VICTORIA PLC

2020 Half-year report for the 27 weeks ended 3 October 2020

VICTORIA PLC

OUR MISSION STATEMENT

To create wealth for our Shareholders

Contents

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	H1 FY21	H1 FY20
Continuing operations		
Revenue	**£305.5m**	£312.3m
Underlying EBITDA[1]	**£52.4m**	£58.5m
Underlying operating profit[1]	**£28.2m**	£39.7m
Operating profit	**£10.8m**	£23.8m
Underlying profit before tax[1]	**£13.7m**	£27.5m
(Loss) / profit before tax	**£(2.9)m**	£5.5m
Underlying free cash flow[2]	**£18.3m**	£22.8m
Net debt[3]	**£364.6m**	£372.4m
Net debt / EBITDA[4]	**3.3x**	3.3x
Earnings / (loss) per share:		
- Diluted adjusted[1]	**8.09p**	16.59p
- Diluted	**(1.68)p**	3.11p

- Despite widespread government lockdowns in Q1, overall H1 revenue performance broadly in line with the prior year. This is due to record post-lockdown performance, with absolute growth of +22.8% (including returns from prior-year investment in capacity at our Italian ceramic tile operations) and like-for-like growth of +9.2%.

- Post-lockdown like-for-like margin improvement of an unprecedented +300bps versus the same period in the prior year, resulting from a combination of strong revenue performance and, more significantly, sustainable productivity gains from operational reorganisation and synergy projects completed last year.

- Strong cash generation continues with £18.3m of underlying free cash flow[2] for the period, which equates to a 65% conversion from underlying operating profit, an improvement of circa 8ppts over H1 last year. Even during the Q1 lockdown period, cash flow was broadly neutral due to positive management actions and Victoria's inherent low operational gearing.

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[1] *Underlying performance is stated before exceptional and non-underlying items, including the amortisation of acquired intangibles within operating profit. In addition, underlying profit before tax and adjusted EPS are also stated before non-underlying items within finance costs*

[2] *Underlying free cash flow represents cash flow after interest, tax and replacement capital expenditure, but before investment in growth, financing activities and exceptional items*

[3] *Net debt shown before right-of-use lease liabilities, bond issue premia, notes redemption option and prepaid finance costs*

[4] *Leverage (Net debt / pro-forma EBITDA) consistent with the methodology used by our lending banks*

- Net debt[3] as at 3 October 2020 was £364.6m, representing a reduction of £5.0m from the prior year-end before translational FX movements. This equates to leverage of 3.3x net debt / pro-forma EBITDA[4], which has remained extremely stable. As such the Group has not deviated from its longer-term financial policy, despite the pandemic.

- Following the half-year, Koch Equity Development, a subsidiary of the US$115 billion revenue group, Koch Industries, committed to invest £175 million in preferred equity to accelerate Victoria's acquisition strategy. They also acquired a 10.7% shareholding in Victoria.

Although erratic government actions make it difficult to provide formal guidance, the Board does expect the full year outcome to be well ahead of current market expectations.

CHAIRMAN & CHIEF EXECUTIVE'S LETTER TO SHAREHOLDERS

Sisyphus was the mythological Greek king who was required to spend eternity pushing a large boulder up a mountain only for it to repeatedly roll back to the bottom each time it reached the summit.

Like many management teams this year, Victoria's operational managers have felt much in common with Sisyphus, with the erratic and incoherent policies of various Governments repeatedly rolling the economic boulder back down the mountain, just as a recovery was beginning.

In contrast with Sisyphus though, our managers have rapidly adapted to the current environment and Victoria's strong performance for H1 is testimony to their skill and experience.

Across all the businesses we took the decision to return to full operations as soon as we could lawfully do so – even in advance of flooring retailers being allowed to re-open. As a result, we hit the ground running, ramping up production to maximum capacity – ahead of our competitors – to meet the strong demand received when stores opened. Therefore, despite the lockdowns during April to June, during which Victoria's monthly revenues declined by as much as 80%, overall revenue for the six months was broadly in line with that of the comparable period last year after a remarkable 23% year-on-year revenue increase post-lockdown.

Earnings and operating margins also recovered strongly, with record earnings in Q2 almost fully making up for Q1 when our factories in the UK and Europe were obliged to close. This achievement was despite temporary additional production costs incurred by ensuring a Covid-safe environment for employees, and raw material price increases in Q2. Victoria absorbed the raw material price increases during Q2, but selling prices were increased from November to fully recover their impact on Victoria's operating margin.

Consequentially, the Board was delighted with the operating results for the period, which the table below summarises for the last six years:

H1, Financial Year	**2021**[1]	**2020**[1]	**2019**	**2018**	**2017**	**2016**
Revenue	£305.5m	£312.3m	£273.4m	£189.5m	£153.4m	£105.6m
Underlying EBITDA	£52.4m	£58.5m	£45.4m	£24.6m	£20.2m	£12.6m
EBITDA margin	17.2%	18.7%	16.6%	13.0%	13.2%	11.9%

[1] H1 2020 and 2021 figures impacted by the adoption of IFRS 16 and the disposal of A&A (figures shown for continuing operations only)

OPERATIONAL REPORT BY DIVISION

UK & Europe Soft Flooring – post-lockdown operating margin +500bps

	H1 FY21 Total	**June – September (post-lockdown)**
Revenue	£126.0m	£94.3m
Absolute growth %	*-10.4%*	*+27.8%*
LFL growth %	-	*+21.2%*
Underlying EBITDA margin	15.2%	18.5%
LFL margin variance %	*+150bps*	*+500bps*

The UK & Europe Soft Flooring division delivered an extraordinarily strong performance. Despite lockdown for the first 10 weeks of FY21, EBITDA for the six months overall was similar to the prior year at £19.2 million, with post-lockdown revenue more than 21% higher than for the equivalent period last year, and post-lockdown EBITDA margin some 500bps higher on a like-for-like basis. This is pure organic growth.

