VICTORIA PLC

2021 **Half-year report for the 26 weeks ended 2 October 2021**

VICTORIA PLC

OUR MISSION STATEMENT

To create wealth for our Shareholders

Contents

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	H1 FY22	H1 FY21
Continuing operations		
Revenue	**£489.0m**	£305.5m
Underlying EBITDA[1]	**£84.5m**	£52.4m
Underlying operating profit[1]	**£58.6m**	£28.2m
Operating profit	**£27.7m**	£10.7m
Underlying profit before tax[1]	**£41.1m**	£13.7m
Profit / (loss) before tax	**£2.9m**	£(4.7)m
Underlying free cash flow[2]	**£18.0m**	£18.3m
Net debt[3]	**£519.3m**	£364.6m
Net debt / EBITDA[4]	**3.3x**	3.3x
Earnings / (loss) per share:		
- Diluted adjusted[1]	**24.32p**	8.09p
- Diluted	**(2.68)p**	(3.11)p

Unprecedented 30% like-for-like organic revenue growth led to all-time record operating results

Continued like-for-like expansion of operating margins, with 130bps organic uplift offset by mix-effect of acquisition of lower margin businesses

Inflationary pressures and supply chain constraints successfully mitigated with proactive management of raw materials and energy costs

Four value-enhancing acquisitions completed in Italy, the Netherlands and the USA; providing meaningful earnings and cash flow enhancement along with material operational synergy opportunities

Despite these significant investments, leverage maintained at a consistent level with the prior year end, in-line with the Group's financial policy

Outlook remains very positive, along with a healthy pipeline of acquisition opportunities

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

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

[3] *Net debt shown before right-of-use lease liabilities, preferred equity, bond issue premia and the deduction of prepaid finance costs*

[4] *Leverage shown consistent with the measure used by our lending banks*

CHAIRMAN & CHIEF EXECUTIVE'S LETTER TO SHAREHOLDERS

One of our US-based shareholders recently shared a letter from legendary investor, Bill Miller of Miller Value Partners. Although clearly not directly related to the flooring industry, he shares some wisdom we think is worth remembering whilst there seems to be some extraordinary things happening in global economies.

> *"Since no one has privileged access to the future, forecasting the market is a waste of time... In the post-war period the US stock market has gone up in around 70% of the years because the US economy grows most of the time. Odds much less favorable than that have made casino owners very rich, yet most investors try to guess the 30% of the time stocks decline, or even worse spend time trying to surf, to no avail, the quarterly up and down waves in the market. Most of the returns in stocks are concentrated in sharp bursts beginning in periods of great pessimism or fear, as we saw most recently in the 2020 pandemic decline. We believe time, not timing, is key to building wealth in the stock market."*

Certainly, when executing our acquisition strategy, Victoria's Board spends little time trying to predict precisely where we are in the economic cycle, but rather focuses on ensuring we are buying high quality, resilient businesses at valuations that provide a margin of safety for our shareholders. This has stood us in good stead over the last nine years and we are therefore pleased to report that the operating results for the six months to 2 October were an all-time record for Victoria, as can be seen in the below table.

H1, Financial Year	2022	2021	2020	2019	2018	2017
Revenue	£489.0m	£305.5m	£312.9m	£273.4m	£189.5m	£153.4m
Pre IFRS 16 Underlying EBITDA	£75.1m	£44.9m	£53.8m	£45.4m	£24.6m	£20.2m
Post IFRS 16 Underlying EBITDA	£84.5m	£52.4m	£58.5m			

Unsurprisingly, given H1 FY21 was affected by various national lockdowns in Victoria's primary markets, revenues increased by 60% in H1 FY22. Additionally, Victoria completed four acquisitions during the period, which also contributed to the financial performance of the Group. On a LFL basis, revenues increased by 29.8% over H1 FY21 and, perhaps more relevantly, 9.2% over H1 FY20, demonstrating the strong organic growth the operational strategy is delivering for shareholders.

Although Victoria saw significant inflation in raw material prices during the period, the impact was largely mitigated by management actions, with the result that the underlying EBITDA margin grew by +130bps on a LFL basis[5]. (The reported margin of 17.3% was the result of the optical margin dilutive effects of acquisitions made during the period – dilution that will, as achieved with previous acquisitions, be offset by synergy benefits as the businesses are integrated into Victoria).

[5] *LFL margin variance calculated by normalising the impact of acquisitions*

OPERATIONAL REPORT BY DIVISION

UK & Europe Soft Flooring – operating margin +190bps

	H1 FY22	**H1 FY21**
Revenue	£214.0 million	£126.0 million
Absolute growth %	*69.8%*	
LFL growth %	*48.4%*	
Underlying EBITDA margin	18.0%	15.2%
LFL margin variance %	*+190bps*	

The UK & Europe Soft Flooring division again delivered an extremely strong result.

There were two prime reasons for this very pleasing outcome:

1. Inflationary pressures seen in raw materials and energy costs were quickly addressed by our operational management with more than one selling price increase in the year to date. Mitigating actions will continue whilst input prices remain under pressure, balancing as always between margin and growth. Victoria's level of service, which is highly valued by retailers, has ensured a significant degree of acceptance of these increases and demand for our product remains strong.

2. The Group's operational management anticipated the possibility of supply chain disruption and consequently increased raw material inventory ahead of many of our competitors. These higher-than-normal holdings of raw materials safe-guarded service levels and further contributed to Victoria's reputation as a reliable supplier of product, which leads to increased wallet share.

Specific initiatives during the period included:

<u>Carpet Manufacturing</u>

Broadloom carpet has maintained a remarkably consistent market share over the last 15 years at c.60% of the UK residential flooring market. Different types of hard flooring (such as tiles, laminates, LVT, hardwoods, etc) have been used by consumers in kitchens, entrances, and bathrooms during this period, but carpet predominates in the other areas of the house. Accordingly, we continue to invest in our UK factories to improve both productivity and output.

The relocation of the Westex operations (plant, offices and showroom) to Dewsbury was completed during the period, which finalised our major production optimisation plan in the UK.

We continued the roll-out of high-speed tufting machines, increasing productivity as well as creating the option of running small batch sizes (using beams instead of creels), which enables increased flexibility and reduces working capital (inventory) demands. The company completed the construction of a new warehouse for finished carpet rolls on the Abingdon site in Wales, which will reduce the cost of volume shipments and reduce the pressure on the logistics centres.

Underlay

Victoria's largest underlay business obtained full ISO accreditation of the Integrated Management System, giving us ISO 9001 (quality management), ISO 14001 (environmental management) and ISO 45001 (occupational Health & Safety).

We launched the new 'Acoustics' Division with the development of a technologically sophisticated underlay product under the new brand 'Sonixx' for attacking the acoustic building materials market.

