

17 September 2024

Headlam Group plc
('Headlam', the 'Company', the 'Group')

Half Year Results

Results in line with expectations; acceleration of strategy through a two-year transformation plan

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 2024 (the 'Period') and launches the acceleration of its strategy through a transformation plan to simplify the business and enhance the customer offer, generating at least £15 million of annual profit improvement and £70 million of one-off cash benefits.

FINANCIAL HIGHLIGHTS

	2024	2023
Revenue	£292.5m	£331.8m
EBITDA	£(2.2)m	£18.0m
Underlying ¹ Operating (Loss)/Profit	£(13.1)m	£8.2m
Underlying ¹ (Loss)/Profit Before Tax	£(16.4)m	£6.0m
Underlying ¹ Basic (Loss)/Earnings Per Share	(17.2)p	6.1p
Ordinary dividend per share	-	4.0p
Underlying ¹ Operating Cash Flow	£18.0m	£19.8m
Net Debt ²	£28.3m	£29.6m
Statutory results		
Operating (Loss)/Profit	£(17.3)m	£6.7m
(Loss)/Profit Before Tax	£(20.6)m	£4.5m
Basic (Loss)/Earnings Per Share	(20.2)p	4.6p

H1 results in line with expectations

- Revenue declined 11.8% year-on-year with UK down 11.3% and Continental Europe down 15.9%
- Revenue growth in Trade Counters and Larger Customers of 7% and 2% respectively
- Underlying Loss Before Tax of £16.4m impacted by market volume decline and a lack of price inflation in the market
- Strong cash generation with positive Underlying Operating Cash Flow of £18.0m

Strong balance sheet; cash and working capital well-controlled

- Working capital well-controlled with stock levels down £22.6m on a year ago
- Reduction in Net Debt to £28.3m with £72.2m of cash and undrawn facilities available at the end of the Period
- Strong asset backing: the Group owns property valued at £142.1m
- Further balance sheet strengthening provided by completion of pension buy-in

STRATEGIC HIGHLIGHTS

Acceleration of strategy through two-year transformation plan

- Acceleration of existing strategy through a two-year plan to transform the business. This plan will simplify our customer offer, network and operations; improving profitability, increasing market share and releasing capital from more efficient working capital management and the disposal of non-core property
- Each workstream is already underway, with the following key initiatives that will drive our operational and financial performance, creating long-term shareholder value:
 - **Simplify our customer offer**
 - Consolidation of 32 trading businesses into one single, national business trading as Mercado, enabling customers to order from a broader, unified product list and to benefit from more time with our sales teams, who have smaller geographic territories
 - Dedicated sales teams with specialist expertise for each of the residential and commercial sectors of the market
 - Upgraded display stands and marketing support, helping our independent retailer customers to grow their businesses
 - **Simplify our network**
 - Continued optimisation of our network, including opening a new distribution centre in Rayleigh (Essex) and a new cross-dock facility in Ipswich; resulting in the closure of our Ipswich distribution centre, which will be sold
 - Consolidation of two distribution centres into one in Scotland, creating another surplus property to be sold
 - Simplification will generate working capital efficiency through higher stock turn
 - **Simplify our operations**
 1. Centralisation of back-office processes and support functions
 2. Unlocking operational cost savings
- The benefits of the two-year transformation plan are expected to be:
 - Release of at least £70m cash from disposal of surplus property and optimisation of net working capital
 - *Ongoing profit improvements of at least £15m with benefits starting to be realised during 2025 and fully*

- Ongoing profit improvements of at least £15m, with benefits starting to be realised during 2023 and fully achieved as a run-rate by the end of two years
 - Increase in market share from investment in customer proposition
- Anticipated c.£25m of one-off cash costs to deliver the plan
- Full support from lending banks, having recently agreed a new covenant package through to the end of 2025

Current trading and outlook

- Group revenue for July and August declined 8.4% compared to 11.8% decline for the first six months, supported by four consecutive months of reduced revenue decline in Regional Distribution
- Limited indication of any market improvement yet
- Looking ahead, the lead indicators for the market are more positive, but the timing of market recovery remains uncertain and looks to be later than previously anticipated, with a return to growth now expected at some point during 2025
- The long-term outlook for Headlam remains positive, reflecting the combination of:
 - Continued implementation of the existing strategy to broaden the base of the business
 - The two-year transformation plan
 - Market recovery, recognising that the market is now at least 25% lower than in 2019 in volume terms
- There is no change to the illustrative long-term revenue ambition for the Group that we set out in March 2024: a range of £900 million to £1 billion of revenue, driven by the combination of the above factors

Commenting, Chris Payne, Chief Executive, said:

"The challenges impacting the flooring market have been well documented and are fully reflected in Headlam's performance in H1 2024. Nevertheless, the Group has made good strategic progress and whilst these highlights are masked by external headwinds, it is particularly pleasing to see growth across the Group's Larger Customers and Trade Counters.

As the clear UK market leader, drawing on a heritage of over 30 years, a large and diverse customer base, and long-established supplier relationships, Headlam has a unique long-term opportunity. Whilst we cannot control the macro-economic environment, we can continue to adapt and evolve the business to take full benefit of the market recovery. I'm therefore pleased to announce today an acceleration of our strategy with a 2-year transformation plan to make Headlam a more effective organisation by simplifying our offer to customers and how we operate. As we unlock cash and costs from our business, we will further invest in the proposition across all our customer groups in order to grow market share and strengthen our position as the UK's leading floor coverings distributor.

Looking ahead, the lead indicators for consumer spending on home improvements are more positive, albeit the timing of recovery remains uncertain and is likely to be later than previously anticipated. However, with our new transformation plan underway, our teams are laser focussed on realising the benefits which will start to take effect in 2025, positioning the Group to emerge strongly when market conditions improve. We remain confident in the long-term outlook for the Group and look forward to announcing further progress against our plans in due course."

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 online presentation and Q&A for analysts at 9am UK time today.

The Group will also be hosting an online presentation and Q&A for investors today at 11am UK time. The presentation is open to all existing and potential shareholders. Investors can register to attend by clicking on this link: <https://streamstudio.world-television.com/1489-2801-40481/en>

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

Footnotes

1. 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; impairment of intangibles, property, plant and equipment and right-of-use assets; profit on sale of property, plant and equipment; business restructuring and change-related costs; and ERP development costs. 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 at the end of this announcement.
2. The comparative for Net Debt is 31 December 2023. All other comparative measures are for the six months to 30 June 2023.
3. 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
4. THE INFORMATION CONTAINED WITHIN THIS ANNOUNCEMENT IS DEEMED BY THE COMPANY TO CONSTITUTE INSIDE INFORMATION AS STIPULATED UNDER THE MARKET ABUSE REGULATION (EU) NO. 596/2014 AS IT FORMS PART OF UK DOMESTIC LAW PURSUANT TO THE EUROPEAN UNION (WITHDRAWAL) ACT 2018, AS AMENDED. UPON THE PUBLICATION OF THIS ANNOUNCEMENT VIA A REGULATORY INFORMATION SERVICE, THIS INFORMATION IS CONSIDERED TO BE IN THE PUBLIC DOMAIN.

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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 businesses, trade brands and product 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 update

The Group's financial performance for the first six months of the year reflected the challenging trading environment across the flooring market. Two-thirds of this market in the UK is residential and therefore reliant on consumers choosing to spend on home improvements. As a "big ticket", discretionary purchase, flooring has been one of the weakest performing categories of consumer spending, suffering from heavy decline^[1]. This reflects both the impact of the cost-of-living crisis on disposable incomes and the decline in housing transactions (20% in 2023 and a further 8% in Q1 2024^[2]). This has resulted in a sustained decline in market volume over the last three years with the Group estimating a further 10-15% market decline so far in 2024, resulting in a cumulative decline of 25% since 2019.

