

5 December 2024

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

Significant progress on transformation plan but market remains weak

Headlam (LSE: HEAD), the UK's leading floorcoverings distributor, announces an update in respect of the early progress on its transformation plan announced on 17th September 2024 and a trading update for the five months ended 30 November 2024 (the "Period").

Transformation plan update: significant early progress

In September the Group announced the acceleration of its existing strategy through a two-year transformation plan. This plan aims to simplify the Group's business and enhance our customer offer; with the objectives of improving profitability, increasing market share and releasing capital from more efficient working capital management and the disposal of surplus property.

The Group has made significant progress in the implementation of the transformation plan since September, as summarised below:

Simplify Our Customer Offer

- The consolidation of 32 trading businesses into one single, national business trading as Mercado is well progressed.
- Over 90% of customers (by revenue) have now commenced the process to consolidate their trading accounts and approximately 50% of applicable revenue is now trading through the new Mercado business.
- These customers benefit from being able to order from a broader, unified product list and from more time with our sales teams, who have smaller geographic territories. The customer and colleague response to date has been positive and there has been no discernible disruption to revenue.

Simplify Our Network

- The fit-out of our new distribution centre in Rayleigh (Essex) is almost complete and is expected to become operational in early 2025. As previously announced, these changes mean that our Ipswich distribution centre becomes surplus to requirements.
- The optimisation of our warehouse operations in Scotland is now complete, with the consolidation of two sites into one distribution centre near Glasgow, resulting in our Uddingston site becoming surplus to requirements.
- The Group is in discussions to sell both the Ipswich and Uddingston properties and will provide an update in due course.

Simplify How We Operate

- We have now implemented a centralised buying and stock control team, which enables us to maintain a unified, national product file and unlocks benefits including a reduction in product duplication, simplification of supplier interaction, and optimisation of stock ordering.

The transformation plan remains on track to deliver the financial benefits set out in September, and in light of the continued market weakness has been extended to deliver additional benefits:

- The release of at least £70m cash from disposal of surplus property and optimisation of net working capital (prior to one-off transformation costs), which we explained in September was expected to be achieved within two years, but management is now confident could be achieved sooner; and
- Ongoing profit improvements are now targeted to be at least £20m; to start to be realised during 2025 and fully achieved as a run-rate by the end of 2026.

Trading update

While the lead indicators for the flooring and home improvements markets continue to point to improvement in the medium-

term, these indicators remain volatile. As has been widely reported, UK consumer confidence declined in the run-up to the UK government's budget announcement, and this resulted in a further deterioration in the rate of decline in consumer spending on home improvements¹. Consequently, there has been no sign of improvement in the flooring market during the second half of the 2024 and we estimate that the market continued to decline at 10-15% year-on-year, in line with H1.

The Group's revenue decline has slowed in the second half to date, despite the lack of market improvement. Group revenue for the five months to the end of November declined 7.3% compared to an 11.8% decline in H1. This lower level of revenue decline in H2 has principally been driven by revenue from Larger Customers, in particular resulting from Carpetright exiting the market. This helped to reduce the decline in UK revenue from 11.3% in H1 to 6.6% in the 5 months to the end of November.

Despite this improved rate of revenue decline in recent months, the market itself has been weaker than previously projected. Accordingly, the Group expects the underlying loss before tax for the second half to be broadly in line with the first half.

Cash and working capital continue to be well-controlled. The Group's strong balance sheet position is further supported by a property portfolio valued² at £142 million.

The Group has reviewed the implications of the recent budget announcement by the UK Government. Whilst the Board anticipated some of the changes that were announced such as the increase in the national minimum wage, the reduction in the national insurance threshold was not anticipated. When combined with the rise in the employers' national insurance rate to 15% the overall effect of these changes will be to add c.£2 million to the Group's annual operating costs, effective from April 2025.

Commenting, Chris Payne, Chief Executive Officer, said:

"The challenges impacting the UK flooring market have continued to weigh on our trading performance in the short term. However, the Board remains encouraged by the significant progress we are making against our strategy and transformation plan to simplify our operations and improve our customer offering. In light of the additional market headwinds, we are extending this programme to target greater benefits over the next two years. This progress remains critical to ensuring the business is positioned for long-term success given the wider current macroeconomic uncertainty and its impact on consumer confidence and our markets in the near-term."

Footnotes

1. According to Barclays data, consumer spending on home improvements declined 7.7% in October 2024 compared to 5.0% in September and 5.7% in August: www.barclayscorporate.com/insights/industry-expertise/uk-consumer-spending-report
2. The last valuation of the property portfolio was undertaken in January 2023; the most recent property sale (in June 2024) was at a premium to this valuation

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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 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.

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This announcement contains inside information for the purposes of Article 7 of the UK version of Regulation (EU) No. 596/2014 on Market Abuse ("UK MAR"), as it forms part of the UK domestic law by virtue of the European Union (Withdrawal) Act 2018. 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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