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The information communicated within this announcement is deemed to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014. Upon the publication of this announcement, this inside information is now considered to be in the public domain.

Victoria PLC

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

Preliminary Results

for the year ended 30 March 2019

Victoria PLC (LSE: VCP) the international designers, manufacturers and distributors of innovative floorcoverings, is pleased to announce its preliminary results for the year ended 30 March 2019.

Financial and Operational highlights

Continuing operations	**Year ended 30 March 2019**	Year ended 31 March 2018	Growth
Revenue	**£574.4m**	£424.8m	+35%
Underlying EBITDA[1]	**£96.3m**	£64.7m	+49%
Underlying operating profit[1]	**£70.3m**	£48.8m	+44%
Operating profit	**£24.0m**	£26.4m	- 9%
Underlying profit before tax[1]	**£57.2m**	£40.8m	+40%
Profit / (loss) before tax	**£(3.7)m**	£13.4m	-
Underlying free cash flow[2]	**£50.4m**	£35.0m	+44%
Net debt	**£339.9m**	£258.7m	+31%
Net debt / EBITDA[3]	**3.2x**	2.7x	
Earnings per share[4]:			
- Diluted adjusted[1]	**35.25p**	30.61p	+15%
- Diluted	**(6.44)p**	8.37p	-

- 2019 was the sixth consecutive record year for Victoria as the Group's competitive strength continued to grow and strategic objectives were achieved.
- Like-for-like revenue growth of 2.0% across the Group, despite challenging market conditions.
- Achieved a record underlying EBITDA margin of 16.8%, c.160 basis point increase year-on-year.
- Strong cash generation continues with £50.4 million of underlying free cash flow during 2019, a 44% increase over the previous year, which equates to a 72% conversion from underlying operating profit.

- Significant reorganisation of UK and European manufacturing footprint and logistics structure completed on schedule and on budget (£12.7 million in exceptional reorganisation costs), with a materially positive impact on margin expected in FY2020.
- £20.9 million investment in growth capex to deliver best in class facilities, enabling revenue and margin growth in future years.
- Acquisition of Ceramica Saloni completed during the year, expanding the Group's presence in the high-margin ceramic flooring sector in Europe and internationally. Now fully integrated with Keraben, Victoria's enlarged ceramics division is performing strongly, in line with expectations.
- Year-end leverage of 3.2x, consistent with the Group's financial policy, with the increase in the year resulting from the acquisition of Saloni and investments in synergy projects.
- Committed long-term debt financing arrangement in place, provided by Credit Suisse, NatWest, ING, HSBC, Bank of Ireland and BBVA, with flexibility to replace a proportion in the bond market.

[1] Underlying performance is stated before the impact of 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 (comprising mark-to-market adjustments, BGF redemption premium charge, deferred consideration fair value adjustments, exchange rate differences on foreign currency loans, and the release of pre-paid costs on extinguished financing)

[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] As measured in line with our bank facility covenants

[4] Earnings per share on a fully-diluted basis

Geoff Wilding, Executive Chairman of Victoria PLC commented:

"Victoria achieved another record year in 2019 making it the sixth consecutive year of growth in underlying earnings; and free cash flow per share, and operating margins, despite continuingly challenging market conditions.

There remains an enormous market opportunity for Victoria to expand both in the UK and internationally, by organically improving margins and earnings still further within our existing business, as well as by acquisition, where we believe opportunities we have identified will make a meaningful contribution to the Group. We remain focused on increasing both earnings and free cash flow per share.

2019 was a year when we invested £21 million in growth capex in addition to synergy projects across the Group to accelerate growth, increase margins and cash flow in the years ahead. At times, reorganising a factory while still focussed on achieving organic growth felt like conducting open heart surgery whilst the patient was running a marathon but we are very pleased with the end result. At the time of writing, we are just three months into our new financial year but the numbers being reported by the operating businesses to date, point to the expected positive outcomes being achieved and I look forward to updating shareholders in due course."

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Victoria PLC

Chairman and CEO Review

Victoria's mission statement since October 2012 has been "To create wealth for shareholders". Since that date to 30 March 2019, Victoria's total shareholder return has been 62.0% per annum, a cumulative 2,183.2%. In FY2019 diluted adjusted earnings per share increased by 15.2% but, judged solely by our share price, we have failed to deliver against our mission statement over the last 12 months.

While we do not pretend for one moment that the fall in valuation over FY2019 is welcome, far more progress has been made in continuing to deliver on the mission statement than the recent share price performance would suggest. We will set out this progress in the balance of this Review.

However, before we do, we will address the key factors which, outside of general UK equity market conditions, have impacted our share price and the rate of earnings growth in FY2019.

- On 29 October last year, Victoria announced it intended to issue bonds to refinance its bank debt and provide a source of funding for future acquisitions. It was (and remains) the Board's view that the bond market provides the optimal mix of cost, depth, and flexibility to meet Victoria's long-term debt financing requirements.

  Unexpectedly, November 2018 turned out to be one of the worst months in recent history to attempt a bond issue with investors suddenly demanding much higher interest rates. Consequently, the board of Victoria withdrew the issue. Due to poor communication, for which your chairman takes responsibility, the equity market took fright, and this materially impacted our share price. The reaction seemed excessive as, despite the wasted money (a not insignificant £7.3 million), our credit rating remained unchanged and all our banks continued to be very supportive. We have subsequently put in place very attractive committed long-term debt financing arrangements, underwritten by Credit Suisse and a number of other banks which, importantly, incorporates flexibility to replace a proportion in the bond market at an appropriate time.

- Like many other businesses, flooring manufacturing and distribution is somewhat cyclical in nature, albeit with a less pronounced peak and trough than one might expect given the market is a fundamental one (everyone has a floorcovering, with a steady refurbishment pattern) and is mature. Nonetheless, as long-term shareholders, we are strongly of the view that it is preferable to have somewhat variable, but on average higher, earnings growth than lower, but regular earnings improvement.

  In the UK, general trading conditions over the 2019 financial year proved to be more challenging than in other recent periods. Accordingly, given Victoria's very strong competitive position in the UK, the board decided to secure market share gains by actively taking advantage of the difficult conditions, when weaker competitors would find it more difficult to counter our initiatives. In mature, competitive markets, like flooring, there is no "pixie dust" that will triple or quadruple organic growth rates. However, a few percentage points increase in market share, taken together with tightly managed costs can dramatically beneficially impact earnings – especially as trading

conditions rebound. We therefore decided to temporarily absorb some raw material price increases, launched a "value" range of products, and spent heavily on improving our customer service levels. These actions impacted the short-term rate of growth of our earnings but accelerated the organic growth of our revenues (LFL +7.3% in a market experiencing a mid-single digit decline) and we are confident we have increased our competitive superiority in the UK over the last 12 months. This will permanently benefit the Group.

- Australia simply has not performed well over the last 12 months. There are two reasons for this; neither, reassuringly, are permanent: Firstly, the Reserve Bank of Australia ("RBA") effectively tightened mortgage lending criteria, which reduced both the number of housing transactions, and the number of people able to utilise equity release loans to renovate their homes. A further by-product was a small decline in the value of housing in Australia, that, together with some of the political uncertainty (resolved with the Federal election in May), impacted consumer confidence.

  We expect all our businesses to have ups and downs from time-to-time and are not in the least disturbed by the downs. We value the geographic diversification that our Australian businesses provide and the region has performed exceptionally well for the last 20 years. Most importantly, we have the highest confidence in the Australian management team (which has not, after decades of success, suddenly forgotten how to manufacture and sell flooring!) and know they will be the first to capitalise on the inevitable upturn. This may not be far away as over the last two months the RBA cut interest rates by 0.5% and the Australian Prudential Regulation Authority lifted its mandatory 7% interest rate buffer (under which borrowers had to prove they could meet repayments at an interest rate much higher than actual interest rates in order to be approved for a mortgage), which will stimulate mortgage lending. Furthermore, the new government has stated its intention to legislate meaningful tax cuts for low- and middle-income earners as soon as possible.

The outcome of the trading factors outlined above was that our 2019 diluted adjusted EPS growth of 15.2%, although strong, was slower than some investors had expected. The result of this slower growth in FY2019 has been a more than commensurate drop in our share price. Having said that, it is only fair to note that there have also been times over the last six years when the share price growth has outpaced the growth in the underlying value of the business. However, over time, these two figures should more-or-less track each other and therefore we remain confident Victoria will continue to create wealth for its shareholders.

	Diluted adjusted EPS	**Underlying EBITDA per share**	**Underlying free cash flow per share**[1]	**EBITDA by geography**		
year	**pence**	**£**	**£**	**UK %**	**Aus %**	**Eur %**
FY15	10.47	0.27	0.17	79.5%	20.5%	-
FY16	16.32	0.39	0.19	79.3%	20.7%	-
FY17	24.42	0.50	0.25	75.1%	23.6%	1.3%

[1] Underlying free cash flow equal to underlying EBITDA less non-cash items, movement in working capital, interest, tax and net replacement capex.

[2] Number of shares based on diluted, weighted-average calculation consistent with diluted EPS. FY15 adjusted for 5-for-1 share split; FY16 figures for continuing operations.

FY18	30.61	0.64	0.34	48.3%	22.0%	29.7%
FY19	35.25	0.78	0.41	25.8%	9.7%	64.5%

OPERATIONAL REVIEW

Flooring manufacturing and distribution is a tough industry but our management team has continued to excel themselves in FY2019. We subscribe to little else he might have believed but concur unreservedly with Mao Zedong's comment on leadership, "Weapons are an important factor in war but not the decisive one; it is men and not materials that counts." We have said before, and we will say again, Victoria is fortunate in having the most talented management team in the sector.

