

5 September 2023

Headlam Group plc
(‘Headlam’, the ‘Company’, the ‘Group’)

Half Year Results

Revenue growth and good cash generation; profits lower due to macro and industry headwinds

Headlam Group plc (LSE: HEAD), the UK's leading floorcoverings distributor, today announces its results in respect of the first six months of the year to 30 June 2023 (the ‘Period’).

Financial overview

- Revenue up 2.5% at £331.8 million despite challenging market backdrop with UK volumes 5% lower
- Revenue contributions from strategic initiatives successfully offsetting regional distribution decline
- Underlying Profit Before Tax of £6.0 million (H1 2022: £17.3 million) principally impacted by the macro and industry headwinds of lower residential trading volumes and high operating cost inflation
- Efficiency and mitigating actions contributed £5.0 million of benefit in the first half, expected to build in H2
- Strong cash generation with £19.8 million of positive Underlying Operating Cash Flow (H1 2022: £15.4 million outflow)
- Interim ordinary dividend of 4.0 pence (2022: 6.2 pence interim ordinary dividend); cover lowered to 1.5x reflecting confidence for future and strong balance sheet

Operational and strategic highlights

- Strategic-related investments on trade counters, people and capability, and improvements to network
- Strong revenue growth from Larger Customers and Trade Counters, up 26.5% and 8.5% respectively
- Own Product Brand revenue up 7.4%, supported by successful launch of Everyroom brand in H2 last year

Current trading and outlook

- UK volumes in July and August 2023 broadly in line with expectations
- Full year 2023 expectations unchanged
- Macroeconomic and industry headwinds likely to continue in 2024
- With rolling annual volumes currently 20% lower than 2019, volumes expected to significantly improve over the medium-term providing opportunity for material uplift to profit due to high operational gearing
- Future profitability also supported by strategic initiatives maturing

Commenting, Chris Payne, Chief Executive, said:

"I am pleased to say the Group delivered revenue growth and good cash generation in the first half, particularly in the strategic growth areas with strong growth in larger customers and trade counters. However, the macroeconomic and industry headwinds that drove residential volumes, and our first half profit, lower are likely to persist into 2024. Despite this, the continued investment in broadening Headlam's business base will provide the foundation for significant profit uplift in the coming years as the market improves."

Presentations

The Group's half year presentation that accompanies this announcement is available on its website at www.headlam.com

The Group will be hosting an in-person presentation for analysts in London today at 10.00am UK time at the offices of Peel Hunt LLP. To register interest in attending, please email: headlamgroup@headlam.com

The Group will also be hosting an online presentation and Q&A for investors today at 11.30am UK time. The presentation is open to all existing and potential shareholders. Investors can register to attend by clicking on this link:

https://bit.ly/HEAD_H1_23_webinar

A video of the presentation by the Chief Executive and Chief Financial Officer will be made available on the Group's website following the conclusion of the investor presentation, with the Q&A from the online presentation also made available.

Footnotes

- To supplement IFRS reporting, we also present our results on an underlying basis to show the performance of the business before non-underlying items. These items are detailed in note 3 and principally comprise amortisation of acquired intangibles and other acquisition-related costs and insurance proceeds (following fire). These underlying measures, along with other alternative financial measures including debt and cash flow metrics, form the Group's Alternative Performance Measures (APMs) that are used internally by management as key measures to assess performance. Further explanation in relation to these measures can be found in the glossary of APMs following the Financial Review section of this announcement.
- Company-compiled consensus market expectations for revenue and underlying profit before tax, on a mean basis, are available on the Group's website at www.headlam.com

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Notes to Editors

Operating for over 30 years, Headlam is the UK's leading floorcoverings distributor. The Group works with suppliers across the globe manufacturing the broadest range of products, and gives them a highly effective route to market, selling their products into the large and diverse trade customer base. The Group has an extensive customer base spanning independent and multiple retailers, small and large contractors, and housebuilders. It provides its customers with a market leading service through the largest product range, in-depth knowledge, ecommerce and marketing support, and nationwide next day delivery service. To maximise customer reach and sales opportunity, Headlam operates 68 businesses and trade brands across the UK and Continental Europe (France and the Netherlands), which are supported by the group's network, central resources and processes.

Chief Executive's Review

Introduction and Market Backdrop

2023 has been a challenging year so far for the flooring market which reflects a number of macroeconomic indicators, including: lower RMI (residential maintenance and improvement) spend, a reduction in housing completions; and a decline in residential consumer spending.

Despite this market backdrop, the Group has continued to deliver on its strategy, and achieved both revenue and market share growth in the Period. However, profitability was significantly impacted by the industry headwinds of volume decline and cost inflation, partially offset by the mitigating actions that we have taken.

We have continued to make investments across the business to support future growth, which positions the Group favourably as volumes recover. The Group's UK volumes are now around 20% lower (on a rolling 12-month basis) than in 2019, and therefore are expected to improve significantly over the coming years. This provides a strong opportunity for material profit improvement over the medium term, reflecting the Group's relatively high operational gearing.

Financial Performance Summary

Revenue was up 2.5% at £331.8 million despite the challenging market backdrop due to revenue contributions from the strategic initiatives. However, profitability was significantly impacted by the macro and industry headwinds of lower residential trading volumes, limited manufacturer-led price increases, and high operating cost inflation. Underlying Profit Before Tax was £6.0 million (H1 2022: £17.3 million), and included some positive contributions from mitigating actions implemented in the Period including reducing operational headcount and other cost savings, and targeted price increases on certain products. These actions will build in the second half and into 2024.

Cash generation was strong with £19.8 million of positive Underlying Operating Cash Flow (H1 2022: £15.4 million outflow). During the Period the Group invested £10.1 million in capital expenditure (H1 2022: £2.8 million) and £3.7 million in relation to the acquisition of Melrose Interiors, and returned a total of £14.2 million of cash to shareholders, comprising the £9.0 million 2022 final ordinary dividend payment in June 2023 and £5.2 million in relation to the share buyback programme which completed in March 2023. Net debt excluding lease liabilities was £19.6 million at 30 June 2023 (31 December 2022: £1.8 million net funds excluding lease liabilities) and represented Leverage of 0.5x.

Full detail of the Group's financial performance is given in the Chief Financial Officer's Review, including a breakdown of the movement in year-on-year profit.

Strategy and Strategic Progress

Despite the macro and industry headwinds impacting overall financial performance, the strategic growth initiatives delivered good results in the Period. Revenue from Larger Customers and Trade Counters, the two main revenue growth drivers, was up 26.5% and 8.5% respectively in the Period compared with H1 2022.

Revenue attributable to Larger Customers was £39.0 million in the Period (H1 2022: £30.9 million). This reflects the building of new and existing customer relationships, and evidences the scalability with each through fulfilling an increasing number of SKUs. Newer customer relationships include Screwfix, the UK's leading retailer of trade tools, accessories and hardware products.

