

20 December 2024

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

Progress against strategic initiative to simplify the Group's operations with £54m cash proceeds from property disposals

Headlam (LSE: HEAD), the UK's leading floorcoverings distributor, is pleased to announce that as part of its continued progress against its previously announced transformation plan, it has sold properties for a total of £53.9 million (excluding VAT).

These sales represent a premium of 64% to book value and 14% to the last market valuation¹ of £47.1 million. Collectively these properties had a book value of £32.9 million and, as a result, a substantial profit³ will be generated on the sales; this will be recognised as non-underlying income.

The sale of these properties forms part of the Group's strategic initiative to optimise its network, reinforcing its market-leading customer service and driving improved operational efficiency. Following exchange and simultaneous completion of the sales, the aggregate proceeds have been received in cash and the Group is now in a net cash position² and continues to have an extensive property portfolio valued at £95.0 million¹.

The property sales arise from two separate transactions:

- i. The sale of the Ipswich, Gildersome and Leeds properties for £50.9 million⁴. Following operational improvements, the Ipswich property has become surplus to requirements and will be fully vacated by the Group after completing the relocation to the new distribution centre in Rayleigh⁵ in Q1 2025. The Group has agreed a leaseback arrangement in relation to the Gildersome and Leeds properties.
- ii. The sale of the Uddingston property, which had also become surplus to requirements, for £3.1 million⁴ on 11th December 2024. The property was last valued by the Group at £2.3 million.

The sale of the three properties (Ipswich, Gildersome and Leeds) to a single buyer constitutes a significant transaction under the Listing Rules. Further details in relation to the significant transaction are contained in the appendix to this announcement.

Commenting, Chris Payne, Chief Executive Officer, said:

"These property transactions, on highly attractive terms, have been enabled by the progress we are making in optimising our operations, whilst also unlocking cash from our business, and further strengthening our balance sheet to re-invest in the Headlam proposition as the UK's leading floorcoverings distributor."

Footnotes

1. As at the market valuation undertaken in January 2023
2. On a pre-IFRS 16 basis, i.e. before capitalised leases
3. The calculation of the profit on sale is subject to IFRS 16 accounting requirements regarding sale and leasebacks and will be finalised ahead of the Group reporting its 2024 full year results
4. Excluding VAT. In total, VAT of £10.8m has been collected on these transactions and will be paid to HM Revenue & Customs in 2025
5. As disclosed in the Group's half year results announcement the Group has leased a new distribution centre in Rayleigh (Essex) to replace the Ipswich facility. This new site optimises the size and location of our operations in the South East of England, and better facilitates future growth opportunities

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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, e-commerce 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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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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Appendix

This Appendix, together with the main body of the announcement, sets out the further information on the significant transactions.

1. Key details of the Significant Transactions

The sale of the three properties, (Ipswich, Gildersome and Leeds) to XK 3 United Propco III Limited for £50.9 million, (the **'Property Portfolio Transaction'**) constitutes a significant transaction under the Listing Rules.

In addition, the Company sold Stockport site to XK 3 United Propco II Limited, a member of the same group of XK 3 United Propco III Limited on 7th June 2024 for £7.5 million, (**'Stockport Transaction'**) (as referred to in the Group's half year results). The Stockport Transaction will be aggregated with the Property Portfolio Transaction as this is also now deemed to be a significant transaction under UKLR 7.2.11R of the Listing Rules.

2. Material Contracts

2.1. Property Portfolio Transaction

Sale Agreement

- On 19th December 2024, the Group entered into a sale and purchase agreement with XK 3 United Propco III Ltd to sell a portfolio of three properties (Ipswich, Gildersome and Leeds) in consideration for a total of £50.9 million plus VAT which is split as follows:

Property	Consideration	Book Value
Ipswich	£22.0 million	£18.4 million
Gildersome	£9.5 million	£6.3 million
Leeds	£19.4 million	£6.2 million

- The sale and purchase agreement was subject to standard commercial property terms. Completion occurred on 19th December 2024 (**'Completion'**).
- The exchange and completion of the properties pursuant to the terms of the sale and purchase agreement took place simultaneously and as such, there are no conditions outstanding.
- The Company has received the consideration of £50.9 million plus VAT, in cash and there are no amounts outstanding.

Leaseback Overview

- The Group has entered into separate lease agreements with the new respective landlords of the properties, on the following terms:

Ipswich	<ul style="list-style-type: none"> • Term: from Completion until 28th February 2025 • No break clause • Customary provisions dealing with removing the Group's fixtures and fittings and making good any applicable dilapidations on expiry of the lease
Leeds	<ul style="list-style-type: none"> • Initial term: from Completion until 31st December 2027 • Full repairing and insuring lease terms on a contracted-out basis, with schedule of condition • Tenant-only option to break the lease on 31st December 2026 • Customary provisions dealing with removing the Group's fixtures and fittings and making good any applicable dilapidations on expiry of the lease
Gildersome	<ul style="list-style-type: none"> • Initial term: from Completion until 31st December 2027 • Full repairing and insuring lease terms on a contracted-out basis, with schedule of condition • Tenant-only option to break the lease on 31st December 2026 • Customary provisions dealing with removing the Group's fixtures and fittings and making good any applicable dilapidations on expiry of the lease

- The leases are all at market rates. The aggregate annual lease cost of the Gildersome and Leeds properties is £2.1 million.