Structurally, the Group operates as a 'team of teams'. That is to say, the managing directors of our subsidiaries work together to execute on a common strategy, but, other than capital allocation, we have delegated full operational authority and responsibility to these managers to run their business unit and achieve their strategic objectives. Apart from the low corporate overhead (five FTE) this arrangement enables a sense of autonomy and ensures our managers retain real passion for their businesses – even though many are already independently wealthy, having created fortunes in the business we have acquired from them.

There were three stand out performers in the Group this past year: Yorkshire-based Ezi Floor, run by Saqib Karim, Ceramiche Serra in Italy, run by Andrea Bordignon, and Grass Inc, led by Dave Droomers in the Netherlands. These managing directors could not be more different in style and temperament but they have delivered in spades for shareholders.

Your Chairman was first introduced to Saqib in 2015 by the former owner of a business Victoria had acquired earlier (this sort of referral is worth a dozen cold approaches). Saqib had established Ezi Floor a few years previously and had built an incredible carpet underlay manufacturer business from the ground up with a relentless focus on minimising costs. Negotiating with Saqib, your chairman quickly learned one of the reasons he runs such a successful business: he is a formidable negotiator. Nonetheless we were able to agree a deal in October 2016.

In FY2019 Ezi Floor had to cope with softer demand in the UK for underlay, and raw material price increases of more than 100%. The key ingredient in underlay is PU foam offcuts from other manufacturing processes such as furniture and car seats (PU is the squishy foam inside seat cushions and similar products) and the price can vary due to supply fluctuations (if, for example, sofa manufacturers are going through a quiet period, there is much less PU offcuts available) and/or demand (it is a global market and, even if demand is low from the UK, demand from other geographies can push up prices). Showing the sort of lateral thinking entrepreneurs are famed for, Saqib discovered new sources of raw materials and innovative production processes which enabled his business to deliver record levels of revenues and profits, despite these dramatic increase in raw material prices and softer demand. I'm delighted to have Saqib on our side.

Similarly, Serra did something extraordinary last year and much of the credit must go to Andrea Bordignon, who runs this company for us.

Andrea inherited sole responsibility for Serra in sad circumstances. Pietro Fogliani, the former owner of Serra, was declared missing, presumed drowned, by the Italian authorities after a boating accident last summer. Pietro was a lovely human being and a production genius. We will miss him for the former quality and, along with all Victoria shareholders, be forever grateful for his latter gift. With a combination of patented technology and innovative thinking Pietro designed and built a factory that could produce a greater quantity of good quality ceramics tiles than the theoretical maximum output – and at a cost below any of his "competitors" (we use the word loosely; genuine competitors simply do not exist). Serra's lowest possible cost base is perfectly illustrated by employee numbers. Serra employs 67 people. We have looked at numerous other similar-sized businesses in the region in the (so far) forlorn hope of finding another one. Not one has employed less than 150 people and some employ many more than that. So, this productivity that is part of Serra's DNA, together with some patented production processes, provides it with a sustainable competitive advantage: no-one in Italy can produce a ceramic tile like Serra's at a lower cost.

Effectively FY2019 was a year of two halves for Serra. Immediately following our purchase Victoria commenced installing a new production line to expand capacity. During the installation process, which took until June 2018, Serra's production output was reduced by about one third as we needed to remove one line (of three) before installing the faster one. As you can imagine, the reduced production output together with the general disruption from construction impacted short-term profitability substantially, as we were still carrying the full costs (all employees were retained through the process) of the business with one third less output.

However, once the new line was installed and the usual teething issues ironed out, Andrea and his team lost no time in filling it with orders from new and existing customers with the result that, even with the factory disruption and full capacity available for only part of the year, Serra generated more profits in FY2019 than in any previous year of its history. It was a truly extraordinary achievement.

Building on a solid year in FY2018, Grass Inc shot the lights out in FY2019. An 'asset-lite' operation, Grass Inc designs its own unique artificial turf products, imports the necessary raw materials, and contracts the manufacturing to specialist factories in Europe. In the fast-moving artificial turf sector this approach has important advantages in terms of flexibility, speed to market, operational leverage, and technology upgrades.

It is important to understand that Victoria's artificial turf businesses are all focussed on the domestic and commercial landscaping sector, not playing fields (football pitches, tennis courts, etc). With increasing water restrictions in some regions and increased apartment and townhouse dwelling throughout Europe, this is a rapidly growing market that comes without the very significant contingent risks associated with supplying playing fields.

Dave Droomers' energy and enthusiasm has to be experienced to be believed. He achieves more in a morning than most people do in a week (or politicians in a lifetime). Watching Dave in action at a trade show could be a spectator sport and I'm proud to have him as part of our team.

Solid gains have also been made elsewhere within the Group.

Led by Steve Byrne, who joined the Group when we acquired his successful Whitestone Weavers group in 2014, our UK carpet operations underwent significant transformation in 2019 to improve production efficiency and gain capacity. Although there are regional differences, demand for carpet in the UK overall remains constant at around two-thirds of residential flooring sold and Steve's objective was to build a production capability (capacity and efficiency) that would ensure we were able to materially grow both our existing c.15% market share and our margins, in what remains a highly fragmented market.

As noted elsewhere in this Review, we planned for and accepted slower margin growth in 2019 in order to gain market share in the certain knowledge that the changes Steve was making would quickly make up the temporarily foregone margin opportunity. His transformation had three aspects:

1. Consolidation. Steve completed the incorporation of our Victoria Carpets production into the much larger Abingdon Flooring factory in Newport, Wales. This was, of course, operationally disruptive and the 200 FTE reduction enabled by the move was expensive in terms of redundancies, with the total exceptional cost amounting to £4.0 million. (This is covered in more detail in the section on restructuring costs). However, reducing the factory headcount has focussed the workforce and led to markedly increased efficiency with productivity materially higher than ever before.

2. Investment. Significant upgrades have resulted in a state-of-the-art carpet manufacturer, which is, by far, the best invested carpet factory in the UK. Carpet manufacturing consists of two key stages; tufting, when fibres are stitched into a backing cloth, and finishing, when a secondary layer is fixed to the back of the carpet to 'lock' the fibres into place amongst other processes. In 2019 we increased the number of tufting machines from 10 to 21, with the new machines also benefitting from being faster, and so giving us almost three times the capacity, along with higher quality output and different production gauges so that we will always be able to manufacture the latest on-trend demands. In addition, having invested £5.3 million in a new backing line with the latest high-speed technology, we have more than doubled our finishing capacity as well as improved the quality and finish of our carpets.

3. Operational Integration. Full production integration across our brands has delivered improved economies of scale. Working capital and manufacturing complexity is reducing with better SKU control across the brands (SKU's are falling from 3,000 prior to the reorganisation to less than 2,000), and a 50% reduction in the number of yarn systems being used from 28 last year to 14 this year.

The outcome of this transformation is that the organic revenue growth we are achieving this year is being matched with margin increases. The reorganisation of the factory is now in its final stages but Steve has promised there is still much more upside to come, without, you will be pleased to learn, further significant exceptional costs.

As part of our strategy to achieve market share gains in the UK last year, we invested (capex and additional overhead) heavily into our warehousing and logistics operation to improve our customer service levels. Quite simply, there is a direct correlation between customer service (essentially product availability and speed of delivery) and sales. Retailers know that if they order a product from us, it will be delivered on the date promised - not something that is universal in the industry - which is important to someone who will have arranged for installers to be at a home on a given day and homeowners who will have vacated their house for the

day, possibly moving all their furniture out. We now have three modern distribution centres located at strategic locations around the country and a fleet of 124 trucks, capable of delivering nearly 1,000 tonnes of flooring per day. The fleet has about 15% spare capacity, but with further route optimisation, this will grow to over 20%, allowing for continued growth without extra capex or costs.

We are pleased to say that even with all the improvements completed to date, the management team sees further upside in reducing inventory levels, gains in quality control, production efficiencies, and enhanced logistics.

ACQUISITIONS

Victoria completed one acquisition in FY2019, Ceramica Saloni, in Spain. As was explained at the time of the acquisition, we believed there were significant operational synergies with our existing Keraben subsidiary, which was based in the same region. We are pleased to confirm that operational integration of Saloni was substantially completed by March (at a cost of just under £3 million) and the synergies are being realised as anticipated.

1. Total integration of the Keraben and Saloni production facilities in Spain. The factories are now being run as one production unit, manufacturing product for both businesses. The resulting efficiencies from longer production runs (lines no longer shut down as frequently for product size changeovers) has meant the combined factory is now able to produce the same output of tile (approximately 23 million sqm per annum) with three fewer kilns (out of 11) and a reduction in headcount of 25 FTEs. Energy, labour, and maintenance savings are in excess of £3 million per annum.

2. Integration of administrative functions and elimination of duplicated roles, maintaining only one head office has reduced costs by approximately £2 million per annum.

3. Utilisation of surplus capacity at Keraben's clay atomisation plant to supply Saloni. Clay atomisation, which turns mined clay into a fine powder at a specific humidity, is an essential first step in the production of a ceramic tile. This synergy was a key attraction of the Saloni acquisition as, like many manufacturers, Saloni was previously buying atomised clay from third-party suppliers at considerably higher cost.

4. Integrating raw materials procurement has, as previously achieved at our UK carpet businesses, lower prices for raw materials and energy.

Jose-Luis Lanuza, the managing director of Keraben who oversees our ceramics division is an outstanding operator – one of the few people we have met who has a very clear strategic understanding of the sector, and yet is equally comfortable down "amongst the weeds" of the daily operations of a business. Jose Luis and the team he has built around him provide the Board with confidence that Victoria possesses the essential management competence that will enable us to continue to expand our ceramic flooring presence.

We have continued to research acquisition opportunities with an emphasis on businesses that generate free cash and with synergy opportunities. As and when we find a business that meet the key criteria set out below, we will endeavour to acquire it, subject to a sensible capital structure. 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.

