VICTORIA PLC

Investor Presentation 22 November 2023

Results for H1 FY24 Ended 30 September 2023

Revenue & Earnings

REVENUE[1]	EBITDA[1]	EBITDA MARGIN[1]
£643.4m	£95.8m	14.9%
(-13.9% LFL variance)[2]	(-0.5% LFL variance)[2]	
H1 FY23 **£771.5m**	H1 FY23 **£100.1m**	H1 FY23 **13.0%**

PRE-TAX PROFIT[1]	NET FREE CASH FLOW/SHARE[3]	LEVERAGE[4]
£31.7m	£0.43	3.8x
H1 FY23 **£39.8m**	H1 FY23 **£0.19**	H1 FY23 **3.4x**

Note

1. Revenue, EBITDA, EBIT and PBT shown before exceptional and non-underlying items
2. LFL variance calculated on a constant currency basis, without adjusting for acquisitions
3. Cash flow per share based on underlying operating cash flow before interest, tax and exceptional items, and current number of shares outstanding (non-diluted)
4. Applying our lending banks' measure of financial leverage (adjusted net debt / EBITDA), adjusting to take into account the full annual contribution from acquisitions and consistent translational FX

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Executive Summary

Executive summary

1. A global flooring products group with a diverse range of brands and products
   - Victoria PLC is a 128-year-old global designer, manufacturer and distributor of flooring products including ceramic tiles, carpet, underlay, luxury vinyl tile (LVT), and artificial grass
2. Consistent organic growth
   - +5% CAGR since 1997 = sustained stable demand
   - Progressive margin expansion from 3% in FY2013 to 14.9% in H1 FY2024
3. Proven acquisition & synergy-led growth strategy
   - Since 2013, Victoria has successfully integrated 23 acquisitions, generating synergies leading to sustainable, above average margins and cash flow
   - Acquisitions made at attractive multiples = "Margin of Safety"
   - Large number of potential acquisition opportunities in a £51 billion industry (US & Europe)
   - Acquisition targets must satisfy strict criteria and are subject to disciplined risk management
4. Robust balance sheet
   - More than £250 million available cash and undrawn credit lines
   - After management prioritising deleveraging
   - Senior Debt: long-dated (2026 & 2028), covenant-lite bonds. Fixed interest rate. Pro forma senior secured net leverage of c. 3.3x[3] and total net leverage of 3.8x[3]

	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Underlying EBITDA	£2.3m	£5.1m	£15.8m	£32.3m	£45.7m	£64.7m	£96.3m	£107.2m	£127.4m	£162.8m	£196.0m
% margin	3.0%	7.0%	12.4%	12.7%	13.8%	15.2%	16.8%	17.3%	19.7%	16.0%	13.4%

Executive summary

1. Softer demand due to near-term macroeconomic conditions but fundamental sectoral drivers sustain long-term, steady growth in a global flooring market believed to be worth $200 billion and growth over the last 25 years of c. 3% per annum.
2. Major integration projects: Some “tidying up” work to be done but all the “heavy lifting” completed. The outcome is anticipated to conservatively deliver a £20+ million per annum increase in EBITDA and a significant step down in exceptional expenditure
3. The Group is at a critical inflexion point with the finalisation of the integration investment of the last three years. Consequently, the Board anticipates free cash flow to increase sharply. For the five year period FY2015-2019, the Group averaged cash conversion of EBITDA to Net Free Cash Flow of 55%*, which the Board believes is a sustainable, long-term ratio and one management is focused on returning to in the near-term.
4. The Group’s FY2024 financial outlook is based on demand below previous expectations but with margins underpinned by the various integration projects. However, each future 5% increase in overall revenue, which is Victoria’s long-run organic growth rate, would be expected to deliver earnings and cash flow growth of more than £25 million per annum.

* Cash generated after replacement capex, interest, and tax as a percentage of EBITDA

H1 FY2024 Financial Report

VICTORIA PLC

Executive summary
Segmental performance

Underlying P&L £m	H1 FY2024						H1 FY2023					
	UK & Europe – soft flooring	UK & Europe – ceramic tiles	Australia	North America	Central costs	TOTAL	UK & Europe – soft flooring	UK & Europe – ceramic tiles	Australia	North America	Central costs	TOTAL
Revenue	**318.6**	**185.3**	**54.0**	**85.5**	**-**	**643.4**	**372.0**	**254.4**	**64.2**	**80.9**	**-**	**771.5**
% growth	(14.4)%	(23.2)%	(16.2)%	+5.7%	n/a	(16.6)%						+57.8%
Gross profit	**101.4**	**67.5**	**17.1**	**41.1**	**-**	**227.1**	**94.1**	**78.6**	**20.1**	**37.2**	**-**	**230.0**
% margin	31.8%	36.4%	31.6%	48.1%	-	35.3%	25.3%	30.9%	31.3%	46.0%	-	29.8%
Underlying EBITDA[1]	**43.2**	**39.1**	**6.9**	**9.6**	**(3.0)**	**95.8**	**37.2**	**51.0**	**8.2**	**4.9**	**(1.2)**	**100.1**
% margin	13.6%	21.1%	12.8%	11.2%	-	14.9%	10.0%	20.0%	12.8%	6.0%	-	13.0%
Underlying EBIT[1]	**20.7**	**25.3**	**4.4**	**7.2**	**(3.3)**	**54.3**	**15.7**	**37.5**	**5.6**	**3.7**	**(1.3)**	**61.1**
% margin	6.5%	13.7%	8.1%	8.5%	-	8.4%	4.2%	14.7%	8.8%	4.6%	-	7.9%

