24 July 2018

Victoria PLC

('Victoria', the 'Company', or the 'Group')

Preliminary Results
for the year ended 31 March 2018

Fifth consecutive year of strong growth

Victoria PLC (LSE: VCP) the international designers, manufacturers and distributors of innovative floorcoverings, is pleased to announce its preliminary results for the year ended 31 March 2018.

Financial and Operational highlights

Continuing operations	**Year ended 31 March 2018**	Year ended 1 April 2017	Growth
Revenue	**£424.8m**	£330.4m	+29%
Underlying EBITDA[1]	**£64.7m**	£45.7m	+42%
Underlying operating profit[1]	**£48.8m**	£33.7m	+45%
Operating profit	**£26.4m**	£26.7m	(1%)
Underlying profit before tax[1]	**£40.8m**	£29.4m	+39%
Profit before tax	**£13.4m**	£18.8m	(29%)
Net debt	**£258.7m**	£89.6m	+189%
Net debt / EBITDA[2]	**2.68x**	1.63x	
Earnings per share:			
- Basic adjusted	**31.38p**	25.25p	+24%
- Basic	**8.58p**	13.84p	(38%)

- 2018 was the fifth consecutive record year for Victoria as the Group continued to grow in financial strength and deliver upon its strategic objectives;
- The Group achieved a record underlying EBITDA margin of 15.2%, c.140 basis point increase year-on-year driven by efficiency measures actioned across the businesses;
- The period saw a 45.0% increase in underlying operating profit from £33.7m to £48.8m;
- Underlying profit before tax substantially increased from £29.4m to £40.8m;
- Expenditure on exceptional M&A and reorganisation projects of £11.2m, compared to £2.5m in the prior year:
  - Acquisition strategy continued with the completion and successful integration of earnings-accretive acquisitions in Europe, Ceramiche Serra and Keraben Grupo;
  - Significant progress made during the year in the ongoing reorganisation of manufacturing and logistics, expected to drive organic improvements and efficiencies;
- Net debt at the year-end was £258.7m, less than 2.7 times annualised EBITDA.

[1] Underlying performance is stated before the impact of exceptional items and amortisation of acquired intangibles within operating profit. Underlying profit before tax and adjusted EPS are also stated before non-underlying items within finance costs (comprising mark-to-market adjustments, BGF redemption premium charge, earn-out liability fair value adjustments, and exchange rate differences on foreign currency loans)
[2] As measured in line with our bank facility covenants

Geoff Wilding, Executive Chairman of Victoria PLC commented:

"Victoria saw another record year in 2018 and the Group continues to go from strength to strength. In addition to focusing on increasing our top line, this was the fifth consecutive year of growth in underlying earnings per share, free cash flow, and operating margins.

"The Group continues to focus on growing in scale through acquisitions, with the completion of both Ceramiche Serra and Keraben Grupo during the year. There remains an enormous market opportunity for Victoria to expand in the UK and internationally, by organically growing margins and enhancing earnings within our existing business, as well as by acquisition, where we believe opportunities will make a meaningful contribution to the Group.

"Following a very good start to the year, the board looks forward to 2019 with confidence and to another successful year of continued growth and delivering real returns for its shareholders."

For more information contact:

Victoria PLC	+44 (0) 15 6274 9300
Geoff Wilding, Chairman	
Philippe Hamers, Chief Executive	
Michael Scott, Group Finance Director	
Cantor Fitzgerald Europe	+44 (0) 20 7894 7000
Rick Thompson, Phil Davies, Will Goode (Corporate Finance)	
Caspar Shand-Kydd (Sales)	
Berenberg (joint broker)	+44 (0) 20 3207 7800
Ben Wright, Mark Whitmore, Amritha Murali (Corporate Broking)	
Buchanan Communications	+44 (0) 20 7466 5000
Charles Ryland, Madeline Seacombe, Tilly Abraham	

Victoria PLC
Chairman's Statement

2018 was another record year for Victoria PLC as earnings and the Group's financial strength continued to grow:

- Revenue increased by 28.6% (28.1% in constant currency terms) from £330.4m to £424.8m, including acquisitions;
- 45.0% increase in underlying operating profit from £33.7m to £48.8m;
- Underlying profit before tax substantially increased from £29.4m to £40.8m;
- Expenditure on exceptional M&A and reorganisation costs of £11.2m, compared to £2.4m in the prior year;
- After exceptional and other non-underlying items, the Group reported profit before tax of £13.4m, compared with £18.8m in the prior year;
- The Group achieved a record underlying EBITDA margin of 15.2%, c.140 basis points ahead of the prior year;
- Following the two significant acquisitions during the second half of the year, net debt at the year-end was £258.7m.

£m	H1 FY18	H2 FY18	FY18
Revenue	£189.5m	£235.3m	£424.8m
EBITDA*	£24.6m	£40.1m	£64.7m
Operating profit*	£18.2m	£30.6m	£48.8m
Pre-tax profit*	£15.5m	£25.3m	£40.8m
Pre-tax operating cash flow*	£19.7m	£44.6m	£64.3m

*Underlying and before exceptional items. Underlying operating cash flow is before interest, tax and exceptional cash items.

This was the fifth consecutive year of growth in underlying earnings per share, free cash flow, and operating margins at Victoria – with challenging market conditions in the UK, confirming the value of diversifying our geographic exposure. We are confident there is further meaningful growth ahead of us from both ongoing organic improvements and efficiencies from our manufacturing capabilities and logistics (which I discuss in more detail later in this statement), and acquisitions. However, the benefits of the Group's strategy to achieve scale through acquisitions is clear, with 2018 adjusted earnings per share up by 24.3% – despite our two acquisitions only contributing for part of the year.

We took advantage of challenging conditions in the UK to grow our market share by remaining very competitive on price. Initial pressures on margins arising from the decision, are being relieved by solid gains in production efficiency from the manufacturing reorganisation project and, together with our increased market share, have placed Victoria in very good stead for the months and years ahead. Indeed, we have seen good growth in the first months of the current year, as noted in our market update in June.

There were some significant exceptional costs in 2018 as we completed acquisitions and continued our planned reorganisation to improve operating efficiency and increase capacity. These fall into two general categories:

- Much to the chagrin of London's advisory community, we use them rarely. However due to the pace at which we needed to move to secure the acquisition of Keraben last November and the requirement to raise the necessary funds with speed and certainty, we were left with little option. Although the advisors delivered an excellent service, given the cost – a total of £5.8m in 2018 – shareholders will understand why we use them as sparingly as possible. On a more

positive note and to put it in some perspective, the cost is equivalent to only two months' profit from Keraben.

- Shareholders will recall we announced our intention to reorganise our UK manufacturing footprint and logistics operation in June 2017, to improve productivity, manufacturing capacity, and customer service. This exercise has come in a little under budget but has still been expensive with over £4m spent to date – a significant proportion on redundancy costs – but the improvement to the business's profits from this year making it well-worthwhile.

REVIEW

I was recently asked by what measure shareholders should judge whether Victoria is succeeding or failing. It is a straightforward question and the answer is equally straightforward. There is only one measure: Are we delivering on our mission statement, "To create wealth for shareholders"?

Our business plan, capital allocation, management compensation, operational decisions, acquisitions, … all these decisions are wholly focussed on accomplishing this mission. This is not to say we don't treat employees fairly, build solid relationships with suppliers, invest in research and development, create quality products at competitive prices for our customers, respect the environment, and act as good corporate citizens. We do all this (and more) as these things are essential for building a quality, long-lasting growth business but we never confuse the means with the end – creating wealth for shareholders.

So, we have, in 2018, stuck unwaveringly to our overarching successful strategy, which is to use acquisitions to achieve scale and open up new markets and distribution channels and then use that scale to deliver synergies, which reduce costs, improve operational efficiencies, and grow revenues.

The Group has a federal structure with managers individually responsible for the performance of their largely self-contained divisions with oversight by, but with very limited interference from, head office. We are, in fact, a team of teams. Within the limits of the Group's overall strategy and objectives, each manager develops their own plan and tactics (which are, of course, reviewed by the board) to deliver their targets. It is here that Victoria's policy of only employing talented managers with deep technical expertise bears fruit. The depth of their industry experience and product knowledge, their motivation, enthusiasm, and desire to win shows through in every action they take. I have absolutely no doubt that we have the best management team in the industry, with most having a significant portion of their net worth invested in Victoria.

There is no one right way to run a business. However, this is the way we do it at Victoria and shareholders can look forward to Victoria continuing to out-perform the sector.

Chief Executive

FY18 was Philippe Hamers' first full year as Group Chief Executive and I want to express my appreciation for his contribution. The energy and speed of change he has bought to the group has been remarkable and the effects of those changes are delivering very good growth in the current financial year. Previously, Victoria was managed by an enthusiastic industry amateur (me) but in Philippe we have a consummate professional who has forgotten more about flooring than I will ever know. His 25 years' experience in the flooring industry including, most recently, heading Europe's largest carpet manufacturing operation, has given him extensive experience in running very large, multi-site, multi-national, manufacturing and sales organisations.