   It is common for acquisition valuations to be expressed as a multiple of EBITDA and, rightly or wrongly, we have usually announced our acquisitions using that metric. However, it is not the methodology we use internally to assess value. Internally we focus on the free cash flow return, with EBITDA as a waypoint, not the finishing line. We adjust for depreciation (not necessarily the accounting depreciation, but rather the actual assessed cost of maintaining the required level of fixed assets on an accrued basis), working capital – and taxes, which vary significantly between jurisdictions. Identical EBITDA numbers from two different businesses can produce vastly different amounts of cash.

While on the subject of acquisitions, we would like to comment briefly on four related subjects: Goodwill, Return on Capital Employed, Restructuring Costs, and Net Debt.

Goodwill

Due to their high return on tangible assets, we have paid significantly more than the net tangible assets for almost all our acquisitions and, as required by IFRS, the difference is shown on our balance sheet as various categories of acquired intangibles and goodwill. This amount has become a substantial figure, £465 million.

Some investors like companies with a high percentage of tangible assets on the balance sheet on the basis that they somehow underpin the value of the equity. Victoria's board does not share this view for two reasons: firstly, we think this assumption provides a false sense of security as tangible assets rarely, if ever, achieve their stated book value in a distressed sale, and secondly (and far more importantly), companies who need a high level of tangible assets to generate their earnings will, when achieving organic growth, almost certainly consume vast amounts of cash 'investing' in the additional assets needed to support that growth. The result is a poor return on capital. Needless to say, this prospect holds little appeal for Victoria, who would rather deploy the cash more productively.

There is one very important qualification to this statement: a high level of goodwill is not automatically a good thing. Overpaying for a business (the overpayment will appear as excessive goodwill) destroys the economic argument set out above. That is why we have walked away from numerous opportunities over the last six years – even where the actual business was an extraordinary one, but the price was excessive.

Return On Capital Employed (ROCE)
Over time, it is Victoria's ability to generate an above average return on capital employed that will create wealth for its shareholders.

However, there are two ways to look at Victoria's return on capital employed: at the group level, and at the subsidiary level. The two numbers are quite different but, over time, it is the underlying return achieved at subsidiary level that will be more important.

At group level, the capital employed is, of course, based on the purchase price we paid for a business. Because we have only acquired successful businesses, the price has invariably been a substantial premium to the capital base of the actual business being acquired. However, of course the price we paid had no impact on the amount of capital the subsidiary's manager is deploying, which remains unchanged.

For example, in September 2015 Victoria acquired market-leading underlay manufacturer, Interfloor. In the year prior to its acquisition, the company was using capital of £1.6 million in net working capital and £9.3 million of tangible assets, a total of £10.9 million. Adjusted pre-tax profits were £8.7 million, an extraordinary 79.8% pre-tax return on capital employed. The capital employed by the business did not, of course, suddenly change immediately after its acquisition and yet, measured at the Group level, where we paid £65 million for the business, the return on capital employed became 13.4%.

(Incidentally, since the acquisition Interfloor has returned over £35 million of operating profit to Victoria).

Subject to the proviso noted above about not overpaying for a business, it is the underlying ROCE that is more important because, over time, it is that ratio that determines how much cash the managers will require to grow their business and, therefore, how much of the cash they generate they can return to the Group for deployment elsewhere. Businesses able to achieve a high return are able to return more capital while still growing and this is a key factor in our investment analysis when we are considering a potential acquisition opportunity.

Victoria's *unlevered*, underlying pre-tax return on tangible assets exceeds 49% per annum, and by doing so the cash required to maintain the assets is low as a percentage of our earnings, which will, over time, result in ever higher returns on capital employed at Group level.

Restructuring Costs
Frequently the most significant synergy gains require a significant amount of reorganisation of the acquired business. As you would expect, these actions can be expensive in terms of closure costs, redundancy payments, and other costs. When we are assessing a potential acquisition, we attempt to establish the likely total cost of these items and, internally, incorporate them into our valuation alongside the likely improvement in earnings and working capital that the synergies will deliver. This is not, of course, the accounting treatment and we have recorded some large 'Exceptional Costs' in 2019 totalling £20.4 million, which we will explain in detail below.so that investors can have a better understanding of the financial

workings of the company. The better shareholders are informed, the greater confidence they can have in the judgements they form about the business.

The Exceptional Costs fall into four main categories;

(i) A total of £12.7 million was spent across the Group on one-off reorganisation costs (e.g. redundancy payments, closure costs, relocation expenses, as detailed in the table below) in FY2019. This is a very substantial amount of money and will not be repeated in FY2020. Indeed, we expect the final stages of our reorganisation will cost no more than £2 million in FY2020. Despite the cost, we expect the payback on the FY2019 reorganisation expense to be less than two years.

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

(ii) Acquisition-related expenses such as due diligence, fees to advisors, legal costs, etc. were £1.8 million in FY2019. Obviously, these would immediately drop to nil if we stopped our acquisition activity. However, the value added to the Group by continuing to grow is substantial and, to our minds, the one-off cost incurred in making an acquisition is more than offset by the additional earnings that accrue to the Group in perpetuity as a result. Shareholders can expect to see a similar level of acquisition-related exceptional costs in the years ahead but, by the same token, shareholders can equally expect Earnings Per Share and Cash Flow Per Share growth to exceed organic growth rates. In other words, if the fees are taken into account, so must the additional earnings from the acquisition be taken into account.

(iii) Bond and related structuring costs totalled £7.3 million. There is no way to view the majority of these costs other than, with the benefit of hindsight, a waste of money.

(iv) Due to a High Court ruling in October 2018, all companies with Defined Benefit pension schemes were required to equalise Guaranteed Minimum Pensions for men and women. One of our subsidiaries, Interfloor, has a small pension scheme and this ruling required a one-off, catch-up charge for past service costs of £0.4 million. It will not be repeated.

Offsetting a small portion of these one-off costs was a £1.8 million gain on the sale of Victoria's disused (for about 20 years) sports field.

(Further information is set out in the Financial Review section).

Net Debt
Victoria finished the year with £339.9 million of net debt. This was as forecast although a little higher than it could have been due to our Brexit planning and the aborted bond process. As stated at the time of our interim results, we decided to temporarily carry a greater quantity of raw materials (around £14 million) to protect our UK production in the event of Brexit disruption. Of course, in the event, Brexit did not happen on 29 March as scheduled but, by the time the delay was announced, we had already stockpiled the raw materials. This position is now being unwound (with the expected positive impact on cash), but, depending on events, may need to be built up again later this year.

There is no such absolute measure as "too much leverage" and we have been surprised by how simplistic (or 'lazy', if one was being less kind) some commentators' thinking is in respect of leverage: A generic multiple of X times EBITDA is "too high" for a business, Y times, is "ok". That's a bit like saying everyone who weighs 90kg is fat. That might be true of a 1.6m tall pastry chef, it probably isn't true of a 1.9m rugby player.

An assessment of leverage must, therefore, at the least, always be qualified by the financial characteristics of the business being assessed (e.g. earnings consistency, cash conversion, and free cash flow), the terms of the debt (e.g. covenant headroom and duration) and the economic outlook. There are companies with net debt/EBITDA ratio of 1x, and they are too highly leveraged. Conversely, there are other companies with net debt/EBITDA of 6x and are appropriately leveraged.

Shareholders have probably noticed that over the last five years our debt/EBITDA ratio has moved up and down between 1.50x and 3.25x. This is intentional and planned. At the point of completing an acquisition we are, subject to careful analysis, usually comfortable taking our debt up to around 3x EBITDA (our internal policy). As noted elsewhere in this Review, the flooring industry is remarkably steady, stable, cash generation

We then focus on reducing the debt ratio as rapidly as possible before proceeding with the next acquisition; we are not comfortable with just sitting at 3x. Historically we have been able to reduce the ratio rapidly due to our ability to move both the denominator (synergies have quickly lifted the earnings of the acquired business) and numerator (in addition to operational free cash flow, we have invariably been very successful in reducing working capital - primarily by improving stock turn). This policy helps us manage debt risk effectively.

In summary, we view debt as a useful and important part of our capital structure that, carefully used, is of enormous value in executing our strategy. One has to go back more than two hundred years to find interest rates as low as they are today. And Victoria can borrow at these historically low interest rates and use the money to buy some of the finest companies in the flooring industry who will deliver exceptional – and growing – profits into the future as far as we can see. Therefore, while we will always operate within prudent boundaries, we will continue to make use of appropriate levels of debt to execute our wealth creation strategy.

BOARD OF DIRECTORS

Since the year end, long-standing Victoria director Alexander Anton retired due to increasing commitments with his other business interests and Zach Sternberg joined the board. Mr Sternberg is the co-founder of The Spruce House Partnership, a highly successful private investment partnership based in New York with $3 billion of assets under management. We are delighted to have the benefit of his extensive knowledge of capital markets as well as his perspective as a material shareholder

Your chairman is not a big fan of large boards for a company with the size and simplicity of Victoria. However, we will, when the right candidate turns up, look to add one more independent (in the sense they must think and speak independently) director to the board. The key attributes we are looking for are practical business experience and knowledge, and a strong sense of their responsibility to help create wealth for shareholders.

DIVIDEND POLICY

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 £105.7 million, representing 110% of underlying EBITDA (even after temporarily increasing raw material levels by £14 million as part of our Brexit planning), and underlying free cash flow (i.e. after interest, tax, replacement capex, and asset disposals) was £50.4 million, representing 52% of underlying EBITDA and 72% of underlying EBIT. Over the last six years we have consistently converted 70-80% of operating profits into free cash flow (after paying tax).

Nevertheless, the Board has consistently stated Victoria has no intention of paying a dividend for the foreseeable future as we remain of the view that the most wealth will be created for shareholders by deploying the free cash-flow generated by the Group businesses within the Group. There are two reasons for this:

Firstly, many investors have no requirement for an income and we see no reason to compel them to take a dividend with the resulting obligation to pay tax on the amount. Under current UK tax legislation dividends are effectively subject to double taxation - Victoria pays tax on the profits and then the shareholder pays further tax on receipt of the dividend. Leaving the capital in the company allows it to compound returns on both the value of the dividend and the value of the tax that would have had to be paid by the shareholder.