After such a sustained period of decline, some tentative green shoots are starting to emerge. We have seen improvement in recent months in Headlam's UK business, albeit with revenues remaining in decline. Furthermore, whilst the market has not yet shown any indication of improvement, the lead indicators are looking more positive; housing transactions have been increasing year-on-year for four months in a row, inflation has declined, disposable incomes are rising^[3] and consumer confidence is picking up^[4]. This is anticipated to translate into improved consumer spending on home improvements, albeit the timing of that recovery remains uncertain.

As the clear UK market leader, drawing on a heritage of over 30 years industry knowledge and expertise, a large and diverse customer base, and long-established supplier relationships, Headlam has a unique long-term opportunity. With the broadest and largest product range and the most comprehensive and scaled delivery and collection network across the UK, recent years have seen the Group strategically refocus to broaden the customer base of the business to provide incremental growth opportunities. This enables us to service an increasingly diverse range of customer types, spanning independent retailers, tradespeople, major multiple retailers, housebuilders, online retailers and contractors.

Good progress has been made in establishing these foundations for long term growth and robust sustainable financial performance, but the scale of the decline in the flooring market has weighed heavily on our core distribution business, offsetting the growth we have achieved in our Trade Counters and from Larger Customers. Consequently, we are accelerating our strategy with a 2-year transformation plan to make Headlam a more effective organisation by simplifying our offer to customers. As we unlock cash and costs from our business, we will further invest in the proposition across all our customer groups in order to grow market share.

Headlam's strategy

To maintain our vision to be the leading, most trusted experts in flooring, we have a five-pillar strategy, that was launched in 2022:

1. Maximising sales through great service, solutions, pricing and range
2. Developing new opportunities for future growth
3. Improving our operational capabilities and effectiveness
4. Leading on sustainability and environmental responsibility
5. Making Headlam a great place to work

We have made good progress across all five pillars in the last two years, notwithstanding the impact of the unprecedented market conditions. We will continue to implement this strategy as previously outlined, but at an accelerated pace through a 2-year transformation plan.

Acceleration of strategy through our 2-year transformation plan

This plan will simplify our customer offer, simplify our network and simplify our operations; improving profitability, increasing market share and releasing capital from more efficient working capital management and the disposal of non-core property.

There are three parts:

1. Simplify our customer offer
2. Simplify our network
3. Simplify our operations

1. Simplify our customer offer

This month we have launched a single go-to-market proposition, called Mercado, consolidating 32 trading businesses. This simplifies our offer to our customers and provides them with the broadest range of flooring through a unified product list.

Customers benefit from dedicated customer sales support from a local Area Sales Manager ("ASM"), providing local support but drawing on a national network with substantial expertise; collectively our Mercado sales team has over 3,000 years of experience in flooring. Customers also benefit from more time with our sales teams, as we are reducing the average size of the geographical territories covered by our ASMs. We have also launched our "order anywhere, collect anywhere" customer proposition; enabling independent retailers, fitters, contractors and housebuilders to place an order anywhere and to collect from any of our 76 trade counters; providing unrivalled convenience in the UK distribution market.

For the first time, we will have a unified, national product file. This will provide our ASMs and customers with simplified access

to a broader range of products through one customer account, making it significantly easier to do business with us.

We have also set up dedicated sales managers and leadership teams covering each of the residential and contract elements of the market, recognising that Headlam has an underweight share of the contract market and therefore a growth opportunity. Within this, we are developing a new team and proposition specifically focused on housebuilders and large contractors.

Alongside this we are investing in market-leading remuneration and incentive packages for our sales teams, supplemented by the issue of share options, to encourage our colleagues to drive positive results through the transformation initiatives.

These changes will be supported by investment in display stands and other point-of-sale materials, helping our independent retailer customers to grow together with us.

Finally, our online presence will be simplified and strengthened; consolidating 32 ordering portals into one. This will be supported by enhanced digital marketing (enabling us to concentrate resources on one website, rather than 32) and social media (combining 64 social media accounts into one).

2. Simplify our network

In the UK, Headlam operates from 13 distribution centres and 6 transport cross-docks^[5], out of which around 300 delivery vans provide next-day service to customers across the country. This is supported by a network of 76 trade counters offering collection points for independent retailers, fitters, contractors, etc. This combined delivery and collection infrastructure provides unrivalled convenience and scale in the UK market, which we will maintain and enhance, including through growing the trade counter estate to around 100 outlets in the next couple of years.

The configuration of the network of distribution centres has developed through Headlam's acquisitions of regional flooring distribution businesses in the 1990s and 2000s. In recent years we have made good progress in optimising and integrating elements of this network by creating regional hubs and by consolidating transport operations. However, we will now be accelerating this element of our strategy, to more rapidly simplify our network.

Earlier this year we optimised our operations in North West England by transferring stock out of our Stockport distribution centre and opening up a cross-dock facility nearby. We subsequently sold the Stockport site for £7.5 million, a 10% premium to the most recent valuation undertaken in January 2023, and generated a £3.2 million profit on disposal.

Over the next six months we will be undertaking further optimisation activity including:

- Opening a new distribution centre in Rayleigh (Essex) and a new cross-dock facility in Ipswich to enable us to better serve our customers in the South East of England. As a consequence of this, our Ipswich distribution centre will become a surplus property and will be sold. This results in an improved network for customer service at slightly lower operating cost.
- Consolidating our two distribution centres in Scotland, resulting in our Uddingston site becoming a surplus property.

Headlam owns both the Ipswich and Uddingston properties, and both sites have recently been put on the market. We are actively engaging with buyers and offers are already being received. Collectively these properties were valued in January 2023 at £20.7 million.

Our simplified network planning is aligned with, and continues to prioritise, our commitment to leading customer service, unparalleled scale, growth ambitions and anticipation of market recovery. We will continue to review, and provide regular updates on, our network as we continually look to enhance customer service and improve operational efficiency.

3. Simplify our operations

The simplification of our sales structure and our network significantly reduces complexity in supporting processes and functions. This reduces the cost of those operations as well as improving quality and control. It also benefits the ongoing ERP replacement programme, by simplifying processes before transferring over to the new platform in the next 2-3 years.

For example, by customers having fewer accounts with Headlam, due to the simplification into the single Mercado proposition, they will have consolidated credit limits and invoices, and more dedicated ASM support, making Headlam easier to do business with. In turn, this simplification results in less complicated back-office operations.

By consolidating 32 trading businesses into a single, national Mercado business, we have also developed a unified product

file. This will be supported by a centralised buying and stock control team, which enables us to maintain a unified, national product file (whilst retaining flexibility for local range requirements). The benefits of this are a reduction in product duplication, simplification of supplier interaction, optimisation of stock ordering (by centrally co-ordinating how much to buy and where to locate it) and optimisation of stock holding (for example, by holding slower-moving ranges in a small number of central locations rather than across all distribution centres).

Milestones and targets for the 2-year transformation plan

This transformation plan has significant benefits for our key stakeholders:

- Transforms the business by simplifying the market approach, network and operations, improving our profitability and releasing capital from more efficient working capital management and the disposal of non-core freehold property.
- Leverages our track record of success in integrating and consolidating operational practices that have delivered cost efficiencies and improved service; in recent years we have successfully consolidated our transport operations and simplified our distribution network in the North West of England.
- Combined with the ongoing implementation of our long-term strategy, provides multiple opportunities for market share growth.