Artificial grass manufacturing

Artificial landscaping grass (which is entirely different to artificial sports fields) is possibly the fastest growing flooring category in Europe, with growing consumer acceptance of artificial grass due to enhanced realism and increasing awareness of its advantages when compared with natural grass, such as limited maintenance and no water requirements. European demand for artificial grass is expected to achieve double-digit growth from 82.4 million m^2 in 2020 to 110.6 million m^2 in 2023 (10.3% p.a. in volumes) *AMI Consulting (2020).*

Victoria made its first investment in the sector in February 2017, with the acquisitions of Netherlands-based Avalon and Grass Inc. These businesses have been highly successful – organically doubling in size over the last four years.

In May we acquired Edel Group, which is based in the Netherlands and Germany, to create Europe's largest premium landscaping grass group. For the year ended 31 December 2020, Edel generated unaudited total revenues of €47.6 million (£41.4m) and normalised EBITDA of €10 million (£8.7m).

The integration of Edel with Victoria's existing artificial grass business is now well underway and will create significant opportunities for value-creating commercial and operating synergies:

- Victoria has been outsourcing the production of c.4 million m^2 of artificial grass. Capitalising on the manufacturing capabilities of Edel and insourcing this production will increase the margin on Victoria's existing artificial grass revenue.

- There have been sharp price increases in the raw materials for artificial grass this year but the increased scale of the integrated businesses will provide an opportunity to both reduce raw material costs and improve productivity at the factories, with a consequential improvement in operating margin.

- Both Edel and Victoria have extensive, but largely non-overlapping distribution networks across Europe, providing a real opportunity to grow the combined revenues by collaboration on sales and distribution.

Alliance Logistics

It is difficult to overstate the strategic value of our investment in our logistics capability. It is a key differentiator, separating Victoria from the continental carpet suppliers by meaningfully enhancing our service proposition. Retailers place great value on fast, on-time delivery as it allows them to reduce their inventory levels and warehouse overheads.

Victoria now has more than 240 delivery vehicles on the road, with further enhancement to the Microlise fleet management software during the period enabling live traffic updates and live route planning. Due to the demand in the UK for drivers, our wages cost has increased by about £1 million per year, but we have avoided any disruption from the widely reported national driver shortages.

We continued to enhance the service offering with track & trace functionality now providing our customers with live tracking of their orders, alongside real-time updates via email and SMS.

We signed a commitment for a completely new, environmentally-friendly distribution centre (185,000 ft^2) in Worcester, which will replace the Kidderminster warehouse upon the completion of construction in December 2022. This building will lower our operating costs and allow for further sales growth.

Significantly, Alliance is now attracting 3rd party deliveries at profitable price levels.

UK & Europe Ceramic Tiles – underlying EBITDA +35% to £37.4 million

	H1 FY22	**H1 FY21**
Revenue	£182.5 million	£132.5 million
Absolute growth %	*+37.7%*	
LFL growth %	*+17.4%*	
Underlying EBITDA margin	20.5%	20.9%
LFL margin variance %	*+180bps*	

Sharply rising energy costs have been a headwind in recent months. However, unlike some competitors, the Group benefits from having much of its energy pricing hedged, which dampens the short-term impact of higher energy prices and provides time to respond with mitigating actions. We do not expect the current high energy prices to be indefinite – indeed new hedges can be secured with forward prices markedly below the current spot price – but we anticipate some level of impact on margins in H2, although these are being mitigated with price increases.

Operational highlights during the period include:

Italy

We have previously advised that, due to strong customer demand, Victoria's Italian ceramic tile business has its full output sold out until Q2 2022, despite the production capacity added earlier this year by the acquisition of the factory and assets of Ceramiche Santa Maria. Integration of this business continues, with a second refurbished atomiser expected to be operational by the end of November – increasing production capacity and lowering raw material costs.

The acquisition of Santa Maria, along with Colli and Vallelunga, materially, but temporarily, diluted the operating margin in the short term in our ceramics division during the period. This effect is being rapidly alleviated as the businesses are integrated into our core operations.

Further capacity is expected to become available when the new and more energy efficient multi-purpose (red body/porcelain) replacement kiln at Ceramiche Serra currently being installed becomes operational in mid-January 2022.

Additionally, a brand new, large-size production line became operational in the Ceramiche Ascot factory at the end of September, which allows for increased output in larger tile sizes.

Spain

The performance of the newly integrated brand Ibero/Casa Infinita, which is aimed at a more value-conscious customer, has been very pleasing.

Significant improvements were achieved in the overall production cost in our Spanish factories from OPEX savings and productivity enhancing initiatives to reduce the cost of goods sold.

Turkey

Following the half-year balance date, Victoria entered into an agreement to acquire Turkish ceramic tile manufacturer, Graniser. This is a profitable and growing business, which delivers a good quality, low-cost manufacturing platform to the Group. Upon completion of the acquisition, which is anticipated in January, the business will be quickly integrated into the Group's ceramic tiles division and is expected to provide us with a meaningful competitive advantage for certain product lines and end markets.

Australia – Like-for-like Revenue +14.6%

	H1 FY22	H1 FY21
Revenue	£53.4 million	£47.0 million
Absolute growth %	*13.6%*	
LFL growth %	*14.6%*	
Underlying EBITDA margin	13.3%	13.2%
LFL margin variance %	*+10bps*	

Our Australian business has performed exceptionally well, despite very trying operating conditions.

Melbourne, where all our carpet factories are located, had the dubious distinction this period of enduring the world's longest lockdown, and only reopened for business in October. Sydney, where our underlay factory is based, also experienced an extended lockdown during H1. And New Zealand, which is an important market for our Australian-produced flooring, also saw revenues significantly disrupted with long, rolling lockdowns shutting down all retail activity.

Supplying the construction industry was, however, still permitted in Australia during this period and the division capitalised on this opportunity (albeit at slightly lower margins than our usual consumer business), together with supplying retailers in the other Australian states, which were not subject to restrictions.

As elsewhere, raw material prices have increased, which has led to the business raising its selling prices across the board to protect earnings.

Despite all of the above, the Australia division grew both its revenues and operating margins versus the same period last year (a comparative period during which Australia experienced a much shorter and less-impactful lockdown compared to our European markets).

The Australian lockdowns have as of last month largely come to an end and we are anticipating a strong contribution to H2 as economies open and pent-up demand is released.

North America – acquisition of fast-growing brand and distribution capability

	H1 FY22 (14 weeks)
Revenue	£39.1 million
Underlying EBITDA	£2.6 million
EBITDA margin	6.6%

On 23 June we announced the expansion of our North American presence (previously based solely on exports from our European factories) with the acquisition of Cali Bamboo Holdings Inc. ("Cali"). Victoria's US strategy is to acquire good brands and *distribution* (not

manufacturing) businesses, which sell the same categories of product as the Group manufactures or sells in Europe. Significant demand exists for European flooring in the US and there are material synergy opportunities to be secured by integrating US distribution capability into our business.