There were two reasons for this very pleasing result:

1. Following the end of the UK lockdown on 16 June, all customer categories – retail buying groups, wholesalers, national accounts, as well as house builders – provided strong demand, with Victoria experiencing record levels of order intake for higher-margin cut length carpet (i.e. carpet cut for a specific consumer purchase versus the sale of entire carpet rolls).

2. Most critically, the various initiatives in logistics and factory productivity previously announced to shareholders have delivered as planned and drove both market share growth and meaningful margin expansion. Operating margins for the half year increased from 13.8% in FY20 to 15.2%, and to 18.5% excluding the lockdown period.

Consequently, the carpet- and underlay division outperformed all of our key competitors – domestic and overseas – in the market.

Carpet Manufacturing

- There was a continued focus on margin and bottom slicing (removal) of margin dilutive products. Also, as a result of the strong consumer demand for carpet, the focus across the business was on production – servicing the existing best-selling SKU's; we refrained from launching new developments, which will now be released next year to continue to drive revenue growth.

- The Group completed the integration of the G-Tuft plant at Dewsbury (acquired in 2019) into the Group's production flow, with the G-tuft plant focussing on tufting natural fibres and the Abingdon factory in Wales on synthetic fibres – irrespective of brand. This has, as expected, continued to lift operating margins with the factories optimised to manufacture the type of product they do best. Demonstrating this improved efficiency is the output at Abingdon, which is 30% higher than last year with 12% fewer employees.

- The Group began the construction of a new warehouse for finished carpet rolls on the Abingdon site to reduce the cost of volume shipments and reduce the pressure on the logistics centres. This project will complete by the end of March, 2021.

Underlay manufacturing

- With demand for underlay running at all time high levels, the focus has been on improving output from the factories (building a new factory takes too long). As part of this continuous improvement plan, we completed the refurbishment of the rubber underlay production lines, removing a bottleneck and resulting in an improvement of machine availability of 9%.

- The UK logistics function for underlay deliveries was brought back in-house, which has improved our service levels and distribution flexibility.

- As part of an improved procurement strategy, several new PU trim (the primary raw material in synthetic underlay) suppliers were introduced. This has helped to maintain the overall trim prices at budget level and has underpinned the Brexit contingency planning to ensure uninterrupted access to raw materials.

Logistics

- The investment in our logistics capacity has proven to be the perfect strategy to differentiate Victoria from the continental carpet suppliers by meaningfully enhancing our service proposition. On-Time-Delivery for available stock across the country within 3 days increased from 91 % to 93.6 %, resulting in retailers favouring Victoria Group products over those from competitors with slower and less certain delivery.

- The productivity of the three distribution centres also jumped as the impact of our investment in FY19 and FY20 arrived. We are now cutting and delivering 45% more orders with 25% fewer employees.

- The reorganisation and productivity enhancements have also delivered more spare capacity – allowing for future growth of more than 20% without further capex investment required.

UK & Europe Ceramic Tiles – post-lockdown revenue +27.4% above prior year

	H1 FY21 Total	**June – September (post-lockdown)**
Revenue	£132.5m	£100.5m
Absolute growth %	*+8.6%*	*+27.4%*
LFL growth %	-	*-2.6%*
Underlying EBITDA margin	20.9%	24.2%
LFL margin variance %	*-350bps*	*+150bps*

Our ceramic tiles division also delivered a very strong performance post-lockdown with revenue +27.4% vs prior year driven primarily by the continued expansion of our business in Italy. DIY orders continue to accelerate and, with the Board's view that this will be a sustained trend, we will look to add capacity in the New Year. Minimal government support resulted in the lockdown heavily impacting margins during Q1 but management actions ensured margins post-lockdown increased by 150bps on a like-for-like basis.

Italy

- We added production capacity in March following very strong growth in our Italian business, Ceramiche Serra, by acquiring the factory and assets of a neighbouring business facing closure. This is a highly efficient way of adding production capacity as it provides more-or-less instantaneous production capacity versus the 18-24 months it would take to build a factory, instal the plant, and acquire emission rights.

- During the half year we completed the full integration of the neighbouring factory we acquired (Ascot Gruppo Ceramiche) into the current Italian structure. The integration process was delayed by two months due to the Italian lockdown, but the integrated businesses are now delivering pre-Covid EBITDA budget.

- The integration allowed for a reduction of employees from 368 to 250 FTE alongside production output increasing by 1.2m m^2 of red body tiles and 0.7m m^2 of porcelain tiles.

- Organic growth has again filled capacity and some production is once more being outsourced. We will look to add capacity in the New Year to enable this production to be insourced and allow for further growth.

Spain

- With a longer duration and less government support, Q1 was more negatively influenced by Covid-19 lockdown than our Italian factories.

- Q2 saw a strong recovery in demand other than for our Saloni brand, which is more focussed on the commercial/construction market, which has been slower to recover than consumer/redecorating markets.

- Significant improvements were achieved in the overall production cost in our Spanish factories in Q2 due OPEX initiatives and renegotiated utility prices.

- Strong consumer demand combined with the longer lockdown has resulted in significant backorders, which the business is now working at full capacity to meet. As you would expect, this is predicted to deliver a very good H2.

Australia – EBITDA +10.7% above prior year

	H1 FY21 Total	**June – September (post-lockdown)**
Revenue	£47.0m	£32.3m
Absolute growth %	*-5.4%*	*-2.4%*
LFL growth %	*-2.2%*	*Jun-Aug: +14.7%*
Underlying EBITDA margin	13.2%	14.0%
LFL margin variance %	*+210bps*	*+260bps*

Our Australian business has delivered an outstanding result with H1 EBITDA +10.7% versus last year, despite revenue being down slightly at -2.2% on a like-for-like basis. Operating margins have been markedly improved by management actions taken last year and the result for H1 would have been even better but for the very strict seven-week lockdown in August/September, which required the total shutdown of our Victoria State factories, which are more than 75% of our Australian operations.

However, thanks to our very loyal retailers, who continued to sell Victoria product to consumers despite our inability to deliver due to the lockdown, record back orders have been received, which have fuelled October and November revenues.

Carpet & Underlay

- Operating profits were up on last year, driven by operating margin improvement through productivity gains, cost reduction, and expense management along with higher volumes. The stronger AUD has contributed to cheaper raw materials.