Our overall objectives for the transformation plan, along with specific milestones and targets are set out below:

Objectives	Milestones and targets	
	Next 12 months	Next 24 months
Market share gains in our core distribution business	Launch and embed the consolidation of 32 trading businesses into a national Mercado business	Market share improvement
	Launch contract team and proposition	
	Consolidate the transactional B2B websites into a Mercado site and re-platform it to improve customer experience	
Unlock capital to deleverage and to fund the transformation	Open Rayleigh distribution centre and Ipswich cross dock, and sell Ipswich distribution centre	At least £70m of one-off cash inflow
	Consolidate two distribution centres in Glasgow and sell Uddingston site	
	Implement central stock control	
Structurally improve profitability	Centralise selected support processes and functions	Material ongoing profit improvement in excess of £15m
	Centralise buying and stock control	
	Cost and process review of non-goods purchases	

The targeted £70m of one-off cash benefit comprises proceeds from the disposal of surplus property and optimisation of working capital and is before c.£25 million of one-off cash costs of implementing the transformation programme.

In summary, by the acceleration of our strategy through this 2-year transformation plan, we are committed to delivering continued growth, maintaining our position as the UK's number one flooring distributor, and positioning the business to be at the forefront of market recovery and future growth opportunities as we remain focussed on delivering value to our shareholders and wider stakeholders.

Financial performance in H1 2024

Group revenue was down 11.8% year-on-year at £292.5 million (H1 2023: £331.8 million); UK revenue declined by 11.3% and Continental Europe declined by 15.9%. Revenue continued to grow in Trade Counters and Larger Customers but this was more than offset by the impact on our core business of market weakness in the UK, France and Netherlands. The impact of this decline in volume, combined with a lack of price inflation and elevated cost inflation (albeit lower than in the previous year) resulted in an Underlying Loss Before Tax of £16.4 million (H1 2023: £6.0 million profit).

Cash generation was strong with £18.0 million of positive Underlying Operating Cash Flow (H1 2023: £19.8 million) and Net Debt reduced slightly to £28.3 million (31 December 2023: £29.6 million). The Group had £72.2 million of cash and undrawn

facilities available at the end of the Period.

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.

Operational and strategic progress in H1 2024

We have made good progress in the first half of the year, although the outputs have been masked by the impact of the external headwinds on overall financial performance. We have continued to invest selectively and carefully in people, in the network and infrastructure, and in customer-facing improvements; all supporting growth, efficiency, and customer service.

The key strategic growth initiatives delivered good results: revenue from Larger Customers and Trade Counters in the UK was up 2% and 7%, respectively, compared with 2023. This was offset by the impact of the heavy market decline, resulting in Regional Distribution revenue declining 19%, taking the overall UK revenue decline to 11.3%. In Continental Europe the market was even weaker in the Period and our revenues declined 15.9%.

More detail on the performance and operational progress is set out in the Chief Financial Officer's Review. A summary of the key points is set out below:

Digital & IT transformation

Following the successful launch of the new Headlam Group website last year, we have further optimised it during the Period, to acquire new customers and sales, and showcasing the best of what Headlam has to offer across our products, services and solutions. We have also enhanced our transactional B2B websites, to improve our capability in clearance and product up-selling and cross-selling.

In recent weeks the focus has been on preparation for launch of our new Mercado website and accompanying App, featuring the widest range of products and exciting new features.

We have also developed a new product information portal for our colleagues; providing easily accessible information on our ranges, to help our customers make informed purchasing decisions.

To support the digital improvements, and to provide a more agile and flexible IT platform to support the future growth of the business, we made the decision last year to replace the core IT system used in the UK. This is progressing well and will take place over the next 2-3 years. After a thorough tender process we expect to select the software and systems integrator in the coming weeks. The transformation plan outlined above provides significant benefits for the ERP change, by simplifying our business processes prior to transitioning across to the new platform.

Sustainability and our people

We have made good progress on our sustainability agenda during the Period. From an environmental perspective, we completed our solar panel investment programme in Q1 with the installation at our largest distribution centre, in Coleshill. We have seen a meaningful reduction in electricity consumption in the Period. The implementation of dynamic route planning in 2023 has also enabled us to optimise the mileage driven for customer deliveries, resulting in a reduction in fuel consumption in 2024. We have commenced a trial of a flooring take-back scheme in our Northampton trade counter working with a waste management and recycling partner. The trial has provided valuable information about volumes, product mix, logistics and customer behaviours which we will use to assess the options for a nationwide take-back programme.

We have rolled out leadership / management development training and continued our comprehensive safety training; with the majority of our managers having now attended our "See it, Say it" programme.

In response to an industry shortage of flooring fitters, we have commenced our first trainee fitter programme with the support of trainers across our supply chain. This programme is based in Leeds and involves Headlam employing trainee fitters for a period of six months whilst they become fully trained. We will then work with our customers to find them a permanent role in their businesses. By taking this industry-leading role we are helping to provide our customers with a talent pool of skilled individuals in order to sustain and grow their businesses.

Current trading and outlook

Group revenue for July and August was 8.4% below last year, compared to 11.8% in the first six months of the year. This slight improvement appears to be principally due to actions we have taken, rather than the market, which has remained very weak. The UK data on consumer spending on home improvements during the summer has showed little change compared to earlier in the year and in Continental Europe the market appears to have weakened more recently.

Looking ahead, the lead indicators for consumer spending on home improvements are more positive, with housing transactions back in growth, consumer confidence improving and inflation and interest rates declining. However, the timing of recovery remains uncertain and recent market data suggests this recovery will, again, be later than previously anticipated. We now expect limited change in market conditions throughout most of 2024, with a return to growth at some point during 2025, albeit it remains difficult to forecast consumer spending on home improvements.

We expect the transformation plan benefits to start to take effect in 2025, with the full annual profit benefit to be achieved as an exit run-rate at the end of the two-year programme.

The Board remains confident in the long-term outlook for Headlam, which is underpinned by a combination of:

- Continued implementation of the existing strategy to broaden the base of the business to address more customer segments, whilst continuing to invest in providing leading service to our independent retailer customers.
- The transformation plan, with benefits starting to take effect in 2025 and a full annual profit benefit to be achieved as an exit run-rate at the end of the two-year programme.
- Market recovery, recognising that the market is now at least 25% lower than in 2019 in volume terms.

There is no change to the illustrative long-term revenue ambition for the Group that we set out in March 2024: a range of £900 million to £1 billion of revenue, driven by the combination of the above factors.

We are confident that our strategy, accelerated by the transformation plan, will deliver sustainable improvement in our financial performance and drive long-term value creation, and we will continue to focus on supporting the needs and requirements of all our stakeholders throughout. The Board thanks all the Group's colleagues for their continued hard work during the continued challenging period for the flooring market.

Chris Payne

Chief Executive

17 September 2024

Revenue

Total revenue in the Period decreased by 11.8% to £292.5 million (H1 2023: £331.8 million), with the UK down 11.3% and Continental Europe (France and The Netherlands) down 15.9% as shown in the table below. The UK and Continental Europe accounted for 87.7% and 12.3% of total revenue respectively in the Period (H1 2023: UK 87.1%; Continental Europe 12.9%).

	H1 2024 £m	H1 2023 £m	Year-on-year %
Regional Distribution	154.7	190.6	(18.8)
Larger Customers	39.9	39.0	2.3
Trade Counters	49.3	45.9	7.4
Other	12.5	13.4	(6.7)
UK	256.4	288.9	(11.3)
Continental Europe	36.1	42.9	(15.9)
Group	292.5	331.8	(11.8)

Regional Distribution

Our Regional Distribution business incorporates all our local trading businesses across the UK and supports operations across the Group through its national network and processing and delivery capabilities.