For example, assuming Victoria was able to consistently achieve a 12% return on capital employed (and we certainly expect to do considerably better than that), after 10 years £100 retained in the company would have grown to £310. If that £100 was instead paid out to a shareholder as a dividend and that shareholder (a) was also able to achieve a 12% return on the net proceeds, and (b) was a higher rate taxpayer, the same £100 will have grown to just £211. (In both cases tax would then need to be paid when the sum was distributed reducing the gains to £275 and £165, respectively). Effectively, by retaining the capital inside the company, the higher rate taxpayer is getting an interest-free 'loan' of 47% of his/her capital from the government on which it is possible to achieve an investment return indefinitely.

Secondly, paying out a dividend and then returning to shareholders a few months later to ask for capital to fund an attractive, high quality, earnings-accretive acquisition seems illogical to us. It is doubly illogical when the recipient will have been obliged to pay tax on the dividend received and therefore has to find capital from other sources just to place them back in the same position had the dividend not been paid in the first place.

Therefore, as in previous years, we have resolved not to pay a final dividend for FY2019.

SUMMARY FROM THE CHAIRMAN

I'm sometimes asked why I decided to get involved with Victoria. Fundamentally it was because I could see there was an opportunity to create significant value by selectively consolidating what was (and still is) a highly fragmented, readily understood industry, where scale would deliver significant synergies.

The flooring industry's consistent organic revenue growth over time, combined with ongoing margin gains from operational improvements and high cash conversion provide Victoria a very solid investment platform with which we will continue to acquire high-quality businesses with readily realisable synergies at very attractive prices. The events of the last 12 months have not changed that view. As a committed shareholder I'm not bothered by whether the industry is cyclical or not, just as long as it is going to generate a lot of cash over the business cycle.

2019 was a year where we invested heavily in growth capex (£20.9 million) and reorganisation (£12.7 million) to deliver accelerated growth, margins, and cash flow in the years ahead. At the time of writing, we are just three months into our new financial year but the numbers being reported by the operating businesses to date evidence the expected outcome is being achieved and I look forward to updating shareholders in due course.

Geoffrey Wilding
Executive Chairman

Philippe Hamers
Chief Executive Officer

10 July 2019

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 3,000 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 and further commented upon in the Chairman and CEO Review and the Financial Review.

	Year ended 30 March 2019 £'m	Year ended 31 March 2018 £'m
Revenue	**574.4**	424.8
Revenue growth at constant currency	**36.9%**	28.1%
Underlying EBITDA	**96.3**	64.7
Underlying EBITDA margin	**16.8%**	15.2%
Underlying operating profit	**70.3**	48.8
Underlying operating margin	**12.2%**	11.5%
EPS (diluted, adjusted)	**35.25p**	30.61p
Operating cash flow before interest, tax and exceptional items	**105.7**	64.3
% conversion against underlying EBITDA	**110%**	99%
Free cash flow before exceptional items	**50.4**	35.0
% conversion against underlying operating profit	**72%**	72%
Adjusted net debt / EBITDA[1]	**3.2x**	2.7x

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

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 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, cyber security breaches 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

10 July 2019

Victoria PLC
Financial Review

The year ended 30 March 2019 was another significant evolutionary year for Victoria, with the Group making another acquisition in ceramic tiles during Q2 and executing a number of organic commercial initiatives, synergy and cost reduction programmes against the backdrop of more challenging markets. These acquisitive and organic activities have continued to drive significant growth as well as margin development.

Revenue grew by 35% versus the prior year to £574.4m (2018: £424.8m), whilst gross profit grew by 41% to £204.3m (2018: £145.4m). On an unadjusted basis, operating profit was impacted by a number of non-underlying items, contributing to the increase in administrative expenses of £53.1m, including non-cash amortisation of acquired intangible assets (predominantly value recognised on acquisition for customer relationships) of £22.5m and one-off exceptional costs (predominantly redundancy and other reorganisation costs) of £20.4m, resulting in an unadjusted operating profit for the year of £24.0m (2018: £26.4m). In addition to increased interest costs of £5.1m resulting from acquisitions, profit before tax was also impacted by a number of non-cash, non-underlying finance items totalling £14.6m, including fair value adjustments to deferred and contingent consideration of £7.2m and translation differences of £3.6m, resulting in an adjusted loss before tax of £3.7m (2018: profit of £13.4m). Before exceptional and non-underlying items, the Group delivered an underlying operating profit for the year of £70.3m (2018: £48.8m) and an underlying profit before tax of £57.2m (2018: £40.8m). Further details of the exceptional and non-underlying items are provided below in this Financial Review.

ACQUISITION OF SALONI

The acquisition of Ceramica Saloni was completed on 7 August 2018. Saloni is a designer, manufacturer and distributor of branded, mid-high end, ceramic tiles for both walls and floors (www.saloni.com/en).

In the 7 ½ months since acquisition, Saloni has contributed revenue of £57.5m (€65.2m) and PBT of £5.1m (€5.8m).

As with previous acquisitions, and in particular the more recent ceramics acquisitions of Keraben in Spain and Serra in Italy, Saloni generates a significant return on net operating assets, in line with our acquisition criteria. As a result, consolidation of the investment of into the Group accounts gives rise to substantial goodwill of £40.1m and acquired intangible assets of £58.4m, in accordance with IFRS.

Since the acquisition a major project has been undertaken in Spain to deliver cost synergies between Saloni and Keraben (discussed further below).

MARKET ENVIRONMENT AND REVENUE PERFORMANCE

The Group experienced a more challenging trading environment in FY19 compared to the prior year. This was particularly true of the UK and Australia, which are predominantly soft-flooring markets. Based on our specific experience and market interactions, management believe that the markets in these geographies saw declines in the year of 5-10 %. The UK market has been impacted by softer consumer activity resulting from, we believe, Brexit uncertainty. The Australian market has been impacted by tighter mortgage lending caps put in place by the Australian Prudential Regulation

Authority in 2017. More recently, in 2019, these caps have been removed and the Reserve Bank interest rate has also been cut.

These conditions in our core soft-flooring markets were characterised by consumers 'trading down' to some extent, looking for slightly cheaper products on average. Our experience has been that high-end product sales have been robust, but within the mid-range consumers have sought prices of up to circa 10% lower than during times of greater confidence. In anticipation of this behaviour, in late FY18, the Group implemented an initiative to review the existing portfolio of soft flooring product ranges and ensure that this is correctly balanced to meet the revised mix in demand. This predominantly required a strong and focused sales effort on the 'correct' products within the existing portfolio, but also involved the re-engineering of certain products and the introduction of some new lower-priced products and brands.

Management believe that this strategy has proven to be highly successful, in particular when considering the trends in the broader soft flooring market.

As a result, in FY19 the Group delivered like-for-like growth in revenue of +7.3%[2] in UK & Europe Soft Flooring. The downturn in the Australia market has proven more of a challenge, hence revenue declines in that region have resulted in overall soft flooring like-for-like performance of +3.2%. Whilst Australia has been the most challenging market for the Group in FY19, management take a long-term view on performance and it is important to remember that Australia has delivered several years of consistent growth, and so is being compared to a very strong peak in the prior year.

Like-for-like revenue performance in UK & Europe Ceramic Tiles has remained resilient, with a small decline of -1.3%[2]. Despite the one-off impact at Serra of the significant factory disruption in the first quarter due to installation of a new porcelain production line, following completion of this in June 2018 these new products have seen substantial take-up by customers, resulting in strong overall sales performance.

Revenue	**2019**	**2018**	**LFL growth[2]** (constant currency)
	£m	**£m**	**%**
UK & Europe Soft Flooring	280.5	265.0	*+7.3%*
UK & Europe Ceramic Tiles	193.9	47.0	*-1.3%*
Australia	100.0	112.8	*-6.9%*
Total	**574.4**	**424.8**	***+2.0%***

UNDERLYING MARGIN PERFORMANCE

In terms of margin performance, soft flooring saw a decline of 2.1ppts in gross margin and 2.9ppts in underlying EBITDA margin, driven by:

[2] LFL growth assessed at constant currency, adjusted for the impact of the acquisition of Saloni and the insured business interruption caused by the South Wales factory roof collapse in March 2018 following heavy snow.

- Primarily, the market conditions and product mix strategy described above – whilst steps are of course taken to minimise the cost and maximise the margins achieved on products targeted at lower price points, inevitably a lower margin is achieved. This is solely a result of product mix, with no discounting on any given product (other than any ordinary course volume and payment-based incentives);

- Reorganisation projects to drive synergies – two key projects undertaken in the UK to drive future margin improvement (further described below) had a one-off adverse impact. Whilst certain project-related costs have been classed as exceptional items in line with IFRS, there are other factors such as operational disruption that have impacted the underlying result;

- Input prices – whilst no material raw material price pressure has been experienced in carpets, our underlay businesses have seen an adverse impact from inflation during the year in polyurethane trim, the key component of foam underlay. This was mitigated to some extent with our hedging strategy (balancing forward and spot prices), and we are now seeing the input prices declining again.

UK & Europe Ceramic Tiles has delivered consistent like-for-like gross and underlying operating margin performance in FY19, albeit the reported operating margin has seen a reduction due to the acquisition made in the year. Saloni historically achieved an underlying EBITDA margin (before any synergies) of approximately half that of our incumbent ceramics business, and as this has consolidated into the Group results (since the acquisition in August 2018) it has lowered the average margin of the division.