Highlights in H1 include:

> Cali is, in itself, a high-growth business that has achieved an organic CAGR of 17% for the past five years via its omni-channel distribution model, resulting in revenues for the 12 months ended 30 April 2021 of US$171.6 million (£124.3m). Revenues for the 14 weeks under Victoria ownership in H1 were a very satisfying US$54.3 million (£39.1m), but more could have been achieved if supply constraints (primarily shipping) had not limited consumer access to product. Since the acquisition, Victoria has made some operational changes, which are expected to flow through to much better supply of product in H2.
>
> The integration of Cali into the Victoria Group is well underway with the preparation of artificial turf as an enlargement of the outdoor product offer. Along with outdoor flatwoven rugs, these 2 new categories will be introduced in Q4.
>
> More than 50% of Cali's revenues are in the US's highest growth (27.7% CAGR 2014-19)[6] flooring product category of LVT/LVP (Luxury Vinyl Tile/Luxury Vinyl Plank), with the balance consisting of engineered hardwoods, composite decking, and other items.
>
> Cali has incorporated Amazon as an advertising and sales channel, with revenues expected to start flowing in H2.

[6] *US Floor Report 2020*

CASHFLOW & LIQUIDITY

Net operating cash flow before interest, tax and exceptional items was again very good at £61.2 million for the half year ended 2 October.
Our operating management team anticipated possible supply chain issues earlier in the year and therefore invested heavily in raw materials to minimise the risk of any disruption to our manufacturing. This investment resulted in working capital increasing by £14.0 million, but it is temporary and will unwind as raw material levels return to normal levels when supply chains become more stable over the next few months. We manage working capital tightly (as we do all our capital) and are confident this investment was the right thing to do as it has enhanced our reputation as a reliable supplier of flooring when some of our competitors have struggled.

Victoria continued to maintain a strong liquidity position and the Group finished the period with cash and undrawn credit lines in excess of £280 million. Furthermore, almost all Victoria's debt financing takes the form of long-dated Senior Notes ("bonds") which, in themselves, have no financial maintenance covenants, with the earliest tranche not due for repayment until 2026.

OUTLOOK

Operations

The strong demand for flooring experienced this year has primarily come from existing home owners, motivated by spending more time in their homes, deciding to redecorate. However, the Board expects demand to continue next year and beyond, due to the high level of housing transactions that has been experienced in many of the Group's key markets this year. Housing sales are a good 12-18 month leading indicator of remodelling-led demand for flooring.

High savings rates – particularly of consumers that form Victoria's target market – are underpinning the demand for flooring and consequently, despite selling price increases, consumers are continuing to prioritise redecorating their home.

The integration of the acquisitions we have made this year are still at an early stage but are progressing well, and so the synergy gains that are expected as the integration work proceeds will drive further earnings and margin gains, helping to offset some of the inflationary pressures being experienced.

The Group's extensive Luxury Vinyl Tile ('LVT') product range continues to grow and now generates nearly 10% of Group revenues. After more than two decades in the European market, where it was invented, LVT continues to replace laminates and sheet vinyl as a floor-covering, rather than soft flooring and ceramic tiles whose market share has remained broadly unchanged for the last 15 years, comprising around 60% of flooring purchased in Victoria's primary markets.

Although the significant inflationary pressures experienced earlier in the year on many raw materials have eased somewhat, energy and other costs continue to rise. Therefore, the Group will continue to actively manage pricing with suppliers and customers, and re-engineering products to hit price points in the market to protect margins on a LFL basis. There is always a time lag in passing on costs, but the Group has demonstrated its pricing resilience over the last nine years with steadily increasing operating margins, despite a wide range of trading conditions.

We are acutely aware of the impact on inventory values of higher raw material costs and are closely monitoring inventory turn and holding levels to ensure we maintain an appropriate return on the capital employed in the business.

We plan to roll-out further initiatives in logistics to ensure we remain the leading company in order fulfilment, which makes retailers a little less sensitive to price increases – being able to fulfil a consumer's order is more important than the last few pennies on the cost of the product.

Acquisitions

Victoria has always been a disciplined and selective buyer – something that is reflected in the quality and pricing of the acquisitions it has made to date. This characteristic is even more important now, given the strong market for flooring products over the last 12 months and the buoyant merger and acquisition activity widely seen. With some of the multiples we see being paid by other companies, it will take years, if ever, for investors to see any sort of return on their capital. However, we value our capital highly and while we fully expect to conclude further acquisitions, shareholders can be assured that we will not overpay.

Regarding this policy, we are helped by the fact that Victoria is acknowledged in the industry as a reliable buyer, who will pay a fair price, move quickly and confidentially, and treat the business and its employees respectfully, post-completion. Consequently, we get to see a large number of opportunities, which means we are never under pressure to do a particular deal. If the valuation becomes too expensive, we will, without hesitation, move on to other opportunities.

CONCLUSION

In the short term, we expect inflation to continue to impact the cost of goods sold. Notwithstanding this, the fundamental outlook for the Group remains very positive given its historically proven capacity to maintain margins, demand for its products, synergies it expects to realise from the acquisitions it has made, and the opportunity it has to continue to make very meaningful acquisitions. Consequently, the Board expects the next 12 months to be another period of positive wealth creation for Victoria's shareholders.

Geoffrey Wilding
Executive Chairman

Philippe Hamers
Group Chief Executive

22 November 2021

Condensed Consolidated Income Statement

For the 26 weeks ended 2 October 2021 (unaudited)