This part of our business, which accounted for 60% of total UK revenue in the Period (H1 2023: 66%), was particularly impacted by the market decline, as consumers cut back their spending on home improvements. Revenue declined by 18.8%. Competition in this part of the market also remains particularly concentrated, with distributors reducing prices to maximise share in a declining market. Whilst we have implemented some price and promotional activity during the Period, this has been selective and targeted, rather than widespread. Towards the end of the Period we introduced new value ranges and these have been well received in the market, with strong customer demand. Stock clearance has been a feature of this market this year and we also accelerated clearance of certain ranges towards the end of the Period.

Despite the industry headwinds, we have continued to invest in service and during the Period we launched live delivery tracking and updates, enabling customers to see exactly where their delivery is and have a real-time view of when they can expect their delivery to arrive. Maintaining and improving our customer service has been a key priority of ours and will remain so, including as we implement the transformation plan.

Revenue from Own Product Brands, an important point of differentiation in the marketplace, outperformed non-own-branded products. Revenue declined 9.7% in the Period and represented 36.8% of the revenue through the Regional Distribution channel.

Larger Customers

Revenue grew by 2.3% in the Period, reflecting the combination of strong share growth in certain existing customer relationships, offset by weakened demand in some of our other larger customers, reflecting the deterioration in consumer spending on home improvements. There have been several changes in multiple retailer activity in the flooring market; towards the end of the Period, one of our customers, SCS, decided to exit the flooring market, and more recently Carpetright ceased trading. Headlam was only a very small supplier to Carpetright and, in recent weeks, we have been seeing the benefit of Carpetright's revenues transitioning into other parts of the market that we distribute into.

We have a strong pipeline of growth, across both existing and new customers. During the Period we won a contract to provide delivery services for a flooring manufacturer, which has now gone live, and we won a new multiple retailer customer, with distribution commencing in Q3 this year.

Trade Counters

Our aim is to create a nationwide footprint that services the fitter and general contractor market; a segment of the overall flooring market to which we have not previously been able to provide nationwide service to and, as such, is an important growth opportunity. We started this investment programme in 2021 with 53 sites and set out an expectation to invest c.£25 million in refurbishing the existing sites and roughly doubling the size of the estate. We target a total of around 100 invested sites, in order to reach 80% of the UK population within a circa 20-minute drive time. To date we have cumulatively invested £14.5 million and we expect to have completed this programme by the end of 2026, with the total investment anticipated to be slightly less than the original c.£25 million budget.

At maturity each trade counter is expected to generate revenue of £2 million on average, resulting in £200 million revenue overall from the trade counter business.

Revenue grew by 7% in the Period and is now annualising at over £100 million. 1,600 new customer accounts were opened across the trade counter network. Collectively, 'invested' trade counters (new, relocated or refitted) have continued to perform in line with expectations, despite the weak market.

Nine new trade counters were opened in the Period and a further 11 were refurbished or relocated. This took the total number of trade counters to 76 at the end of the Period, of which 67 have been invested in (31 December 2023: 67 total, 47 invested).

Continental Europe

Revenue declined 15.9% in Continental Europe with our French and Dutch businesses both experiencing a further weakening in the market. We have recently entered new distribution agreements in the Netherlands, for exclusive supply of certain branded ranges; this is expected to provide a revenue uplift in the second half of the year.

Gross Margin

Gross margin in the Period was 30.6% (H1 2023: 31.5%). The year-on-year reduction principally reflected heightened stock clearance activity in the UK. This has been on both a national level, with a review of the overall stock portfolio undertaken in readiness for the centralisation of buying and ranging decisions, and on a local level, whereby the network optimisation developments in South East England and in Scotland have necessitated the accelerated clearance of discontinued ranges. Excluding the impact of heightened stock clearance, gross margin was relatively stable year-on-year.

Costs

Operating costs increased by 6.2% (£6.0 million) to £102.7 million (H1 2023: £96.7 million). This reflected a combination of inflationary pressures and strategic investments, partially offset by cost efficiencies. Cost inflation contributed £3.3 million of additional cost in the Period; this is lower than the £5.8 million of cost inflation in H1 2023 but higher than the long-term average cost inflation impact, reflecting elevated pay inflation across the UK and Continental Europe. In the UK, the 10% increase in the national minimum wage contributed to an overall average pay inflation of circa 5%.

The Group also made strategic investments, principally relating to the roll-out of trade counters, but also including investments in capability and resource to deliver on the other strategic growth areas. Collectively these added £2.5 million to operating costs.

Mitigating actions provided £1.5 million of cost efficiencies in the Period; these included the benefit of the introduction of

dynamic route planning in 2023, along with flexing of variable costs to adjust for market conditions.

Underlying Profit/Loss

Underlying Operating Loss of £13.1 million compared to a profit of £8.2 million in H1 2023. The table below breaks down the year-on-year movement:

	Underlying Operating Profit/(Loss)	£m
H1 2023		8.2
Volume		(10.1)
Gross margin		(3.2)
Strategic investments		(1.4)
Cost inflation		(3.3)
Continental Europe and other		(4.8)
Mitigating actions		1.5
H1 2024		(13.1)

Volume was, by far, the single biggest factor, contributing to a £10.1 million reduction in profit; residential volumes were 11% lower year-on-year in the UK and even lower in Continental Europe.

Gross margin declined by 86 basis points, principally reflecting stock clearance activity combined with, to a lesser extent, the impact of price matching on certain ranges in Regional Distribution. There was no observable price inflation in the market, with very limited manufacturer price rises (which would normally drive distributor price inflation) for the second year in a row.

Strategic investments contributed to a £1.4 million reduction in profit. As expected, and as previously guided, in the early years of the Trade Counter investment programme the profit contribution to the Group from this business is reduced due to the operating losses on newly invested trade counters. The Trade Counter business was profit dilutive to the Group in 2023 and is expected to be in 2024 and 2025 while the investments in sites continues; becoming profit accretive from 2026 onwards. Strategic investments in the Period also included the annualisation of incremental investments in 2023 in people and capability to deliver on other elements of the strategy (including digital, brand and customer enhancements).

Cost inflation was a £3.3 million headwind as explained above. Mitigating actions provided £1.5 million of offsetting benefit.

Interest costs of £3.3 million (H1 2023: £2.2 million) were £1.1 million higher year-on-year reflecting higher average borrowings plus the interest component of the lease cost of incremental trade counter units.

Reflecting the movement in Underlying Operating Profit explained above, and the increase in interest costs, the Underlying Loss Before Tax was £16.4 million in the Period (H1 2023: £6.0 million profit).

Non-Underlying Items

Non-underlying items before tax in the Period totalled a £4.2 million expense (H1 2023: £1.5m expense) as set out in the table below. The net cash impact of these non-underlying items in H1 2024 was a £4.9 million cash inflow.

	H1 2024 Cash £m	H1 2024 Non- cash £m	H1 2024 Total £m	H1 2023 Total £m
Amortisation of intangibles and other acquisition-related costs	-	(0.7)	(0.7)	(1.5)
Impairment of assets	-	(0.9)	(0.9)	-
Business restructuring and change-related costs	(1.6)	(3.3)	(4.9)	-
Profit on sale of property	7.4	(4.2)	3.2	-
ERP system development	(0.9)	-	(0.9)	-
Non-underlying income/(expense) before tax	4.9	(9.1)	(4.2)	(1.5)

Consistent with previous periods, the amortisation of acquired intangibles arising upon consolidation, along with other acquisition-related costs were categorised as non-underlying and amounted to £0.7 million (H1 2023: £1.5 million).