- We have a significant pipeline of new products which will further carry momentum in H2.

- The underlay factory consolidation previously announced continues to drive efficiencies, with the H1 budget achieved, despite the impact of Covid-19.

CASHFLOW & LIQUIDITY

Net operating cash flow before interest, tax and exceptional items was again very good at £43.6 million for the half year ended 3 October, broadly in line with the previous year when Covid-19 did not exist.

Victoria continued to maintain a strong liquidity position and, thanks to our strong recent trading, the Group finished the period with cash and undrawn credit lines in excess of £200 million, up from £180 million as at 30 June. Furthermore, almost all Victoria's debt financing takes the form of long-dated Senior Notes ("bonds") which, in themselves, have no financial maintenance covenants and are not due for repayment until July 2024. The flexibility and security this form of financing provides has proven invaluable this year – protecting shareholders from any dilutive and wealth-destroying emergency equity issue or concerns about breaching bank covenants.

We decided to fully draw our £75 million revolving credit facility at the start of the period as a protective measure during the chaotic early days of the Covid-19 crisis. With the benefit of hindsight, this step was unnecessary due to the extraordinary steps central banks took to ensure adequate liquidity in the banking system. However, in March, when the decision was taken, the central bank policy decisions were still ahead of us and the Board took the view that ensuring Victoria's liquidity was more critical than optimising earnings over the period. As a result, the Group incurred an extra interest expense of £1.4 million in the period whilst the £75 million of cash simply sat, unutilised, on our balance sheet.

This action has not been repeated during the current lockdowns – partly due to the liquidity in the banking system and partly because of Victoria's strong financial performance in Q1 (as shareholders will recall, despite the lockdown in all of Victoria's key geographies in the June quarter, negative operating cash flow was just c. £7 million for the three months).

KOCH PREFERRED EQUITY INVESTMENT

Earlier this month, shareholders approved a number of resolutions that enabled Koch Equity Development, a subsidiary of one of the largest companies in the US, Koch Industries, to invest £175 million of capital via convertible preferred shares, to accelerate Victoria's acquisition-led growth. The Board believes that this capital (alongside senior debt at levels that maintain or reduce existing leverage) could enable the Group to acquire up to £100 million of accretive EBITDA.

Despite the relatively complex legal documentation, the economic rationale and structure of the investment – and its financial impact – is actually simple and straightforward.

Firstly, the economic rationale. Victoria has created a lot of shareholder wealth over the last eight years by completing and successfully integrating a total of 17 acquisitions. These acquisitions have transformed Victoria from a small UK-centric carpet manufacturer into a multi-national flooring manufacturer and distributor (more than 70% of earnings now come from outside the UK), with economies of scale to match.

In recent months we have identified a number of further value-accretive potential acquisitions and the advantage of raising the necessary capital to execute on these opportunities via convertible preferred shares is that they have a significantly less dilutive effect on existing shareholders than an issue of ordinary shares (given the preferred shares are expected to be redeemed or converted at a share price greater than the current share price), while also maintaining the Board's long-expressed policy of not over-leveraging the Company.

So, turning to the structure of the Preferred Equity Investment (for a full description please refer to the shareholder circular), it has two components:

1. Convertible Preferred Shares. Koch has committed to invest £175 million via convertible preferred shares. These shares, which carry no voting rights and, most importantly, *can be redeemed by Victoria at any time at their issue value* (plus any unpaid dividends), include the following features:

    a. A preferred dividend of 9.35%. This dividend must be assessed as only one component of Victoria's Weighted Average Cost of Capital ("WACC"). Victoria's 2024 Senior Notes ("bonds") trade, at the time of writing, in a range of 4.10-4.15% (a very good c. 125bps reduction since the announcement of the Koch investment). Deploying the preferred equity capital alongside senior debt to fund an acquisition will therefore result in an incremental average cost to Victoria of less than 6% - almost certainly significantly less than would have been the cost of funding an acquisition using senior debt alone (and, obviously, much less than the expected earnings from the acquisition).

    b. Warrants for up to 12.4 million ordinary shares. However, Victoria has the right to net settle these warrants, which means that shares will only need to be issued to cover the difference between the warrants £3.50 exercise price and the share price at the time the warrants are exercised (not before November 2023), reducing the number of shares the Company actually issues and keeping the dilution of existing shareholders to a minimum.

Furthermore, importantly, there is a limit (or "cap") on the overall return Koch can receive on its investment. This cap, based primarily on an IRR calculation, is expected to further reduce the number of shares that need to be issued as per the examples below:

Number of ordinary shares issued on exercise of warrants						
Share Price at exercise date	£5.00	£6.00	£7.00	£8.00	£9.00	£10.00
£75m preferred shares*	**2.91m**	**2.42m**	**2.08m**	**1.82m**	**1.62m**	**1.45m**
% of shares on issue	*2.5%*	*2.1%*	*1.8%*	*1.6%*	*1.4%*	*1.2%*
£175m preferred shares*	**3.72m**	**5.17m**	**6.20m**	**5.70m**	**5.07m**	**4.56m**
% of shares on issue	*3.2%*	*4.4%*	*5.3%*	*4.9%*	*4.3%*	*3.9%*

**Assuming the warrants are exercised 36 months after funds received and net settled*

c. Koch has the right after six years to convert their preferred shares into ordinary shares at the share price at that time. It is the Board's belief that Victoria's share price will be very materially higher in six years' time (not least because of the £100 million of EBITDA that the preferred equity capital could allow us to acquire), and this will reduce the number of ordinary shares that Koch will receive if they convert. For example, if Koch does convert in six years' time when the share price is £10, Koch would receive only 17.5m ordinary shares in return for their £175 million of preferred shares.

Furthermore, whilst Victoria will adhere to its financial policy, it is very important to note that Victoria has the right to redeem the preferred shares at any time. Any increase in the ordinary share price has no impact on the redemption price.