Acquisitions

As I'm sure most of our shareholders are aware, acquisitions are a key part of our growth strategy and we continued to be acquisitive during the period under review, completing two earnings-accretive acquisitions in Europe.

Five years ago, the new Board envisioned Victoria as a flooring company, not just the carpet company it had been historically. Our initial focus on expanding our carpet manufacturing capability was in order to achieve the necessary scale to create real margin-enhancing synergies. If we had randomly acquired manufacturers of wood flooring, ceramic tiles, LVT, carpet, stone, laminate, etc., we would never have achieved scale in any sector and therefore been unable to achieve the margin and revenue growth we have been able to do with synergies.

However, over 60% of all flooring sold is ceramic tiles and we began researching the ceramic flooring market in late-2016. There are two primary regions of ceramic production in Europe – Castellon, Spain and Sassuolo, Italy. We spent many weeks in these industrial regions, talking to numerous manufacturers, suppliers, and distributors, gaining an understanding of the industry and identifying suitable acquisition prospects. The result, so far, has been two acquisitions, providing us with a high-quality footprint in each region:

- **Ceramiche Serra –** Located in Sassuolo, Italy Serra was acquired in December 2017. It is a highly efficient, mid-market manufacturer supplying retailers, distributors, and DIY chains throughout Europe. Demand for its products has been significantly outstripping Serra's production capacity and so we invested in a new production line in early 2018 (this was planned at the time of the acquisition). The line was installed in what must have been record time and production commenced in May 2018. Demand continues to rise and we are expecting very strong growth in the current financial year.

- **Keraben Grupo –** Based in the Castellon region of Spain, Keraben is one of Spain's largest and most successful ceramic tile manufacturer and was acquired in November 2017. It exports much of its product throughout Europe and the wider world and has an excellent reputation for high quality products and customer service. We were able to secure the continued services of the entire senior management team (indeed, we would not have proceeded without them) and they have invested a substantial amount of their net worth into the success of the Group. Keraben gives Victoria a very good platform for further growth in the sector.

It is important to remember that, due to completion of these acquisitions occurring during the second half of the year together with their integration costs, Serra and Keraben contributed only a small proportion of their normal full-year performance. However, the businesses are performing well and shareholders can be confident that profits from both acquisitions will make a meaningful contribution towards our growth in the current financial year.

We have continued to pursue acquisitions this year. Victoria has, I believe, a soundly-based reputation in the industry for paying a fair price for good businesses. We do not aim to buy only bargains (I am firmly of the view that, by and large, one gets what one pays for), but nor will we ever overpay. We stop listening and start running if we ever hear the words "strategic premium" or similar in a sales pitch and are, through bitter experiences in the distant past, completely inoculated against 'deal fever'. If the price gets too high or terms unfavourable, we just walk away – a step made easier because we always have other options due to the dozens of opportunities we look at every year. Shareholders can sleep soundly knowing we will never be profligate with their money.

Post period end events

We are always looking to improve productivity. Longer term shareholders will recall we successfully consolidated our carpet manufacturing footprint in Australia onto fewer sites during 2014 and more recently, we reorganised our UK production and logistics to improve efficiency and provide increased capacity due to continued strong demand for our products.

These moves have proven to be a great success – delivering incremental margin benefit from improved production efficiency and customer service.

Following on from these gains we have therefore recently announced our intention to reorganise the underlay production facilities in Australia. The Group acquired its Australian underlay business as part of the purchase of Dunlop Flooring in January 2017 and it currently has two manufacturing sites, in Sydney and Melbourne. The Group has decided to focus all manufacturing on the existing site in Sydney and to close the Melbourne operation when the current lease expires in 2019. Together with an investment of approximately A$2.1m (£1.2m) in new technology, this move is expected to improve raw material processing, finishing and packaging at the Sydney site. The combination of consolidation and investment will increase flexibility and result in a more efficient and productive operation. This project is expected to complete during the second half of 2019.

CASH FLOW AND DIVIDEND POLICY

I have previously referred to Warren Buffett's acquisition of Shaw Industries, one of the world's largest flooring manufacturers, in order to access its cash flow. Well run flooring manufacturers generate significant cash – even when growing – due to attractive supplier terms, quality debtors, long life expectancy of key plant, low technological change and other factors.

Confirming this view, Victoria's underlying pre-tax operating cash flow this year was £64.3m, representing 99% of underlying EBITDA, and underlying free cash flow (i.e. after interest, tax, replacement capex, and asset disposals) was £35.0m, representing 54% of underlying EBITDA and 72% of underlying EBIT.

As a result, it is the Board's expectation that in the medium-term Victoria will be capable of sustainably returning a meaningful level of cash to shareholders. However, in the short term, we remain firmly of the view that the most wealth will be created for shareholders by deploying the free cash-flow generated by Group businesses towards paying down debt quickly and acquiring other high quality, earnings-accretive flooring manufacturers.

Therefore, as in previous years, we have resolved not to pay a final dividend for FY18.

NET DEBT

Net debt at the recent year-end was a little under 2.7x annualised EBITDA (as calculated according to our banking covenants), compared to 1.6x at the prior year-end. This increase is due to the size of the recent acquisitions, in particular that of Keraben, which was larger than all other historical acquisitions by Victoria put together. This is, of course, reflected in the financial contribution that Keraben will bring to the group in its first full year this year, having contributed only four complete months in the financial year just ended.

This level of leverage is consistent with our financial strategy, to efficiently but also cautiously use debt funding to improve equity returns for our shareholders. Shareholders will recall leverage immediately following our previous largest acquisition, that of Interfloor during the year ended March

2016, being circa 2.5x. This was then reduced to below 2.0x during the subsequent twelve months through a combination of cash generation and profit growth.

MARKET RISK

Although 2018 was another record year for Victoria, shareholders can be assured we are not complacent.

We recognise that, within a market, flooring can be cyclical (like just about every other business, in reality). Therefore, we have striven to create a business that is resilient to different market conditions:

- We seek to reduce market risk by balancing our product category and geographic markets. Nearly 60% of our profits now come from outside the UK and the international share of our profits is expected to increase further in 2018.
- We have ensured our capital structure will be resilient in any down-cycles, with debt covenants and liquidity that will enable Victoria to ride out storms.
- We have a strong sales culture; irrespective of title, everyone is a sales person. The impact of this culture is far more powerful than many might think. For example, collectively, the revenues of the businesses comprising our group continued to grow through the 2007-2010 downturn as the sales-focussed nature of the businesses aggressively took market share from competitors in order to protect profits.
- Even as our group grows, we continue to maximise the variable component of our costs and minimise the fixed component. We have reduced our relative operational gearing, with a high proportion of fully variable costs (circa 46% of sales) and a low fully fixed overhead (only circa 12% of sales).
- We outsource some production to provide a buffer. In the event of a market downturn, the first fall in production demand will be absorbed by our outsourcing suppliers, giving us both protection for our own manufacturing plants plus buying us time to make any necessary changes.

Down cycles will happen. But, overall, the flooring market is growing steadily as more and more buildings are constructed and existing buildings are renovated – the latter by far the more important driver of the market.

OUTLOOK

I often hear non-shareholders worrying that they have "missed the boat" with Victoria – although I am at a total loss to understand why they would think that.

Our earnings per share growth has happened for two reasons: firstly, organic "self-help" actions (reducing overheads, better raw material procurement, more efficient logistics, leveraging the knowledge of our industry expert senior management to rationalise our production footprint, etc.), and secondly, earnings accretive acquisitions. And what on earth would make anyone think we will stop either activity any time soon?

The market opportunity we have before us is absolutely enormous. There is around 1,700 million sqm of flooring sold each year in Continental Europe, 300 million sqm sold in the UK, and 180 million sqm sold in Australasia[1]. Victoria sells circa 55 million sqm of flooring (excluding underlay), in total, across all three markets. The point I am emphasising is this: there is almost unlimited scope for growth – both

[1] Source: Freedonia Global Flooring Market Report January 2017

organically through increasing our market share and expanding our product offering, and, of course, through acquisition, for which we continue to find many promising and high quality opportunities. We could continue making 3-4 acquisitions a year for the rest of my (intended very long) life and not run out of good opportunities!

And by good opportunities I mean potential acquisitions that meet the key criteria set out below. This list is not exhaustive and sometimes we will not acquire a business that meets all our criteria simply because of some indefinable factor that makes us uncomfortable with proceeding.

