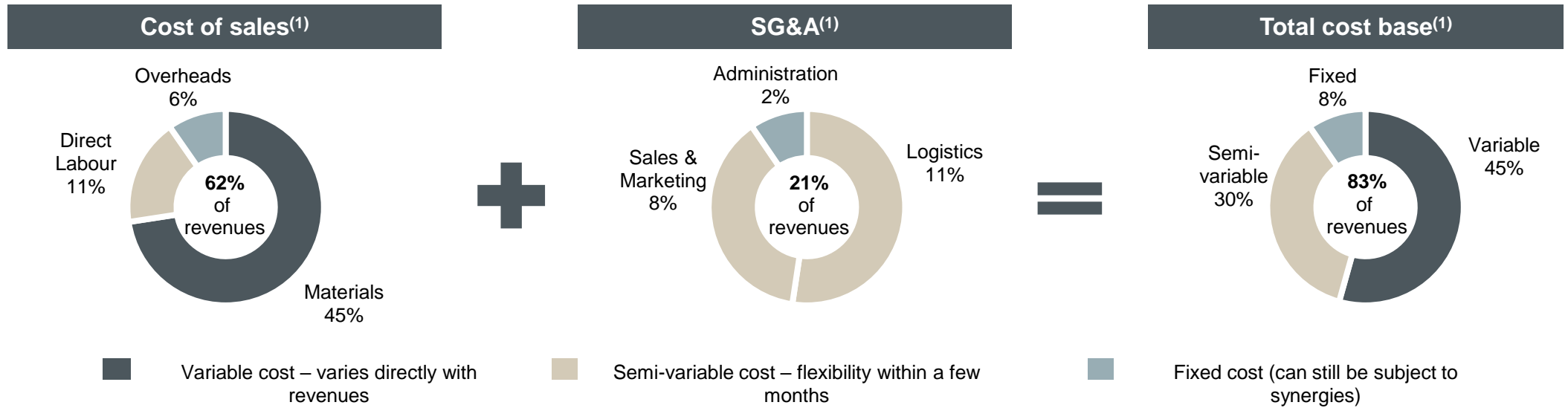
1.3%    1.3%

## 4 High structural barriers to entry

- ✓ **Fragmented customer base** – focus on long-standing relationships with broad network of independent retailers
- ✓ **Proximity to customers** helps influence designs/trends and maintain customer relationships
- ✓ **Established and trusted brands** – well known with retailers for certainty of supply and quality
- ✓ **Scale is key** – smaller operations / contract manufacturing significantly less efficient than long production runs
- ✓ **Product handling** – specialist warehousing and distribution required; difficult over long distances
- ✓ **Deep product knowledge and technical expertise** – vital to underpin operational efficiency and innovation

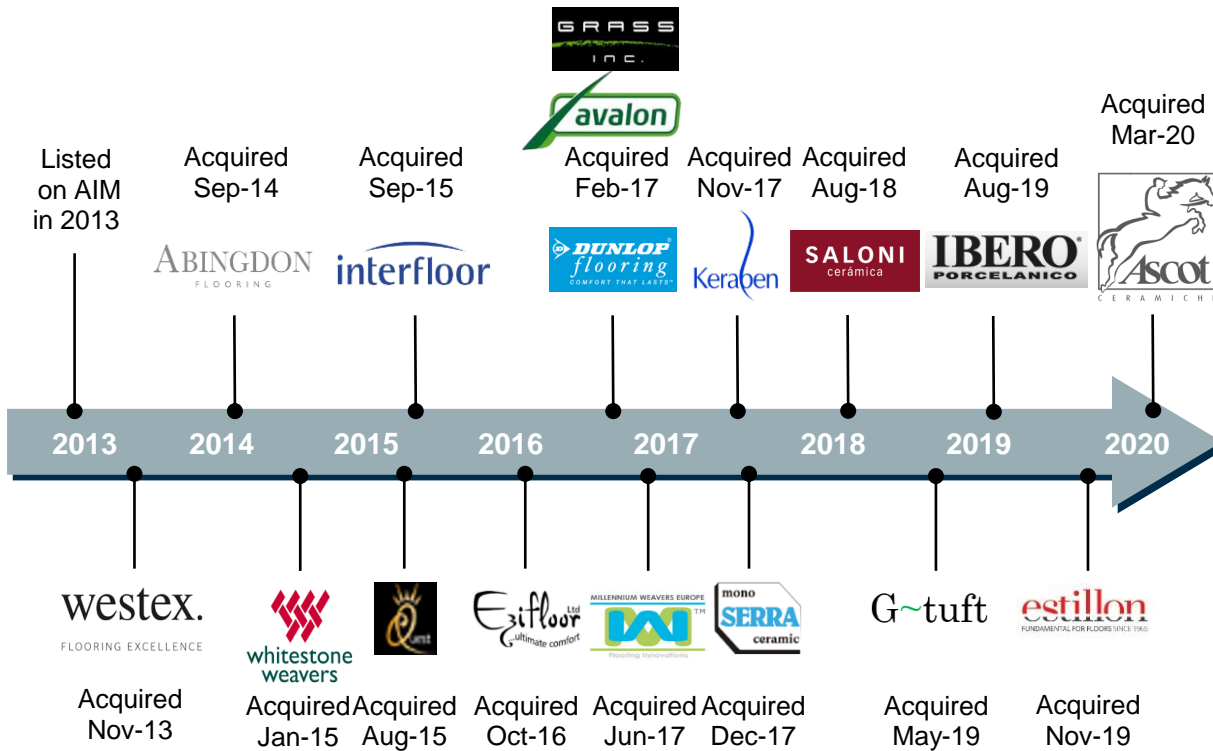


# 5 Low operational gearing through a flexible cost base and limited capex intensity



# 6 Proven acquisition track record and ability to realise synergies

## Value accretive acquisitions driving EBITDA growth



	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Underlying EBITDA	£2.3m	£5.1m	£15.8m	£32.3m	£45.7m	£64.7m	£96.3m	£107.2m
% margin	3.0%	7.0%	12.4%	12.7%	13.8%	15.2%	16.8%	17.3%

## Consolidator in a fragmented industry

Built meaningful scale since 2013 with 17 acquisitions

Keraben, Serra & Saloni propelled group to a strong market position in European Ceramic tiles

## Synergies create strong levers for margin expansion

Better buying power on raw materials

Rationalisation of product lines and cross selling via new distribution channels

Ability to affect price increases

Distribution, warehousing and logistics

Consolidation of manufacturing capacity

# 7 Experienced management team with proven track record of sustainable value creation

**Geoffrey Wilding**  
Executive Chairman



**Wider Management Team**

15 Managing Directors responsible for individual business units

Extensive industry experience

Experience, product knowledge, enthusiasm, skill second to none

Actively incentivized in Victoria's future with significant investment in shares, LTIP plans, and cross-unit Board membership / project

**Philippe Hamers**  
Chief Executive



**Retention of management**

All managers retained post acquisition earn-out period, excluding retirees

Almost all managers have meaningful amounts of their net worth invested in VCP

Of 17 acquisitions to date, 8 have completed earn-out and 5 did not have earn-outs

**Michael Scott**  
Group Finance Director



**Value Creation**

	FY14	Adj. PF 2020
Revenues (£m)	71	622
EBITDA margin (%)	7.2%	17.3% <sup>(1)</sup>
Market Cap (£m)	23	569 <sup>(2)</sup>