Finally, it must be borne in mind that the sole purpose for the preferred equity investment is to enable acquisition-led growth. As per the scenario described above, £75 million could enable Victoria to acquire c.£40 million of EBITDA and £175 million would enable Victoria to acquire c. £100 million of EBITDA. In other words, the cost to existing shareholders of the preferred equity investment is expected to be small, compared with the large increase in the value of Victoria that is expected as a result of the investment. This is no less than you should expect from Victoria's Board that, directly and indirectly, owns c.40% of the Company.

2. Ordinary Shares. Koch has also become a substantial Victoria shareholder through its purchase of 12.5 million ordinary shares from an existing institutional shareholder. This investment of a further £43.75 million ensures Koch will benefit from the value that is expected to be created from deploying the preferred equity funds it has provided and aligns KED's interests with those of the ordinary shareholders.

SHARE BUYBACK

Cash that Victoria generates from operations and financing activity can be deployed in a number of ways: paying dividends, funding organic growth (working capital and capex), debt reduction, acquisitions, and share buybacks. Prioritising these alternatives at a given point in time is a critical decision, as capital allocation is, over time, the single largest determinant of value creation at a company.

Therefore, the Board carefully deliberated over the decision to execute the buy-back of 8.5 million shares that was announced last month as part of the Koch investment. (It is also worthwhile noting that the buyback more than offsets any likely dilution from the preferred equity investment).

Fundamentally, if we are able to repurchase shares at prices that are well below our view of their value *and* that will provide a return to the Company greater than the alternative uses for our cash at

that point in time *and* a return greater than our cost of capital, then a buyback is something we will consider as long as it is within our firm financial policy.

OUTLOOK

Operations:

Revenues and margins from consumer redecorating recovered strongly following the end of the various lockdowns and has continued post the interim balance date. The board attributes this very positive outcome to two factors:

(i) The increased consumer demand for flooring products is a result of people spending more time in their homes and working remotely. This trend is encouraging increased investment in home redecorating, as well as driving new home purchases (a leading indicator of future flooring spend) across all the markets where the Group trades. Savings rates – particularly of consumers that form Victoria's target market – have soared this year and, with limited options for spending, consumers are prioritising redecorating their home – a trend we believe will continue for the foreseeable future. Furthermore, during the second national lockdown in the UK, a far greater number of our retailers are remaining open to service contractor/installer demand.

(ii) Victoria's significant investment throughout FY19 and FY20 in reorganising both its production facilities and logistics has really delivered this year. As noted in the FY20 Annual Report, the benefits were beginning to be seen earlier this (calendar) year, ahead of the lockdowns, and have contributed strongly since trading restarted.

Acquisitions:

Since the first lockdowns ended, we have been actively appraising potential acquisition opportunities. Owners value expectations have moderated since last year and the events of this year have crystallised some owners thinking regarding a sale. The sole reason for the preferred equity investment is to ensure Victoria can move quickly in the months ahead to take advantage of these acquisition opportunities. As stated earlier in this letter, it is the Board's view that Koch's investment could enable Victoria to acquire up to £100 million of EBITDA as this Illustrative example shows:

Purchase price: £100m EBITDA (from one or more targets) at 7x multiple:		£700 million
Funding:		
Senior debt: 3 x £100 million EBITDA:	£300 million	
Convertible Preferred Equity:	£167 million	
Earn out (33% of purchase price):	£233 million	
Total funding:		£700 million

It is important to emphasise that this is a scenario, not forecast or projection, and the actual outcome could differ materially from the above. However, based on the 17 acquisitions we have made over the last eight years, it is the board's view that this is not an entirely unrealistic scenario and, when realised, will add substantially to the economic value of Victoria.

CONCLUSION

Given our strong, on-going operational performance due to strong demand for our products and the margin-enhancing actions made in FY20, together with having both the capital and the opportunity to make very meaningful acquisitions, the Board expects the next 12 months to be transformational for Victoria.

Geoffrey Wilding
Executive Chairman

Philippe Hamers
Group Chief Executive

29 November 2020

Condensed Consolidated Income Statement

For the 27 weeks ended 3 October 2020 (unaudited)