1. **We never buy failing turnarounds.** The time and energy expended on a turnaround is rarely worth it and the outcome is always sufficiently uncertain to make it too risky for us;
2. **Modern, well-equipped factories.** As a company, Victoria is extremely focussed on cash generation. It is free cash that enables us to pay down debt, fund growth, whether acquisitions or organic, and in due course progressively return capital to shareholders through dividends or share buybacks. So, the last thing we want to have to do after buying a business is spend all the cash it generates bringing the factory up to standard;
3. **Committed, talented and honest management.** Anyone can lease a factory and buy the machinery to make flooring. The difference between the average business and the extraordinary businesses Victoria acquires is the management;
4. **Broad distribution channels.** Victoria’s sales are overwhelmingly made to literally thousands of retailers. We like the security this diversity provides; and pay close attention to customer concentration when considering a potential acquisition;
5. **A fair price.** To quote Warren Buffett, "It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price. We recognise that quality businesses are rarely 'cheap' but shareholders can take comfort from the fact that we will not overpay. Ever.

However, apart from acquisition-led growth, we continue to have considerable opportunity to grow margins and earnings within our existing businesses. Shareholders have seen EBITDA/Revenue margins more than double over the last five years but more upside remains through improving the efficiency of our logistics operation, procurement, and production footprint rationalisation. Each 1% increase in our EBITDA margin would increase net profits by circa 10%.

I will finish with a comment I read recently by a very successful fund manager: “[Investment is] not a well-behaved machine that cranks out returns to owners of all equities...Instead quite extraordinary returns flow from a tiny fraction of the companies in existence.”

We intend to be one of those companies and look forward with confidence to another successful year of continued growth.

Geoffrey Wilding
Executive Chairman
24 July 2018

Victoria PLC
Strategic Report

BUSINESS OVERVIEW

Victoria PLC is a designer, manufacturer and distributor of innovative flooring products. The Group is headquartered in the UK, with operations across the UK, Spain, Italy, the Netherlands, Belgium and Australia, employing approximately 2,500 people at more than 20 sites.

The Group designs and manufactures a wide range of wool and synthetic broadloom carpets, ceramic tiles, flooring underlay, LVT (luxury vinyl tile) and hardwood flooring products, artificial grass, carpet tiles and flooring accessories.

A review of the performance of the business is provided within the Financial Review.

BUSINESS MODEL

Victoria's business model is underpinned by five integrated pillars:

1. Superior customer offering

Offering a range of leading quality and complementary flooring products across a number of different brands, styles and price points, focused on the mid-to-upper end of the market or specialist products, as well as providing market-leading customer service.

2. Sales driven

Highly motivated, independent and appropriately incentivised sales teams across each brand and product range, ensuring delivery of a premium service and driving profitable growth.

3. Flexible cost base

Multiple production sites with the flexibility, capacity and cost structure to vary production levels as appropriate, in order to maintain a low level of operational gearing and maximise overall efficiency.

4. Focused investment

Appropriate investment to ensure long-term quality and sustainability, whilst maintaining a focus on cost of capital and return on investment.

5. Entrepreneurial leadership

A flat and transparent management structure, with income statement 'ownership' and linked incentivisation, operating within a framework that promoted close links with each other and with the PLC Board to plan and implement the short and medium-term strategy.

STRATEGY

The Group's successful strategy in creating wealth for its shareholders has not changed and continues to be to deliver profitable and sustainable growth, both from acquisitions and organic drivers.

In terms of acquisitions, the Group continues to seek and monitor good opportunities in key target markets that will complement the overall commercial offering and help to drive further improvement in our KPIs. Funding of acquisitions is primarily sought from debt finance to maintain an efficient capital structure, insofar as a comfortable level of facility and covenant headroom is maintained.

Organic growth is fundamentally driven by the five pillars of the business model highlighted above. In addition, the Group continues to seek and deliver synergies and transfer best operating practice between acquired businesses, both in terms of commercial upside, and cost and efficiency benefits to drive like-for-like margin improvement.

KEY PERFORMANCE INDICATORS

The KPIs monitored by the Board and the Group's performance against these are set out in the table below.

	Year ended 31 March 2018 £'m	Year ended 1 April 2017 £'m
Revenue	**424.8**	330.4
Revenue growth at constant currency	**28.1%**	24.8%
Underlying EBITDA	**64.7**	45.7
Underlying EBITDA margin	**15.2%**	13.8%
Underlying operating profit	**48.8**	33.7
Underlying operating margin	**11.5%**	10.2%
EPS (basic, adjusted)	**31.38p**	25.25p
Adjusted net debt / EBITDA[1]	**2.68x**	1.63x
EBITDA interest cover[1]	**9.34x**	12.09x

[1] *As measured in line with our bank facility covenants*

The Group has again delivered a strong set of annual KPIs in relation to growth and margins. The key capital structure KPIs – leverage and interest cover – have tightened moderately versus the prior year-end, however this simply reflects the timing and scale of acquisitions between the two years. The current leverage is consistent with our financial strategy and risk appetite, whilst in 2017 the business was making much smaller acquisitions and had de-levered significantly from a similar peak in 2016.

Further commentary on these KPIs is provided in the Financial Review.

PRINCIPAL RISKS AND UNCERTAINTIES

The Board and senior management team of Victoria identifies and monitors principal risks and uncertainties on an ongoing basis. These include:

Competition – the Group operates in mature and highly competitive markets, resulting in pressure on pricing and margins. Management regularly review competitor activity to devise strategies to protect the Group's position as far as possible.

Economic conditions – the operating and financial performance of the Group is influenced by economic conditions within the geographic areas within which it operates, in particular the UK, Australia and the Eurozone. Economic risks in any one region is mitigated by the independence of the UK & Europe Division, and the Australia Division. The Group remains focused on driving efficiency improvements, cost reductions and ongoing product development to adapt to the current market conditions.

Key input prices – material adverse changes in certain raw material prices – in particular wool and synthetic yarn, polyurethane foam, and clay – could affect the Group's profitability. A proportion of these costs are denominated in US Dollars and Euros which gives rise to foreign exchange risk, which is currently impacted in the UK by the uncertainty in medium-to-long term exchange rates against Sterling in light of Brexit. Key input prices are closely monitored and the Group has a sufficiently broad base of suppliers to remove arbitrage risk, as well as being of such a scale that it is able to benefit from certain economies arising from this. Whilst there is some foreign exchange risk beyond the short-term hedging arrangements that are put in place, the vast majority of the Group's cost base remains in domestic currency (Sterling, Euros and Australian Dollars). Furthermore, the recent acquisitions in Continental Europe have created a natural hedge within the UK & Europe segment as there are material earnings in Euros as well as Sterling.

Acquisitions – acquisition-led growth is a key part of the Group's ongoing strategy, and risks exist around the future performance of any potential acquisitions, unforeseen liabilities, or difficulty in integrating into the wider Group. The Board carefully reviews all potential acquisitions and, before completing, carries out appropriate due diligence to mitigate the financial, tax, operational, legal and regulatory risks. Risks are further mitigated through the retention and appropriate incentivisation of acquisition targets' senior management. Where appropriate the consideration is structured to include deferred and contingent elements which are dependent on financial performance for a number of years following completion of the acquisition.

Other operational risks – in common with many businesses, sustainability of the Group's performance is subject to a number of operational risks, including major incidents that may interrupt planned production, and the recruitment and retention of key employees. These risks are monitored by the Board and senior management team and appropriate mitigating actions taken.

CORPORATE RESPONSIBILITY

Victoria PLC is committed to being an equal opportunities employer and is focused on hiring and developing talented people.

The health and safety of our employees, and other individuals impacted by our business, is taken very seriously and is reviewed by the Board on an ongoing basis.

A Company statement regarding the Modern Slavery Act 2015 is available on the Company's website at www.victoriaplc.com.

As a manufacturing and distribution business, there is a risk that some of the Group's activities could have an adverse impact on the local environment. Policies are in place to mitigate these risks, and all of the businesses within the Group are committed to full compliance with all relevant health and safety and environmental regulations.

On behalf of the Board

Geoffrey Wilding
Executive Chairman
24 July 2018

Victoria PLC
Financial Review

OVERVIEW

The year to 31 March 2018 has seen substantial positive changes to the Group. We continued our acquisition growth strategy, acquiring two sizeable businesses in Spain and Italy, which have transformed the scale and shape of the business, as well as correspondingly increasing the levels of both equity and debt funding. We have also made material investments – both operationally and financially – in two organic restructuring initiatives as announced during the year, which are expected to deliver operational and commercial benefits going forward.

The acquisitions in the year have significantly diversified the revenues of the Group and the UK & Europe segment in particular. Both Keraben (in Spain) and Serra (in Italy) are manufacturers and distributors of ceramic tiles, thereby broadening the Group's product portfolio into a completely new segment of the market. Furthermore, in terms of geographic end markets, these businesses have a greater spread of revenues across Continental Europe, in addition to sales into the UK. Having now successfully integrated these acquisitions in terms of legal structuring and administrative functions, we are reviewing potential synergy and distribution opportunities alongside the rest of the UK & Europe business.