12 trade counters were opened, relocated or refitted ('invested') in the Period, with 59 trade counters at Period end of which 36 were invested (31 December 2022: 58 total, 24 invested). Invested sites are collectively performing in line with the business case and a further 11 are planned to be invested in before the end of 2023, with the aim of 47 invested sites out of a total 66 by 31 December 2023. Revenue in the Period was £45.9 million (H1 2022: £42.3 million) and over 1,000 customer accounts were opened across the business unit in the Period. The Group has also been able to reduce the capital investment required to open a typical new site by around 15%. The positive performance of the invested sites to date along with further modelling of the optimal geographic footprint, means we are now targeting a total of around 100 trade counters by the end of 2025 (an increase from 90 previously). This remains subject to new site performance continuing to be in line with the business case. As previously stated, due to the upfront investment required and modelled sales profile, the business unit is expected to be year-on-year profit diluting to the Group in 2023 and 2024, and then profit enhancing from 2025 onwards.

Whilst overall residential volumes in the UK were 7% down in the Period compared to H1 2022, revenue from Own Product Brands, which are mainly residential focused, was up 7.4% at £72.5 million, supported by the successful launch of the Group's newest brand Everyroom in the second half of last year.

Efficiencies and Mitigating Actions

Alongside progressing the strategic initiatives, the Group has implemented further efficiency and mitigating actions during 2023, to support margins and better align costs with the market backdrop. These include reducing operational headcount, other cost control actions, implementing targeted price increases, and transport centralisation and dynamic route planning. This last action will enable a significant reduction in vehicle and associated costs over the coming months.

Efficiency and mitigating actions contributed £5.0 million in H1 2023, providing a partial offset against the impact of volume decline and operational cost inflation, and these benefits are expected to build in H2.

Acquisitions

The Group has completed the acquisition of Melrose Interiors, a leading UK trade flooring supplier, in March 2023.

The Group continues to actively assess M&A which supports and accelerates its strategy. Following the acquisition of Melrose Interiors in the first half of the year, the Group has made two further small acquisitions in H2 2023 to date; one in the Netherlands, integrated into our existing businesses and providing an increased product range, and the other in the UK which enables in-house sampling production. The latter is being integrated into the nearby Melrose Interiors site. Collectively, the purchase price for the two acquisitions is £2.3 million.

Dividend

As announced within the July 2023 Trading Update, reflecting both confidence for the future and the strong balance sheet, the Group intends to temporarily lower its dividend cover in respect of the ordinary dividend. In line with this, the Group is declaring an interim ordinary dividend of 4.0 pence per share (2022: 6.2 pence interim ordinary dividend), representing a dividend cover of 1.5x compared to underlying basic earnings per share. The Group intends to retain this lower level of cover through 2023 and 2024, and then re-evaluate with a view to potentially building back to 2.0x cover as the market and Group earnings improve.

Capital Allocation

The Group has reviewed and refreshed its capital allocation framework and policy on leverage levels with the intent of furthering value creation and more effectively utilising, whilst also maintaining, its strong balance sheet. Due to the cash generative nature of the business and relatively low capital requirements (including in relation to the strategic initiatives), the Group is able to consider ordinary dividends, other shareholder returns, investments, and M&A concurrently while maintaining a strong balance sheet. Ordinary dividends remain the first method of shareholder return.

Following the review, we are making two changes:

- a medium-term average target Leverage range of 0.5-1.0x Net Debt to EBITDA (on a pre-IFRS16 basis, i.e. excluding capitalised leases); and,
- equal prioritisation given to share buybacks, M&A, and special dividends, with the choice at any given time dependent on both market conditions and available opportunities.

The target Leverage range is considered prudent by the Board and has been set with reference to the balance sheet underpin provided by the Group's substantial freehold property portfolio (with an independent market valuation of £148.8 million at January 2023) plus its inventory position (£147.5 million at 30 June 2023), and the strong cash generation characteristics of the business, whilst also recognising the increased cost of debt compared to recent years. Any substantial potential acquisition funded in part or mainly by cash could potentially result in temporarily going above the target Leverage range, but with the intention of reverting back to the range in a reasonable timescale.

Sustainability and ESG Strategy

The ongoing progression and development of the Group's ESG Strategy is closely aligned with the Group's purpose, mission, values, and overall strategy. The Group continues to receive positive stakeholder feedback and 'low risk' ESG scores from rating agencies.

The key updates during the Period are:

- **Environmental:** the Group has previously set Net Zero and SBTi aligned interim targets for Scope 1 and 2 emissions, and has now formally notified SBTi of its intention to submit Net Zero and interim targets for Scope 1, 2 and 3 emissions for validation. It is currently intended that this will happen in H2 2024 following an updated assessment and publication of its 2023 Scope 1, 2 and 3 emissions within its 2023 Annual Report in H1 2024.
 - **Social:** the key current undertakings include i) creating a comprehensive learning and development plan; ii) improving two-way communication including through an employee survey; iii) rolling out its Inclusion and Wellbeing strategy; iv) and mental health training and support.
- Governance: to reflect safety being the number one value in the "Headlam Way" the Group engaged the services of DSS+ to focus on developing a Health and Safety culture including the roll out of H&S "felt leadership" training across the UK leadership teams.

Current trading and outlook

Trading in July and August 2023 has been broadly in line with expectations. Furthermore, we have made good progress in implementing mitigations. As such, management's expectations for the full year are unchanged.

Looking ahead, the ongoing macroeconomic and industry headwinds are likely to prevail into 2024, with suppressed residential consumer spending continuing. However, the medium-term market outlook is strong; annual volumes are currently around 20% lower than in 2019 and we expect volumes to improve significantly over the coming years. This, combined with the increasing benefits as the strategic initiatives mature, provides opportunities for material profit improvement over the medium term including as a consequence of high operational gearing. Furthermore, the cash requirement, albeit relatively modest, from the strategic initiatives is anticipated to reduce, providing a further boost to cash generation.

The Group is well positioned despite the market backdrop, with ongoing expansion of its market leading position, broadening of its market presence, increased revenue streams, and ongoing efficiencies. All of which will support future financial performance, particularly as volumes return and as upfront strategic investment moderates.

The Board thanks all of the Group's colleagues for their continued hard work, particularly in this challenging period for the wider industry.

Chris Payne

Chief Executive

5 September 2023

Chief Financial Officer's Review

Revenue

Total revenue in the Period increased by 2.5% to £331.8 million (H1 2022: £323.8 million), with a 3.3% uplift in the UK offset by a 2.9% decline in Continental Europe (France and The Netherlands) as shown in the table below. The UK and Continental Europe accounted for 87.1% and 12.9% of total revenue respectively in the Period (H1 2022: UK 86.3%; Continental Europe 13.7%).

	H1 2023 £m	H1 2022 £m	Year-on-year %
Larger Customers	39.0	30.9	26.5%
Trade Counters	45.9	42.3	8.5%
Regional Distribution	190.6	196.2	(2.6)%
Other	13.4	10.2	31.4%

UK	288.9	279.6	3.3%
Europe	42.9	44.2	(2.9)%
Group	331.8	323.8	2.5%

For the Group as a whole, commercial sector revenue increased by 7.0%, whilst residential sector revenue increased by 0.2%. Commercial sector revenue accounted for 35.1% of total revenue in the Period (H1 2022: 33.6%) and residential revenue accounted for 64.9% (H1 2022: 66.4%).

Within the UK, commercial sector revenue increased by 8.4%, as it continued its more buoyant performance following very subdued activity during and in the aftermath of Covid-19. Residential sector revenue increased by 0.9%, comprising a volume decline of 7% offset by price increases - principally the annualisation of significant manufacturer-led price increases during 2022. Continental Europe saw a similar trend by the two sectors with commercial sector revenue down just 0.6% but residential revenue declining by 4.4%.