	Notes	27 weeks ended 3 October 2020 Underlying performance	Non-underlying items	Reported numbers	26 weeks ended 28 September 2019 Underlying performance	Non-underlying items	Reported numbers	52 weeks ended 28 March 2020 (Audited) Underlying performance	Non-underlying items	Reported numbers
		£m	£m	£m	£m	£m	£m	£m	£m	£m
Continuing operations										
Revenue	3	**305.5**	**-**	**305.5**	312.3	-	312.3	621.5	-	621.5
Cost of sales		**(203.2)**	**-**	**(203.2)**	(197.8)	-	(197.8)	(395.1)	-	(395.1)
Gross profit		**102.3**	**-**	**102.3**	114.5	-	114.5	226.4	-	226.4
Distribution costs		**(36.0)**	**-**	**(36.0)**	(37.3)	-	(37.3)	(73.2)	-	(73.2)
Administrative expenses		**(39.6)**	**(17.4)**	**(57.0)**	(39.0)	(15.9)	(54.9)	(82.9)	(80.8)	(163.7)
Other operating income		**1.5**	**-**	**1.5**	1.5	-	1.5	4.0	-	4.0
Operating profit / (loss)		**28.2**	**(17.4)**	**10.8**	39.7	(15.9)	23.8	74.3	(80.8)	(6.5)
Comprising:										
Operating profit before credit loss provision, non-underlying and exceptional items		**29.8**	**-**	**29.8**	40.4	-	40.4	77.1	-	77.1
Increase in credit loss provision		**(1.6)**	**-**	**(1.6)**	(0.7)	-	(0.7)	(2.8)	-	(2.8)
Amortisation of acquired intangibles	4	**-**	**(13.5)**	**(13.5)**	-	(12.1)	(12.1)	-	(25.0)	(25.0)
Other non-underlying items	4	**-**	**(0.5)**	**(0.5)**	-	(1.6)	(1.6)	-	(5.9)	(5.9)
Exceptional goodwill impairment	4	**-**	**-**	**-**	-	-	-	-	(50.0)	(50.0)
Other exceptional items	4	**-**	**(3.4)**	**(3.4)**	-	(2.2)	(2.2)	-	0.1	0.1
Finance (costs) / income	5	**(14.5)**	**0.8**	**(13.7)**	(12.2)	(6.1)	(18.3)	(26.3)	(31.2)	(57.5)
Comprising:										
Interest on loans and notes	5	**(11.6)**	**(1.4)**	**(13.0)**	(9.9)	-	(9.9)	(21.5)	-	(21.5)
Amortisation of prepaid finance costs and accrued interest	5	**(1.3)**	**-**	**(1.3)**	(1.2)	(2.8)	(4.0)	(2.1)	(4.4)	(6.5)
Unwinding of discount on right-of-use lease liabilities	5	**(1.5)**	**-**	**(1.5)**	(0.9)	-	(0.9)	(2.6)	-	(2.6)
Fair value adjustment to notes redemption option	5	**-**	**0.7**	**0.7**	-	-	-	-	(7.3)	(7.3)
Translation difference on foreign currency loans	5	**-**	**3.5**	**3.5**	-	4.0	4.0	-	(13.0)	(13.0)
Other finance items	5	**(0.1)**	**(2.0)**	**(2.1)**	(0.2)	(7.3)	(7.5)	(0.1)	(6.5)	(6.6)
Profit / (loss) before tax		**13.7**	**(16.6)**	**(2.9)**	27.5	(22.0)	5.5	48.0	(112.0)	(64.0)
Taxation (charge) / credit	6	**(3.5)**	**4.3**	**0.8**	(6.7)	5.1	(1.6)	(12.4)	8.2	(4.2)
Profit / (loss) for the period from continuing operations		**10.2**	**(12.3)**	**(2.1)**	20.8	(16.9)	3.9	35.6	(103.8)	(68.2)
Profit / (loss) from discontinued operations		**-**	**-**	**-**	-	-	-	-	(2.0)	(2.0)
Profit / (loss) for the period		**10.2**	**(12.3)**	**(2.1)**	20.8	(16.9)	3.9	35.6	(105.8)	(70.2)
Earnings / (loss) per share - pence basic	7	**8.13**		**(1.68)**	16.59		3.11	28.42		(55.97)
diluted	7	**8.09**		**(1.68)**	16.59		3.11	28.42		(55.97)

Condensed Consolidated Statement of Comprehensive Income

For the 27 weeks ended 3 October 2020 (unaudited)

	27 weeks ended 3 October 2020	26 weeks ended 28 September 2019	52 weeks ended 28 March 2020
	£m	£m	£m
(Loss) / profit for the period	**(2.1)**	3.9	(70.2)
Other comprehensive (expense) / income			
Items that will not be reclassified to profit or loss:			
Actuarial (loss) / gain on defined benefit pension scheme	**(1.2)**	(1.9)	1.4
Decrease in deferred tax asset relating to pension scheme liability	**0.2**	0.3	(0.1)
Items that will not be reclassified to profit or loss	**(1.0)**	(1.6)	1.3
Items that may be reclassified subsequently to profit or loss:			
Retranslation of overseas subsidiaries	**3.7**	0.5	3.6
Items that may be reclassified subsequently to profit or loss	**3.7**	0.5	3.6
Other comprehensive income / (expense)	**2.7**	(1.1)	4.9
Total comprehensive income / (expense) for the period attributable to the owners of the parent	**0.6**	2.8	(65.3)

Condensed Consolidated Balance Sheet

As at 3 October 2020 (unaudited)

	3 October 2020	28 September 2019	28 March 2020 (Audited)
	£m	£m	£m
Non-current assets			
Goodwill	**194.5**	229.9	191.0
Intangible assets other than goodwill	**238.5**	236.7	248.9
Property, plant and equipment	**208.6**	202.3	211.6
Right-of-use lease assets	**73.4**	63.8	78.5
Investment property	**0.2**	0.2	0.2
Deferred tax assets	**5.3**	5.5	6.4
Total non-current assets	**720.5**	738.4	736.6
Current assets			
Inventories	**141.6**	149.5	165.4
Trade and other receivables	**140.9**	135.9	144.1
Cash and cash equivalents	**134.0**	85.5	176.8
Total current assets	**416.5**	370.9	486.3
Total assets	**1,137.0**	1,109.3	1,222.9
Current liabilities			
Trade and other current payables	**199.4**	174.2	242.0
Current tax liabilities	**0.6**	-	-
Obligations under right-of-use leases - current	**7.3**	10.2	11.8
Other financial liabilities	**7.0**	8.2	4.9
Total current liabilities	**214.3**	192.6	258.7
Non-current liabilities			
Trade and other non-current payables	**16.2**	26.9	17.5
Obligations under right-of-use leases - non-current	**71.6**	51.8	68.0
Other non-current financial liabilities	**495.7**	439.9	540.6
Deferred tax liabilities	**70.0**	64.7	71.2
Retirement benefit obligations	**7.5**	9.7	6.3
Total non-current liabilities	**661.0**	593.0	703.6
Total liabilities	**875.3**	785.6	962.3
Net assets	**261.7**	323.7	260.6
Equity			
Share capital	**6.3**	6.3	6.3
Share premium	**288.7**	288.7	288.7
Retained earnings	**(46.0)**	22.9	(42.9)
Foreign exchange reserve	**9.6**	2.8	5.9
Other reserves	**3.1**	3.0	2.6
Total equity	**261.7**	323.7	260.6

Condensed Consolidated Statement of Changes in Equity

For the 27 weeks ended 3 October 2020 (unaudited)