		26 weeks ended 2 October 2021			27 weeks ended 3 October 2020 (restated)			53 weeks ended 3 April 2021 (audited)		
		Underlying performance	**Non-underlying items**	**Reported numbers**	Underlying performance	Non-underlying items	Reported numbers	Underlying performance	Non-underlying items	Reported numbers
	Notes	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Continuing Operations										
Revenue	3	**489.0**	**-**	**489.0**	305.5	-	305.5	662.3	-	662.3
Cost of Sales		**(315.6)**	**(4.7)**	**(320.3)**	(203.2)	-	(203.2)	(427.4)	-	(427.4)
Gross profit		**173.4**	**(4.7)**	**168.7**	102.3	-	102.3	234.9	-	234.9
Distribution costs		**(50.6)**	**-**	**(50.6)**	(36.0)	-	(36.0)	(74.8)	-	(74.8)
Administrative expenses		**(66.3)**	**(26.2)**	**(92.5)**	(39.6)	(17.5)	(57.1)	(84.2)	(33.9)	(118.1)
Other operating income		**2.1**	**-**	**2.1**	1.5	-	1.5	3.9	-	3.9
Operating profit		**58.6**	**(30.9)**	**27.7**	28.2	(17.5)	10.7	79.8	(33.9)	45.9
Comprising:										
Operating profit before credit losses, non-underlying and exceptional items		**59.4**	**-**	**59.4**	29.8	-	29.8	81.3	-	81.3
Increase in credit loss provision		**(0.8)**	**-**	**(0.8)**	(1.6)	-	(1.6)	(1.5)	-	(1.5)
Amortisation of acquired intangibles	4	**-**	**(16.0)**	**(16.0)**	-	(13.5)	(13.5)	-	(26.8)	(26.8)
Other non-underlying items	4	**-**	**(7.4)**	**(7.4)**	-	(0.6)	(0.6)	-	0.7	0.7
Other exceptional items	4	**-**	**(7.5)**	**(7.5)**	-	(3.4)	(3.4)	-	(7.8)	(7.8)
Finance costs	5	**(17.5)**	**(7.3)**	**(24.8)**	(14.5)	(0.9)	(15.4)	(29.7)	(23.7)	(53.4)
Comprising:										
Interest on loans and notes	5	**(14.2)**	**-**	**(14.2)**	(11.6)	(1.4)	(13.0)	(23.9)	(1.4)	(25.3)
Amortisation of prepaid finance costs and accrued interest	5	**(1.1)**	**-**	**(1.1)**	(1.3)	-	(1.3)	(2.6)	(7.3)	(9.9)
Unwinding of discount on right-of-use lease liabilities	5	**(2.2)**	**-**	**(2.2)**	(1.5)	-	(1.5)	(3.0)	-	(3.0)
Preferred equity items	5	**-**	**(10.4)**	**(10.4)**	-	-	-	-	(13.1)	(13.1)
Other finance items	5	**-**	**3.1**	**3.1**	(0.1)	0.5	0.4	(0.2)	(1.9)	(2.1)
Profit / (loss) before tax		**41.1**	**(38.2)**	**2.9**	13.7	(18.4)	(4.7)	50.1	(57.6)	(7.5)
Taxation (charge) / credit	6	**(10.3)**	**4.3**	**(6.0)**	(3.5)	4.3	0.8	(13.0)	23.3	10.3
Profit / (loss) for the period from continuing operations		**30.8**	**(33.9)**	**(3.1)**	10.2	(14.1)	(3.9)	37.1	(34.3)	2.8
(Loss) / earnings per share - pence basic	7			**(2.68)**			(3.11)			2.30
diluted	7			**(2.68)**			(3.11)			2.29

Condensed Consolidated Statement of Comprehensive Income

For the 26 weeks ended 2 October 2021 (unaudited)

	26 weeks ended 2 October 2021	27 weeks ended 3 October 2020 (restated)	53 weeks ended 3 April 2021 (audited)
	£m	£m	£m
(Loss) / profit for the period	**(3.1)**	(3.9)	2.8
Other comprehensive income / (expense)			
Items that will not be reclassified to profit or loss:			
Actuarial gain / (loss) on defined benefit pension scheme	**0.2**	(1.2)	(0.1)
Increase in deferred tax asset relating to pension scheme liability	**-**	0.2	-
Items that will not be reclassified to profit or loss	**0.2**	(1.0)	(0.1)
Items that may be reclassified subsequently to profit or loss:			
Retranslation of overseas subsidiaries	**1.3**	3.7	(6.1)
Items that may be reclassified subsequently to profit or loss	**1.3**	3.7	(6.1)
Other comprehensive income / (expense)	**1.5**	2.7	(6.2)
Total comprehensive expense for the period attributable to the owners of the parent	**(1.6)**	(1.2)	(3.4)

Condensed Consolidated Balance Sheet

As at 2 October 2021 (unaudited)

	2 October 2021	3 October 2020	3 April 2021
		(restated)	(audited)
	£m	£m	£m
Non-current assets			
Goodwill	**236.5**	176.0	164.8
Intangible assets other than goodwill	**263.5**	233.8	224.2
Property, plant and equipment	**234.0**	208.6	202.1
Right-of-use lease assets	**99.6**	73.4	82.6
Investment property	**0.2**	0.2	0.2
Deferred tax assets	**18.5**	5.3	17.2
Total non-current assets	**852.3**	697.3	691.1
Current assets			
Inventories	**241.4**	141.6	164.4
Trade and other receivables	**194.4**	140.9	150.1
Cash and cash equivalents	**178.3**	134.0	348.8
Total current assets	**614.1**	416.5	663.3
Total assets	**1,466.4**	1,113.8	1,354.4
Current liabilities			
Trade and other current payables	**285.3**	200.4	213.8
Current tax liabilities	**8.4**	0.6	5.1
Obligations under right-of-use leases - current	**14.4**	7.3	13.0
Other financial liabilities	**34.5**	7.0	30.2
Total current liabilities	**342.6**	215.3	262.1
Non-current liabilities			
Trade and other non-current payables	**12.8**	15.2	17.0
Obligations under right-of-use leases - non-current	**94.8**	71.6	74.0
Other non-current financial liabilities	**647.3**	495.7	647.5
Preferred equity	**77.8**	-	70.1
Preferred equity – contractually-linked warrants	**5.8**	-	6.1
Deferred tax liabilities	**71.6**	68.7	62.9
Retirement benefit obligations	**6.1**	7.5	6.5
Total non-current liabilities	**916.2**	658.7	884.1
Total liabilities	**1,258.8**	874.0	1,146.2
Net Assets	**207.6**	239.8	208.2
Equity			
Share capital	**6.3**	6.3	6.3
Share premium	**-**	288.7	-
Retained earnings	**195.8**	(67.6)	198.7
Foreign exchange reserve	**0.9**	9.4	(0.4)
Other reserves	**4.6**	3.0	3.6
Total equity	**207.6**	239.8	208.2

Condensed Consolidated Statement of Changes in Equity

For the 26 weeks ended 2 October 2021 (unaudited)

	Share capital £m	Share premium £m	Retained earnings £m	Foreign exchange reserve £m	Other reserves £m	Total equity £m
At 28 March 2020 (restated)	6.3	288.7	(62.7)	5.7	2.6	240.6
Profit for the period to 3 April 2021	-	-	2.8	-	-	2.8
Other comprehensive loss for the period	-	-	(0.1)	-	-	(0.1)
Retranslation of overseas subsidiaries	-	-	-	(6.1)	-	(6.1)
Total comprehensive loss	-	-	2.7	(6.1)	-	(3.4)
Cancellation of share premium account	-	(288.7)	288.7	-	-	-
Buy back of ordinary shares	-	-	(30.0)	-	-	(30.0)
Share-based payment charge	-	-	-	-	1.0	1.0
Transactions with owners	-	(288.7)	258.7	-	1.0	(29.0)
At 3 April 2021	6.3	-	198.7	(0.4)	3.6	208.2
Loss for the period to 2 October 2021	-	-	(3.1)	-	-	(3.1)
Other comprehensive income for the period	-	-	0.2	-	-	0.2
Retranslation of overseas subsidiaries	-	-	-	1.3	-	1.3
Total comprehensive loss	-	-	(2.9)	1.3	-	(1.6)
Share-based payment charge	-	-	-	-	1.0	1.0
Transactions with owners	-	-	-	-	1.0	0.9
At 2 October 2021	**6.3**	**-**	**195.8**	**0.9**	**4.6**	**207.6**