Gross Margin

The reduction in manufacturer-led price increases and lower residential volumes had a significant impact on gross margin in H1 2023 compared to the previous year. Gross margin in the Period was 31.5% (H1 2022: 33.7%) and improved sequentially during the Period.

As previously detailed, gross margin in 2022 was temporarily elevated by the proliferation of manufacturer-led price increases due to the unprecedented inflationary environment. During the Period there have been limited manufacturer-led price increases and the Group had already sold through the stock it was holding at the pre-increase prices. Accordingly, gross margin has returned to the levels previously reported prior to 2021 and 2022.

Costs

Operating costs increased by 6.1% (£5.6 million) to £96.7 million (H1 2022: £91.1 million). £1.9 million of this related to Melrose Interiors. On a like-for-like basis, operating costs increased by 4.1% (£3.7 million). This reflected a combination of inflationary pressures and strategic investments, partially offset by cost efficiencies, as set out below:

	Operating costs £m
H1 2022	91.1
Melrose Interiors	1.9
Payroll cost inflation	2.9
Energy cost inflation	1.4
Other cost inflation	1.5
Strategic investments	1.4
Cost efficiencies and savings	(3.5)
H1 2023	96.7

Payroll inflation averaged 6.7% year-on-year, contributing £2.9 million of increased cost. Energy costs increased by £1.4 million, reflecting the end of the previous fixed rate contract in the UK in September 2022 (in which prices had been fixed prior to the Ukraine war and hence were much lower than spot rates). Other cost inflation contributed £1.5 million of additional cost.

The Group also made strategic investments, including the roll-out of trade counters along with investments in capability and resource to deliver on the other strategic growth areas.

Operational cost savings in H1 2023 amounted to £3.5 million. These included lower operational headcount (to better align with the lower year-on-year volumes), cost savings from transport consolidation and lower bonus accruals. These savings initiatives will continue into H2 2023 and be supplemented by savings in relation to the implementation of dynamic planning in the transport network and the renegotiation of energy contracts.

Underlying Profit

Underlying Operating Profit of £8.2 million (H1 2022: £17.9 million) was a reduction of £9.7 million and reflected the decline in volumes, normalisation in gross margin, cost inflation, and strategic investments, as explained above. Consequently, operating profit margin was 2.5% in H1 2023 (H1 2022: 5.5%). The table below breaks down the year-on-year movement:

	Underlying Operating Profit £m
H1 2022	17.9
Volume	(4.0)
Unwind of prior year impact of manufacturer-led price increases	(3.1)
Strategic investments	(1.8)
Cost inflation	(5.8)
Mitigating actions	5.0
H1 2023	8.2

Volume decline contributed to a £4.0 million reduction in profit; volumes were 5% lower year-on-year in the UK business (residential and commercial combined) and even lower in Continental Europe. This was net of volume growth from Larger Customers and Trade Counters.

As explained above, the lack of manufacturer-led price increases resulted in a return in gross margin back to pre-2021 levels. This equated to an adverse £3.1 million profit impact in the Period.

Strategic investments also contributed to a £1.8 million reduction in profit. These investments comprised: a new dedicated management team for the Trade Counter business unit; the operating losses on newly invested Trade Counters; and incremental investments in people and capability to deliver on other elements of the strategy (including digital, brand and customer enhancements).

Cost inflation was a £5.8 million headwind as explained above. Mitigating actions provided £5.0 million of offsetting benefit. These actions included cost savings plus targeted price increases on certain ranges.

Interest costs of £2.2 million (H1 2022: £0.6 million) were £1.6 million higher year-on-year reflecting higher average borrowings, principally due to the deployment of surplus capital last year by way of a special dividend and share buybacks, combined with the base rate increases.

Reflecting the movement in Underlying Operating Profit explained above, and the increase in interest costs, Underlying Profit

Before Tax reduced to £6.0 million in the Period (H1 2022: £17.3 million).

The Group's profit performance is traditionally second half weighted, but is expected to be more so in 2023 due to the following factors:

- volume performance: UK volume declined 5% in H1 2023, which we anticipate to improve to be broadly flat year-on-year in H2 2023, reflecting a stabilisation in the decline trend combined with softer comparatives, particularly in Q4 2023;
- annualisation of the manufacturer-led price increase impact as we progress through H2, resulting in a lower headwind from the normalisation in gross margin;
- targeted price increases implemented during Q2 2023; and,
- cost savings, including the implementation of national transport and dynamic planning, the renegotiation of energy contracts and lower electricity consumption as a result of solar panel installations.

Non-Underlying Items

Non-underlying items before tax in the Period totalled £1.5 million (H1 2022: £4.3m credit largely related to the Kiddeminster insurance claim) and related to amortisation of acquired intangibles and other acquisition-related costs, of which £1.3 million were non-cash in nature.

Non-underlying items are expected to increase in H2 2023, reflecting one-off costs associated with the mitigating actions being taken. It is also expected that the Kiddeminster insurance claim will continue to be progressed, and could result in a significant non-underlying credit in H2 2023.

EPS and Dividend

Basic earnings per share on an underlying basis decreased from 16.5 pence per share in the prior year period to 6.1 pence per share, reflecting the factors set out above.

The share buyback programme, which completed in March 2023, reduced the weighted average number of shares for H1 2023 compared to H1 2022 (as detailed in Note 6 to the Financial Statements). Statutory basic earnings per share was 4.6 pence (H1 2022: 20.6 pence).

The Board have declared an interim ordinary dividend of 4.0 pence per share (2022: interim ordinary dividend 6.2 pence per share). This will be payable on 28 November 2023 to shareholders on the register as at 27 October 2023 and equates to a cash outflow of £3.2 million.

Tax

The Group's consolidated underlying effective tax rate for the Period was 18.3% (H1 2022: 20.2%), which reflects the expected effective tax rate for the full year. This is lower than the standard rate of corporation tax in the UK primarily due to the recognition of previously unrecognised tax losses in the period.

Cash Flow and Net Debt

The Group has strong cash generation characteristics. Underlying Operating Cash Flow in the Period was a £19.8 million inflow compared to a £15.4 million outflow in H1 2022. This is despite the profit headwinds from lower volumes, cost inflation and strategic investments, and reflects good underlying cash generation plus a stabilisation in the working capital requirements after the impact of unprecedented levels of inflation on inventory costs in the previous two years.

Capital expenditure in the Period was £10.1 million (H1 2022: £2.8 million). £3.3 million related to Trade Counters, £2.8 million was in respect of cutting tables and associated safety equipment, and £1.5m related to solar panels. We continue to expect total capital expenditure to be around £20 million for the year.

£3.7 million, net of cash acquired, was invested in the acquisition of Melrose Interiors in January 2023. Subsequent to the end of the Period we have made two further small acquisitions, as set out in the Chief Executive's Review, totalling a net cash outflow of £2.3 million.

£14.2 million of shareholder returns were made in the Period, comprising £5.2 million of payments to acquire own shares under the share buyback programme (H1 2022: £3.7 million) and £9.0 million of ordinary dividend payments (H1 2022: £22.1 million, comprising £7.2 million ordinary and £14.9 million special dividends).