	Share capital £m	Share premium £m	Retained earnings £m	Foreign exchange reserve £m	Other reserves £m	Total equity £m
At 30 March 2019	6.3	288.7	20.6	2.3	2.0	319.9
Loss for the period to 28 March 2020	-	-	(70.2)	-	-	(70.2)
Other comprehensive income for the period	-	-	1.3	-	-	1.3
Retranslation of overseas subsidiaries	-	-	-	3.6	-	3.6
Total comprehensive loss	-	-	(68.9)	3.6	-	(65.3)
Transfer between reserves	-	-	5.3	-	(5.3)	-
Share-based payment charge	-	-	-	-	5.9	5.9
Transactions with owners	-	-	5.3	-	0.6	5.9
At 28 March 2020	6.3	288.7	(42.9)	5.9	2.6	260.6
Loss for the period to 3 October 2020	-	-	(2.1)	-	-	(2.1)
Other comprehensive loss for the period	-	-	(1.0)	-	-	(1.0)
Retranslation of overseas subsidiaries	-	-	-	3.7	-	3.7
Total comprehensive loss	-	-	(3.1)	3.7	-	0.6
Share-based payment charge	-	-	-	-	0.5	0.5
Transactions with owners	-	-	-	-	0.5	0.5
At 3 October 2020	**6.3**	**288.7**	**(46.0)**	**9.6**	**3.1**	**261.7**

At 30 March 2019	6.3	288.7	20.6	2.3	2.0	319.9
Profit for the period to 28 September 2019	-	-	3.9	-	-	3.9
Other comprehensive loss for the period	-	-	(1.6)	-	-	(1.6)
Retranslation of overseas subsidiaries	-	-	-	0.5	-	0.5
Total comprehensive profit	-	-	2.3	0.5	-	2.8
Share-based payment charge					1.0	1.0
Transactions with owners	-	-	-	-	1.0	1.0
At 28 September 2019	6.3	288.7	22.9	2.8	3.0	323.7

Condensed Consolidated Statement of Cash Flows

For the 27 weeks ended 3 October 2020 (unaudited)

	27 weeks ended 3 October 2020	26 weeks ended 28 September 2019	52 weeks ended 28 March 2020 (Audited)
	£m	£m	£m
Cash flows from operating activities			
Operating profit / (loss)	**10.8**	23.8	(6.5)
Adjustments for:			
Depreciation and amortisation of IT software	**24.2**	18.8	40.9
Amortisation of acquired intangibles	**13.5**	12.1	25.0
Negative goodwill arising on acquisition	**-**	-	(5.8)
Goodwill impairment	**-**	-	50.0
Amortisation of government grants	**(0.3)**	(0.3)	(0.5)
Profit on disposal of property, plant and equipment	**(0.1)**	(0.1)	(0.2)
Share incentive plan charge	**0.5**	1.0	5.9
Acquisition-related performance plan charge	**-**	0.6	-
Defined benefit pension	**(0.1)**	(0.3)	(0.1)
Net cash flow from operating activities before movements in working capital, tax and interest payments	**48.5**	55.6	108.7
Change in inventories	**26.7**	3.2	(4.4)
Change in trade and other receivables	**2.5**	(10.1)	(10.8)
Change in trade and other payables	**(30.9)**	0.1	10.0
Cash generated by continuing operations before tax and interest payments	**46.8**	48.8	103.5
Interest paid on loans and notes	**(16.1)**	(5.6)	(25.0)
Interest relating to right-of-use lease assets	**(1.5)**	(0.9)	(2.6)
Income taxes paid	**(0.6)**	(4.4)	(8.6)
Net cash flow from discontinued operations	**-**	-	0.1
Net cash inflow from operating activities	**28.6**	37.9	67.4
Investing activities			
Purchases of property, plant and equipment	**(11.5)**	(17.0)	(32.7)
Purchases of intangible assets	**(0.3)**	(0.6)	(1.1)
Proceeds on disposal of property, plant and equipment	**0.5**	0.4	0.7
Deferred consideration and earn-out payments	**(10.0)**	(5.3)	(12.1)
Acquisition of subsidiaries net of cash acquired	**-**	(13.9)	(11.0)
Proceeds from disposal of subsidiaries	**-**	-	0.9
Net cash used in investing activities	**(21.3)**	(36.4)	(55.3)
Financing activities			
(Decrease) / increase in long-terms loans (net of refinancing costs)	**(48.2)**	25.0	109.0
Payments under right-of-use lease obligations	**(5.1)**	(5.7)	(9.0)
Net cash (used) / generated in financing activities	**(53.3)**	19.3	100.0
Net (decrease) / increase in cash and cash equivalents	**(46.0)**	20.8	112.1
Cash and cash equivalents at beginning of period	**174.7**	60.2	60.2
Effect of foreign exchange rate changes	**0.9**	1.1	2.4
Cash and cash equivalents at end of period	**129.6**	82.1	174.7
Comprising:			
Cash and cash equivalents	**134.0**	85.5	176.8
Bank overdrafts	**(4.4)**	(3.4)	(2.1)
	129.6	82.1	174.7

Notes to the Condensed Half-year Financial Statements

For the 27 weeks ended 3 October 2020 (unaudited)

1. General information

These condensed consolidated financial statements for the 27 weeks ended 3 October 2020 have not been audited or reviewed by the Auditor. They were approved by the Board of Directors on 29 November 2020.

The information for the 52 weeks ended 28 March 2020 does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The Auditor's report on those accounts was unqualified and did not include a reference to any matter to which the Auditor drew attention by way of emphasis without qualifying the report and did not contain statements under Section 498(2) or 498(3) of the Companies Act 2006.

2. Basis of preparation and accounting policies

These condensed consolidated financial statements should be read in conjunction with the Group's financial statements for the 52 weeks ended 28 March 2020, which were prepared in accordance with IFRSs as adopted by the European Union.

These interim financial statements have been prepared on a consistent basis and in accordance with the accounting policies set out in the group's Annual Report and Financial Statements for the 52 weeks ended 28 March 2020.

Having reviewed the Group's projections, and taking account of reasonably possible changes in trading performance, the Directors believe they have reasonable grounds for stating that the Group has adequate resources to continue in operational existence for the foreseeable future.

Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements of the Group.

Notes to the Condensed Half-year Financial Statements continued

For the 27 weeks ended 3 October 2020 (unaudited)

3. Segmental information

The Group is organised into three operating divisions: the sale of soft flooring products in UK & Europe; ceramic tiles in the UK & Europe and the sale of soft flooring products in Australia. The entities that comprise each division are combined into one reporting segment on the basis that they share economic characteristics.

Geographical segment information for revenue, operating profit and a reconciliation to entity net profit is presented below.