The total cost of the acquisitions (net of cash and debt acquired or refinanced) was €311.5m (£276.5m, applying exchange rates at the time). In addition the Group spent a total of £5.8m on exceptional acquisition costs and fees in the year, the majority in relation to these acquisitions but some also in relation to our broader M&A prospecting activity.

Both Keraben and Serra generate significant returns on assets employed, with underlying operating profit (earnings before interest and tax) / net assets of over 30% between them. As a result, given the purchase price for each was based on sustainable profitability and cash generation rather than just the value of assets, the acquisitions have generated significant goodwill and acquired intangible assets in the consolidated balance sheet.

Significant progress has been made during the year on the manufacturing and logistics restructuring initiatives previously announced, with the rationalisation of the UK manufacturing footprint completed, and the strengthened UK logistics network – including the new Southern distribution centre – on track to be fully operational later this year. The total cost of these projects in the year was an exceptional cost of £4.5m, plus one-off capital expenditure to drive the necessary expansion in capacity of circa £3.3m.

Further review of the profit and cash performance of the Group in the year is detailed below.

REVENUE AND GROSS PROFIT

Group revenue increased by 28.6% during the year from £330.4m to £424.8m, primarily driven by acquisitions. This comprised 29.1% annual growth in the UK & Europe Division and 25.5% annual growth in the Australia Division on a constant currency basis. The overall translational impact of changes in value of the Euro and Australian dollar against Sterling were relatively immaterial in the period.

Underlying trading conditions in our traditional carpet and underlay markets have been slightly softer this year compared to the prior year. Despite this, the Group still experienced positive LFL sales growth in the year of +1.2%[2]. This growth has been driven by healthy sales volumes, offset slightly by a drop in average selling price due to changes in sales mix and a strategic decision in certain areas to remain highly competitive on pricing to help to drive market share.

Revenue and gross profit

	Year ended 31 March 2018			Year ended 1 April 2017		
	UK & Europe £'m	**Australia £'m**	**Total £'m**	UK & Europe £'m	Australia £'m	Total £'m
Revenue	312.0	112.8	**424.8**	241.7	88.7	330.4
Revenue growth						
Reported	*29.1%*	*27.2%*	***28.6%***			
Constant currency[3]	*29.1%*	*25.5%*	***28.1%***			
Gross profit	111.2	34.3	**145.4**	84.5	25.1	109.6
Margin	*35.6%*	*30.4%*	***34.2%***	*34.9%*	*28.4%*	*33.2%*

[3] Revenue growth at constant currency is calculated applying the same GBP:AUD exchange rate to both years of 1.7206 (being the average exchange rate during the year ended 31 March 2018).

Reported gross margin for the Group was 34.2%, an increase of circa 100bps on the prior year. This was driven by a number of factors, in particular the evolving product mix across the group and operational improvements (albeit the full benefit from the key restructuring activities in the UK will not be seen until the following year). Australia in particular delivered a circa 200bps margin improvement.

OPERATING PROFIT

The Group's underlying operating margin has seen a further significant improvement in the year, rising from 10.2% to 11.5%. This circa 130 basis point increase follows from the gross margin improvement noted above, which is slightly improved due to a small operational leverage effect on fixed overheads.

Reported operating profit (earnings before interest and taxation) was broadly flat at £26.4m, having been impacted by higher non-underlying and exceptional items during the year. After removing these items, underlying operating profit was £48.8m, representing a 45% increase over the prior year. This growth comprised 47% growth in the UK & Europe segment and 40% growth in the Australia segment, plus a small increase in central expenses.

---

[2] LFL sales growth adjusted for the impact of acquired and restructured entities.

Operating profit

	Year ended 31 March 2018				Year ended 1 April 2017			
	UK & Europe £'m	**Australia £'m**	**Central expenses £'m**	**Total £'m**	UK & Europe £'m	Australia £'m	Central expenses £'m	Total £'m
Reported operating profit	**22.5**	**9.4**	**(5.5)**	**26.4**	21.8	7.0	(2.1)	26.7
Add back: non-underlying items	**16.0**	**2.2**	**4.2**	**22.4**	4.4	1.3	1.3	7.0
Underlying operating profit	**38.5**	**11.6**	**(1.3)**	**48.8**	26.2	8.3	(0.8)	33.7
Underlying operating margin	***12.3%***	***10.3%***	**-**	***11.5%***	*10.8%*	*9.3%*	-	*10.2%*
Reported profit before tax				**13.4**				18.8
Underlying profit before tax				**40.8**				29.4
Underlying PBT margin				***9.6%***				*8.9%*

EXCEPTIONAL AND OTHER NON-UNDERLYING ITEMS

The total net exceptional and non-underlying charge in the year was £23.0m, compared to £10.4m in the prior year. This reflects the increased scale of the acquisitions that were made (and prospected), as well as the operational restructuring projects, for which the year to March 2018 was the key implementation period. As a result, whilst reported profit before tax declined from £18.8m to £13.4m, underlying profit before tax grew by 39% to £40.8m.

Non-underlying and exceptional items

	UK & Europe £'m	Australia £'m	PLC £'m	**Total £'m**
Amortisation of acquired intangibles	9.4	1.8	-	11.2
Exceptional costs:				
M&A related costs	2.5	-	3.3	5.8
Restructuring costs	4.2	0.3	0.9	5.4
Non-underlying finance costs:				
Change to deferred and contingent earn-out liabilities	-	0.1	-	0.1
Retranslation of foreign currency loans	-	-	3.5	3.5
Other non-underlying finance costs	0.5	(0.3)	1.2	1.4

Non-underlying tax	(3.8)	(0.6)	-	(4.4)
Total non-underlying costs	12.8	1.3	8.9	**23.0**

Non-underlying costs comprise four items:

- *Amortisation of acquired intangibles*

  This cost has increased this year from £4.4m to £11.2m, of which £9.4m related to the UK & Europe segment and £1.8m to the Australia segment. Within UK & Europe, over half of this amount related to the new acquisitions.

  Under IFRS, the Group is required to fair-value all items in the opening balance sheet of any acquisition made, including the identification of any intangible assets. Across our historical acquisitions, we have recognised three categories of such assets: key customer relationships, brand names, and relevant technical IP. Where an acquisition is structured as a purchase of shares in the target company, these intangible assets are only recognised on consolidation in the Group accounts, not in the target company's accounts themselves. The remainder of the purchase price, after subtracting both the tangible and intangible net assets, is then allocated to goodwill. Under IFRS, whilst goodwill is not subject to accounting amortisation but rather an annual impairment test, the intangible assets are subject to amortisation across their determined useful economic lives.

  As noted in the overview section above, one of the common characteristics of acquisitions that Victoria seeks is a high return on assets employed. This is certainly true of both Keraben and Serra. As a result, with purchase price based on profits and cash generation, it is a direct consequence of a high return on tangible assets that larger intangible assets and goodwill will be generated on consolidation, with the former resulting in larger amortisation charges going forward.

  It is important to note that these amortisation charges are non-cash items, and that once the intangible assets have been full written-down, they do not need to be replaced or reassessed in the accounts unless another acquisition occurs. Hence why these charges are considered to be non-underlying (see further details in the Significant Accounting Policies).

- *Exceptional costs*

  These costs are often cash costs, but by definition are non-recurring. They tend to fall into one of two categories: M&A related costs or restructuring costs.

  M&A related costs of £2.5m were incurred in the year in relation to the acquisitions completed, comprising advisory, due diligence and legal fees. In addition, a further £3.3m were incurred in relation to broader M&A prospecting activities (again, comprising advisory fees). These costs have increased in size (2017: £2.1m) as the acquisitions have increased in size.

  Restructuring costs of £5.4m were incurred in the year in relation to the UK manufacturing and logistics reorganisation projects, comprising redundancy costs, consulting fees, legal fees, as well as internal one-off costs in relation to the projects. Some further restructuring costs were

incurred in the UK & Europe segment, in relation to post-acquisition integration, and in Australia in relation to smaller operational and legal restructuring matters.

- *Non-underlying finance costs*

  These costs sit within financial items in the income statement due to their nature, but are considered to be non-underlying. They fall into three broad categories: fair value adjustments to financial liabilities (primarily the BGF subordinated debt and any foreign exchange or interest rate hedging contracts); fair value adjustments to deferred and contingent earn-out liabilities (i.e. not the creation of the liabilities themselves, which are built into the value of the investments and therefore goodwill, but accounting adjustments to the value of these liabilities); and foreign exchange impacts on the translation of foreign currency loans (the Group has historically borrowed to fund acquisitions in the same currency as the reported earnings of the target company).

  In the year ended March 2018, these costs totalled £5.0m versus £3.6m in the prior year. This is primarily due to the foreign currency impact on loans, which accounted for £3.5m of this charge. It is important to note that all of these costs are non-cash in nature.

- *Non-underlying tax*

  This figure relates to the impact on the Group's tax charge as a result of the above items.