Net Debt excluding lease liabilities was £19.6 million at the end of the Period, an increase of £21.4 million from 31 December 2022. This equates to Leverage of 0.5x, being the ratio of Net Debt excluding leases to EBITDA (pre-IFRS16 basis). As set out in the Chief Executive's Review, we now target an average Leverage range of 0.5x to 1.0x. After completing the two small acquisitions in H2 to date, we anticipate a broadly flat movement in Net Debt excluding leases by the end of 2023 compared to the end of the first half, prior to upside opportunities from freehold property disposals and stock optimisation currently being developed.

At Period end, the Group had total banking facilities available of £99.9 million (31 December 2022: £100.3 million). The Group had £79.8 million of cash and undrawn facilities at 30 June 2023 (31 December 2022: £102.1 million).

Going Concern

The Directors have reviewed the going concern assessment, including a reverse stress test, and have concluded that the Group has adequate resources to continue in operation during the next 12 months and that it is appropriate for the going concern basis to be adopted in preparing this Interim Report and Financial Statements.

Principal Risks and Uncertainties

The Group is exposed to a number of principal risks which may affect its performance, business model, solvency or liquidity. The Group has a well-established framework for reviewing and assessing these risks on a regular basis; and has put in place appropriate processes, procedures and actions to mitigate against them. The principal risks and uncertainties that may affect the Group were last reported on within the 2022 Annual Report and Accounts (on pages 81 to 86). The principal risks remain broadly unchanged since last reported, other than an increase in the risk profile of the "Market - economy and competition" risk. Whilst the medium and long-term outlook for the flooring market looks positive, there is uncertainty and potential volatility in the short-term, particularly the residential sector part of the market.

Adam Phillips

Chief Financial Officer

5 September 2023

Directors' Responsibility Statement

We confirm that, to the best of our knowledge:

- (a) the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting';
- (b) the interim report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the Period and description of principal risks and uncertainties for the remaining six months of the year); and
- (c) the interim report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

Alternative Performance Measures

The Group uses Alternative Performance Measures ('APMs') to assess its financial, operational and social performance towards the achievement of its strategy. Such measures may either exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable statutory measure (where one exists), calculated and presented in accordance with IFRS. Such exclusions or inclusions give, in the Group's opinion, more normalised performance measures and the Group believes that these APMs are also used by investors, analysts and other interested parties in their analysis.

The APMs have limitations and may not be comparable to other similarly titled measures used by other companies. They should not be viewed in isolation, but as supplementary information.

An explanation of each APM is provided in the Financial Review of the 2022 Annual Report and Accounts. The table below shows new APMs which have been included in the Period, to provide more meaningful metrics on cash generation and to allow leverage multiples to be expressed.

New or amended APM	Closest equivalent statutory measure	Definition and purpose
Underlying Operating Cash Flow	Cash generated from the operations	Calculated as cash generated from operations less any cash inflow or outflow from non-underlying items. This measure reflects the level of cash generated by the operations before non-underlying items.
EBITDA (pre IFRS16 basis)	Operating profit	Calculated as Underlying Operating Profit adding back depreciation, amortisation and impairment but including rent payable.
Leverage	None	Calculated as the ratio of net debt excluding lease liabilities to EBITDA (pre IFRS16 basis).

A reconciliation of the adjustments made to the Income Statement to derive underlying profit measures is shown at the end of this Interim Report. Underlying items are calculated before charges associated with the acquisition of businesses and other items which by virtue of their nature, size or/and expected frequency require adjustment to show the performance of the group in a consistent manner which is comparable year on year. These underlying measures are relevant to investors and other stakeholders, as supplementary information, to fully understand the underlying performance of the business. A limitation of underlying profit measures is that they exclude the recurring amortisation of intangible assets acquired in business combinations but do not similarly exclude the related revenue.

Condensed Consolidated Income Statement

For the six months ended 30 June 2023

		Underlying	Non-underlying	Six months ended	Underlying	Non-underlying	Six months ended	Underlying	Non-underlying	Year ended
	Note	2023	(Note 3)	30 June	2022	(Note 3)	30 June	2022	(Note 3)	31 December
		£M	£M	£M	£M	£M	£M	£M	£M	£M
		Unaudited			Unaudited			Audited		
Revenue	2	331.8	-	331.8	323.8	-	323.8	663.6	-	663.6
Cost of sales		(227.3)	-	(227.3)	(214.8)	-	(214.8)	(444.1)	-	(444.1)
Gross profit		104.5	-	104.5	109.0	-	109.0	219.5	-	219.5
Distribution costs		(67.1)	-	(67.1)	(64.6)	-	(64.6)	(129.5)	-	(129.5)
Administrative expenses		(29.6)	(1.5)	(31.1)	(26.5)	(0.7)	(27.2)	(51.3)	(1.5)	(52.8)
Other operating income		0.4	-	0.4	-	5.0	5.0	0.5	6.2	6.7
Operating profit/(loss)	2	8.2	(1.5)	6.7	17.9	4.3	22.2	39.2	4.7	43.9

Finance income	4	-	-	-	0.4	-	0.4	0.7	-	0.7
Finance expenses	4	(2.2)	-	(2.2)	(1.0)	-	(1.0)	(2.8)	-	(2.8)
Net finance costs		(2.2)	-	(2.2)	(0.6)	-	(0.6)	(2.1)	-	(2.1)
Profit/(loss) before tax		6.0	(1.5)	4.5	17.3	4.3	21.6	37.1	4.7	41.8
Taxation	5	(1.1)	-0.3	(0.8)	(3.5)	(0.8)	(4.3)	(7.4)	(0.8)	(8.2)
Profit/(loss) for the period attributable to the equity shareholders	2	4.9	(1.2)	3.7	13.8	3.5	17.3	29.7	3.9	33.6
Earnings per share										
Basic	6	6.1p		4.6p	16.5p		20.6p	35.5p		40.1p
Diluted	6	6.1p		4.6p	16.3p		20.4p	35.2p		39.8p
Ordinary dividend per share										
Interim dividend proposed for the financial period	7			4.0p			6.2p			6.2p
Final dividend declared for the financial period	7			-			-			11.2p

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2023

	Six months ended 30 June 2023 £M Unaudited	Six months ended 30 June 2022 £M Unaudited	Year ended 31 December 2022 £M Audited
Profit for the period attributable to the equity shareholders	3.7	17.3	33.6
Other comprehensive income:			
<i>Items that will never be reclassified to profit or loss</i>			
Remeasurement of defined benefit plans	-	0.1	0.1
	-	0.1	0.1
<i>Items that are or may be reclassified to profit or loss</i>			
Exchange differences arising on translation of overseas operations	(0.3)	0.2	0.4
	(0.3)	0.2	0.4
Other comprehensive (expense)/income for the period	(0.3)	0.3	0.5
Total comprehensive income attributable to the equity shareholders for the period	3.4	17.6	34.1

Condensed Consolidated Statement of Financial Position

At 30 June 2023

	At 30 June 2023 £M Unaudited	At 30 June 2022 £M Unaudited	At 31 December 2022 £M Audited
Assets			
Non-current assets			
Property, plant and equipment	126.7	112.9	119.9
Right-of-use assets	37.2	32.6	36.7
Intangible assets	21.3	17.9	17.8
	185.2	163.4	174.4
Current assets			
Inventories	147.5	148.1	139.8
Trade and other receivables	115.5	118.8	119.1
Income tax receivable	1.4	-	-
Cash and cash equivalents	18.0	32.4	2.1
	282.4	299.3	261.0
Total assets	467.6	462.7	435.4