Income statement	27 weeks ended 3 October 2020					26 weeks ended 28 September 2019				
	UK & Europe Soft Flooring £m	UK & Europe Ceramic Tiles £m	Australia £m	Unallocated central expenses £m	Total £m	UK & Europe Soft Flooring £m	UK & Europe Ceramic Tiles £m	Australia £m	Unallocated central expenses £m	Total £m
Revenue	126.0	132.5	47.0	-	305.5	140.6	122.0	49.7	-	312.3
Underlying operating profit before movement in credit loss provision	10.4	16.6	3.8	(1.0)	29.8	10.6	27.4	3.3	(0.9)	40.4
Movement in credit loss provision	(0.2)	(1.4)	-	-	(1.6)	(0.1)	(0.6)	-	-	(0.7)
Non-underlying operating items	(1.9)	(10.3)	(0.9)	(0.9)	(14.0)	(2.1)	(9.7)	(1.0)	(0.9)	(13.7)
Other exceptional operating items	(1.6)	(1.7)	-	(0.1)	(3.4)	(0.6)	(1.2)	(0.3)	(0.1)	(2.2)
Operating profit	6.7	3.2	2.9	(2.0)	10.8	7.8	15.9	2.0	(1.9)	23.8
Underlying net finance costs					(14.5)					(12.2)
Translation difference on foreign currency loans					3.5					4.0
Fair value adjustment to notes redemption option					0.7					-
Other non-underlying finance costs					(3.4)					(10.1)
(Loss) / profit before tax					(2.9)					5.5
Tax					0.8					(1.6)
(Loss) / profit for the period					(2.1)					3.9

	27 weeks ended 3 October 2020					26 weeks ended 28 September 2019				
	UK & Europe Soft Flooring £m	UK & Europe Ceramic Tiles £m	Australia £m	Unallocated central expenses £m	Total £m	UK & Europe Soft Flooring £m	UK & Europe Ceramic Tiles £m	Australia £m	Unallocated central expenses £m	Total £m
Depreciation and amortisation of IT software (including depreciation of right-of-use lease	9.0	12.5	2.4	0.3	24.2	8.9	7.6	2.3	-	18.8
Amortisation of acquired intangibles	2.4	10.3	0.8	-	13.5	1.9	8.9	0.8	0.5	12.1
	11.4	22.8	3.2	0.3	37.7	10.8	16.5	3.1	0.5	30.9

	27 weeks ended 3 October 2020					26 weeks ended 28 September 2019				
	UK & Europe Soft Flooring £m	UK & Europe Ceramic Tiles £m	Australia £m	Central £m	Total £m	UK & Europe Soft Flooring £m	UK & Europe Ceramic Tiles £m	Australia £m	Central £m	Total £m
Total capital expenditure (cash flow)	3.2	7.0	1.1	-	11.3	6.7	9.7	1.2	-	17.6

Notes to the Condensed Half-year Financial Statements continued

For the 27 weeks ended 3 October 2020 (unaudited)

4. Exceptional and non-underlying items

	27 weeks ended 3 October 2020 £m	26 weeks ended 28 September 2019 £m
Exceptional items		
(a) Acquisition and disposal related costs	**(0.4)**	(1.0)
(b) Reorganisation and Covid-related exceptional costs	**(3.0)**	(1.8)
(c) Negative goodwill arising on acquisition	**-**	0.6
Total exceptional items	**(3.4)**	(2.2)
Non-underlying items		
(d) Acquisition-related performance plan charge	**-**	(0.6)
(e) Non-cash share incentive plan charge	**(0.5)**	(1.0)
(f) Amortisation of acquired intangibles	**(13.5)**	(12.1)
	(14.0)	(13.7)

All exceptional items are classified within administrative expenses.

(a) Professional fees in connection with prospecting, completing acquisitions and disposals during the period.

(b) One-off costs relating to a few small efficiency projects initiated this year, of which the majority were redundancy costs, plus the purchase of personal protective equipment and other precautionary measures for health and safety in light of Covid-19. The largest of the new efficiency projects is the merger of our Westex operations into one of the other UK factories. Prior year costs relate to synergy projects and performance improvement programmes.

(c) Negative goodwill arising on consolidation of subsidiaries acquired during the prior year, achieved through favourable bilateral negotiations.

(d) Charge relating to the accrual of expected liability under the acquisition-linked performance plan with the Keraben senior management team.

(e) Non-cash, IFRS2 share-based payment charge in relation to the long-term management incentive plans.

(f) Amortisation of intangible assets, primarily brands and customer relationships, recognised on consolidation as a result of business combinations.

Notes to the Condensed Half-year Financial Statements continued

For the 27 weeks ended 3 October 2020 (unaudited)

5. Finance costs

	27 weeks ended 3 October 2020 £m	26 weeks ended 28 September 2019 £m
Underlying finance items		
Interest on bank facilities and notes	**11.2**	9.5
Interest on unsecured loans	**0.4**	0.4
Total interest on loans and notes	**11.6**	9.9
Amortisation of prepaid finance costs on loans and notes	**1.3**	1.2
Unwinding of discount on right-of-use lease liabilities	**1.5**	0.9
Net interest expense on defined benefit pensions	**0.1**	0.2
	14.5	12.2
Non-underlying finance items		
(a) Interest on short-term draw of Group revolving credit facility	**1.4**	-
(b) Release of prepaid finance costs	**-**	2.8
(c) Underwriting fees and costs relating to previous bank facilities	**-**	6.2
(d) Fair value adjustment to notes redemption option	**(0.7)**	-
(e) Unwinding of present value of deferred and contingent earn-out liabilities	**0.8**	1.4
(f) Other adjustments to present value of contingent earn-out liabilities	**(1.4)**	1.2
(g) Mark to market adjustments on foreign exchange forward contracts	**2.6**	(1.6)
Non-underlying interest costs before translation difference on foreign currency loans	**2.7**	10.0
(h) Translation difference on foreign currency loans	**(3.5)**	(4.0)
	(0.8)	6.1

(a) Interest cost associated with the drawing of the Group's £75m revolving credit facility in March, as a precautionary measure in response to the Coronavirus pandemic. This has subsequently been repaid.
(b) Non-cash charge relating to the release of prepaid costs on previous bank facilities in prior year.