	2019 £m	2019 Margin %	2018 £m	2018 Margin %
Gross Profit				
UK & Europe Soft Flooring	88.9	31.7%	89.5	33.8%
UK & Europe Ceramic Tiles	87.5	45.1%	21.6	45.9%
Australia	27.9	27.8%	34.3	30.4%
Total	**204.3**	**35.6%**	**145.4**	**34.2%**
Underlying EBITDA				
UK & Europe Soft Flooring	29.2	10.4%	35.2	13.3%
UK & Europe Ceramic Tiles	59.2	30.5%	16.2	34.5%
Australia	9.5	9.5%	14.6	12.9%
Unallocated central expenses	(1.6)		(1.3)	
Total	**96.3**	**16.8%**	**64.7**	**15.2%**

PRO-FORMA EBITDA AND LIKE-FOR-LIKE TREND

Whilst it is a non-IFRS measure, many analysts often ask about underlying EBITDA performance (earnings before interest, tax, depreciation, amortisation and exceptional items), as well as like-for-like trends (i.e. adjusting for acquisitions).

Underlying EBITDA in FY19 was £96.3m (2018: £64.7m), an increase of 49% over the prior year. This growth was predominantly driven by acquisitions, both the full-year effect of the prior year acquisitions (of Keraben and Serra) and the current year contribution of Saloni. The organic trend in EBITDA is the accumulation of all the factors described above, with revenue performance holding steady despite challenging conditions, and some softening of margin in soft flooring as detailed.

EBITDA	**2019** **£m**	**2018** **£m**	**Growth** **%**
Underlying operating profit	70.3	48.8	44%
Add back: Depreciation	25.9	15.8	
Add back: Underlying amortisation of IT software	0.1	0.1	
Underlying EBITDA	**96.3**	**64.7**	**49%**

The FY19 performance of the Group only incorporates 7 ½ months of Saloni, since its acquisition. Pro-forma adjusted EBITDA, which includes additional EBITDA contribution from Saloni had it been acquired at the start of the year on 1 April 2018, is £107.1m. This figure also includes two smaller adjustments, for the assessed one-off impacts during the year of disruption in Serra (due to the new line installation and resultant reduction in capacity during that process) and in UK logistics (due to the transition to new distribution centres – see further details below)[3]. This pro-forma adjusted EBITDA figure is of particular focus for the Group's lenders and is a measure used in assessing our banking covenants.

Bridge from underlying EBITDA to pro-forma adjusted EBITDA	
FY19 underlying EBITDA	**£96.3m**
Saloni full-year impact	£8.2m
One-off business interruption - UK logistics	£2.4m
One-off business interruption - Serra line closure	£0.2m

[3] Pro-forma adjusted EBITDA does not include an adjustment for business interruption caused by the South Wales factory roof collapse in March 2018 as a successful insurance claim was later made in relation to this event.

FY19 pro-forma adjusted EBITDA	£107.1m

The trend in pro-forma adjusted EBITDA over the last two years (i.e. incorporating the contribution from acquisitions as if they were acquired at the start of FY17) has been stable, growing in FY18 by circa 2.0% before declining in FY19 by circa 1.4%. This decline was entirely driven by a fall in margin, specifically in soft flooring, partially offset by margin growth in ceramic tiles. Group pro-forma EBITDA margin was consistent in FY17 and FY18 at circa 17.8%, and declined in FY19 to circa 17.1% due to the factors set out above.

INVESTMENT IN SYNERGY REORGANISATION PROJECTS, CAPEX AND EXCEPTIONAL COSTS

In addition to the acquisition of Saloni, FY19 has been a substantial year for investment in organic operating activities, in continuation of certain projects undertaken and commenced during the prior year. A total of £33.6m has been invested in organic initiatives.

The Group has undertaken over the last 18 months a number of projects to deliver synergies and cost savings, whilst at the same time expanding our production and distribution capacity. Furthermore, there has been a large project in Spain to deliver synergies between Saloni and Keraben, which commenced immediately upon completion of the acquisition of Saloni. All of these key projects have been previously disclosed and have now been completed (during Q4 of FY19; some running until Q1 of the new financial year):

1. Reorganisation of South Wales carpet factory (UK & Europe Soft Flooring) – following the closure of the Kidderminster carpet factory during the prior year and relocation of certain production assets to the South Wales factory, a substantial follow-on project was undertaken in FY19 to simplify and reorganise the latter, optimise production across the larger platform, and also install a new finishing line with substantial production speed and efficiency benefits over the existing lines.

2. Reorganisation of UK logistics (UK & Europe Soft Flooring) – as discussed in the previous annual report, this project commenced in FY18 and was scheduled to complete in FY19, which has been delivered. This involved the introduction of two new large distribution centres, one in the South of England (close to London) and one in the Midlands (using our previous factory building in Kidderminster), with a large distribution centre already existing in the North. The primary aim of this project was to underpin and improve service levels for the long-term, with an ancillary benefit of some reduction in logistics cost per item via consolidation of the vehicle fleet.

3. Integration of Saloni with Keraben (UK & Europe Ceramic Tiles) – ahead of completing the acquisition of Saloni, alongside the Group's usual financial, commercial and legal due diligence process, an exercise was undertaken to assess the likely cost synergies that could be delivered from combination of its operations with our existing Spanish ceramics business, Keraben. This was identified to be substantial (totalling circa 30% of Saloni's historical adjusted EBITDA), and formed a key part of our acquisition rationale for that business on top of the fact that it was a growing, highly profitable business in its own right, with a strong brand and reputation for high quality. Implementation of the synergy initiatives commenced immediately on completion of the acquisition and were completed in Q4 FY19 and Q1 of the new year.

4. Reorganisation of Australia underlay manufacturing (Australia, soft flooring) – at the time of acquiring the Australian underlay business, Dunlop Flooring in January 2017, a potential synergy project had already been identified to close an underlay factory and consolidate into another, whilst still being able to maintain overall production capacity. Execution of this project was announced by the Group on 13 June 2018, involving the closure of the Melbourne site and consolidation of production in the Sydney factory. It is currently exactly on plan and expected to complete during Q2 of the current financial year, therefore being the one key project that is still ongoing at this time.

The table below summarises the level of investment that has been made during FY19 in each of these projects. This investment, in terms of accounting treatment, comprises both exceptional reorganisation costs and growth capital expenditure (not including replacement capital expenditure).

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

In addition to the key projects detailed above, there were other, smaller reorganisation and cost reduction projects undertaken within a few of the businesses across the group, incurring exceptional costs totalling £1.5m between them and growth capex of £7.0m.

The £12.7m of exceptional reorganisation costs have been further broken down in the table below, by project and by type of cost. The largest category by type is staff redundancy costs, which across the various projects totalled £5.9m in the year. Also included are asset impairments (where the net book value of assets that became redundant as a result of the project have been written-off) totalling £2.5m, which are a non-cash cost. All of these activities and costs are one-offs and will not repeat in the future.

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

Other projects	0.1	0.9	-	0.5	1.5
Total	**5.9**	**1.5**	**2.5**	**2.9**	**12.7**

The £20.9m of growth capital expenditure has been further broken down in the table below. A total of £13.9m was spent within the four key synergy projects described above, of which:

- £5.6m related to the new carpet finishing line in South Wales;
- £6.6m related to a new continuous clay mill and new floor tile production plant in Keraben as part of the integration of Saloni's manufacturing
- a further £0.9m was spent between Keraben and Saloni on equipment to help optimise the shared manufacturing operation; and
- £0.8m was spent in Dunlop Flooring to implement certain changes to the Sydney underlay manufacturing operation ahead of consolidating the volumes from Melbourne.

Additionally, the £7.0m of growth capex on smaller projects comprises:

- £3.0m related to additional classification and glazing lines at Keraben to increase capacity in these areas (committed prior to the acquisition of Saloni);
- £0.9m related to the final parts of the new Serra porcelain line, a project that continued over the previous year-end and completed in Q1;
- £1.7m related to new investments to accelerate the back-end of the underlay production process in the UK; and
- £1.4m related to other, smaller incremental initiatives.

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

It is important to note that these projects are substantially complete and, other than the few items that continued into Q1 of the new financial year noted above, and the smaller Australia project completing by Q2, related expenditure (both exceptional reorganisation cost and growth capex) is not expected to continue in the future.

OTHER EXCEPTIONAL AND NON-UNDERLYING ITEMS

Separate from the synergy project-related exceptional costs detailed above, the group incurred further exceptional costs in the year, predominantly related to legal and advisory fees on the acquisition of Saloni (£1.8m) plus significant advisory and structuring fees on the aborted bond

refinancing (£7.3m), net of an exceptional gain on the sale of unused land by PLC (£1.8m). In total these additional one-off items came to a net cost of £7.8m.

Consistent with previous periods, there are also a few non-underlying operational items that are not classed as exceptional as they will continue beyond the end of the year, but are non-underlying due to their nature as being non-cash or acquisition-related:

- Amortisation of acquired intangibles – the amortisation over a finite period of time of the fair value attributed to, primarily, brands and customer relationships on all historical acquisitions under IFRS. The nature of this item was set out in some detail in the previous annual report (FY18). It is important to note that these charges are non-cash items and that the associated intangible assets do not need to be replaced once fully written-down in the accounts;

- Non-cash share incentive plan charge – the charge under IFRS 2 relating to the pre-determined fair value of the senior management share incentive scheme put in place on 10 April 2018. This charge is also non-cash as the scheme cannot be settled in cash;

- Acquisition-related performance plan charge – relates to the expected liability under the acquisition-linked performance plan with the Keraben senior management team, who invested €8.3 million into the plan at the points of acquisition (rolled over from the value of their pre-acquisition stake in Keraben). The value of the plan is linked to the financial results of Keraben over a five year period and can go up or down, depending on performance.

Further details of exceptional and non-underlying items are provided in the Accounting Policies.

OPERATING PROFIT AND PBT

The table below summarises the underlying and reported operating profit of the Group, further to the commentary above on underlying performance and non-underlying items.