Liabilities			
Current liabilities			
Bank overdrafts	(0.5)	(0.9)	-
Other interest-bearing loans and borrowings	(37.1)	(25.5)	(0.3)
Lease liabilities	(11.4)	(10.5)	(11.4)
Trade and other payables	(154.9)	(169.3)	(153.2)
Employee benefits	(1.3)	(1.0)	(1.0)
Income tax payable	-	(2.6)	(1.9)
	(205.2)	(209.8)	(167.8)
Non-current liabilities			
Lease liabilities	(26.9)	(23.2)	(26.3)
Provisions	(1.7)	(2.7)	(1.7)
Deferred tax liabilities	(11.9)	(10.3)	(12.1)
Employee benefits	(2.0)	(3.3)	(2.7)
	(42.5)	(39.5)	(42.8)
Total liabilities	(247.7)	(249.3)	(210.6)
Net assets	219.9	213.4	224.8
Equity attributable to equity holders of the parent			
Share capital	4.3	4.3	4.3
Share premium	53.5	53.5	53.5
Other reserves	(15.7)	(16.0)	(15.8)
Retained earnings	177.8	171.6	182.8
Total equity	219.9	213.4	224.8

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2023

Unaudited

	Share capital £M	Share premium £M	Capital redemption reserve £M	Special reserve £M	Translation reserve £M	Treasury reserve £M	Retained earnings £M	Total equity £M
Balance at 1 January 2023	4.3	53.5	0.1	1.5	2.1	(19.5)	182.8	224.8
Profit for the period attributable to the equity shareholders	-	-	-	-	-	-	3.7	3.7
Other comprehensive expense	-	-	-	-	(0.3)	-	-	(0.3)
Total comprehensive (expense)/income for the period	-	-	-	-	(0.3)	-	3.7	3.4
Transactions with equity shareholders, recorded directly in equity								
Share based payments	-	-	-	-	-	-	0.7	0.7
Share options exercised by employees	-	-	-	-	-	0.4	(0.4)	-
Dividends to equity holders	-	-	-	-	-	-	(9.0)	(9.0)
Total contributions by and distributions to equity shareholders	-	-	-	-	-	0.4	(8.7)	(8.3)
Balance at 30 June 2023	4.3	53.5	0.1	1.5	1.8	(19.1)	177.8	219.9

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2022

Unaudited

	Share capital £M	Share premium £M	Capital redemption reserve £M	Special reserve £M	Translation reserve £M	Treasury reserve £M	Retained earnings £M	Total equity £M
Balance at 1 January 2022	4.3	53.5	0.1	1.5	1.7	(4.9)	175.9	232.1
Profit for the period attributable to the equity shareholders	-	-	-	-	-	-	17.3	17.3
Other comprehensive income	-	-	-	-	0.2	-	0.1	0.3

Total comprehensive income for the period	-	-	-	-	0.2	-	17.4	17.6
Transactions with equity shareholders, recorded directly in equity								
Share based payments	-	-	-	-	-	-	0.6	0.6
Repurchase of own shares	-	-	-	-	-	(15.0)	-	(15.0)
Share options exercised by employees	-	-	-	-	-	0.4	(0.2)	0.2
Dividends to equity holders	-	-	-	-	-	-	(22.1)	(22.1)
Total contributions by and distributions to equity shareholders	-	-	-	-	-	(14.6)	(21.7)	(36.3)
Balance at 30 June 2022	4.3	53.5	0.1	1.5	1.9	(19.5)	171.6	213.4

Condensed Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

Audited

	Share capital £M	Share premium £M	Capital redemption reserve £M	Special Reserve £M	Translation reserve £M	Treasury reserve £M	Retained earnings £M	Total equity £M
Balance at 1 January 2022	4.3	53.5	0.1	1.5	1.7	(4.9)	175.9	232.1
Profit for the period attributable to the equity shareholders	-	-	-	-	-	-	33.6	33.6
Other comprehensive income	-	-	-	-	0.4	-	0.1	0.5
Total comprehensive income for the year	-	-	-	-	0.4	-	33.7	34.1
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	-	-	-	-	-	-	0.9	0.9
Share options exercised by employees	-	-	-	-	-	0.4	(0.2)	0.2
Deferred tax on share options	-	-	-	-	-	-	(0.2)	(0.2)
Repurchase of own shares	-	-	-	-	-	(15.0)	-	(15.0)
Dividends to equity holders	-	-	-	-	-	-	(27.3)	(27.3)
Total contributions by and distributions to equity shareholders	-	-	-	-	-	(14.6)	(26.8)	(41.4)
Balance at 31 December 2022	4.3	53.5	0.1	1.5	2.1	(19.5)	182.8	224.8

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2023

	Six months ended 30 June 2023 £M Unaudited	Six months ended 30 June 2022 £M Unaudited	Year ended 31 December 2022 £M Audited
Cash flows from operating activities			
Profit before tax for the period	4.5	21.6	41.8
Adjustments for:			
Depreciation of property, plant and equipment, amortisation and impairment	4.6	3.6	7.7
Depreciation of right of use assets	6.5	5.8	12.5
Finance income	-	(0.4)	(0.7)
Finance expense	2.2	1.0	2.8
Insurance proceeds for property, plant and equipment following fire	-	(0.4)	(1.7)

Insurance proceeds for property, plant and equipment following fire		0.7	0.6	0.9
Share-based payments		0.7	0.6	0.9
Operating cash flows before changes in working capital and other payables		18.5	31.8	63.3
Change in inventories		(6.9)	(16.9)	(8.3)
Change in trade and other receivables		4.0	(4.4)	(3.5)
Change in trade and other payables		4.0	(21.3)	(34.2)
Cash generated from the operations		19.6	(10.8)	17.3
Interest paid		(0.9)	(1.0)	(1.2)
Interest received		-	0.5	0.6
Tax paid		(4.8)	(2.7)	(5.8)
Net cash flow from operating activities		13.9	(14.0)	10.9
Cash flows from investing activities				
Acquisition of subsidiary, net of cash acquired (note 8)		(3.7)	-	-
Acquisition of property, plant and equipment		(9.7)	(2.2)	(12.6)
Insurance proceeds for property, plant and equipment following fire		-	0.4	1.7
Acquisition of intangible assets		(0.4)	(0.6)	(1.2)
Net cash flow from investing activities		(13.8)	(2.4)	(12.1)
Cash flows from financing activities				
Proceeds from the issue of treasury shares		-	0.2	0.2
Payment to acquire own shares		(5.2)	(3.7)	(9.8)
Proceeds from borrowings		60.0	25.0	25.0
Repayment of borrowings		(23.2)	(7.0)	(32.3)
Principal elements of lease payments		(7.2)	(5.8)	(14.0)
Dividends paid		(9.0)	(22.1)	(27.3)
Net cash flow from financing activities		15.4	(13.4)	(58.2)
Net increase/(decrease) in cash and cash equivalents		15.5	(29.8)	(59.4)
Cash and cash equivalents at 1 January		2.1	61.2	61.2
Effect of exchange rate fluctuations on cash held		(0.1)	0.1	0.3
Cash and cash equivalents at end of period		17.5	31.5	2.1

Notes to the Condensed Consolidated Interim Financial Statements

Unaudited

1 BASIS OF REPORTING

Reporting entity

Headlam Group plc, the 'company', is a company incorporated in the UK. The Condensed Consolidated Interim Financial Statements consolidate those of the company and its subsidiaries which together are referred to as the 'Group' as at and for the six months ended 30 June 2023.