Impairment of assets was a £0.9 million non-cash expense in H1 and related to the write-down of assets associated with the network optimisation initiatives.

Business restructuring and change-related costs are in respect of the transformation plan. The cash items principally comprised severance costs and advisory costs. The non-cash expense of £3.3 million principally relates to stock provisions, reflecting the write-down of legacy stock holdings in preparation for the network optimisation initiatives in the South East of England and in Scotland.

A £3.2 million profit on sale of the Stockport property was recognised in the Period, generating £7.4 million cash, net of agent fees.

The cost of developing the new ERP system is expensed rather than capitalised due to it being a cloud-based solution and, as previously guided, the development cost is being treated as a non-underlying expense, of which £0.9 million was incurred in the Period.

EPS and Dividend

Basic earnings per share on an underlying basis decreased from earnings of 6.1 pence per share in the prior year period to a loss of 17.2 pence per share, reflecting the factors set out above.

No interim ordinary dividend has been declared (FY 2023: interim ordinary dividend 4.0 pence per share). While we have opted not to declare a dividend this year, our long-term commitment remains focused on delivering shareholder value. The Board will continue to review how the business is performing, taking into account the market conditions and the implementation of the transformation plan, in assessing when it may be appropriate to reinstate dividend payments.

Tax

The Group's consolidated underlying effective tax rate for the Period was 15.9% (H1 2023: 18.3%), 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 de-recognition of a deferred tax asset in respect of tax losses in France.

Cash Flow and Net Debt

	2024 £m	2023 £m
Underlying operating (loss)/profit	(13.1)	8.2
Depreciation and other non-cash items	10.9	9.8
EBITDA	(2.2)	18.0
Change in inventories	6.5	(6.9)
Change in receivables	12.4	4.0
Change in payables	0.9	4.0
Other	0.4	0.7
Underlying Operating Cash Flow	18.0	19.8
Interest and Tax	(2.4)	(5.7)
Lease payments	(7.4)	(7.2)
Capital expenditure	(6.9)	(10.1)
Property disposal	7.4	-
Other non-underlying items	(2.5)	(0.2)
Acquisitions	-	(3.7)
Dividends	(4.8)	(9.0)
Payments to acquire own shares (share buyback programme)	-	(5.2)
Net cash flow before movement in borrowings	1.4	(21.3)
Movement in borrowings	-	36.8
Net cash flows	1.4	15.5

Underlying Operating Cash Flow in the Period was £18.0 million compared to £19.8 million in 2023. This reflected a working capital inflow of £19.8 million, driven by a reduction in inventories and receivables. Inventories continue to be well-controlled and at the end of the Period were £22.6 million lower than at the end of H1 2023.

Capital expenditure was £6.9 million (H1 2023: £10.1 million) and included £3.1 million in fitting out new or refurbished trade counters, £0.9 million in solar panels (with that rollout programme now complete) and the remainder in warehouse equipment. We previously guided that capital expenditure for full year 2024 was expected to be around £12 million; we now expect that to be around £10 million.

£7.4 million cash was received in the Period in respect of the sale of the Stockport surplus property; this compared to a book value of £4.2 million and a market valuation (in January 2023) of £6.7 million. Other non-underlying items contributed a £2.5 million cash outflow and comprised £1.6 million of business restructuring and change-related costs and £0.9 million of ERP development costs.

£4.8 million was paid in the Period in respect of the final ordinary dividend for 2023. In H1 2023, £14.2 million of shareholder returns were made, comprising £5.2 million of payments to acquire own shares under the share buyback programme that completed in March 2023 and £9.0 million of ordinary dividend payments.

Net Debt excluding lease liabilities was £28.3 million at the end of the Period, a decrease of £1.3 million from 31 December 2023.

At the end of the Period, the Group had total banking facilities available of £100.5 million (31 December 2023: £100.6 million), of which £81.5 million (31 December 2023: £81.5 million) were committed. These facilities expire in October 2027. The Group had £72.2 million of cash and undrawn facilities at 30 June 2024 (31 December 2023: £71.0 million). In June 2024 the Group agreed a new covenant package with its banks. The pre-existing covenants of leverage and interest cover no longer apply for the 30 June 2024, 31 December 2024 and 30 June 2025 tests. Instead, a monthly minimum liquidity test (based on total facilities; committed and uncommitted) and a quarterly minimum EBITDA test will apply. At the end of June 2024, the Group had £72.2 million of liquidity headroom compared to a minimum liquidity covenant of £30.0 million. The Group continues to have strong asset backing; as at 30 June 2024, after the sale of the Stockport property in June 2024, the Group owned property with a market valuation of £142.1 million, and also had inventory and receivables of £124.9 million and £104.3 million respectively. The banks have a legal charge over six of the Group's properties, with a combined market valuation of £84.6 million; broadly equivalent to the size of the revolving credit facility.

Pension buy-in

During the Period the Group completed a buy-in arrangement with Aviva in respect of the Headlam Group PLC Staff Retirement Benefits Scheme (the 'Scheme'), which further strengthens the Group's balance sheet.

The buy-in secures an insurance asset from Aviva that matches the remaining pension liabilities of the Scheme, with the result that the Group no longer bears any material investment, longevity, interest rate or inflation risk in respect of the Scheme. Furthermore, the Group will no longer be required to contribute funding into the Scheme; the Group's contributions have been £1 million per annum.

This transaction is positive for the Scheme's members and has the full support of the trustee. The purchase of the insurance policy was funded by the Scheme's assets plus a top-up payment from the Group of £1.1 million, excluding advisor fees. The transaction results in a modest cash outflow for the Group in 2024, compared to if it did not proceed with it, but becomes cashflow accretive by the end of 2025.

At the end of the Period the Group recognised a pension liability of £0.2 million for the Scheme.

Going Concern

The Directors have reviewed the going concern assessment 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 2023 Annual Report and Accounts (on pages 68 to 71). The principal risks remain

broadly unchanged since last reported.

Adam Phillips

Chief Financial Officer

17 September 2024

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 on pages 208 to 209 of the 2023 Annual Report and Accounts.

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 2024

Note	Underlying		Non-underlying		Six months ended		Non-underlying		Six months ended		Non-underlying		Year ended		
	2024	£m	2024	£m	30 June	2024	Underlying	2023	2023	30 June	Underlying	2023	(Note 3) December	31	
Revenue	2	292.5	-	292.5	331.8	-	331.8	656.5	-	656.5					
Cost of sales		(202.9)	-	(202.9)	(227.3)	-	(227.3)	(448.7)	-	(448.7)	-	-			
Gross profit		89.6	-	89.6	104.5	-	104.5	207.8	-	207.8					
Distribution costs		(69.7)	-	(69.7)	(67.1)	-	(67.1)	(131.3)	-	(131.3)					
Administrative expenses		(33.0)	(4.2)	(37.2)	(29.6)	(1.5)	(31.1)	(60.8)	(12.5)	(73.3)					
Other operating income		-	-	-	0.4	-	0.4	0.4	0.4	8.6	9.0				
Operating (loss)/profit	2	(13.1)	(4.2)	(17.3)	8.2	(1.5)	6.7	16.1	(3.9)	12.2					
Finance income	4	-	-	-	-	-	-	0.3	-	0.3					
Finance expenses	4	(3.3)	-	(3.3)	(2.2)	-	(2.2)	(5.4)	-	(5.4)					
Net finance costs		(3.3)	-	(3.3)	(2.2)	-	(2.2)	(5.1)	-	(5.1)					
(Loss)/Profit before tax		(16.4)	(4.2)	(20.6)	6.0	(1.5)	4.5	11.0	(3.9)	7.1					
Taxation	5	2.6	-1.8	4.4	(1.1)	0.3	(0.8)	(2.2)	2.8	0.6					
(Loss)/profit for the period attributable to the equity shareholders	2	(13.8)	(2.4)	(16.2)	4.9	(1.2)	3.7	8.8	(1.1)	7.7					
(Loss)/Earnings per share															
Basic	6	(17.2)p		(20.2)p	6.1p		4.6p	11.0p		9.6p					
Diluted	6	(17.2)n		(20.2)n	6.1n		4.6n	10.9n		9.6n					