	2019 £m	2019 Margin %	2018 £m	2018 Margin %
Underlying operating profit	**70.3**	**12.2%**	**48.8**	**11.5%**
Reported operating profit (after exceptional items)	**24.0**	**4.2%**	**26.4**	**6.2%**
Underlying profit before tax	**57.2**	**10.0%**	**40.8**	**9.6%**
Reported (loss) / profit before tax (after exceptional items)	**(3.7)**	**-0.6%**	**13.4**	**3.2%**

Reported operating profit (earnings before interest and taxation) declined slightly to £24.0m, having been impacted by higher non-underlying and exceptional items during the year. After removing these items, underlying operating profit was £70.3m, representing a 44% increase over the prior year.

TAXATION

The reported tax charge in the year of £4.2m was distorted by the impact of the exceptional and non-underlying costs, many of which have been treated as non-deductible for tax purposes. On an underlying basis, the tax charge for the year was £13.9m against adjusted profit before tax of £57.2m, implying an underlying effective tax rate of 24.3%.

EARNINGS PER SHARE

As a result of the material exceptional and non-underlying costs in the year as detailed above, the Group delivered a basic loss per share of 6.44p (2018: reported earnings per share of 8.58p). However, adjusted earnings per share (before non-underlying and exceptional items) on a fully-diluted basis increased by 15.2% from 30.61p to 35.25p.

Earnings per share	**Year ended 30 March 2019**	Year ended 31 March 2018
Basic (loss) / earnings per share	**(6.44p)**	8.58p
Basic adjusted earnings per share	**35.27p**	31.38p
Diluted adjusted earnings per share	**35.25p**	30.61p

OPERATING CASH FLOW

Cash flow from operating activities before interest, tax and exceptional items was £105.7m which represents a conversion of 110% of underlying EBITDA. This is a 64% increase on the prior year operating cash flow.

	Year ended 30 March 2019 £'m	Year ended 31 March 2018 £'m
Underlying operating profit	**70.3**	48.8
Add back: underlying depreciation & amortisation	**26.0**	15.9
Underlying EBITDA	**96.3**	64.7
Non-cash items	**(0.8)**	(0.2)
Underlying movement in working capital	**10.2**	(0.2)
Operating cash flow before interest, tax and exceptional items	**105.7**	64.3
% conversion against underlying operating profit	**150%**	132%
% conversion against underlying EBITDA	**110%**	99%
Interest paid	**(16.5)**	(6.7)

Corporation tax paid	**(16.2)**	(10.6)
Capital expenditure - replacement of existing capabilities	**(23.5)**	(14.1)
Proceeds from fixed asset disposals	**0.9**	2.1
Free cash flow before exceptional items	**50.4**	35.0
% conversion against underlying operating profit	**72%**	72%
% conversion against underlying EBITDA	**52%**	54%

Pre-exceptional free cash flow of the Group – after interest, tax and net replacement capex – was £50.4m. Compared with underlying operating profit (i.e. post-depreciation), this represents a conversion ratio of 72%, consistent with prior years.

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

NET DEBT

As at 30 March 2019 the Group's net debt position was £339.9m. This compares with £258.7m as at the previous year-end, 31 March 2018. The principal reasons for this increase during the year were the acquisition of Saloni and the organic investment in the synergy projects detailed above.

Reconciliation of free cash flow to movement in net debt	**Year ended 30 March 2019 £'m**	Year ended 31 March 2018 £'m
Free cash flow before exceptional items (see above)	**50.4**	**35.0**
Capital expenditure - growth	(20.9)	(15.2)
Exceptional reorganisation cash cost	(11.5)	(3.4)
Investment in synergy projects	**(32.5)**	**(18.6)**
Acquisitions of subsidiaries	(82.6)	(276.5)
Net proceeds of equity raise	59.3	178.1
Total debt acquired or refinanced	(68.0)	(66.0)
Deferred and contingent consideration payments	(8.9)	(15.3)
Exceptional M&A costs	(1.8)	(4.5)
Acquisitions related expenditure	**(102.0)**	**(184.2)**
Exceptional bond issue & structuring costs	(7.3)	-

Proceeds from disposal on investment property	2.0	-
Other exceptional cash items	**(5.3)**	**-**
Other debt items	(0.6)	(1.2)
Translation differences on foreign currency cash and loans	8.7	(0.1)
Other exceptional items	**8.2**	**(1.3)**
Total movement in net debt	**(81.2)**	**(169.1)**
Opening net debt	(258.7)	(89.6)
Closing net debt	**(339.9)**	**(258.7)**

Applying our banks' adjusted measure of financial leverage, the Group's year-end net debt to EBITDA ratio was 3.2x (2018: 2.7x)[4]. This increase in the year is due to the acquisition of Saloni and the split of debt and equity funding utilised. Current leverage is consistent with our financial strategy to use a sensible but cautious level of debt in the overall funding structure of the Group.

Net debt	**30 March 2019 £'m**	31 March 2018 £'m
Net cash and cash equivalents	60.2	53.1
Bank loans	(387.0)	(298.5)
BGF loan	(11.6)	(11.3)
Finance leases and hire purchase arrangements	(1.6)	(2.0)
Net debt	**(339.9)**	(258.7)
Adjusted net debt / EBITDA[4]	**3.2x**	2.7x

FUNDING

On 7 August 2018, in conjunction with the acquisition of Saloni, the Group signed a €445 million term loan with HSBC and Barclays. This loan was used to provide funding towards the acquisition (alongside new equity funding) and to refinance the entire amount of previously existing senior debt. This facility matures in August 2020 and is secured by way of debenture over the assets of the Group.

More recently, the Group has signed a commitment from Credit Suisse, NatWest, ING, HSBC, Bank of Ireland and BBVA to provide five-year facilities to refinance the above term loan. The Company is currently considering options to replace a proportion of these committed facilities with bonds in the debt capital markets.

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[4] *Adjusted net debt / pro-forma EBITDA, as measured in line with our bank facility covenants.*

The Group is also funded by a revolving credit facility of £60 million for working capital headroom and general corporate purposes. This facility has remained undrawn since it was put in place last year. In addition, the Group has a £10 million unsecured loan from the Business Growth Fund, maturing in 2021.

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 estimated impact of applying IFRS16 has been calculated and is explained in more detail within the Significant accounting policies section of the accounts.

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

GOING CONCERN

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 and CEO Statement, the Strategic Review and this Financial Review. In addition, Note 25 to the Accounts includes details of the Group's financial instruments and its exposure to and management of credit risk, liquidity risk, currency risk and interest rate risk.

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 current bank facilities across the Group along with the recently arranged new committed facilities (see above for further details) provide sufficient capacity to cover all anticipated capital expenditure and working capital requirements during the year ahead. These facilities are subject to financial covenants measured against Group results on a quarterly basis. All such covenants have been satisfied to date.

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
10 July 2019

Financial Statements

Consolidated Income Statement

For the 52 weeks ended 30 March 2019

		52 weeks ended 30 March 2019			52 weeks ended 31 March 2018		
		Underlying performance	**Non-underlying items**	**Reported numbers**	Underlying performance	Non-underlying items	Reported numbers
	Notes	**£m**	**£m**	**£m**	£m	£m	£m
Continuing Operations							
Revenue	1	**574.4**	**-**	**574.4**	424.8	-	424.8
Cost of Sales		**(370.1)**	**-**	**(370.1)**	(279.4)	-	(279.4)
Gross profit		**204.3**	**-**	**204.3**	145.4	-	145.4
Distribution costs		**(71.1)**	**-**	**(71.1)**	(59.4)	-	(59.4)
Administrative expenses		**(66.0)**	**(48.1)**	**(114.1)**	(38.6)	(22.4)	(61.0)
Other operating income		**3.1**	**1.8**	**4.9**	1.4	-	1.4
Operating profit		**70.3**	**(46.3)**	**24.0**	48.8	(22.4)	26.4
Comprising:							
Operating profit before non-underlying and exceptional items	1	**70.3**	**-**	**70.3**	48.8	-	48.8
Amortisation of acquired intangibles	1,2	**-**	**(22.5)**	**(22.5)**	-	(11.2)	(11.2)
Other non-underlying items	1,2	**-**	**(3.4)**	**(3.4)**	-	-	-
Exceptional items	1,2	**-**	**(20.4)**	**(20.4)**	-	(11.2)	(11.2)
Finance costs	3	**(13.1)**	**(14.6)**	**(27.7)**	(8.0)	(5.0)	(13.0)
Comprising:							
Net interest payable on loans	3	**(11.3)**	**-**	**(11.3)**	(6.6)	-	(6.6)
Amortisation of prepaid finance costs and accrued interest	3	**(1.6)**	**(3.1)**	**(4.7)**	(1.1)	(0.5)	(1.6)

		Note						
Translation difference on foreign currency loans		3	**-**	**(3.6)**	**(3.6)**	-	(3.5)	(3.5)
Net interest expense on defined benefit pensions		3	**(0.2)**	**-**	**(0.2)**	(0.3)	-	(0.3)
Other non-underlying, non-cash finance costs		3	**-**	**(7.9)**	**(7.9)**	-	(1.0)	(1.0)
(Loss) / profit before tax			**57.2**	**(60.9)**	**(3.7)**	40.8	(27.4)	13.4
Taxation			**(13.9)**	**9.7**	**(4.2)**	(9.2)	4.4	(4.8)
(Loss) / profit for the period			**43.3**	**(51.2)**	**(7.9)**	31.6	(23.0)	8.6
Earnings / (loss) per share - pence	basic	4	**35.27**		**(6.44)**	31.38		8.58
	diluted	4	**35.25**		**(6.44)**	30.61		8.37