	Share capital £m	Share premium £m	Retained earnings £m	Foreign exchange reserve £m	Other reserves £m	Total equity £m
At 28 March 2020 (restated)	6.3	288.7	(62.7)	5.7	2.6	240.6
Loss for the period to 3 October 2020	-	-	(3.9)	-	-	(3.9)
Other comprehensive loss for the period	-	-	(1.0)	-	-	(1.0)
Retranslation of overseas subsidiaries	-	-	-	3.7	-	3.7
Total comprehensive loss	-	-	(4.9)	3.7	-	(1.2)
Share-based payment charge	-	-	-	-	0.4	0.4
Transactions with owners	-	-	-	-	0.4	0.4
At 3 October 2020 (restated)	**6.3**	**288.7**	**(67.6)**	**9.4**	**3.0**	**239.8**

Condensed Consolidated Statement of Cash Flows

For the 26 weeks ended 2 October 2021 (unaudited)

	26 weeks ended 2 October 2021 £m	27 weeks ended 3 October 2020 (restated) £m	53 weeks ended 3 April 2021 (audited) £m
Cash flows from operating activities			
Operating profit	**27.7**	10.7	45.9
Adjustments For:			
Depreciation and amortisation of IT software	**25.9**	24.2	47.7
Amortisation of acquired intangibles	**16.0**	13.5	26.8
Negative goodwill arising on acquisition	**-**	-	(6.5)
Amortisation of government grants	**(0.2)**	(0.3)	(0.5)
Profit on disposal of property, plant and equipment	**(0.1)**	(0.1)	(0.1)
Share incentive plan charge	**1.0**	0.5	1.0
Defined benefit pension	**(0.1)**	(0.1)	(0.1)
Net cash flow from operating activities before movements in working capital, tax and interest payments	**70.2**	48.4	114.2
Change in inventories	**(26.1)**	26.7	7.6
Change in trade and other receivables	**(14.0)**	1.3	(0.3)
Change in trade and other payables	**26.1**	(29.0)	(25.6)
Cash generated by continuing operations before tax and interest payments	**56.2**	47.4	95.9
Interest paid on loans and notes	**(16.1)**	(16.1)	(30.4)
Interest relating to right-of-use lease assets	**(2.2)**	(1.5)	(3.0)
Income taxes paid	**(6.6)**	(0.6)	(5.0)
Net cash inflow from operating activities	**31.3**	29.2	57.5
Investing activities			
Purchases of property, plant and equipment	**(29.9)**	(11.5)	(27.6)
Purchases of intangible assets	**(0.7)**	(0.3)	(0.9)
Proceeds on disposal of property, plant and equipment	**2.0**	0.5	1.2
Deferred consideration and acquisition-related performance plan payments	**(12.0)**	(10.0)	(15.6)
Acquisition of subsidiaries net of cash acquired	**(140.3)**	-	(2.8)
Net cash used in investing activities	**(180.9)**	(21.3)	(45.7)
Financing activities			
Increase in new borrowings, net of refinancing costs	**-**	-	303.7
Repayment of borrowings	**(23.4)**	(48.2)	(164.7)
Issue of preferred equity, net of refinancing costs	**-**	-	65.3
Buy back of ordinary shares	**-**	-	(30.0)
Payments under right-of-use lease obligations	**(6.7)**	(5.1)	(11.3)
Net cash (used) / generated in financing activities	**(30.1)**	(53.3)	163.0
Net (decrease) / increase in cash and cash equivalents	**(179.7)**	(45.4)	174.8
Cash and cash equivalents at beginning of period	**344.8**	174.7	174.7
Effect of foreign exchange rate changes	**2.9**	0.3	(4.7)
Cash and cash equivalents at end of period	**167.9**	129.6	344.8
Comprising:			
Cash and cash equivalents	**178.3**	134.0	348.8
Bank overdrafts	**(10.4)**	(4.4)	(4.0)
	167.9	129.6	344.8

Notes to the Condensed Half-year Financial Statements

For the 26 weeks ended 2 October 2021 (unaudited)

1. General information

These condensed consolidated interim financial statements for the 26 weeks ended 2 October 2021 have not been audited or reviewed by the Auditor. They were approved by the Board of Directors on 22 November 2021.

The information for the 53 weeks ended 3 April 2021 does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The Auditor's report on those accounts was unqualified and did not include a reference to any matter to which the Auditor drew attention by way of emphasis without qualifying the report and did not contain statements under Section 498(2) or 498(3) of the Companies Act 2006.

2. Basis of preparation and accounting policies

These condensed consolidated interim financial statements should be read in conjunction with the Group's financial statements for the 53 weeks ended 3 April 2021, which were prepared in accordance with IFRSs as adopted by the European Union.

These interim financial statements have been prepared on a consistent basis and in accordance with the accounting policies set out in the group's Annual Report and Financial Statements for the 53 weeks ended 3 April 2021.

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

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

Notes to the Condensed Half-year Financial Statements continued

For the 26 weeks ended 2 October 2021 (unaudited)

3. Segmental information

The Group is organised into four operating segments: soft flooring products in UK & Europe; ceramic tiles in UK & Europe; flooring products in Australia; and flooring products in North America. The Executive Board (which is collectively the Chief Operating Decision Maker) regularly reviews financial information for each of these operating segments in order to assess their performance and make decisions around strategy and resource allocation at this level.

The UK & Europe Soft Flooring segment comprises legal entities in the UK, Republic of Ireland, the Netherlands and Belgium, whose operations involve the manufacture and distribution of carpets, flooring underlay, artificial grass, LVT, and associated accessories. The UK & Europe Ceramic Tiles segment comprises legal entities primarily in Spain and Italy, whose operations involve the manufacture and distribution of wall and floor ceramic tiles. The Australia segment comprises legal entities in Australia, whose operations involve the manufacture and distribution of carpets, flooring underlay and LVT. The North America segment comprises legal entities in the USA, whose operations involve the distribution of hard flooring and LVT.

Whilst additional information has been provided in the operational review on sub-segment activities, discrete financial information on these activities is not regularly reported to the CODM for assessing performance or allocating resources.

No operating segments have been aggregated into reportable segments.
Both underlying operating profit and reported operating profit are reported to the Executive Board on a segmental basis.

Transactions between the reportable segments are made on an arm length's basis. The reportable segments exclude the results of non-revenue generating holding companies, including Victoria PLC. These entities' results have been included as unallocated central expenses in the tables below.