Ordinary dividend per share

Interim dividend proposed for the financial period	7	-	4.0p	4.0p
Final dividend declared for the financial period	7	-	-	6.0p

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2024

	Six months ended 30 June 2024 £m	Six months ended 30 June 2023 £m	Year ended 31 December 2023 £m
	Unaudited	Unaudited	Audited
(Loss)/profit for the period attributable to the equity shareholders	(16.2)	3.7	7.7
Other comprehensive income/(expense):			
<i>Items that will never be reclassified to profit or loss</i>			
Remeasurement of defined benefit plans	0.5	-	(0.3)
Related tax	(0.1)	-	0.1
	0.4	-	(0.2)
<i>Items that are or may be reclassified to profit or loss</i>			
Exchange differences arising on translation of overseas operations	(0.1)	(0.3)	(0.2)
	(0.1)	(0.3)	(0.2)
Other comprehensive income/(expense) for the period	0.3	(0.3)	(0.4)
Total comprehensive (expense)/income attributable to the equity shareholders for the period	(15.9)	3.4	7.3

Condensed Consolidated Statement of Financial Position

At 30 June 2024

	At 30 June 2024 £m	At 30 June 2023 £m	At 31 December 2023 £m
	Unaudited	Unaudited	Audited
Assets			
Non-current assets			
Property, plant and equipment	125.3	126.7	127.6
Right-of-use assets	40.2	37.2	41.6
Intangible assets	18.7	21.3	19.4
Deferred tax assets	-	-	0.9
	184.2	185.2	189.5
Current assets			
Inventories	124.9	147.5	131.5
Trade and other receivables	104.3	115.5	117.1
Income tax receivable	3.2	1.4	3.1
Cash and cash equivalents	22.6	18.0	21.1
	255.0	282.4	272.8
Total assets	439.2	467.6	462.3
Liabilities			
Current liabilities			
Bank overdrafts	(0.9)	(0.5)	(0.7)
Other interest-bearing loans and borrowings	(50.0)	(37.1)	(50.0)
Lease liabilities	(11.6)	(11.4)	(11.9)
Trade and other payables	(134.5)	(154.9)	(129.1)
Employee benefits	-	(1.3)	(1.1)
	(197.0)	(205.2)	(192.8)
Non-current liabilities			
Lease liabilities	(30.7)	(26.9)	(31.5)

Provisions	(2.6)	(1.7)	(2.6)
Deferred tax liabilities	(8.0)	(11.9)	(13.2)
Employee benefits	(0.8)	(2.0)	(1.8)
	(42.1)	(42.5)	(49.1)
Total liabilities	(239.1)	(247.7)	(241.9)
Net assets	200.1	219.9	220.4

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	(15.6)	(15.7)	(15.5)
Retained earnings	157.9	177.8	178.1
Total equity	200.1	219.9	220.4

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2024

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 2024	4.3	53.5	0.1	1.5	1.9	(19.0)	178.1	220.4
Loss for the period attributable to the equity shareholders	-	-	-	-	-	-	(16.2)	(16.2)
Other comprehensive (expense)/income	-	-	-	-	(0.1)	-	0.4	0.3
Total comprehensive expense for the period	-	-	-	-	(0.1)	-	(15.8)	(15.9)
Transactions with equity shareholders, recorded directly in equity								
Share based payments	-	-	-	-	-	-	0.4	0.4
Dividends to equity holders	-	-	-	-	-	-	(4.8)	(4.8)
Total contributions by and distributions to equity shareholders	-	-	-	-	-	-	(4.4)	(4.4)
Balance at 30 June 2024	4.3	53.5	0.1	1.5	1.8	(19.0)	157.9	200.1

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 year ended 31 December 2023

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 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	-	-	-	-	-	-	7.7	7.7
Other comprehensive expense	-	-	-	-	(0.2)	-	(0.2)	(0.4)
Total comprehensive (expense) / income for the year	-	-	-	-	(0.2)	-	7.5	7.3
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	-	-	-	-	-	-	0.6	0.6
Share options exercised by employees	-	-	-	-	-	0.5	(0.5)	-
Deferred tax on share options	-	-	-	-	-	-	(0.1)	(0.1)
Dividends to equity holders	-	-	-	-	-	-	(12.2)	(12.2)
Total contributions by and distributions to equity shareholders	-	-	-	-	-	-	0.5	(12.2) (11.7)
Balance at 31 December 2023	4.3	53.5	0.1	1.5	1.9	(19.0)	178.1	220.4

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2024

	Six months ended 30 June 2024 £m	Six months ended 30 June 2023 £m	Year ended 31 December 2023 £m
	Unaudited	Unaudited	Audited
Cash flows from operating activities			
(Loss)/profit before tax for the period	(20.6)	4.5	7.1
Adjustments for:			
Depreciation and impairment of property, plant and equipment, amortisation and impairment of intangible assets and other acquisition-related costs	5.6	4.6	14.0
Depreciation, impairment and termination of right of use assets	6.6	6.5	13.9
Finance income	-	-	(0.3)
Finance expense	3.3	2.2	5.4
Insurance proceeds for property, plant and equipment (following fire)	-	-	(8.6)
Profit on sale of property, plant and equipment	(3.2)	-	(1.1)
Share-based payments	0.4	0.7	0.6
Operating cash flows before changes in working capital and other payables			31.0
Change in inventories	6.5	(6.9)	10.0
Change in trade and other receivables	12.4	4.0	2.7
Change in trade and other payables	4.5	4.0	(22.1)
Cash generated from operations	15.5	19.6	21.6
Interest paid	(3.4)	(0.9)	(4.7)
Interest received	-	-	0.3
Tax paid	(0.1)	(4.8)	(4.7)
Net cash flow from operating activities	12.0	13.9	12.5
Cash flows from investing activities			

Proceeds from sale of property, plant and equipment	7.4	-	2.3
Acquisition of subsidiary, net of cash acquired	-	(3.7)	(6.1)
Acquisition of property, plant and equipment	(6.9)	(9.7)	(17.4)
Insurance proceeds for property, plant and equipment following fire	-	-	8.6
Acquisition of intangible assets	-	(0.4)	(0.8)
Net cash flow from investing activities	0.5	(13.8)	(13.4)
Cash flows from financing activities			
Payment to acquire own shares	-	(5.2)	(5.2)
Proceeds from borrowings	18.0	60.0	110.0
Repayment of borrowings	(18.0)	(23.2)	(60.3)
Principal elements of lease payments	(6.3)	(7.2)	(13.0)
Dividends paid	(4.8)	(9.0)	(12.2)
Net cash flow from financing activities	(11.1)	15.4	19.3
Net increase in cash and cash equivalents	1.4	15.5	18.4
Cash and cash equivalents at 1 January	20.4	2.1	2.1
Effect of exchange rate fluctuations on cash held	(0.1)	(0.1)	(0.1)
Cash and cash equivalents at end of period	21.7	17.5	20.4

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 2024.