TAXATION

The reported tax charge in the year was £4.8m against a reported pre-tax profit of £13.4m, giving an effective tax rate of 35.6%. This was distorted by the impact of the exceptional and non-underlying costs, the majority of which have been treated as non-deductible for tax purposes. The underlying effective tax rate measured against adjusted profit before tax is 22.5%.

EARNINGS PER SHARE

As a result of the significant increase exceptional and non-underlying costs in the year as detailed above, basic earnings per share decreased from 13.84p to 8.58p. However, adjusted earnings per share (before non-underlying and exceptional items) increased by circa 24% from 25.25p to 31.38p.

Earnings per share

	Year ended 31 March 2018 pence	Year ended 1 April 2017 pence
Basic earnings per share from continuing operations	**8.58p**	13.84p
Basic adjusted earnings per share from continuing operations	**31.38p**	25.25p

OPERATING CASH FLOW

The Group delivered underlying EBITDA in the year of £64.7m, an increase of 42% on the prior year.

Cash flow from operating activities before interest, tax and exceptional items was £64.4m, which represents a conversion of 99% of underlying EBITDA, an improvement on the prior year. This is a 48% increase on the prior year operating cash flow.

Cash flow

	Year ended 31 March 2018 £'m	Year ended 1 April 2017 £'m
Underlying operating profit from continuing operations	**48.8**	33.7
Add back: underlying depreciation & amortisation	**15.9**	12.0
Underlying EBITDA	**64.7**	45.7
Non-cash items	**(0.2)**	(0.5)
Underlying movement in working capital	**(0.2)**	(1.6)
Operating cash flow before interest, tax and exceptional items	**64.3**	43.6
% conversion against underlying operating profit	**132%**	130%
% conversion against EBITDA	**99%**	95%
Interest paid	**(6.7)**	(3.6)
Corporation tax paid	**(10.6)**	(5.8)
Capital expenditure - replacement / maintenance of existing capabilities	**(14.1)**	(10.8)
Proceeds from fixed asset disposals	**2.1**	0.2
Free cash flow before exceptional items	**35.0**	23.7
% conversion against underlying operating profit	**72%**	70%
% conversion against EBITDA	**54%**	52%

Pre-exceptional free cash flow of the Group – after interest, tax and net replacement capex (see the capital expenditure section below) – was £35.0m. Compared with underlying operating profit (i.e. post-depreciation), this represents a conversion ratio of 72%, similar to the prior year.

A full reported statement of cash flows, including exceptional and non-underlying items is provided in the Consolidated Statement of Cash Flows.

CAPITAL EXPENDITURE

The year to March 2018 saw a significant increase in capital expenditure, from £11.2m in the prior year to £29.3m (these figures are inclusive of capex funded via finance leases and hire purchase, as well as cash flow). The majority of this increase relates to expenditure for restructuring and expansion purposes, in particular post-acquisition investments in Keraben and Serra and the manufacturing and logistics restructuring projects.

Capital expenditure

	UK & Europe £'m	Australia £'m	PLC £'m	**Total £'m**
Capital expenditure - expansion / restructuring	14.5	0.4	0.3	15.2
Capital expenditure - replacement / maintenance of existing capabilities	12.0	2.1	-	14.1
Total capital expenditure	26.5	2.5	0.3	**29.3**

During the acquisition process for Keraben, a number of capex projects were identified to increase its manufacturing capacity for the future. One of these projects was initiated immediately on completion of the acquisition, and up to March 2018 a total of €6.7m (circa £5.9m) was invested.

Similarly, as part of the acquisition process for Serra, it was agreed that one of its three manufacturing lines would be immediately replaced and upgraded. This investment costs €6.5m (circa £5.7m) in total, of which €5.0m (circa £4.4m) had been spent prior to the end of March. Following the year-end, installation of the new line has been successfully completed and it is now operational.

Approximately £3.3m was invested during the year in relation to the UK manufacturing and logistics restructuring projects, plus a further circa £1.8m on other specific expansion and improvement projects around the Group.

Replacement capex – ongoing annual expenditure to maintain existing capacity and capabilities – increased from £11.2m to £14.1m as a result of the acquisition-led growth of the Group.

NET DEBT

As at 31 March 2018 the Group's net debt position was £258.7m. This compares with £89.6m as at the previous year-end, 1 April 2017. The principal reason for this increase during the year was due to the substantial acquisitions in the year of Keraben and Serra. Total acquisition-related expenditure in the year (including deferred consideration payments) was £362.3m, of which £178.1m was funded from the net proceeds of an equity raise in November 2017, and the rest from cash flow and new borrowings.

	Year ended 31 March 2018 £'m	Year ended 1 April 2017 £'m
Total initial cash consideration for acquisitions (net of cash acquired)	(276.5)	(37.8)
Total debt acquired or refinanced	(66.0)	(0.7)
Deferred and contingent consideration payments	(15.3)	(10.3)
Acquisition costs (cash)	(4.5)	(2.1)
Gross acquisition related expenditure	(362.3)	(50.9)
Net proceeds from issue of share capital	178.1	-
Net acquisition related expenditure	**(184.2)**	(50.9)

Capital expenditure - expansion / restructuring	(15.2)	-
Net investment financed from free cash flow or debt funding	**(199.4)**	(50.9)
Free cash flow before exceptional items (see above)	**35.0**	23.7
Non-underlying items impacting net debt:		
Exceptional cash items	(3.4)	(0.3)
Mark to market adjustment on corporate bonds held	(0.1)	-
Non-cash adjustment to BGF loan recognised	(1.1)	(0.4)
Foreign exchange differences on opening cash / debt	(0.1)	(0.6)
Movement in net debt	**(169.1)**	(28.5)
Opening net debt	(89.6)	(61.1)
Closing net debt	**(258.7)**	(89.6)

Applying our banks' adjusted measure of financial leverage, the Group's year-end net debt to EBITDA ratio was 2.68x (2017: 1.63x). This is consistent with our financial strategy to use a sensible but cautious level of debt in the overall funding structure of the Group. The acquisition of Keraben was significantly larger than any previous acquisition made by the Group, and therefore the level of debt and equity funding sought as part of that transaction was structured to target this level of leverage.

Net debt	**31 March 2018**	1 April 2017
	£'m	£'m
Net cash and cash equivalents	53.1	28.0
Bank loans	(298.5)	(105.9)
BGF loan	(11.3)	(10.2)
Finance leases and hire purchase arrangements	(2.0)	(1.6)
Net debt	(258.7)	(89.6)
Adjusted net debt / EBITDA [4]	**2.68x**	1.63x

[4] As measured in line with our bank facility covenants

ACCOUNTING STANDARDS

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as endorsed and adopted for use in the EU. There have been no changes to IFRS this year that have a material impact on the Group's results. Whilst the majority of forthcoming new IFRSs are not expected to have a material impact on the financial statements of the Group, the effects of applying IFRS16 is still under review.

There have been no material changes in the accounting policies of the Group and its subsidiaries this year.

FUNDING AND GOING CONCERN

On 5 July 2017, the Group entered into a new, extended multi-currency revolving credit facility. This facility matures in October 2020, with a one-year extension option, providing a medium-term platform for the continued debt financing of the Group and further potential acquisitions.

On 15 November 2017, the Group entered into an additional senior syndicated Euro term loan, to contribute towards the funding of the acquisitions of Keraben and Serra. The maturity of this facility is in line with the revolving credit facility.

The facilities are subject to various financial covenants measured against Group results on a quarterly basis. All such covenants have been satisfied to date.

In conjunction with the bank facilities, on 5 July 2017 the Group entered into a revised £10 million unsecured loan with the Business Growth Fund maturing in 2021.

The current facilities across the Group provide sufficient capacity in Sterling, Australian Dollars and Euros to cover all anticipated capital expenditure and working capital requirements during the year ahead.

The consolidated financial statements for the Group have been prepared on a going-concern basis. The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Chairman's Statement, the Strategic Review and this Financial Review

Having reviewed the Group's budgets, projections and funding requirements, and taking account of reasonable 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.