Consolidated Statement of Comprehensive Income

For the 52 weeks ended 30 March 2019

	Note	**52 weeks ended 30 March 2019 £m**	52 weeks ended 31 March 2018 £m
(Loss) / profit for the period		**(7.9)**	8.6
Other comprehensive income / (expense):			
Items that will not be reclassified to profit or loss:			
Actuarial gains on defined benefit pension scheme	6	**1.8**	2.0
Decrease in deferred tax asset relating to pension scheme liability		**(0.3)**	(0.4)
Items that will not be reclassified to profit or loss		**1.5**	1.6
Items that may be reclassified subsequently to profit or loss:			
Retranslation of overseas subsidiaries		**(0.6)**	(2.1)
Items that may be reclassified subsequently to profit or loss		**(0.6)**	(2.1)
Other comprehensive income / (expense)		**0.9**	(0.5)
Total comprehensive (loss) / income for the year attributable to the owners of the parent		**(7.0)**	8.1

Consolidated Balance Sheet

As at 30 March 2019

	Note	Group	
		30 March 2019	31 March 2018
	Note	**£m**	£m
Non-current assets			
Goodwill		**223.7**	188.1
Intangible assets other than goodwill		**241.4**	210.3
Property, plant and equipment		**190.6**	142.9
Investment property		**0.2**	0.8
Investments in associates		**-**	1.0
Deferred tax assets		**5.8**	4.6
Total non-current assets		**661.7**	547.7
Current assets			
Inventories		**140.5**	100.3
Trade and other receivables		**116.0**	88.2
Cash and cash equivalents		**66.4**	54.0
Total current assets		**322.9**	242.5
Total assets		**984.6**	790.2
Current liabilities			
Trade and other current payables		**168.6**	121.5
Current tax liabilities		**-**	1.0
Other financial liabilities		**10.4**	3.0
Total current liabilities		**179.0**	125.5
Non-current liabilities			
Trade and other non-current payables		**19.5**	29.2

Other non-current financial liabilities		**392.3**	306.1
Deferred tax liabilities		**66.1**	54.7
Retirement benefit obligations	6	**7.8**	9.1
Total non-current liabilities		**485.7**	399.1
Total Liabilities		**664.7**	524.6
Net Assets		**319.9**	265.6
Equity			
Share capital		**6.3**	5.9
Share premium		**288.7**	229.8
Retained earnings		**20.6**	26.7
Foreign exchange reserve		**2.3**	2.9
Other reserves		**2.0**	0.3
Total Equity		**319.9**	265.6

Consolidated Statement of Changes in Equity

For the 52 weeks ended 30 March 2019

	Share capital £m	Share premium £m	Retained earnings £m	Foreign exchange reserve £m	Other reserves £m	Total equity £m
At 2 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	-	-	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
Loss for the period to 30 March 2019	-	-	(7.9)	-	-	(7.9)
Other comprehensive profit for the period	-	-	1.5	-	-	1.5
Retranslation of overseas subsidiaries	-	-	-	(0.6)	-	(0.6)
Total comprehensive loss	-	-	(6.4)	(0.6)	-	(7.0)
Issue of Share capital	0.4	58.9	-	-	-	59.3
Exercise of share options	-	-	0.3	-	(0.3)	-
Share-based payment charge	-	-	-	-	2.0	2.0
Transactions with owners	0.4	58.9	0.3	-	1.7	61.3
At 30 March 2019	**6.3**	**288.7**	**20.6**	**2.3**	**2.0**	**319.9**

Consolidated Statement of Cash Flows

For the 52 weeks ended 30 March 2019

	Group	
	52 weeks ended 30 March 2019	52 weeks ended 31 March 2018
	£m	£m
Cash flows from operating activities		
Operating profit	**24.0**	26.4
Adjustments For:		
Depreciation charges	**25.9**	15.8
Amortisation of intangible assets	**22.8**	11.3
Asset impairment	**0.5**	-
Amortisation of government grants	**(0.7)**	(0.3)
(Profit) / loss on disposal of property, plant and equipment	**(0.1)**	0.1
Profit on disposal of investment property	**(1.8)**	-
Loss on disposal of associates	**0.7**	-
Share incentive plan charge	**1.9**	0.2
Acquisition-related performance plan charge	**1.5**	-
Defined benefit pension	**0.3**	(0.2)
Net cash flow from operating activities before movements in working capital	**75.0**	53.3
Change in inventories	**(13.8)**	(8.0)
Change in trade and other receivables	**7.1**	2.6
Change in trade and other payables	**16.8**	6.4
Cash generated by operations	**85.1**	54.3
Interest paid	**(16.5)**	(6.7)
Income taxes paid	**(16.2)**	(10.6)
Net cash inflow from operating activities	**52.4**	37.0
Investing activities		

Purchases of property, plant and equipment	**(43.7)**	(25.9)
Purchases of intangible assets	**(0.7)**	(0.7)
Proceeds on disposal of property, plant and equipment	**0.9**	2.1
Deferred consideration and earn-out payments	**(8.9)**	(15.3)
Acquisition of subsidiaries net of cash acquired	**(82.6)**	(276.5)
Proceeds from disposal of investment property	**2.0**	-
Net cash used in investing activities	**(133.0)**	(316.3)
Financing activities		
Increase in long-terms loans	**43.9**	128.8
Issue of share capital	**59.3**	178.1
Repayment of reverse factoring facility acquired with Saloni	**(13.4)**	-
Repayment of obligations under finance leases / hire purchase	**(1.0)**	(0.3)
Net cash generated in financing activities	**88.8**	306.6
Net increase in cash and cash equivalents	**8.2**	27.3
Cash and cash equivalents at beginning of period	**53.1**	28.0
Effect of foreign exchange rate changes	**(1.1)**	(2.2)
Cash and cash equivalents at end of period	**60.2**	53.1
Comprising:		
Cash and cash equivalents	**66.4**	54.0
Bank overdrafts	**(6.2)**	(0.9)
	60.2	53.1

1. 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. The reportable segments have changed in the current year and the corresponding items of segmental information for the prior year have been restated.

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

Income statement

	52 weeks ended 30 March 2019					52 weeks ended 31 March 2018				
	UK & Europe Soft Flooring	**UK & Europe Ceramic Tiles**	**Australia**	**Unallocated central expenses**	**Total**	UK & Europe Soft Flooring	UK & Europe Ceramic Tiles	Australia	Unallocated central expenses	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Income statement										
Revenue	**280.5**	**193.9**	**100.0**	**-**	**574.4**	265.0	47.0	112.8	-	424.8
Underlying operating profit	**17.0**	**48.2**	**6.8**	**(1.7)**	**70.3**	24.8	13.7	11.6	(1.3)	48.8
Non-underlying operating items	**(5.1)**	**(17.7)**	**(2.0)**	**(1.1)**	**(25.9)**	(4.8)	(4.6)	(1.8)	-	(11.2)
Exceptional operating items	**(7.4)**	**(4.7)**	**(2.4)**	**(5.9)**	**(20.4)**	(6.7)	-	(0.3)	(4.2)	(11.2)
Operating profit	**4.5**	**25.8**	**2.4**	**(8.7)**	**24.0**	13.3	9.1	9.5	(5.5)	26.4
Underlying net finance costs					**(13.1)**					(8.0)
Non-underlying finance costs					**(14.6)**					(5.0)
(Loss) / profit before tax					**(3.7)**					13.4
Tax					**(4.2)**					(4.8)
(Loss) / profit for the period					**(7.9)**					8.6

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 30 March 2019	52 weeks ended 31 March 2018
	£m	£m
Revenue		
UK & other European countries	**280.6**	**265.0**
Spain	**167.8**	**41.3**
Italy	**26.0**	**5.7**
Australia	**100.0**	**112.8**
	574.4	**424.8**

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

Balance sheet

	52 weeks ended 30 March 2019					52 weeks ended 31 March 2018				
	UK & Europe Soft Flooring	**UK & Europe Ceramic Tiles**	**Australia**	**Central**	**Total**	UK & Europe Soft Flooring	UK & Europe Ceramic Tiles	Australia	Central	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Total Assets	**233.1**	**634.6**	**75.0**	**41.9**	**984.6**	228.1	468.9	77.8	15.4	790.2
Total Liabilities	**(94.8)**	**(159.7)**	**(20.8)**	**(389.4)**	**(664.7)**	(88.7)	(115.5)	(25.0)	(295.4)	(524.6)
Net Assets	**138.3**	**474.9**	**54.2**	**(347.5)**	**319.9**	139.4	353.4	52.8	(280.0)	265.6

The Group's non-current assets as at 30 March 2019 were split geographically as follows:

	As at 30 March 2019	As at 31 March 2018
	£m	£m

Non-current assets		
UK & other European countries	**129.7**	**130.5**
Spain	**451.7**	**332.2**
Italy	**44.7**	**49.1**
Australia	**35.6**	**35.9**
	661.7	**547.7**

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

Other segmental information

	52 weeks ended 30 March 2019					52 weeks ended 31 March 2018				
	UK & Europe Soft Flooring £m	**UK & Europe Ceramic Tiles £m**	**Australia £m**	**Unallocated central liabilities £m**	**Total £m**	UK & Europe Soft Flooring £m	UK & Europe Ceramic Tiles £m	Australia £m	Unallocated central liabilities £m	Total £m
Other segmental information										
Depreciation	**12.3**	**10.9**	**2.7**	**-**	**25.9**	10.3	2.5	3.0	-	15.8
Amortisation of acquisition intangibles	**4.7**	**16.1**	**1.7**	**-**	**22.5**	4.8	4.6	1.8	-	11.2
Amortisation of other intangibles	**0.2**	**0.2**	**-**	**-**	**0.4**	0.1	0.0	-	-	0.1
	17.2	**27.2**	**4.4**	**-**	**48.8**	15.2	7.1	4.8	-	27.1

	52 weeks ended 30 March 2019					52 weeks ended 31 March 2018				
	UK & Europe Soft Flooring £m	**UK & Europe Ceramic Tiles £m**	**Australia £m**	**Unallocated central expenditure £m**	**Total £m**	UK & Europe Soft Flooring £m	UK & Europe Ceramic Tiles £m	Australia £m	Unallocated central expenditure £m	Total £m
Investments in fixed assets										
Purchases of property, plant and equipment	20.1	19.5	4.5	-	44.1	17.3	8.8	2.5	-	28.6
Disposals of property, plant and equipment	(0.4)	(0.1)	(0.2)	-	(0.7)	(0.5)	(0.4)	(0.3)	-	(1.2)
Purchases of intangible assets	0.2	0.5	-	0.1	0.8	0.4	-	-	0.3	0.7

Total capital expenditure	19.9	19.9	4.3	0.1	44.2	17.2	8.4	2.2	0.3	28.1

2. Exceptional and non-underlying items

	2019	2018
	£m	£m
Exceptional items		
(a) Acquisition related costs	**(1.8)**	(5.8)
(b) Reorganisation costs	**(12.7)**	(5.4)
(c) Bond issue and related structuring costs	**(7.3)**	-
(d) Pension adjustment	**(0.4)**	-
(e) Gain on sale of investment property	**1.8**	-
	(20.4)	(11.2)

	2019	2018
	£m	£m
Non-underlying items		
(f) Acquisition-related performance plan charge	**(1.5)**	-
(g) Non-cash share incentive plan charge	**(1.9)**	-
(h) Amortisation of acquired intangibles	**(22.5)**	(11.2)
	(25.9)	(11.2)

All exceptional items are classified within administrative expenses.