(c) Fees paid in the prior year in relation to an underwritten bank facility that was obtained to provide certainty around the refinancing in 2019, plus deferred costs relating to the previous bank facilities and refinancing process.

(d) Fair value adjustment to embedded derivative representing the early redemption option within the terms of the €500m senior secured notes.

(e) Non-cash costs relating to the revaluation of deferred consideration and continent earn-outs. Deferred consideration is measured at amortised cost, while contingent consideration is measured under IFRS 3 at fair value. Both are discounted for the time value of money. The present value is then remeasured at each half-year and in relation to the appropriateness of the discount factor and the unwind of this discount.

(f) Non-cash changes to contingent earn-outs arising from actual and forecast business performance are reflected as other adjustments to present value of contingent earn-out liabilities on historical business acquisitions.

(g) Non-cash fair value adjustments on foreign exchange forward contracts.

(h) Net impact of exchange rate movements on third party and intercompany loans.

Notes to the Condensed Half-year Financial Statements continued

For the 27 weeks ended 3 October 2020 (unaudited)

6. Taxation

	27 weeks ended 3 October 2020 £m	26 weeks ended 28 September 2019 £m
Current tax charge / (credit)		
- Current year UK	**-**	(1.2)
- Current year overseas	**1.1**	4.3
	1.1	3.1
Deferred tax		
- Credit recognised in the current year	**(1.9)**	(1.5)
Total tax	**(0.8)**	1.6

Corporation tax is calculated at the applicable percentage of the estimated assessable profit for the year in each respective geography. This is 19% in the UK; 25% in the Netherlands and Spain; 27.9% in Italy; 30% in Australia; and 29% in Belgium.

The overall effective corporation tax rate on underlying profit is 25.5% (2019: 24.5%), representing the best estimate of the weighted average annual corporation tax rate expected for the full financial year.

7. Earnings per share

The calculation of the basic, adjusted and diluted earnings per share is based on the following data:

	Basic 27 weeks ended 3 October 2020 £m	**Adjusted 27 weeks ended 3 October 2020 £m**	Basic 26 weeks ended 28 September 2019 £m	Adjusted 26 weeks ended 28 September 2019 £m
(Loss) / profit attributable to ordinary equity holders of the parent entity	**(2.1)**	**(2.1)**	3.9	3.9
Exceptional and non-underlying items:				
Amortisation of acquired intangibles	**-**	**13.5**	-	12.1
Other non-underlying items	**-**	**0.5**	-	1.6
Other exceptional items	**-**	**3.4**	-	2.2
Interest on short-term draw of Group revolving credit facility	**-**	**1.4**	-	-
Release of prepaid finance costs	**-**	**-**	-	2.8
Fair value adjustment to notes redemption option	**-**	**(0.7)**	-	-
Translation difference on foreign currency loans	**-**	**(3.5)**	-	(4.0)
Other non-underlying finance items	**-**	**2.0**	-	7.3
Tax effect on adjusted items where applicable	**-**	**(4.3)**	-	(5.1)
(Loss) / earnings for the purpose of basic and adjusted earnings per share	**(2.1)**	**10.2**	3.9	20.8

Notes to the Condensed Half-year Financial Statements continued

For the 27 weeks ended 3 October 2020 (unaudited)

7. Earnings per share (continued)

Weighted average number of shares	27 weeks ended 3 October 2020	26 weeks ended 28 September 2019
	Number of shares (000's)	Number of shares (000's)
Weighted average number of shares for the purpose of basic and adjusted earnings per share	125,398	125,398
Effect of dilutive potential ordinary shares:		
Share options	625	-
Weighted average number of ordinary shares for the purposes of diluted earnings per share	126,023	125,398

The potential dilutive effect of the share options has been calculated in accordance with IAS 33 using the average share price in the period.

The Group's earnings / loss per share are as follows:

	27 weeks ended 3 October 2020	26 weeks ended 28 September 2019
	Pence	Pence
Earnings / loss per share		
Basic (loss) / earnings per share	(1.68)	3.11
Diluted (loss) / earnings per share	(1.68)	3.11
Basic adjusted earnings per share	8.13	16.59
Diluted adjusted earnings per share	8.09	16.59

8. Rates of exchange

The result of the Group's overseas subsidiaries have been translated into Sterling at the average exchange rates prevailing during the periods. The balance sheets are translated at the exchange rates prevailing at the period ends:

	27 weeks ended 3 October 2020	26 weeks ended 28 September 2019	52 weeks ended 28 March 2020
Australia (A$) - average rate	1.8665	1.8137	1.8685
Australia (A$) - period end	1.8053	1.8169	2.0202
Europe (€) - average rate	1.1151	1.1245	1.1442
Europe (€) - period end	1.1038	1.1232	1.1152

Notes to the Condensed Half-year Financial Statements continued

For the 27 weeks ended 3 October 2020 (unaudited)

9. Post balance sheet events

As announced, on 30 October 2020 the Company signed a conditional investment agreement whereby KED Victoria Investments, LLC, an affiliate of Koch Equity Development, LLC, a wholly owned subsidiary of Koch Industries, Inc., committed to invest a total of £175 million by way of convertible preferred shares to be issued by Victoria (the "Preferred Equity Investment"). £75 million will be invested immediately; the balance at Victoria's request at any time in the next 18 months.

The Preferred Equity Investment was conditional upon shareholder approval and, following the passing of all resolutions at a General Meeting of the Company held on 16 November 2020, this transaction was completed. Linked to this transaction, on 18 November 2020 KED Victoria Investments, LLC purchased 12,500,000 ordinary 5p shares from Invesco Asset Management Ltd at 350p per share.

Following shareholder approval at the General Meeting noted above, on 18 November 2020 the Company purchased 8,546,096 ordinary 5p shares from Invesco Asset Management Limited at 350p per share and these shares were immediately transferred into treasury.

On behalf of the Board

Geoffrey Wilding
Executive Chairman

29 November 2020

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