The Directors are of the view that the Group is well placed to manage its business risks. Accordingly, the Directors continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Michael Scott
Group Finance Director
24 July 2018

Financial Statements

Consolidated Income Statement

For the 52 weeks ended 31 March 2018

		52 weeks ended 31 March 2018			52 weeks ended 1 April 2017		
		Underlying performance	**Non-underlying and exceptional items**	**Reported numbers**	Underlying performance	Non-underlying and exceptional items	Reported numbers
	Notes	**£m**	**£m**	**£m**	£m	£m	£m
Continuing Operations							
Revenue	1	**424.8**	**-**	**424.8**	330.4	-	330.4
Cost of Sales		**(279.4)**	**-**	**(279.4)**	(220.8)	-	(220.8)
Gross profit		**145.4**	**-**	**145.4**	109.6	-	109.6
Distribution costs		**(59.4)**	**-**	**(59.4)**	(54.9)	-	(54.9)
Administrative expenses (including intangible amortisation)		**(38.6)**	**(22.4)**	**(61.0)**	(21.5)	(7.0)	(28.5)
Other operating income		**1.4**	**-**	**1.4**	0.5	-	0.5
Operating profit / (loss)		**48.8**	**(22.4)**	**26.4**	33.7	(7.0)	26.7
Comprising:							
Operating profit before non-underlying and exceptional items	1	**48.8**	**-**	**48.8**	33.7	-	33.7
Amortisation of acquired intangibles		**-**	**(11.2)**	**(11.2)**	-	(4.4)	(4.4)
Exceptional items	1, 2	**-**	**(11.2)**	**(11.2)**	-	(2.6)	(2.6)

		Note						
Finance costs		3	**(8.0)**	**(5.0)**	**(13.0)**	(4.3)	(3.6)	(7.9)
Comprising:								
Interest payable on loans		3	**(6.6)**	**-**	**(6.6)**	(3.6)	-	(3.6)
Amortisation of prepaid finance costs		3	**(1.0)**	**(0.2)**	**(1.2)**	(0.4)	-	(0.4)
Interest accrued on BGF loan		3	**(0.1)**	**(0.3)**	**(0.4)**	(0.2)	(0.2)	(0.4)
Net interest expense on defined benefit pensions		3	**(0.3)**	**-**	**(0.3)**	(0.1)	-	(0.1)
Other non-underlying finance costs		3	**-**	**(4.5)**	**(4.5)**	-	(3.4)	(3.4)
Profit / (loss) before tax			**40.8**	**(27.4)**	**13.4**	29.4	(10.6)	18.8
Taxation			**(9.2)**	**4.4**	**(4.8)**	(6.4)	0.2	(6.2)
Profit / (loss) for the period			**31.6**	**(23.0)**	**8.6**	23.0	(10.4)	12.6
Earnings per share - pence	basic	4	**31.38**		**8.58**	25.25		13.84
	diluted	4	**30.61**		**8.37**	24.43		13.60

Consolidated Statement of Comprehensive Income

For the 52 weeks ended 31 March 2018

		52 weeks ended 31 March 2018	52 weeks ended 1 April 2017
		£m	£m
Profit for the period		**8.6**	12.6
Other comprehensive income / (expense):			
Items that will not be reclassified to profit or loss:			
Actuarial gains / (losses) on defined benefit pension scheme	6	**2.0**	(7.8)
(Decrease) / increase in deferred tax asset relating to pension scheme liability		**(0.4)**	1.4
Items that will not be reclassified to profit or loss		**1.6**	(6.4)
Items that may be reclassified subsequently to profit or loss:			
Retranslation of overseas subsidiaries		**(2.1)**	1.9
Items that may be reclassified subsequently to profit or loss		**(2.1)**	1.9
Other comprehensive expense		**(0.5)**	(4.5)
Total comprehensive income for the year attributable to the owners of the parent		**8.1**	8.1

Consolidated Balance Sheet

As at 31 March 2018

	Note	31 March 2018 £m	1 April 2017 £m
Non-current assets			
Goodwill		**188.1**	59.8
Intangible assets other than goodwill		**210.3**	66.3
Property, plant and equipment		**142.9**	41.8
Investment property		**0.8**	0.2
Investments in associates		**1.0**	-
Trade and other non-current receivables		**-**	-
Deferred tax assets		**4.6**	5.0
Total non-current assets		**547.7**	173.1
Current assets			
Inventories		**100.3**	73.1
Trade and other receivables		**88.2**	55.1
Cash and cash equivalents		**54.0**	28.0
Total current assets		**242.5**	156.2
Total assets		**790.2**	329.3
Current liabilities			
Trade and other current payables		**121.5**	82.8
Current tax liabilities		**1.0**	4.3
Other financial liabilities		**3.0**	0.6

Total current liabilities		**125.5**	87.7
Non-current liabilities			
Trade and other non-current payables		**29.2**	19.9
Other non-current financial liabilities		**306.1**	116.1
Deferred tax liabilities		**54.7**	15.2
Retirement benefit obligations	6	**9.1**	11.1
Total non-current liabilities		**399.1**	162.3
Total Liabilities		**524.6**	250.0
Net Assets		**265.6**	79.3
Equity			
Share capital		**5.9**	4.5
Share premium		**229.8**	52.5
Retained earnings		**26.7**	16.5
Foreign exchange reserve		**2.9**	5.0
Other reserves		**0.3**	0.8
Total Equity		**265.6**	79.3

Consolidated Statement of Changes in Equity

For the 52 weeks ended 31 March 2018

	Share capital £m	Share premium £m	Retained earnings £m	Foreign exchange reserve £m	Other reserves £m	Total equity £m
At 3 April 2016	4.5	52.5	10.3	3.1	0.7	71.1
Profit for the period to 1 April 2017	-	-	12.6	-	-	12.6
Other comprehensive loss for the period	-	-	(6.4)	-	-	(6.4)
Retranslation of overseas subsidiaries	-	-	-	1.9	-	1.9
Total comprehensive profit	-	-	6.2	1.9	-	8.1
Issue of Share capital	-	-	-	-	-	-
Share-based payment charge	-	-	-	-	0.1	0.1
Transactions with owners	-	-	-	-	0.1	0.1
At 1 April 2017	4.5	52.5	16.5	5.0	0.8	79.3
Profit for the period to 31 March 2018	-	-	8.6	-	-	8.6
Other comprehensive profit for the period	-	-	1.6	-	-	1.6
Retranslation of overseas subsidiaries	-	-	-	(2.1)	-	(2.1)
Total comprehensive profit / (loss)	-	-	10.2	(2.1)	-	8.1
Issue of Share capital	1.4	176.6	-	-	-	178.0
BGF equity transfer	-	0.7	-	-	(0.7)	-
Share-based payment charge	-	-	-	-	0.2	0.2
Transactions with owners	1.4	177.3	-	-	(0.5)	178.2
At 31 March 2018	**5.9**	**229.8**	**26.7**	**2.9**	**0.3**	**265.6**

Consolidated Statement of Cash Flows
For the 52 weeks ended 31 March 2018

	52 weeks ended 31 March 2018 £m	52 weeks ended 1 April 2017 £m
Cash flows from operating activities		
Operating profit	**26.4**	26.7
Adjustments For:		
Depreciation charges	**15.8**	12.0
Amortisation of intangible assets	**11.3**	4.4
Amortisation of government grants	**(0.3)**	(0.2)
Loss on disposal of property, plant and equipment	**0.1**	-
Share-based employee remuneration	**0.2**	0.1
Defined benefit pension	**(0.2)**	(0.2)
Net cash flow from operating activities before movements in working capital	**53.3**	42.8
Change in inventories	**(8.0)**	(0.5)
Change in trade and other receivables	**2.6**	(5.9)
Change in trade and other payables	**6.4**	4.7
Cash generated by operations	**54.3**	41.1
Interest paid	**(6.7)**	(3.6)
Income taxes paid	**(10.6)**	(5.8)
Net cash inflow from operating activities	**37.0**	31.7
Investing activities		
Purchases of property, plant and equipment	**(25.9)**	(9.4)
Proceeds on disposal of property, plant and equipment	**2.1**	0.2

Purchases of intangible assets	**(0.7)**	-
Deferred and contingent consideration payments	**(15.3)**	(10.3)
Acquisition of subsidiaries net of cash acquired	**(276.5)**	(37.8)
Net cash used in investing activities	**(316.3)**	(57.3)
Financing activities		
Increase in long-terms loans	**128.8**	34.3
Issue of share capital	**178.1**	-
Repayment of obligations under finance leases / hire purchase	**(0.3)**	(0.9)
Net cash generated in financing activities	**306.6**	33.4
Increase in net cash and cash equivalents	**27.3**	7.8
Net cash and cash equivalents at beginning of period	**28.0**	19.1
Effect of foreign exchange rate changes	**(2.2)**	1.1
Net cash and cash equivalents at end of period	**53.1**	28.0
Comprising:		
Cash and cash equivalents	**54.0**	28.0
Bank overdrafts	**(0.9)**	-
	53.1	28.0

Notes

1. Segmental information

The Group is organised into two operating divisions, the sale of floorcovering products in the UK & Europe and in Australia. The CGUs that comprise the UK & Europe 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

	52 weeks ended 31 March 2018				52 weeks ended 1 April 2017			
	UK & Europe	**Australia**	**Unallocated central expenses**	**Total**	UK & Europe	Australia	Unallocated central expenses	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Income statement								
Revenue	**312.0**	**112.8**	**-**	**424.8**	241.7	88.7	-	330.4
Underlying operating profit	**38.5**	**11.6**	**(1.3)**	**48.8**	26.2	8.3	(0.8)	33.7
Non-underlying operating items	**(9.3)**	**(1.9)**	**-**	**(11.2)**	(3.6)	(0.8)	-	(4.4)
Exceptional operating items	**(6.7)**	**(0.3)**	**(4.2)**	**(11.2)**	(0.8)	(0.5)	(1.3)	(2.6)
Operating profit	**22.5**	**9.4**	**(5.5)**	**26.4**	21.8	7.0	(2.1)	26.7
Underlying finance costs				**(8.0)**				(4.3)
Non-underlying finance costs				**(5.0)**				(3.6)
Profit before tax				**13.4**				18.8
Tax				**(4.8)**				(6.2)
Profit after tax				**8.6**				12.6
Profit for the period				**8.6**				12.6

Management information is reviewed on a segmental basis to operating profit.