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

(b) Reorganisation costs comprise various fees, redundancy and other one-off costs in relation to a number of synergy projects and performance improvement programmes. The key projects comprise: (1) the integration of the operations and administration of the most recent acquisition, Saloni, with our incumbent Spanish ceramic tiles business, Keraben; (2) the optimisation of the Group's South Wales carpet factory (further to the closure and consolidation of the Kidderminster factory in the prior year), including a substantial increase in speed and capacity of manufacturing; (3) the transfer of our UK logistics operation to two new distribution centres in the South and Midlands to optimise service levels and cost; and (4) the closure of the Group's underlay factory in Melbourne, Australia, and consolidation into the Sydney factory. Further details are provided in the Financial Review.

(c) One-off advisory, legal and structuring costs in relation to the aborted financing exercise during the year.

(d) Guaranteed Minimum Pension one-off equalisation charge on the sole defined benefit pension scheme in the Group (within Interfloor).

(e) Gain on the sale of property held as an investment.

(f) Charge relating to the accrual of expected liability under the acquisition-linked performance plan with the Keraben senior management team as part of the acquisition in the prior year.

(g) Non-cash, IFRS2 share-based payment charge in relation to the long-term management incentive plan that was put into place in April 2018. See Accounting Policies for further details.

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

3. Finance costs

	2019	2018
	£m	£m
Interest payable on bank loans and overdrafts	**11.0**	5.7
Cash interest payable on BGF loan	**0.6**	0.8
Interest payable on Hire Purchase and Finance Leases	**0.1**	0.1
Interest income	**(0.4)**	-
Total interest payable on loans	**11.3**	6.6
Amortisation of prepaid finance costs	**1.5**	1.0

Interest rolled up into BGF loan	**0.1**	0.1
Net interest expense on defined benefit pensions	**0.2**	0.3
Underlying interest costs	**13.1**	8.0
(a) Release of prepaid finance costs	**3.0**	-
(b) BGF loan and option, redemption premium charge	**0.1**	1.2
(c) Unwinding of present value of deferred and contingent consideration liabilities	**2.9**	3.0
(d) Other adjustments to present value of contingent earn-out liabilities	**4.3**	(2.9)
(e) Mark to market adjustments on foreign exchange forward contracts	**0.7**	0.2
(f) Translation difference on foreign currency loans	**3.6**	3.5
	27.7	13.0

(a) Non-cash charge relating to the release of prepaid costs on previous bank facilities, which were extinguished and subsequently refinanced in August 2018.

(b) Non-cash annual cost of the redemption premium in relation to the BGF loan and option. Also included in the prior year is a £0.9m 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%.

(c) 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.

(d) 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.

(e) Non-cash fair value adjustments on foreign exchange forward contracts. Also included in the prior year is a £0.1m fair value adjustment on corporate bonds assets.

(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 2019 £m	**Adjusted 2019 £m**	Basic 2018 £m	Adjusted 2018 £m
(Loss)/profit attributable to ordinary equity holders of the parent entity	**(7.9)**	**(7.9)**	8.6	8.6
Exceptional and non-underlying items:				
Amortisation of acquired intangibles	**-**	**22.5**	-	11.2
Acquisition related costs	**-**	**1.8**	-	5.8
Reorganisation costs		**12.7**		5.4
Bond issue and related structuring costs	**-**	**7.3**	-	-
Pension adjustment	**-**	**0.4**	-	-
Gain on sale of investment property	**-**	**(1.8)**	-	-
Acquisition-related performance plan charge	**-**	**1.5**	-	-
Non-cash share incentive plan charge	**-**	**1.9**	-	-
Release of prepaid finance costs	**-**	**3.0**	-	-
BGF loan and option, non-underlying charges	**-**	**0.1**	-	1.2
Unwinding of present value of deferred and contingent consideration	**-**	**2.9**	-	3.0
Other adjustments to present value of contingent earn-out liabilities	**-**	**4.3**	-	(2.9)
Mark to market adjustments on forward foreign exchange contracts		**0.7**		0.2
Translation difference on foreign currency loans	**-**	**3.6**	-	3.5
Tax effect on adjusted items where applicable	**-**	**(9.7)**	-	(4.4)
Earnings for the purpose of basic and adjusted (loss) / earnings per share	**(7.9)**	**43.3**	8.6	31.6

Weighted average number of shares

	2019 Number of shares	2018 Number of shares

	(000's)	(000's)
Weighted average number of shares for the purpose of basic and adjusted earnings per share	**122,739**	100,701
Effect of dilutive potential ordinary shares:		
BGF share options and growth shares	**64**	2,533
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**122,803**	103,234

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:

	2019	2018
	Pence	Pence
Earnings per share		
Basic (loss) / earnings per share	**(6.44)**	8.58
Diluted (loss) / earnings per share	**(6.44)**	8.37
Basic adjusted earnings per share	**35.27**	31.38
Diluted adjusted earnings per share	**35.25**	30.61

5. Rates of exchange

	2019		2018	
	Average	**Year end**	Average	Year end
Australia - A$	**1.8049**	**1.8377**	1.7206	1.8246
Europe - €	**1.1344**	**1.1624**	1.1373	1.1370

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 £3,831,000 (2018: £3,712,000), of which £2,257,000 (2018: £2,126,000) relates to the UK schemes. The total contributions outstanding at year-end were £nil (2018: £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 2018.

The contributions made by the employer over the financial period were £95,000 (2018: £95,000) in respect of the Main Scheme and £126,000 (2018: £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 £136,000 in respect of the Main Scheme and £nil 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 2021.

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.

	2019	2018
	£m	**£m**
Net interest expense	**0.2**	0.3
Past service cost	**0.4**	-

Components of defined benefit costs recognised in profit or loss	**0.6**	0.3

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. The past service cost relates to a GMP equalisation charge and has been included within exceptional costs in administrative expenses.

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

	2019	2018
	£m	**£m**
The return on plan assets (excluding amounts included in net interest expense)	**1.1**	0.9
Actuarial gains arising from changes in demographic assumptions	**0.2**	0.4
Actuarial (losses) / gains arising from changes in financial assumptions	**(1.1)**	0.4
Actuarial gains arising from experience adjustments	**1.6**	0.3
Remeasurement of the net defined benefit liability	**1.8**	2.0

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:

	2019	2018
	£m	**£m**
Present value of defined benefit obligations	**(32.6)**	(33.4)
Fair value of plan assets	**24.7**	24.3
Net liability arising from defined benefit obligation	**(7.8)**	(9.1)
Deferred tax applied to net obligation	**1.5**	1.7

The Group expects to make a contribution of £136,000 (2018: £221,000) to the defined benefit schemes during the next financial period

7. Acquisition of subsidiaries

Ceramica Saloni, S.A.

On 7 August 2018 the Group acquired 100% of the equity of each of Ceramica Saloni, S.A.U. and Sanicova, S.L.U. (together "Saloni").

Saloni operates from a site in Castellon, Spain, close to the Group's existing business, Keraben. Saloni designs, manufactures and distributes branded, mid to high-end ceramic tiles, which are sold domestically and exported internationally. Saloni is a well-invested business, with a new production line installed prior to the acquisition that has significantly increased the company's manufacturing capacity.

Even prior to any synergies delivered from the integration of Saloni with Keraben, the acquisition is expected to be materially accretive to earnings per share in the first full year of ownership (after accounting for the impact of the new Ordinary Shares issued by way of placing, as part of the acquisition funding). For the year ended 31 December 2017, Saloni generated audited net revenues of €106.3 million (£94.7 million) and adjusted EBITDA of €15.6 million (£13.9 million). For the twelve months ended 31 May 2018, Saloni generated unaudited adjusted EBITDA of €17.8 million (£15.9 million).

The Group results for the year ended 30 March 2019 include contribution from Saloni of €65.2m (£57.5m[1]) of revenue and €5.8m (£5.1m[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 €43.1m (£38.0m[1]) and €2.9m (£2.6m[1]) respectively.

[1] *Applying the average exchange rate over the financial year of 1.1344.*

Consideration

Initial cash consideration of €96.7m (£86.2m[2]) was paid on completion of the acquisition.

[2] *Applying the GBP to € exchange rate at the date of acquisition of 1.1218.*

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.

After fair value adjustments, goodwill of £40.1m is created on the consolidation of Saloni, which relates to expected future profits of the business.

Transaction costs amounting to £1.8m relating to the acquisition have been recognised as an expense and included in exceptional administrative expenses in the Group Income Statement.

8. Basis of preparation

The results have been extracted from the audited financial statements of the Group for the 52 weeks ended 30 March 2019. 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 31 March 2018, 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 31 March 2018.

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.