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Victoria PLC

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

Trading Update

Victoria PLC (LSE: VCP) the international designers, manufacturers and distributors of innovative floorcoverings provides the following update.

In the Group's interim results released in November, Victoria advised it was taking advantage of difficult market conditions to actively pursue market share. The Board recognises this approach, which impacted earnings this year, has unsettled some shareholders but it believes it to be in the best long-term interests of the Group and its shareholders. Therefore, the Group has continued with this strategy and, across markets that the Board believes are down 6-8% in the UK and Australia and flat in Europe, the Group has continued to grow overall like-for-like revenues and gain meaningful market share by winning new retailers as customers from competitors and securing a greater share of expenditure from existing customers of Victoria.

This growth has, as expected, come at a short-term cost with the introduction of lower margin, volume products. The Group has also temporarily absorbed, rather than passed on, substantial increases in underlay raw material prices in recent months and some large one-off costs associated with the consolidation of the Group's UK logistics operations to improve service levels to customers – an important competitive advantage. Nonetheless, the Group expects that the current-year to March 2019 EBITDA is likely to be £95m-£97 million (2018: £64.7m), with the Group's 2019 underlying pre-tax profits being around 35-39% higher than 2018 (2018: £40.8m). These numbers, of course, include only 8 months contribution from Ceramica Saloni.

With the strategy continuing to deliver increasing revenues and meaningful market share gains, the key now is to ensure margins continue to increase. In the November announcement the Group referenced plans to recover some margin gains temporarily foregone in the drive for top-line growth. Almost all these actions Victoria planned to take to increase margins have now been successfully completed and therefore we provide the following update to shareholders on what has been done, as we expect these actions to materially enhance earnings in the coming 2020 financial year.

Due to the understandable scrutiny we would expect from investors we have decided to provide a considerable degree of granularity about the actions taken in this trading update:

UK & Europe – Hard flooring

1. Integration of Keraben and Saloni production facilities in Spain. With the completion of the production integration project, the combined factory is now able to produce the same output of tile (approximately 23 million sqm per annum) with two fewer kilns and a reduction in headcount of 25 FTEs
2. Integration of administrative functions and elimination of duplicated roles, maintaining only one head office

3. Utilisation of surplus capacity at Keraben's clay atomisation plant to supply Saloni. This was a key attraction of the Saloni acquisition as Saloni was previously buying atomised clay from third-party suppliers at considerably higher cost.
4. Combined raw materials procurement
5. A full year of production in the 2020 financial year from the new, highly successful, porcelain line at Serra in Italy

Together, these actions are expected to add €5m-€5.5 million of annual pre-tax earnings to Victoria's hard flooring business for the coming financial year. Of course, the Group will also have the benefit of a full year of contribution from Saloni (shareholders will recall this acquisition completed last August), which will add a further €6 million of earnings.

UK & Europe – Soft flooring

1. Installation of the new carpet backing line at Victoria's South Wales factory is now finished and it has been in full production since the end of January. The Board believe that it is the fastest, most modern backing line in Europe and produces finished carpet at more than twice the rate of the Group's existing backing lines, significantly lowering the production cost
2. Consolidation of the Group's carpet manufacturing facilities at the factory in South Wales has enabled considerable production efficiencies to be achieved – enabling higher volumes to be produced with a headcount reduction of more than 100 FTEs, the majority in December.
3. Combined raw materials procurement
4. Logistics efficiencies. The integration of the Group's UK logistics operations was not handled as well as it might have been, resulting in some large (and unnecessary) costs. However, since this initial phase, the operational costs have fallen dramatically and will continue to do so, delivering both cost savings and improved service levels.

These savings, together with some other planned initiatives, are expected to add an additional £10 million of annual pre-tax earnings over the coming 2020 financial year.

Australia

The consolidation of Victoria's Sydney and Melbourne underlay factories on to a single site in Sydney has begun and will be completed mid-way through the calendar year. Once completed the savings will provide an additional AUS$1.5m of earnings to the Group.

In addition to the above items, the Group is continuing to introduce new product ranges and deliver other initiatives, which are expected to further grow revenues and profits.

Cash generation

As stated in the interim results announcement, the Company is firmly focused on cash generation following the acquisition of Saloni in August and will reduce debt levels over the next 12 months (although, with the approach of Brexit, management are being prudent and carrying a higher quantity of raw materials than normal for the next quarter or so).

With the focus on integration and productivity over the last 12 months, the 2019 financial year entailed heavy capex and reorganisation spend, as noted in the interims. New tile production lines were installed in Serra and Keraben, a new carpet backing line was commissioned at Abingdon, and new warehouses opened in the UK to better service customers. This capex spend is now completed and will result in much higher free cash flow in the next 12 months. Together with the planned reduction in stock levels at Saloni from 105 days to 70 days (Victoria has always been very successful at improving the working capital position of the companies it acquires by improving stock turns), this higher free cash flow will materially reduce current levels of debt.

Financing

The Board is currently assessing a number of attractive options with its banks to provide longer duration financing and to support execution of the Group's strategy. Although Victoria still has 18 months to run on our existing facilities, the Board expects to update shareholders on the Group's plans with respect to its debt financing in the near term.

Summary

The actions that have been taken by the Group's operational management are expected, as stated in November, to significantly increase EBITDA margins and, together with the upwards momentum of Victoria's revenues that the strategy has achieved, the Board looks forward to a successful 2020 financial year.

For more information contact:

Victoria PLC +44 (0) 15 6274 9610

Geoff Wilding, Executive Chairman

Philippe Hamers, Group Chief Executive

Michael Scott, Group Finance Director

Cantor Fitzgerald Europe (Nomad and broker) +44 (0) 20 7894 7000

Rick Thompson, Phil Davies, Will Goode (Corporate Finance)

Caspar Shand-Kydd (Sales), Andrew Keith (Equity Sales)

Berenberg (Joint broker) +44 (0) 20 3207 7800

Ben Wright, Mark Whitmore, Laura Fine (Corporate Broking)

Buchanan Communications +44 (0) 207 466 5000

Charles Ryland, Vicky Hayns, Maddie Seacombe, Tilly Abraham