During the year, no single customer accounted for 10% or more of the Group's revenue. Inter-segment sales in the year and in the prior year between the UK & Europe and Australia were immaterial.

The Group's revenue for the period was split geographically as follows:

	52 weeks ended 31 March 2018	52 weeks ended 1 April 2017
	£m	£m
Revenue		
UK & other European countries	**265.0**	241.7
Spain	**41.3**	-
Italy	**5.7**	-
Australia	**112.8**	88.7
	424.8	330.4

Materially all revenue within 'UK & other European countries' related to the UK.

Balance sheet

	As at 31 March 2018			As at 1 April 2017		
	UK & Europe	**Australia**	**Total**	UK & Europe	Australia	Total
	£m	**£m**	**£m**	£m	£m	£m
Total assets	**712.7**	**77.5**	**790.2**	277.0	52.3	329.3
Total liabilities	**(467.0)**	**(57.6)**	**(524.6)**	(216.3)	(33.7)	(250.0)
Net assets	**245.7**	**19.9**	**265.6**	60.7	18.6	79.3

The Group's non-current assets as at 31 March 2018 were split geographically as follows:

	As at 31 March 2018 **£m**	As at 1 April 2017 £m
Non-current assets		
UK & other European countries	**130.5**	130.4
Spain	**332.2**	-
Italy	**49.1**	-
Australia	**35.9**	42.7
	547.7	173.1

Materially all non-current assets within 'UK & other European countries' relate to the UK.

Other segmental information

	52 weeks ended 31 March 2018				52 weeks ended 1 April 2017			
	UK & Europe **£m**	**Australia** **£m**	**Unallocated central liabilities** **£m**	**Total** **£m**	UK & Europe £m	Australia £m	Unallocated central liabilities £m	Total £m
Depreciation and amortisation								
Depreciation	**12.8**	**3.0**	**-**	**15.8**	9.3	2.7	-	12.0
Amortisation of acquisition intangibles	**9.4**	**1.8**	**-**	**11.2**	3.6	0.8	-	4.4
Amortisation of other intangibles	**0.1**	**-**	**-**	**0.1**	-	-	-	-
	22.3	**4.8**	**-**	**27.1**	12.9	3.5	-	16.4

	52 weeks ended 31 March 2018				52 weeks ended 1 April 2017			
	UK & Europe	**Australia**	**Unallocated central expenditure**	**Total**	UK & Europe	Australia	Unallocated central expenditure	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Investments in fixed assets								
Purchases of property, plant and equipment	**26.1**	**2.5**	**-**	**28.6**	9.4	1.8	-	11.2
Disposals of property, plant and equipment	**(0.9)**	**(0.3)**	**-**	**(1.2)**	(0.2)	-	-	(0.2)
Purchases of intangible assets	**0.4**	**-**	**0.3**	**0.7**	-	-	-	-
Total capital expenditure	**25.6**	**2.2**	**0.3**	**28.1**	9.2	1.8	-	11.0

2. Exceptional and non-underlying items from continuing operations

Exceptional items	**2018** **£m**	2017 £m
(a) Acquisition and disposal related costs	**(5.8)**	(2.1)
(b) Reorganisation costs	**(5.4)**	(0.3)
(c) Prior year preference payment claim	**-**	(0.2)
	(11.2)	(2.6)

All exceptional items are classified within administrative expenses.

(a) One-off professional fees in connection with prospecting and completing acquisitions during the year.

(b) One-off reorganisation costs, including redundancy costs, in relation to the Group's manufacturing and logistics operations, as well as other corporate restructuring.

(c) Potential preference payment claim in respect of an Australian customer that went into administration during the prior year.

3. Finance costs

	2018	2017
	£m	£m
Interest payable on bank loans and overdrafts	**5.7**	2.5
Cash interest payable on BGF loan	**0.8**	1.0
Interest payable on Hire Purchase and Finance Leases	**0.1**	0.1
Total interest payable on loans	**6.6**	3.6
Amortisation of prepaid finance costs	**1.0**	0.4
Interest rolled up into BGF loan	**0.1**	0.2
Net interest expense on defined benefit pensions	**0.3**	0.1
Underlying interest costs	**8.0**	4.3
Non-underlying finance costs:		
(a) BGF loan, one-off non-cash adjustments arising on modification	**0.9**	-
(b) BGF loan and option, redemption premium charge	**0.3**	0.2
(c) Unwinding of present value of contingent earn-out liabilities	**2.6**	1.8
(c) Unwinding of present value of deferred consideration liabilities	**0.4**	0.4
(c) Other adjustments to present value of contingent earn-out liabilities	**(2.9)**	1.6
(d) Mark to market adjustment on corporate bonds held	**0.1**	-
(e) Mark to market adjustment on foreign exchange forward contracts	**0.1**	-
(f) Retranslation of foreign currency loans	**3.5**	(0.4)
	13.0	7.9

(a) Non-cash charge relating to a significant modification to the terms of the BGF loan, on which the coupon was reduced from 10% to 6% in September 2017. The charge comprises an extinguishment charge of £705,000 and a release of prepaid costs of £210,000.

(b) Non-cash annual cost of the redemption premium in relation to the BGF loan and option.

(c) Non-cash costs relating to the revaluation of deferred consideration and contingent 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 year-end in relation to the appropriateness of the discount factor and the unwind of this discount. In addition, any changes to contingent earn-outs arising from actual and forecast business performance are reflected.

(d) Fair value adjustments on corporate bonds held.

(e) Non-cash fair value adjustment on foreign exchange forward contracts.

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

4. Earnings per share

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

	Basic	**Adjusted**	Basic	Adjusted
	2018	**2018**	2017	2017
	£m	**£m**	£m	£m
Profit attributable to ordinary equity holders of the parent entity	**8.6**	**8.6**	12.6	12.6
Exceptional items:				
Amortisation of acquired intangibles	**-**	**11.2**	-	4.4
Acquisition and disposal related cost	**-**	**5.8**	-	2.1
Reorganisation costs	**-**	**5.4**	-	0.3
Other exceptional items	**-**	**-**	-	0.2
BGF loan and option, non-underlying charges	**-**	**1.2**	-	0.2
Unwinding of present value of deferred and contingent consideration	**-**	**3.0**	-	2.2
Other adjustments to present value of contingent earn-out liabilities	**-**	**(2.9)**	-	1.6
Mark to market adjustment on corporate bonds held	**-**	**0.1**	-	-
Mark to market adjustment on foreign exchange forward contracts	**-**	**0.1**	-	-
Retranslation of foreign currency loans	**-**	**3.5**	-	(0.4)
Tax effect on adjusted items where applicable	**-**	**(4.4)**	-	(0.9)
Deferred tax charge in respect of non-qualifying sampling assets	**-**	**-**	-	0.7
Earnings for the purpose of basic and adjusted earnings per share	**8.6**	**31.6**	12.6	23.0

Weighted average number of shares

	2018 Number of shares (000's)	2017 Number of shares (000's)
Weighted average number of shares for the purpose of basic and adjusted earnings per share	**100,701**	90,968
Effect of dilutive potential ordinary shares:		
BGF share options and growth shares	**2,533**	3,080
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**103,234**	94,048

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 per share are as follows:

	2018 Pence	2017 Pence
Earnings per share		
Basic adjusted earnings per share	**31.38**	25.25
Diluted adjusted earnings per share	**30.61**	24.43
Basic earnings per share	**8.58**	13.84
Diluted earnings per share	**8.37**	13.60

5. Rates of exchange

	2018		2017	
	Average	**Year end**	Average	Year end
Australia - A$	**1.7206**	**1.8246**	1.7435	1.6448
Europe - €	**1.1373**	**1.1370**	1.1785	1.1777

6. Retirement benefit obligations

Defined contribution schemes

The Group operates a number of defined contribution pension schemes. The companies and the employees contribute towards the schemes.

Contributions are charged to the Income Statement as incurred and amounted to £3,712,000 (2017: £3,265,000), of which £2,126,000 (2017: £2,111,000) relates to the UK schemes. The total contributions outstanding at year-end were £nil (2017: £nil).