The Consolidated Financial Statements of the Group as at and for the year ended 31 December 2022 are available upon request from the company's registered office or the website.

The comparative figures for the financial year ended 31 December 2022 are not the Group's statutory accounts for that financial year. Those accounts have been reported on by the Group's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

These Condensed Consolidated Interim Financial Statements have not been audited or reviewed by the auditor pursuant to the Auditing Practices Board's Guidance on Financial Information.

Statement of compliance

These Condensed Consolidated Interim Financial Statements have been prepared and approved by the directors in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the UK's Financial Conduct Authority and UK adopted International Accounting Standard IAS 34, Interim Financial Reporting.

They do not include all of the information required for full annual financial statements and should be read in conjunction with the Consolidated Financial Statements of the Group as at and for the year ended 31 December 2022, which were prepared in accordance with UK-adopted International Accounting Standards.

These Condensed Consolidated Interim Financial Statements were approved by the Board of Directors on 5 September 2023.

Significant accounting policies

As required by the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority, the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Group's published Consolidated Financial Statements for the year ended 31 December 2022.

Impacts of standards and interpretations in issue but not yet effective

There are no other new standards, amendments to existing standards, or interpretations that are not yet effective that would be expected to have a material impact on the Group.

Going concern

The Group's performance, position and business activities, together with the factors likely to affect its future development, are described in the Chief Executive's Statement and Financial Review.

The Directors have reviewed current performance and latest forecasts, along with borrowing facilities and expenditure commitments. A reverse stress test has also been performed, considering the period of 12 months from the approval of this Interim Report. This shows that the Group could withstand an 11% reduction in revenues compared to the latest forecasts and continue to operate within its current banking facilities and the covenant restrictions set out therein. The latest forecasts are representative of the current trading environment which already factors in reduced levels of consumer and business confidence which had been modelled in downside scenarios at previous reporting dates.

Should the reduction in revenues be greater than 11% in the next 12 months, the Board would need to take mitigating actions to remain within its banking covenants. Mitigating actions, which are within the Board and management's control, include a further reduction in the cost base to align it with market demand, a freeze on non-critical capital spend, disposal of freehold properties and cancellation of the dividend.

The impact of inflation on the results for the Period and the inflationary impact on consumer spending has been considered as part of the assessment.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate financial resources to continue in operation, including contractual and commercial commitments, for the next 12 months. For these reasons, the going concern basis has been adopted in preparing the financial statements.

Bank facilities at 30 June 2023

	Committed credit facilities	Uncommitted credit facilities	Total facilities
	£ million	£ million	£ million
Drawn funds	37.1	0.5	37.6
Undrawn funds	44.5	17.8	62.3
	81.6	18.3	99.9

Judgements and estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these Condensed Consolidated Interim Financial Statements, the significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those that applied to the Consolidated Financial Statements as at and for the year ended 31 December 2022.

Risks and uncertainties

The risk factors which could cause the Group's results to differ materially from expected results are set out in detail in the 2022 Annual Report and Accounts, with the result of a review of those risks subsequent to the publication of this interim report listed above.

2 SEGMENT REPORTING

At 30 June 2023, the Group had 17 operating segments in the UK and three operating segments in Continental Europe. Each segment represents an individual distribution centre, and each operation is wholly aligned to the sales, marketing, supply and distribution of floorcovering products. The operating results of each operation are regularly reviewed by the Chief Operating Decision Maker, which is deemed to be the Chief Executive. Discrete financial information is available for each segment and used by the Chief Executive to assess performance and decide on resource allocation.

The operating segments have been aggregated to the extent that they have similar economic characteristics, with relevance to products and services, type and class of customer, methods of sale and distribution and the regulatory environment in which they operate. The Group's internal management structure and financial reporting systems differentiate the operating segments on the basis of the differing economic characteristics in the UK and Continental Europe and accordingly present these as two separate reportable segments. This distinction is embedded in the construction of operating reports reviewed by the Chief Executive, the Board and the executive team and forms the basis for the presentation of operating segment information given below.

The assets and liabilities at 30 June 2022 have been re-presented to better reflect their segmental allocation.

Continuing operations

	UK			Continental Europe			Total		
	30 June	Restated	31	30 June	30 June	31	30 June	Restated	31
	2023	30 June	December	2023	2022	2022	2023	30 June	December
	£M	£M	£M	£M	£M	£M	£M	£M	£M
Revenue									
External revenues	288.9	279.6	577.8	42.9	44.2	85.8	331.8	323.8	663.6
Reportable segment underlying operating profit	11.3	16.3	36.8	0.7	2.4	3.4	12.0	18.7	40.2
Reportable segment assets	380.7	408.2	371.0	36.6	37.7	40.7	417.3	445.9	411.7
Reportable segment liabilities	(215.3)	(216.2)	(173.8)	(20.5)	(20.2)	(22.8)	(235.8)	(236.4)	(196.6)

During the periods shown above there have been no inter-segment revenues for the reportable segments (2022: £nil).

Reconciliations of reportable segment profit, assets and liabilities and other material items:

	30 June	30 June	31 December
	2023	2022	2022
	£M	£M	£M
Profit for the period			
Total underlying profit for reportable segments	12.0	18.7	40.2
Non-underlying items	(1.5)	4.3	4.7
Unallocated expense	(3.8)	(0.8)	(1.0)
Operating profit	6.7	22.2	43.9
Finance income	-	0.4	0.7
Finance expense	(2.2)	(1.0)	(2.8)
Profit before taxation	4.5	21.6	41.8
Taxation	(0.8)	(4.3)	(8.2)
Profit for the period	3.7	17.3	33.6

In the UK the Group's freehold properties are held within Headlam Group plc and a rent is charged to the operating segments. In the current Period this rent has been allocated to the operating segments to better reflect their performance.