The Consolidated Financial Statements of the Group as at and for the year ended 31 December 2023 are available upon request from the company's registered office or the website.

The comparative figures for the financial year ended 31 December 2023 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 2023, 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 17 September 2024.

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 2023.

In addition, the Group has commenced a programme to replace the current ERP system with a cloud-based software-as-a-service arrangement. Configuration, customisation and dual running costs are expensed to the Consolidated Income Statement. They are classed as non-underlying as these are significant, non-recurring items.

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 Group meets its day-to-day working capital requirements through its banking facilities. The facilities agreed with a club of banks total £81.5 million with maturity in October 2027. The Group also has short-term uncommitted facilities of £15.0 million and €4.7 million which are renewable on an annual basis.

In June 2024 the Group agreed a new covenant package with its banks. The pre-existing covenants of leverage and interest cover no longer apply for the 30 June 2024, 31 December 2024 and 30 June 2025 tests. Instead, a monthly minimum liquidity test (based on total facilities; committed and uncommitted) and a quarterly minimum EBITDA test will apply. At the end of June 2024, the Group had £72.2 million of liquidity headroom compared to a minimum liquidity covenant of £30.0 million. The Group continues to have strong asset backing; as at 30 June 2024, after the sale of the Stockport property in June 2024, the Group owned property with a market valuation (as of January 2023) of £142.1 million, and also had inventory and receivables of £124.9 million and £104.3 million respectively. The banks have a legal charge over six of the Group's properties, with a combined market valuation (as of January 2023) of £84.6 million.

The Directors have reviewed current performance and latest forecasts, along with borrowing facilities and expenditure commitments. The Board has also reviewed the Group's resilience to the principal risks and uncertainties by considering forecasts through adverse scenarios, which involve a reduction in market demand. The downside scenario assumes that the flooring market declines by around 15% in the second half of 2024, an unprecedented level of decline after two previous years of declining volumes. Over the longer term this scenario assumes no market volume recovery in 2025 and very limited market volume recovery thereafter. Despite these headwinds, after deploying mitigating actions that are within management's control, including disposing of surplus properties and optimising working capital, the Group's net debt is projected to reduce (i.e. improve) significantly during the going concern assessment period. The testing indicated that the Group would be able to operate within their banking facilities and meet their financial covenants in these scenarios, including in the most negative scenario.

After making enquiries and reviewing the assessment of the Group's financial position with regard to the modelled scenarios, 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.

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 2023.

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 2023 Annual Report and Accounts.

2 SEGMENT REPORTING

At 30 June 2024, the Group had 16 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.

Continuing operations

	UK		Continental Europe						Total	
	30 June 2024	30 June 2023	31 December 2023	30 June 2024	30 June 2023	31 December 2023	30 June 2024	30 June 2023	31 December 2023	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Revenue										
External revenues	256.4	288.9	577.3	36.1	42.9	79.2	292.5	331.8	656.5	
Reportable segment underlying operating (loss)/profit	(8.4)	11.3	22.0	(0.7)	0.7	0.2	(9.1)	12.0	22.2	
Reportable segment assets	333.8	380.7	359.4	33.9	36.6	35.6	367.7	417.3	395.0	
Reportable segment liabilities	(213.0)	(215.3)	(209.8)	(18.1)	(20.5)	(18.9)	(231.1)	(235.8)	(228.7)	

During the periods shown above there have been no inter-segment revenues for the reportable segments (2023: £nil).

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

	30 June 2024	30 June 2023	31 December 2023
(Loss)/profit for the period			
Total underlying (loss)/profit for reportable segments	(9.1)	12.0	22.2
Non-underlying items	(4.2)	(1.5)	(3.9)
Unallocated expense	(4.0)	(3.8)	(6.1)
Operating (loss)/profit	(17.3)	6.7	12.2
Finance income	-	-	0.3
Finance expense	(3.3)	(2.2)	(5.4)
(Loss)/Profit before taxation	(20.6)	4.5	7.1
Taxation	4.4	(0.8)	0.6
(Loss)/profit for the period	(16.2)	3.7	7.7

	30 June 2024	30 June 2023	31 December 2023
Assets			
Total assets for reportable segments	367.7	417.3	395.0
Unallocated assets:			
Intangible assets	0.1	3.4	0.1
Income tax receivable	3.2	1.4	3.1
Deferred tax assets	-	-	0.9
Cash and cash equivalents	68.2	45.5	63.2
Total assets	439.2	467.6	462.3
Liabilities			
Total liabilities for reportable segments	(231.1)	(235.8)	(228.7)
Unallocated liabilities:			
Deferred tax liabilities	(8.0)	(11.9)	(13.2)
Total liabilities	(239.1)	(247.7)	(241.9)

	UK £m	Continental Europe £m	Reportable segment total £m	Unallocated £m	Consolidated total £m
Other material items 30 June 2024					
	6.8	0.1	6.9	-	6.9

Acquisition of property, plant and equipment	4.0	0.1	0.2	-	0.2
Depreciation of property, plant and equipment	4.1	0.2	4.3	-	4.3
Depreciation and termination of right of use assets	5.5	0.8	6.3	-	6.3
Impairment of property, plant and equipment	0.6	-	0.6	-	0.6
Impairment of right of use assets	0.3	-	0.3	-	0.3
Non-underlying items (excluding impairment)	3.2	0.1	3.3	-	3.3
Other material items 30 June 2023					
Acquisition of property, plant and equipment	9.6	0.1	9.7	-	9.7
Depreciation of property, plant and equipment	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 31 December 2023					
Acquisition of property, plant and equipment	17.1	0.3	17.4	-	17.4
Depreciation of property, plant and equipment	6.7	0.4	7.1	-	7.1
Depreciation of right of use assets	12.0	1.5	13.5	-	13.5
Impairment of property, plant and equipment	1.9	-	1.9	-	1.9
Impairment of intangible assets	-	-	-	3.6	3.6
Impairment of right of use assets	0.4	-	0.4	-	0.4
Non-underlying items (excluding impairment)	(2.3)	0.1	(2.2)	0.2	(2.0)

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	30	31 December	30	30	31 December	30	30	31 December
	June	June	2023	June	June	2023	June	June	2023
Revenue	£m	£m	£m	£m	£m	£m	£m	£m	£m
Residential	161.3	189.1	377.2	21.6	26.2	47.5	182.9	215.3	424.7
Commercial	95.1	99.8	200.1	14.5	16.7	31.7	109.6	116.5	231.8
	256.4	288.9	577.3	36.1	42.9	79.2	292.5	331.8	656.5

3 NON-UNDERLYING ITEMS

Non-underlying items relate to the following:

	Six months ended 30 June 2024	Six months ended 30 June 2023	Year ended 31 December 2023
	£m	£m	£m
Amortisation of intangibles and other acquisition-related costs	0.7	1.5	2.3
Impairment of property, plant and equipment, intangible assets and right of use assets	0.9	-	5.9
Insurance proceeds (following fire)	-	-	(8.6)
Profit on sale of property, plant and equipment	(3.2)	-	(1.1)
Business restructuring and change-related costs	4.9	-	5.4
Cloud based ERP system development costs	0.9	-	-
	4.2	1.5	3.9
Taxation on non-underlying items	(1.8)	(0.3)	(2.8)
	2.4	1.2	1.1

Included within impairment is £0.6 million impairment of property, plant and equipment and £0.3 million impairment of right of use assets. The impairment charges relate to the write down of assets related to the network optimisation initiatives.

Profit on sale of property, plant and equipment includes £3.2 million profit on sale relating to the disposal of the Stockport site.