Defined benefit schemes

The Group has two defined benefit schemes, both of which relate to Interfloor Limited.

Interfloor Limited sponsors the Final Salary Scheme ("the Main Scheme") and the Interfloor Limited Executive Scheme ("the Executive Scheme") which are both defined benefit arrangements. The defined benefit schemes are administered by a separate fund that is legally separated from the Group. The trustees of the pension fund are required by law to act in the interest of the fund and of all relevant stakeholders in the scheme. The trustees of the pension fund are responsible for the investment policy with regard to the assets of the fund.

The last full actuarial valuations of these schemes were carried out by a qualified independent actuary as at 31 July 2015.

The contributions made by the employer over the financial period were £95,000 (2017: £95,000) in respect of the Main Scheme and £126,000 (2017: £126,000) in respect of the Executive Scheme.

Contributions to the Executive and Main Schemes are made in accordance with the Schedule of Contributions. Future contributions are expected to be an annual premium of £95,000 in respect of the Main Scheme and £126,000 contributions payable to the Executive Scheme. These payments are in line with the certified Schedules of Contributions until they are reviewed on completion of the triennial valuations of the schemes as at 1 August 2018.

As both schemes are closed to future accrual there will be no current service cost in future years.

The defined benefit schemes typically expose the Company to actuarial risks such as: investment risk, interest rate risk and longevity risk.

Amounts recognised in income in respect of these defined benefit schemes are as follows:

	2018	2017
	£m	£m
Net interest expense	**0.3**	0.1

Components of defined benefit costs recognised in profit or loss	**0.3**	0.1

The net interest expense has been included within finance costs. The remeasurement of the net defined benefit liability is included in the statement of comprehensive income.

Amounts recognised in the Consolidated Statement of Comprehensive Income are as follows:

	2018	2017
	£m	£m
The return on plan assets (excluding amounts included in net interest expense)	**0.9**	3.0
Actuarial gains and (losses) arising from changes in demographic assumptions	**0.4**	-
Actuarial losses arising from changes in financial assumptions	**0.4**	(11.1)
Actuarial (losses) and gains arising from experience adjustments	**0.3**	0.3
Remeasurement of the net defined benefit liability	**2.0**	(7.8)

The amount included in the Consolidated Balance Sheet arising from the Group's obligations in respect of its defined benefit retirement benefit schemes is as follows:

	2018	2017
	£m	£m
Present value of defined benefit obligations	**(33.4)**	(36.5)
Fair value of plan assets	**24.3**	25.4
Net liability arising from defined benefit obligation	**(9.1)**	(11.1)
Deferred tax applied to net obligation	**1.7**	2.1

The Group expects to make a contribution of £221,000 (2017: £221,000) to the defined benefit schemes during the next financial period.

7. Acquisition of subsidiaries

(a) Keraben Grupo

On 16 November 2017 the Group acquired 100% of the equity of Keraben Grupo S.A.

Keraben is a large ceramic tiles business, based in Castellon, Spain. It designs, manufactures and distributes a range of white body and porcelain tiles for both wall and floor covering. Its products are priced at the medium to high end of the market and are sold throughout western Europe under three different brands, each with a strong market reputation.

The acquisition is expected to be significantly earnings-accretive, with additional commercial synergy opportunities to drive incremental profits. The enlarged group is substantially diversified in terms of both product and geography, and Keraben is considered an ideal platform for further potential acquisitions within this market segment.

The Group results for the year ended 31 March 2018 include contribution from Keraben of €46.8m (£41.1m[1]) of revenue and €10.8m (£9.5m[1]) of profit before tax (before amortisation of acquired intangibles and acquisition costs). If the acquisition had been completed on the first day of the financial year Group revenue and profit before tax would have been higher by €82.9m (£72.9m[1]) and €21.0m (£18.5m[1]) respectively.

[1] *Applying the average exchange rate over the financial year of 1.1373.*

Consideration

Cash consideration of €274.1m (£243.4m[2]) was paid on completion of the acquisition. There is no deferred or contingent consideration.

[2] *Applying the GBP to € exchange rate at the date of acquisition of 1.1258.*

Other than where fair value adjustments have been made, the book value of assets acquired is considered to approximate their fair values. Gross trade receivables acquired are considered to equate to the fair value of contractually collectable cash flows.

The other taxes and social security figure in the acquired balance sheet of £21.5m is a one-off transaction-related tax liability which crystallised on acquisition and was settled following completion. As such, whilst it does not form part of the cost of investment in the Group balance sheet, it has been treated as an investment-related item in the Group cash flow statement and included as part of investments in subsidiaries net of cash acquired.

As a condition of the acquisition, the senior management team of Keraben Grupo S.A.U were required to invest £7.2m in a new incentive structure under Victoria ownership. This cash inflow has been treated as investment related and deducted from the investment in subsidiaries net of cash acquired.

After fair value adjustments, goodwill of £115.8m is created on the consolidation of Keraben, which relates to expected future profits of the business.

Transaction costs amounting to £836,000 relating to the acquisition have been recognised as an expense and included in exceptional administrative expenses in the Group Income Statement.

7. Acquisition of subsidiaries (cont'd)

(b) Ceramiche Serra

On 1 December 2017 the Group acquired 100% of the equity of Ceramiche Serra S.p.A.

Serra, operating from sites in Serramazzoni, Sassuolo (near Bologna), the heart of the Italian ceramics industry, manufactures ceramic flooring, which is sold domestically and exported internationally. It sells to a combination of wholesalers, retail groups, and independent stores throughout Continental Europe, North America, and the Far East.

The Group results for the year ended 31 March 2018 include contribution from Serra of €6.5m (£5.7m[1]) of revenue and €2.5m (£2.2m[1]) of profit before tax (before amortisation of acquired intangibles and acquisition costs). If the acquisition had been completed on the first day of the financial year Group revenue and profit before tax would have been higher by €12.8m (£11.3m[1]) and €5.6m (£4.9m[1]) respectively.

[1] Applying the average exchange rate over the financial year of 1.1373.

Consideration

The consideration for the acquisition comprises:

(i) Initial cash consideration of €38.1 million (£33.6m[2]);

(ii) Contingent cash consideration of up to up to €20.0 million (£17.6m[2]) dependent on improved EBITDA and other criteria over the next four years.

[2] Applying the GBP to € exchange rate at the date of acquisition of 1.1341.

Other than where fair value adjustments have been made, the book value of assets acquired is considered to approximate their fair values. Gross trade receivables acquired are considered to equate to the fair value of contractually collectable cash flows.

Contingent consideration is measured at fair value, so depending on the future performance of Serra, the contingent element of consideration could vary from the present value assessed above. However, based on the overall quantum and sensitivity to changes in assumed future growth rates, the range in potential outcomes of contingent consideration is considered to be immaterial.

After fair value adjustments, goodwill of £14.9m is created on the consolidation of Serra, which relates to expected future profits of the business.

Transaction costs amounting to £1,657,000 relating to the acquisition have been recognised as an expense and included in the administrative expenses in the Group Income Statement.

7. Acquisition of subsidiaries (cont'd)

(c) Millennium Weavers Europe

On 1 June 2017 the Group acquired the business and assets of Millennium Weavers Europe, a carpet distribution business based in Belgium. The acquisition further enhances the Group's coverage of the UK volume market.

Cash consideration of €3,494,000 (£3,069,000[1]) was paid, with transaction costs of £170,000 recognised within administrative expenses. The fair value of the acquired assets and liabilities was equal to the price paid. No goodwill is recognised on acquisition and no separately identified intangible assets were acquired.

[1] Applying the GBP to € exchange rate at the date of acquisition of 1.1386.

8. Basis of preparation

The results have been extracted from the audited financial statements of the Group for the 52 weeks ended 31 March 2018. The results do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. Whilst the financial information included in this announcement has been computed in accordance with the principles of International Financial Reporting Standards ("IFRS") as adopted by the EU, IFRIC interpretations and Companies Act 2006 that applies to companies reporting under IFRS, this announcement does not itself contain sufficient information to comply with IFRS. The Group will publish full financial statements that comply with IFRS. The audited financial statements incorporate an unqualified audit report. The Auditor's report on these accounts did not draw attention to any matters by way of emphasis and did not contain statements under S498(2) or (3) Companies Act 2006.

Statutory accounts for the 52 weeks ended 1 April 2017, which incorporated an unqualified auditor's report, have been filed with the Registrar of Companies. The Auditor's report on these accounts did not draw attention to any matters by way of emphasis and did not contain statements under S498(2) or (3) Companies Act 2006. The accounting policies applied are consistent with those described in the Annual Report & Accounts for the 52 weeks ended 1 April 2017.

The Annual Report & Accounts will be posted to shareholders in due course. Further copies will be available from the Company's Registered Office: Worcester Road, Kidderminster, Worcestershire, DY10 1JR or via the website: www.victoriaplc.com.