Income statement

	26 weeks ended 2 October 2021						27 weeks ended 3 October 2020 (restated)				
	UK & Europe Soft Flooring	UK & Europe Ceramic Tiles	Australia	North America	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	£m
Income statement											
Revenue	214.0	182.5	53.4	39.1	-	489.0	126.0	132.6	47.0	-	305.5
Underlying operating profit	27.0	25.9	4.8	2.1	(1.2)	58.6	10.2	15.2	3.8	(1.0)	28.2
Non-underlying operating items	(4.4)	(13.4)	(0.9)	(3.4)	(1.3)	(23.4)	(2.0)	(10.3)	(0.9)	(0.9)	(14.1)
Exceptional operating items	(4.0)	(1.7)	(0.1)	(1.5)	(0.2)	(7.5)	(1.6)	(1.7)	-	(0.1)	(3.4)
Operating profit	18.6	10.7	3.9	(2.8)	(2.7)	27.7	6.6	3.2	2.9	(2.0)	10.7
Underlying net finance costs						(17.5)					(14.5)
Non-underlying finance costs						(7.3)					(0.9)
Profit/ (loss) before tax						2.9					(4.7)
Tax (charge) / credit						(6.0)					0.8
Loss for the period						(3.1)					(3.9)

Notes to the Condensed Half-year Financial Statements continued

For the 26 weeks ended 2 October 2021 (unaudited)

3. Segmental information (continued)

	26 weeks ended 2 October 2021						27 weeks ended 3 October 2020				
	UK & Europe Soft Flooring	UK & Europe Ceramic Tiles	Australia	North America	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	£m
Depreciation and amortisation of IT software (including depreciation of right-of-use lease assets)	11.6	11.5	2.2	0.5	0.1	25.9	9.0	12.5	2.4	0.3	24.2
Amortisation of acquired intangibles	3.6	10.7	0.9	0.8	-	16.0	2.4	10.3	0.8	-	13.5
	15.2	22.2	3.1	1.3	0.1	41.9	11.4	22.8	3.2	0.3	37.7

	26 weeks ended 2 October 2021						27 weeks ended 3 October 2020				
	UK & Europe Soft Flooring	UK & Europe Ceramic Tiles	Australia	North America	Central	Total	UK & Europe Soft Flooring	UK & Europe Ceramic Tiles	Australia	Central	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Total capital expenditure (cashflow)	7.4	19.2	1.8	0.1	0.1	28.6	3.2	7.0	1.1	-	11.3

4. Exceptional and non-underlying items

	26 weeks ended 2 October 2021	27 weeks ended 3 October 2020 (restated)
	£m	£m
Exceptional items		
(a) Acquisition and disposal related costs	**(4.4)**	(0.4)
(b) Reorganisation and Covid-related exceptional costs	**(1.2)**	(3.0)
(c) Negative goodwill reversal	**(1.9)**	-
Total exceptional items	**(7.5)**	(3.4)
Non-underlying operating items		
(d) Acquisition-related performance plans	**(1.7)**	(0.1)
(e) Non-cash share incentive plan charge	**(1.0)**	(0.5)
(f) Amortisation of acquired intangibles	**(16.0)**	(13.5)
(g) Unwind of fair value uplift to acquisition opening inventory	**(4.7)**	-
	(23.4)	(14.1)

All exceptional items are classified within administrative expenses.

Notes to the Condensed Half-year Financial Statements continued

For the 26 weeks ended 2 October 2021 (unaudited)

4. Exceptional and non-underlying items (continued)

(a) One-off third-party professional fees in connection with prospecting and completing specific acquisitions during the period.

(b) One-off costs relating to a number of efficiency projects during the year, including post-acquisition integration activities in Italy and the closure of the Westex factory in West Yorkshire, of which the majority were redundancy costs. In the prior period, this figure included one-off expenditure relating to precautionary measures for health and safety in light of Covid-19. Other than redundancy payments these items relate entirely to exceptional third-party purchases and fees, and do not include any allocation of internal resources.

(c) Negative goodwill of £2.2m arising on the acquisition of Hanover was credited to the income statement during the prior period. In accordance with the terms of the contract, an adjustment to the cash consideration paid on completion was subsequently assessed and settled. This payment of £1.9m was made following the year end and is therefore recognised as a charge to the Income Statement in the period.

(d) Charge relating to the accrual of expected liability under acquisition-related performance plans (see Note 11 for further details).

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

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

(g) One-off charge reflecting the IFRS 3 fair value adjustment on inventory acquired on new business acquisitions, given this is not representative of the underlying performance of those businesses (see Note 9 for further details).

Notes to the Condensed Half-year Financial Statements continued

For the 26 weeks ended 2 October 2021 (unaudited)

5. Finance costs

	26 weeks ended 2 October 2021	27 weeks ended 3 October 2020 (restated)
	£m	£m
Underlying finance items		
Interest on bank facilities and notes	**13.8**	11.2
Interest on unsecured loans	**0.4**	0.4
Total interest on loans and notes	**14.2**	11.6
Amortisation of prepaid finance costs on loans and notes	**1.1**	1.3
Unwinding of discount on right-of-use lease liabilities	**2.2**	1.5
Net interest expense on defined benefit pensions	**-**	0.1
	17.5	14.5
Non-underlying finance items		
(a) Finance items related to preferred equity	**10.4**	-
Preferred equity related	**10.4**	-
(b) Other adjustments to present value of contingent earn-out liabilities	**-**	0.5
(c) Unwinding of present value of acquisition-related performance plans	**-**	0.6
Acquisitions related	**-**	1.1
(d) Interest on short-term draw of Group revolving credit facility	**-**	1.4
(e) Fair value adjustment to notes redemption option	**(1.1)**	(0.7)
(f) Unsecured loan redemption premium charge	**0.1**	-
(g) Mark to market adjustments and gains on foreign exchange forward contracts	**(2.4)**	2.6
(h) Translation difference on foreign currency loans	**0.3**	(3.5)
Other non-underlying	**(3.1)**	(0.2)
	7.3	0.9

(a) The net impact of non-cash items relating to preferred equity issued to Koch Equity Development during the prior year. This comprises: i) accrual of preferred dividends and other value movements of the host contract (£5.0m); ii) fair value adjustment to embedded derivative representing a cash settlement option (£1.8m); iii) amortisation of associated instrument representing the option to issue additional preferred equity (£0.9m); iv) fair value adjustment to contractually-linked warrants (credit: £0.3m); and v) 6% ticking fee on option to issue £100.0m additional preferred equity (£2.9m).

(b) Non-cash items relating to changes in contingent earn-out consideration arising from the evolution of actual and forecast financial performance of the relevant acquisitions during the prior period.

(c) Non-cash cost relating to unwinding of the present value discount on acquisition-related performance plans during the prior period.

Notes to the Condensed Half-year Financial Statements continued

For the 26 weeks ended 2 October 2021 (unaudited)

5. Finance costs (continued)

(d) Interest cost associated with the drawing of the Group's £75m revolving credit facility in March 2020, as a precautionary measure in response to the Coronavirus pandemic.

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

(f) Unsecured loan redemption premium charge – non-cash item relating to the £2.1 million redemption premium on the BGF loan.

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

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

6. Taxation

	26 weeks ended 2 October 2021	**27 weeks ended 3 October 2020**
	£m	£m
Current tax		
- Current year UK	**2.4**	-
- Current year overseas	**7.6**	1.1
	10.0	1.1
Deferred tax		
- Credit recognised in the current year	**(4.0)**	(1.9)
	(4.0)	(1.9)
Total tax charge / (credit)	**6.0**	(0.8)

Corporation tax is calculated at the applicable percentage of the estimated assessable profit for the year in each respective geography. This is 19% in the UK; 25% in the Netherlands and Spain; 27.9% in Italy; 30% in Australia; 29% in Belgium; 12.5% in Ireland an 26% in North America.