	30 June 2023 £M	Restated 30 June 2022 £M	31 December 2022 £M
Assets			
Total assets for reportable segments	417.3	445.9	411.7
Unallocated assets:			
Intangible assets	3.4	2.4	3.0
Income tax receivable	1.4	-	-
Cash and cash equivalents	45.5	14.4	20.7
Total assets	467.6	462.7	435.4
Liabilities			
Total liabilities for reportable segments	(235.8)	(236.4)	(196.6)
Unallocated liabilities:			
Income tax payable	-	(2.6)	(1.9)
Deferred tax liabilities	(11.9)	(10.3)	(12.1)
Total liabilities	(247.7)	(249.3)	(210.6)

	UK £M	Continental Europe £M	Reportable segment total £M	Unallocated £M	Consolidated total £M
Other material items 30 June 2023					
Acquisition of property, plant and equipment	9.6	0.1	9.7	-	9.7
Depreciation	3.1	0.2	3.3	-	3.3
Depreciation of right of use assets	5.7	0.8	6.5	-	6.5
Non-underlying items	1.4	0.1	1.5	-	1.5
Other material items 30 June 2022					
Acquisition of property, plant and equipment	2.2	-	2.2	-	2.2
Depreciation	2.7	0.2	2.9	-	2.9
Depreciation of right of use assets	4.9	0.9	5.8	-	5.8
Non-underlying items	(4.4)	0.1	(4.3)	-	(4.3)
Other material items 31 December 2022					
Acquisition of property, plant and equipment	12.1	0.5	12.6	-	12.6
Depreciation	5.9	0.3	6.2	-	6.2
Depreciation of right of use assets	10.7	1.8	12.5	-	12.5
Non-underlying items	(4.8)	0.1	(4.7)	-	(4.7)

The Chief Executive, the Board and the executive team have access to information that provides details on revenue by principal product group for the two reportable segments, as set out in the following table:

	UK			Continental Europe			Total		
	30 June 2023 £M	30 June 2022 £M	31 December 2022 £M	30 June 2023 £M	30 June 2022 £M	31 December 2022 £M	30 June 2023 £M	30 June 2022 £M	31 December 2022 £M
Revenue									
Residential	189.1	187.5	382.8	26.2	27.4	52.5	215.3	214.9	435.3
Commercial	99.8	92.1	195.0	16.7	16.8	33.3	116.5	108.9	228.3
	288.9	279.6	577.8	42.9	44.2	85.8	331.8	323.8	663.6

3 NON-UNDERLYING ITEMS

Non-underlying items relate to the following:

	Six months ended 30 June 2023 £M	Six months ended 30 June 2022 £M	Year ended 31 December 2022 £M
Amortisation of acquired intangibles and other acquisition-related costs	1.5	0.7	1.5
Insurance proceeds (following fire)	-	(5.0)	(6.2)
	1.5	(4.3)	(4.7)
Taxation on non-underlying items	(0.3)	0.8	0.8
	1.2	(3.5)	(3.9)

4 FINANCE INCOME AND EXPENSE

	Six months ended 30 June 2023 £M	Six months ended 30 June 2022 £M	Year ended 31 December 2022 £M
Interest income:			
Bank interest	-	0.1	0.6
Other	-	0.3	0.1
Finance income	-	0.4	0.7
Interest expense:			
Bank loans, overdrafts and other financial expenses	(1.0)	(0.2)	(1.3)
Interest on lease liability	(0.9)	(0.6)	(1.4)
Net interest on defined benefit plan obligation	(0.1)	-	(0.1)
Other	(0.2)	(0.2)	-
Finance expenses	(2.2)	(1.0)	(2.8)

5 TAXATION

The Group's consolidated underlying effective tax rate ('ETR') for the interim period is 18.3%. This is lower than the standard rate of corporation tax in the UK predominantly due to the recognition of previously unrecognised tax losses in the period.

The UK headline corporation tax rate for the six months ended 30 June 2023 was increased from 19% to 25% from 1 April 2023 (six months ended 30 June 2022: 19%; 12 months ended 31 December 2022: 19%). The deferred tax balance in respect of UK entities has been calculated at 25% (30 June 2022: 25%; 31 December 2022: 25%) following the enactment in 2021 of the increase in the UK tax rate from 1 April 2023.

6 EARNINGS PER SHARE

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

	Six months ended 30 June 2023 £M	Six months ended 30 June 2022 £M	Year ended 31 December 2022 £M
Earnings			
Earnings for basic and diluted earnings per share	3.7	17.3	33.6
Earnings for underlying basic and underlying diluted earnings per share	4.9	13.8	29.7
	Six months ended 30 June 2023	Six months ended 30 June 2022	Year ended 31 December 2022
Number of shares			
Weighted average number of ordinary shares for the purposes of basic earnings per share	80,354,717	83,872,158	83,626,126

Earnings per share	2022	2021	2020
Effect of diluted potential ordinary shares:			
Weighted average number of ordinary shares at period end	80,354,717	83,872,158	83,626,126
Dilutive effect of share options	209,262	906,056	615,584
Weighted average number of ordinary shares for the purposes of diluted earnings per share	80,563,979	84,778,214	84,241,710
Continuing operations earnings per share			
Basic	4.6p	20.6p	40.1p
Diluted	4.6p	20.4p	39.8p
Underlying basic	6.1p	16.5p	35.5p
Underlying diluted	6.1p	16.3p	35.2p

7 DIVIDENDS

	Six months ended 30 June 2023 £M	Six months ended 30 June 2022 £M	Year ended 31 December 2022 £M
Final dividend for 2022 of 11.20p paid 2 June 2023	9.0	-	-
Final dividend for 2021 of 8.60p paid 27 May 2022	-	7.2	7.2
Special dividend of 17.70p paid 27 May 2022	-	14.9	14.9
Interim dividend for 2022 of 6.20p paid 28 November 2022	-	-	5.2
	9.0	22.1	27.3

The Board of Directors have declared for 2023, an interim ordinary dividend of 4.0 pence per share. This dividend is payable on 28 November 2023 to shareholders on the register as at 27 October 2023, and is discussed further in the Chief Executive's Statement and Chief Financial Officer's Review above.

8 ACQUISITIONS

On 4 January 2023 the Group acquired 100% of the issued share capital of Birch Close Trading Limited, and its subsidiaries, for a consideration of £4.7 million, including £0.4 million in respect of cash acquired and £0.6 million of contingent deferred consideration. The acquired group trades as Melrose Interiors ('Melrose'), which is the largest independent supplier to the UK online rug industry, and has operations in third-party logistics, recycling and an in-house rug, sampling and pattern book department. Melrose brings a number of new larger customers to the Group, including major high street and online retailers, a customer segment where the Group is targeting growth and will work with Melrose to scale up opportunities.

The operating results and assets and liabilities of the acquired group were consolidated from 4 January 2023.

The acquired business contributed revenues of £4.2 million and an operating profit of £0.3 million to the group for the six months ended 30 June 2023.

Professional fees of £0.2 million were incurred in relation to acquisition activity and have been expensed to the income statement within administration expenses.

Details of the consideration transferred are:

Purchase consideration	£M
Cash paid	4.1
Contingent consideration	0.6
Total purchase consideration	4.7

The fair values of the assets and liabilities of Birch Close Trading Limited group as at the date of acquisition are as follows:

Fair Value	£M
Property, plant and equipment	0.5
Right of use assets	2.7
Intangible assets	1.7
Inventories	1.8
Trade and other receivables	1.5
Cash and cash equivalents	0.4
Lease liabilities	(2.7)
Trade and other payables	(2.8)
Deferred tax liabilities	(0.4)

Net identifiable assets acquired	2.7
Goodwill	2.0
Net assets acquired	4.7

The goodwill is attributable to the access to new larger customers to the Group and the ability to produce sampling and pattern books in house. None of the goodwill is expected to be deductible for tax purposes.

The fair value of the acquired brand names and customer relationships of £1.7 million has been recognised as intangible assets on acquisition. Deferred tax of £0.4 million has been provided in relation to these fair value adjustments.