2.2. Stockport Transaction

On 7th June 2024, the Group entered into a sale and purchase agreement with XK 3 United Propco III Limited to simultaneously exchange and complete the sale of its Stockport site in consideration for £7.5 million plus VAT, which was received in cash.

3. Risks

Headlam shareholders should carefully consider, together with all other information contained in this announcement, the specific factors and risks described below. The Company considers these to be the known material risk factors relating to the Property Portfolio Transaction. There may be other risks of which the Board is not aware or which it believes to be immaterial which may be connected to the Property Portfolio Transaction and have a material and adverse effect on the business, financial condition, results of operations or future prospects of the Group.

The risks disclosed below are those which the Company considers: (i) are material risks related to the Property Portfolio Transaction; (ii) will be material new risks to the Group as a result of the Property Portfolio Transaction; or (iii) are existing material risks for the Group which will be impacted by the Property Portfolio Transaction. The risks described below are not set out in any order of priority, assumed or otherwise.

- The Group may incur liability under the sale contract and leases.
 - The sale contract is based on standard commercial property contract terms and also includes customary provisions. Both the Group and XK 3 United Propco III Limited carried out a customary due diligence and disclosure process to minimise the liability under these provisions.
 - The leases are based on customary provisions and dealing with removing the Group's fixtures and fittings and making good any applicable dilapidations on expiry of the lease.
- The market price of shares in the Group may fluctuate on the basis of market sentiment surrounding the Property Portfolio Transaction:
 - The shares in the Group are quoted and the price which investors may realise their shares are influenced by a number of factors, some specific to the Group and its operations and some which may affect flooring distributors or publicly traded companies as a whole, or other comparable companies.
 - The sentiments of the stock market regarding the Property Portfolio Transaction will be one such factor and this, together with other factors including actual or anticipated fluctuations in the financial performance of the Group and its competitors, market fluctuations, and legislative or regulatory changes for the flooring sector, could lead to the market price of the Group's shares going up or down.

4. Impact of the transactions on the Company's earnings, assets and liabilities

4.1 Property Portfolio Transaction

- Upon completion, the Group has de-recognised the £30.9 million book value of the properties from its balance sheet and recognised the receipt of £50.9 million (excluding VAT) in cash, plus a further £10.2 million of cash collected in respect of VAT to be paid over to HM Revenue & Customs in early 2025. Shortly after completion it is the Group's intention to use the cash proceeds to repay the drawdown on its revolving credit facility.
- A profit on disposal of the properties will be recognised. The amount of profit on disposal is subject to the accounting requirements of IFRS16 with regard to sale and leaseback transactions and will be calculated and audited prior to finalising, and subsequently disclosed within, the Group's full year results for the year ending 31st December 2024.
- The profit on disposal will be classified as a non-underlying item in the Group's income statement due to its material size and one-off nature.
- A right-of-use asset and lease liability will be recognised on the Group's balance sheet in respect of the properties being leased back. These amounts will be calculated and audited prior to finalising, and subsequently disclosed within, the Group's full year results for the year ending 31st December 2024.

4.2 Stockport Transaction

- On completion the Group de-recognised the £4.2 million book value of the property from its balance sheet and recognised the receipt of £7.5 million (excluding VAT) in cash, which was then used to reduce borrowings.
- A profit on disposal of the property of £3.2 million was recognised. This was reported in the Group's half year financial statements. Due to its material size and one-off nature it was classified as a non-underlying item in the Group's income statement.

4.3 Use of proceeds

- The proceeds of the Stockport Transaction were used to reduce the Group's borrowings.
- The proceeds of the Property Portfolio Transaction will initially be used to repay the Group's drawdown on its revolving credit facility, resulting in the Group having a net cash balance (on a pre IFRS16 basis, i.e. before accounting for lease liabilities). Over the next 12 months or so the Group will invest a minority proportion of the proceeds in the implementation of the Group's transformation plan. This transformation plan was announced on 17th September 2024, including details of the cost of implementation.
- The Group's revolving credit facility matures in 2027 and the terms of this facility are not changed by the Property Portfolio Transaction.

5. Additional disclosures

- The Board of the Company unanimously voted in favour of the Property Portfolio Transaction and the Stockport Transaction and in its opinion the Property Portfolio Transaction and the Stockport Transaction are in the best interests of the Company's shareholders as a whole, as well as its colleagues, suppliers and customers. This assessment is on the basis of the transactions further strengthening the Group's financial position. Furthermore, in the case of the Ipswich and Stockport property sales, these resulted from network optimisation initiatives intended to enhance customer service and facilitate future growth.
- There are no related party transactions or material litigation to disclose.
- The information required by UKLR Annex 2.2(2) and 2.2(3) is not available, and as referenced in the main body of this announcement the value of the consideration for all of the transactions represent a premium of 64% to book value and 14% to the last market valuation of £47.1 million, and collectively these properties had a book value of £32.9 million and, as a result, a substantial profit on sale will therefore be generated which will be recognised as non-underlying income. As such, the Board considers the consideration for the properties is fair as far as the shareholders of the Group are concerned.

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