The overall effective corporation tax rate on underlying profit is 25.0% (2020: 25.5%), representing the best estimate of the weighted average annual corporation tax rate expected for the full financial year.

Notes to the Condensed Half-year Financial Statements continued

For the 26 weeks ended 2 October 2021 (unaudited)

7. Earnings per share

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

	26 weeks ended 2 October 2021		27 weeks ended 3 October 2020	
	Basic	Adjusted	Basic (restated)	Adjusted (restated)
	£m	£m	£m	£m
Loss attributable to ordinary equity holders of the parent entity	(3.1)	(3.1)	(3.9)	(3.9)
Exceptional and non-underlying items:				
Income statement impact of preferred equity	-	10.4	-	-
Amortisation of acquired intangibles	-	16.0	-	13.5
Other non-underlying items	-	7.4	-	0.6
Other exceptional items	-	7.5	-	3.4
Interest on short -term draw of Group revolving credit facility	-	-	-	1.4
Fair value adjustment to notes redemption option	-	(1.1)	-	(0.7)
Translation difference on foreign currency loans	-	0.3	-	(3.5)
Other non-underlying finance items	-	(2.3)	-	3.7
Tax effect on adjusted items where applicable	-	(4.3)	-	(4.3)
(Loss) / earnings for the purpose of basic and adjusted earnings per share from continuing operations	(3.1)	30.8	(3.9)	10.2
(Loss) / earnings for the purpose of basic and adjusted earnings per share	(3.1)	30.8	(3.9)	10.2

Weighted average number of shares	26 weeks ended 2 October 2021	27 weeks ended 3 October 2020
	Number of shares (000's)	Number of shares (000's)
Weighted average number of shares for the purpose of basic and adjusted earnings per share	116,852	125,398
Effect of dilutive potential ordinary shares:		
Share options	1,657	625
Weighted average number of ordinary shares for the purposes of diluted earnings per share	118,509	126,023
Preferred equity and contractually-linked warrants	7,990	-
Weighted average number of ordinary shares for the purposes of diluted adjusted earnings per share	126,499	126,023

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

Notes to the Condensed Half-year Financial Statements continued

For the 26 weeks ended 2 October 2021 (unaudited)

7. Earnings per share (continued)

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

	26 weeks ended 2 October 2021	27 weeks ended 3 October 2020 (restated)
	Pence	Pence
Earnings / (loss) per share		
Basic loss per share	**(2.68)**	(3.11)
Diluted loss per share	**(2.68)**	(3.11)
Basic adjusted earnings per share	**26.32**	8.13
Diluted adjusted earnings per share	**24.32**	8.09

Diluted earnings per share for the period is not adjusted for the impact of the potential future conversion of preferred equity due to this instrument having an anti-dilutive effect, whereby the positive impact of adding back the associated financial costs to earnings outweighs the dilutive impact of conversion/exercise. Diluted adjusted earnings per share does take into account the impact of this instrument as shown in the table above setting out the weighted average number of shares.

8. Rates of Exchange

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

	26 weeks ended 2 October 2021	27 weeks ended 3 October 2020	53 weeks ended 2 Apr 2021
Australia (A$) - average rate	**1.8161**	1.8665	1.8049
Australia (A$) - period end	**1.8649**	1.8053	1.8377
Europe (€) - average rate	**1.1659**	1.1151	1.1344
Europe (€) - period end	**1.1683**	1.1038	1.1624
USD ($) - average rate	**1.3849**	N/A	N/A
USD ($) - period end	**1.3545**	N/A	N/A

Notes to the Condensed Half-year Financial Statements continued

For the 26 weeks ended 2 October 2021 (unaudited)

9. Acquisition of subsidiaries

(a) Colli and Vallelunga

On 21 April 2021 the Group completed the purchase of the business and assets of ceramic tile distributors, Ceramica Colli and Vallelunga.

Located near Victoria's existing Italian operations, these successful, growing brands bring significant additional spare production capacity and enable continued growth in Victoria's already established Italian ceramics business through the utilisation of that spare production capacity.

The total cash consideration for Ceramica Colli and Vallelunga was €15.3m (£13.3m[1]).

The valuation exercise to identify intangible assets acquired, as required under IFRS3, has been provisionally applied as at the half year. The final valuation will be reflected in the Annual Report and Accounts for the Group for the year ending 2 April 2022 together with the appropriate IFRS 3 disclosures. Identifiable net assets with a total fair value of €13.6m (£11.8m[1]) and goodwill of €1.7m (£1.5m[1]) have provisionally been recognised in the opening balance sheet.

Within net assets we have provisionally recognised €1.4m (£1.3m[1]) in relation to the fair value uplift of inventory in accordance with IFRS 3. The fair value has been assessed as the estimated selling price less any estimated selling costs, therefore by definition no operating profit is recognised on sale of the opening inventory. As of 2 October 2021, all of the applicable inventory had been sold. Given the resulting uplift in cost of sales is not representative of the underlying performance of the business in relation to the actual costs incurred in acquiring and producing the inventory, but instead represents the one-off impact of this fair value accounting adjustment within the purchase price allocation, this uplift has been separately disclosed as an exceptional cost.

Notes to the Condensed Half-year Financial Statements continued

For the 26 weeks ended 2 October 2021 (unaudited)

9. Acquisition of subsidiaries (continued)

(b) Ceramiche Santa Maria

On 21 April 2021 the Group acquired 100% of the equity of the Italian ceramic tile manufacturer, Ceramiche Santa Maria.

The purchase of Santa Maria will further support the growth in our Italian ceramics brands.

The total cash consideration of €8.5m (£7.3m[1]) was paid on completion.

The valuation exercise to identify intangible assets acquired, as required under IFRS3, has been provisionally applied as at the half year. The final valuation will be reflected in the Annual Report and Accounts for the Group for the year ending 2 April 2022 together with the appropriate IFRS 3 disclosures. Identifiable net assets with a total fair value of €7.8m (£6.7m[1]) and goodwill of €0.7m (£0.6m[1]) have provisionally been recognised in the opening balance sheet.

[1] *Applying the GBP to EUR exchange rate at the date of acquisition of 1.1573.*

Notes to the Condensed Half-year Financial Statements continued

For the 26 weeks ended 2 October 2021 (unaudited)

9. Acquisition of subsidiaries (continued)

(c) Edel Group

On 4 May 2021 the Group acquired 100% of the equity of Edel Group BV ("Edel"), Netherlands-based designers, manufacturers, and distributers of artificial grass and carpets.

Established in 1918, Edel primarily supplies artificial grass for domestic and landscaping purposes across Europe, a market in which Victoria already has a strong presence following its February 2017 acquisitions of Avalon and GrassInc.

Consideration of €49.8m (£43.1m[2]) was paid in cash on completion.