The contingent consideration arrangement requires the Group to pay the former owners of the Birch Close Trading Limited group an amount of £0.8 million plus £2 for every £1 of EBITDA exceeding £1.0 million or minus £1 for every £1 miss of EBITDA of £1.0 million for the years ended 31 December 2023 and 31 December 2024 up to a maximum undiscounted amount of £3.0 million. EBITDA for the calculation of the contingent consideration is earnings before interest, tax, depreciation and amortisation. The potential undiscounted amount of all future payments that the Group could be required to make under this arrangement is between £nil and £3.0 million. The fair value of the contingent consideration of £0.6m has been estimated by calculating the present value of the future expected cash flows. The estimates are based on a discount rate of 4.6%.

The fair value of acquired trade receivables is £1.4 million. The gross contractual amount for trade receivables due is £1.4 million, with a loss allowance of £nil recognised on acquisition.

9 FINANCIAL INSTRUMENTS

The fair value of the Group's financial assets and liabilities as detailed below at 30 June 2023 were not materially different to the carrying value.

The table below sets out the Group's accounting classification of each class of financial assets and liabilities at 30 June 2023.

	Fair value through profit or loss (FVPL) £M	Amortised cost £M	Total carrying value £M
Cash and cash equivalents	-	18.0	18.0
Bank overdraft	-	(0.5)	(0.5)
Borrowings due within one year	-	(37.1)	(37.1)
Trade payables	-	(123.3)	(123.3)
Non-trade payables	-	(20.8)	(20.8)
Leasing liability	-	(38.3)	(38.3)
Trade receivables	-	85.1	85.1
Other receivables	-	20.7	20.7
Provisions	-	(1.7)	(1.7)
Derivative liability	(0.1)	-	(0.1)
	(0.1)	(97.9)	(98.0)

Financial instruments carried at fair value are categorised according to their valuation method. The different levels have been defined below:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly, as prices or indirectly, derived from prices.
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group has forward currency contracts which were fair valued in accordance with level 2 (30 June and 31 December 2022: level 2).

Fair values

The carrying amounts shown in the Statement of Financial Position for financial instruments are a reasonable approximation of fair value.

Trade receivables, trade payables and cash and cash equivalents

Fair values are assumed to approximate to cost due to the short-term maturity of the instrument.

Borrowings, other financial assets and other financial liabilities

Where available, market values have been used to determine fair values. Where market values are not available, fair values have been estimated by discounting expected future cash flows using prevailing interest rate curves. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the Statement of Financial Position date.

10 RELATED PARTIES

The Group has a related party relationship with its subsidiaries and with its key management. There have been no changes to the nature of related party transactions entered into since the last annual report.

11 CONTINGENT ASSET

At June 2023, the Group identified a contingent asset relating to parts of an insurance claim for losses arising from damage to the Group's property and contents, as a result of the Kidderminster fire in December 2021. The insurers have accepted liability in respect of the Kidderminster fire claim. However, consistent with the position at December 2022, the refund relating to the property and contents damage could not be reliably measured at 30 June 2023.

In the prior year, amounts of £0.6 million and £1.7 million were recognised at June 2022 and December 2022, respectively, relating to refunds for property and contents damage, following interim payments. There were no further interim payments in H1 2023.

12 SUBSEQUENT EVENTS

Management have given due consideration to any events occurring in the period from the reporting date to the date these Interim Financial Statements were authorised for issue and have concluded that there are no material adjusting or non-adjusting events to be disclosed in these Interim Financial Statements other than the following:

On 11 July 2023, with an effective date of 1 July 2023, the Group completed the acquisition of 100% of the issued share capital of Het Stoffen Gilde B.V. for cash consideration of £0.8 million, including £0.2 million in respect of cash acquired. Het Stoffen Gilde B.V., a company registered in the Netherlands, is involved in the supply of fabrics and curtains. The financial effects of this transaction have not been recognised at 30 June 2023. The operating results and assets and liabilities of the acquired company will be consolidated from 1 July 2023.

On 30 August 2023 the Group exchanged contracts to acquire the trade and assets of PD Pattern Books Limited for cash consideration of £1.7 million. The business is involved in the manufacture of floorcovering pattern books and will be operated by Melrose Interiors, which was acquired by the Group in January 2023 and is located close by.

Adjusted Results Reconciliation

30 June 2023

Amortisation
of acquired
intangibles

	Total Results	and other acquisition related costs	Adjusted Results (underlying)
	£M	£M	£M
Revenue	331.8	-	331.8
Cost of sales	(227.3)	-	(227.3)
Gross profit	104.5	-	104.5
Distribution costs	(67.1)	-	(67.1)
Administrative expenses	(31.1)	1.5	(29.6)
Other operating income	0.4	-	0.4
Operating profit/(loss)	6.7	1.5	8.2
Finance income	-	-	-
Finance expenses	(2.2)	-	(2.2)
Net finance costs	(2.2)	-	(2.2)
Profit/(loss) before tax	4.5	1.5	6.0
Taxation	(0.8)	(0.3)	(1.1)
Profit/(loss) for the year attributable to the equity shareholders	3.7	1.2	4.9
Earnings/(loss) per share for profit			
Basic	4.6p	1.5p	6.1p
Diluted	4.6p	1.5p	6.1p

Adjusted Results Reconciliation

30 June 2022

	Total Results	Insurance proceeds (following fire)	Amortisation of acquired intangibles	Adjusted Results (underlying)
	£M	£M	£M	£M
Continuing operations				
Revenue	323.8	-	-	323.8
Cost of sales	(214.8)	-	-	(214.8)
Gross profit	109.0	-	-	109.0
Distribution costs	(64.6)	-	-	(64.6)
Administrative expenses	(27.2)	-	0.7	(26.5)
Other operating income	5.0	(5.0)	-	-
Operating profit/(loss)	22.2	(5.0)	0.7	17.9
Finance income	0.4	-	-	0.4
Finance expenses	(1.0)	-	-	(1.0)
Net finance costs	(0.6)	-	-	(0.6)
Profit/(loss) before tax	21.6	(5.0)	0.7	17.3
Taxation	(4.3)	1.0	(0.2)	(3.5)
Profit/(loss) for the year attributable to the equity shareholders	17.3	(4.0)	0.5	13.8
Earnings/(loss) per share for profit				
Basic	20.6p	(4.8)p	0.7p	16.5p
Diluted	20.4p	(4.8)p	0.7p	16.3p

Adjusted Results Reconciliation

31 December 2022

	Total Results	Insurance proceeds (following fire)	Amortisation of acquired intangibles	Adjusted Results (underlying)
	£M	£M	£M	£M
Continuing operations				
Revenue	663.6	-	-	663.6
Cost of sales	(444.1)	-	-	(444.1)
Gross profit	219.5	-	-	219.5
Distribution costs	(129.5)	-	-	(129.5)
Administrative expenses	(52.8)	-	1.5	(51.3)
Other operating income	6.7	(6.2)	-	0.5
Operating profit/(loss)	43.9	(6.2)	1.5	39.2
Finance income	0.7	-	-	0.7
Finance expenses	(2.8)	-	-	(2.8)
Net finance costs	(2.1)	-	-	(2.1)
Profit/(loss) before tax	41.8	(6.2)	1.5	37.1
Taxation	(8.2)	1.1	(0.3)	(7.4)
Profit/(loss) for the year attributable to the equity shareholders	33.6	(5.1)	1.2	29.7

Earnings/(loss) per share for profit

Basic	40.1p	(6.0)p	1.4p	35.5p
Diluted	39.8p	(6.0)p	1.4p	35.2p

-Ends-

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