Business restructuring and change-related costs relate to the transformation plan, including severance costs and advisory fees. The costs comprise £1.6 million cash costs and £3.3 million non-cash costs. The non-cash costs principally relate to stock

provisions.

Cloud-based ERP system development costs include £0.9m of development costs to replace the current ERP system with a cloud-based software-as-a-service arrangement.

4 FINANCE INCOME AND EXPENSE

	Six months ended 30 June 2024	Six months ended 30 June 2023	Year ended 31 December 2023
	£m	£m	£m
Interest income:			
Bank interest	-	-	0.3
Finance income	-	-	0.3
Interest expense:			
Bank loans, overdrafts and other financial expenses	(2.2)	(1.0)	(3.0)
Interest on lease liability	(1.1)	(0.9)	(2.1)
Net interest on defined benefit plan obligation	-	(0.1)	(0.1)
Other	-	(0.2)	(0.2)
Finance expenses	(3.3)	(2.2)	(5.4)

5 TAXATION

The Group's consolidated underlying effective tax rate ('ETR') for the interim period is 15.9%. This is lower than the standard rate of corporation tax in the UK predominantly due to the derecognition of deferred tax assets for previously recognised tax losses.

The UK headline corporation tax rate for the six months ended 30 June 2024 was 25% (six months ended 30 June 2023: was increased from 19% to 25% from 1 April 2023; 12 months ended 31 December 2023: 23.5%). The deferred tax balance in respect of UK entities has been calculated at 25% (30 June 2023: 25%; 31 December 2023: 25%) following the enactment in 2021 of the increase in the UK tax rate from 1 April 2023.

The Group is within the scope of the OECD Pillar Two model rules. The Pillar Two legislation was enacted on 11 July 2023. The Group does not expect the Pillar Two legislation to have any material impact on the full year results.

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 2024	Six months ended 30 June 2023	Year ended 31 December 2023
	£m	£m	£m
Earnings			
(Loss)/Earnings for basic and diluted earnings per share	(16.2)	3.7	7.7
(Loss)/Earnings for underlying basic and underlying diluted earnings per share	(13.8)	4.9	8.8
Number of shares			
Weighted average number of ordinary shares for the purposes of basic earnings per share	80,192,223	80,354,717	80,270,756
Effect of diluted potential ordinary shares:			
Weighted average number of ordinary shares at period end	80,192,223	80,354,717	80,270,756
Dilutive effect of share options	10,475	209,262	107,110
Weighted average number of ordinary shares for the purposes of diluted			

earnings per share	80,202,698	80,563,979	80,377,866
Continuing operations earnings per share			
Basic	(20.2)p	4.6p	9.6p
Diluted	(20.2)p	4.6p	9.6p
Underlying basic	(17.2)p	6.1p	11.0p
Underlying diluted	(17.2)p	6.1p	10.9p

7 DIVIDENDS

	Six months ended 30 June 2024 £m	Six months ended 30 June 2023 £m	Year ended 31 December 2023 £m
Final dividend for 2023 of 6.0p paid 7 June 2024	4.8	-	-
Interim dividend for 2023 of 4.0p paid 28 November 2023	-	-	3.2
Final dividend for 2022 of 11.2p paid 2 June 2023	-	9.0	9.0
	4.8	9.0	12.2

The Board of Directors have not proposed an interim dividend for 2024, this is discussed further in the Chief Financial Officer's Review above.

8 FINANCIAL INSTRUMENTS

The table below sets out the Group's accounting classification of each class of financial assets and liabilities at 30 June 2024.

	Amortised cost £m	Total carrying value £m
Cash and cash equivalents	22.6	22.6
Bank overdraft	(0.9)	(0.9)
Borrowings due within one year	(50.0)	(50.0)
Trade payables	(104.4)	(104.4)
Non-trade payables	(17.6)	(17.6)
Leasing liability	(42.3)	(42.3)
Trade receivables	76.4	76.4
Other receivables	18.5	18.5
Provisions	(2.6)	(2.6)
	(100.3)	(100.3)

Fair values

The carrying amounts shown in the Statement of Financial Position for financial instruments were not materially different to their 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.

9 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.

Adjusted results reconciliation

30 June 2024

Continuing operations	Amortisation		Profit on		Business		Adjusted Results (underlying) £m
	Total	of intangibles and other acquisition related costs	Impairment of PPE and right of use assets	sale of property, re- structuring and change- related costs	Cloud based ERP system development		
	£m	£m	£m	£m	£m	£m	
Revenue	292.5	-	-	-	-	-	292.5
Cost of sales	(202.9)	-	-	-	-	-	(202.9)
Gross profit	89.6	-	-	-	-	-	89.6
Distribution costs	(69.7)	-	-	-	-	-	(69.7)
Administrative expenses	(37.2)	0.7	0.9	(3.2)	4.9	0.9	(33.0)
Other operating income	-	-	-	-	-	-	-
Operating (loss)/profit	(17.3)	0.7	0.9	(3.2)	4.9	0.9	(13.1)
Finance income	-	-	-	-	-	-	-
Finance expenses	(3.3)	-	-	-	-	-	(3.3)
Net finance costs	(3.3)	-	-	-	-	-	(3.3)
(Loss)/profit before tax	(20.6)	0.7	0.9	(3.2)	4.9	0.9	(16.4)
Taxation	4.4	(0.2)	(0.2)	-	(1.2)	(0.2)	2.6
(Loss)/profit for the year attributable to the equity shareholders	(16.2)	0.5	0.7	(3.2)	3.7	0.7	(13.8)
(Loss)/earnings per share							
Basic	(20.2)p	0.6p	0.9p	(4.0)p	4.6p	0.9p	(17.2)p
Diluted	(20.2)p	0.6p	0.9p	(4.0)p	4.6p	0.9p	(17.2)p

Adjusted Results Reconciliation

30 June 2023

Continuing operations	Amortisation		Adjusted Results (underlying) £m
	Total	of acquired intangibles and other acquisition related costs	
	£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			
Basic	4.6p	1.5p	6.1p
Diluted	4.6p	1.5p	6.1p

Adjusted Results Reconciliation

31 December 2023

Continuing operations	Impairment of property, Amortisation of acquired intangibles and other acquisition related costs		Business Profit on disposal of items under construction and equipment related costs £m	Adjusted Results (underlying) £m
	Total	plant and intangible assets and proceeds from a fire)		
	£m	£m		
Revenue	656.5	-	-	-
Cost of sales	(448.7)	-	-	(448.7)
Gross profit	207.8	-	-	207.8
Distribution costs	(131.3)	-	-	(131.3)
Administrative expenses	(73.3)	2.3	5.9	(60.8)
Other operating income	9.0	-	(8.6)	0.4
Operating profit/(loss)	12.2	2.3	5.9	16.1
Finance income	0.3	-	-	0.3
Finance expenses	(5.4)	-	-	(5.4)
Net finance costs	(5.1)	-	-	(5.1)
Profit/(loss) before tax	7.1	2.3	5.9	11.0
Taxation	0.6	(0.5)	(1.5)	(2.2)
Profit/(loss) for the year attributable to the equity shareholders	7.7	1.8	4.4	8.8
Earnings/(loss) per share				
Basic	9.6p	2.2p	5.5p	11.0p
Diluted	9.6p	2.2p	5.5p	10.9p

-Ends-

[1] Barclays Consumer Spending Report

[2] UK residential property transactions data, provided by HMRC

[3] Asda income tracker

[4] GfK's Consumer Confidence Index

[5] Transport cross-docks are non-stock-holding locations that are used to transfer product from overnight trunker deliveries onto local delivery vans, ready for delivery the following day to customers in the surrounding area

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