The valuation exercise to identify intangible assets acquired, as required under IFRS3, has been provisionally applied as at the half year. The final valuation will be reflected in the Annual Report and Accounts for the Group for the year ending 2 April 2022 together with the appropriate IFRS 3 disclosures. Identifiable net assets with a total fair value of €13.1m (£11.4m[2]) and goodwill of €36.7m (£31.7m[2]) have provisionally been recognised in the opening balance sheet.

Within net assets we have provisionally recognised €1.0m (£0.9m[2]) in relation to the fair value uplift of inventory in accordance with IFRS 3. The fair value has been assessed as the estimated selling price less any estimated selling costs, therefore by definition no operating profit is recognised on sale of the opening inventory. As of 2 October 2021, all of the applicable inventory had been sold. Given the resulting uplift in cost of sales is not representative of the underlying performance of the business in relation to the actual costs incurred in acquiring and producing the inventory, but instead represents the one-off impact of this fair value accounting adjustment within the purchase price allocation, this uplift has been separately disclosed as an exceptional cost.

Subsequently, on 17 August 2021 the Group acquired 100% of the equity of Edel Grass.

Consideration of €6.1m (£5.2m[3]) was paid in cash on completion.

The valuation exercise to identify intangible assets acquired, as required under IFRS3, has been provisionally applied as at the half year. The final valuation will be reflected in the Annual Report and Accounts for the Group for the year ending 2 April 2022 together with the appropriate IFRS 3 disclosures. Identifiable net assets with a total fair value of €4.7m (£4.0m[3]) and therefore goodwill of €1.4m (£1.2m[3]) have provisionally been recognised in the opening balance sheet.

[2] *Applying the GBP to EUR exchange rate at the date of acquisition of 1.1561.*

[3] *Applying the GBP to EUR exchange rate at the date of acquisition of 1.1675.*

Notes to the Condensed Half-year Financial Statements continued

For the 26 weeks ended 2 October 2021 (unaudited)

9. Acquisition of subsidiaries (continued)

(d) Cali Bamboo Holdings Inc

On 23 June 2021 the Group acquired 100% of the equity of Cali Bamboo Holdings Inc. ("Cali").

Cali is a multi-channel US flooring distributor with the majority of revenue generated through sales of luxury vinyl tile / luxury vinyl plank, along with engineered hardwood, composite decking and other items.

Total consideration of Cali was $112.1m (£80.3m[4]). The consideration of $111.6m (£79.9m[4]) was paid in cash on completion and $0.5m (£0.4m[4]) was paid subsequently in November 2021 as a closing cash adjustment. The total consideration paid included repayment of existing debt at time of acquisition.

The valuation exercise to identify intangible assets acquired, as required under IFRS3, has been provisionally applied as at the half year. The final valuation will be reflected in the Annual Report and Accounts for the Group for the year ending 2 April 2022 together with the appropriate IFRS 3 disclosures. Identifiable net assets with a total fair value of $62.1m (£44.5m[4]) and goodwill of $50.0m (£35.8m[4]) have provisionally been recognised in the opening balance sheet.

Within net assets we have provisionally recognised $3.6m (£2.6m[4]) in relation to the fair value uplift of inventory in accordance with IFRS 3. The fair value has been assessed as the estimated selling price less any estimated selling costs, therefore by definition no operating profit is recognised on sale of the opening inventory. As of 2 October 2021, all of the applicable inventory had been sold. Given the resulting uplift in cost of sales is not representative of the underlying performance of the business in relation to the actual costs incurred in acquiring and producing the inventory, but instead represents the one-off impact of this fair value accounting adjustment within the purchase price allocation, this uplift has been separately disclosed as an exceptional cost.

[4] *Applying the GBP to USD exchange rate at the date of acquisition of 1.3967.*

Notes to the Condensed Half-year Financial Statements continued

For the 26 weeks ended 2 October 2021 (unaudited)

10. Post balance sheet events

Acquisitions of B3 Ceramics Danismanlik ("Graniser")

On 10 November 2021 the Group signed a definitive agreement to acquire the shares of Turkish ceramic tile manufacturer and exporter, B3 Ceramics Danismanlik ("Graniser") for total cash consideration of €8.4 million (£7.1m[1]), which will be funded entirely from the Group's cash balances. In addition, Graniser has approximately €39.8 million (c. £33.7m[1]) of net debt (including shareholder loans), which will be repaid on completion. For the 12 months ended 31 December 2020, Graniser generated audited revenues of €59.3 million[2] (c. £52.8m[2]). Current normalised EBITDA is approximately €9 million (c. £7.7m[1]). Completion is subject to procedural approval by the Turkish competition authorities and is expected to take place in January 2022.

[1] Converted to GBP at a rate of 1.18 GBP/EUR.

[2] 2020 Revenue of 477.1mm Turkish Lira converted to EUR and GBP at 2020 average rate of 8.04 TL/EUR and 9.03 TL/GBP, respectively.

11. Restatement of acquisition accounting

The prior period income statement, balance sheet, cash flow statement and related other statements and notes have been re-stated to reflect a change in accounting treatment of the contingent earn-out consideration payable on certain historical acquisitions. Earn-outs are deferred elements of consideration, typically paid in cash over a three to four-year period following acquisition, that are contingent on the financial performance of the target business meeting certain pre-determined targets over that period.

This accounting change has no impact on the underlying results, the cash flow or the tax position of the Group.

Whilst earn-outs form part of the purchase price that was negotiated in the past with each respective seller, and are contractually payments in exchange for the shares or assets of a business, on review of developing and developed guidance regarding interpretation of the relevant standards (including revisiting our assessment of IFRS Interpretations Committee decision “IFRS 3 Business Combinations—Continuing employment”) the Group has remedied the accounting treatment of these items where leaver provisions exist that result in the earn-out effectively being contingent on the continued employment of the seller(s) following the acquisition. This is relevant where the leaver provisions included in the acquisition agreement result in a “good leaver” scenario being highly unlikely or outside the control of the seller (a good leaver scenario is where the seller is able to leave employment but still retain all or a proportion of their unpaid earn-out). Such leaver provisions are included in our acquisitions in order to protect the goodwill being acquired over the first few years of ownership.

Notes to the Condensed Half-year Financial Statements continued

For the 26 weeks ended 2 October 2021 (unaudited)

11. Restatement of acquisition accounting (continued)

However, in accordance with the IFRS interpretation noted above, in such circumstances the relevant earnouts are now being treating as non-underlying remuneration costs, accrued over the earn-out period (i.e. the period over which the effective employment condition is applicable). Previously they were fully recognised at fair value at the point of acquisition, thereby forming part of goodwill.

The restatement resulted in the prior period loss of £2.1m increasing by £1.8m to a restated loss of £3.9m. Net assets decreased by £21.9m from £261.7m to £239.8m with the majority of the decrease being within goodwill.

For further details of the restatement of acquisition accounting and impacts to prior periods statements see note 29 of the Annual Report and Accounts for the year ended 3 April 2021.

On behalf of the Board

Geoffrey Wilding
Executive Chairman

22 November 2021

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