Note
1. Underlying figures are presented before exceptional and non-underlying items

Executive summary
Non-underlying items

Non-underlying items, £m	H1 FY2024 Acquisition related	H1 FY2024 Other	H1 FY2024 TOTAL	H1 FY2023 TOTAL
Exceptional items				
Acquisition and disposal related costs	(0.7)		**(0.7)**	(1.9)
Reorganisation costs (cash)		(7.3)	**(7.3)**	(4.3)
Negative goodwill arising on acquisition			**-**	61.5
	(0.7)	(7.3)	**(8.0)**	55.3
Other non-underlying operating items				
Acquisition-related performance plans	(5.3)		**(5.3)**	(4.0)
Non-cash share incentive plan charge		(1.2)	**(1.2)**	(1.2)
Amortisation of acquired intangibles	(19.9)		**(19.9)**	(21.0)
Unwind of fair value uplift to acquisition opening inventory			**-**	(9.5)
Depreciation of fair value uplift to acquisition property	(2.7)		**(2.7)**	(0.2)
Hyperinflation accounting items		15.8	**15.8**	1.5
	(27.9)	14.6	**(13.3)**	(34.4)
Finance costs				
Preferred equity – host instrument cost		(14.0)	**(14.0)**	(14.3)
Preferred equity – other items		(0.2)	**(0.2)**	-
Fair value adjustment to notes redemption option		0.6	**0.6**	(2.7)
Unwinding of present value of deferred and contingent earn-out liabilities		(0.3)	**(0.3)**	-
Mark to market adjustments on foreign exchange forward contracts		1.4	**1.4**	5.0
Translation difference on foreign currency loans		(13.2)	**(13.2)**	3.0
Hyperinflation – finance portion		(4.1)	**(4.1)**	1.4
	-	(29.6)	**(29.6)**	(7.6)

Cash items

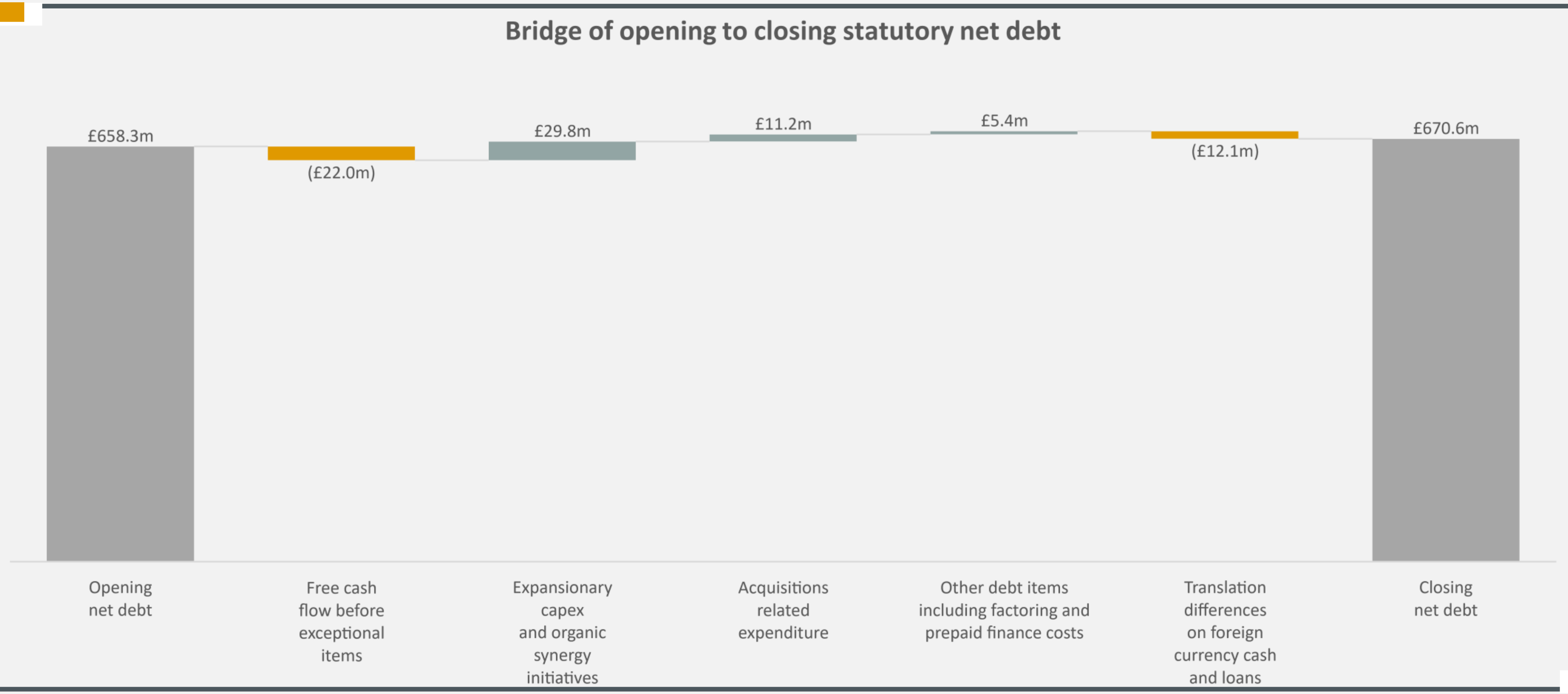
Executive summary
Increasing operational cash generation

£m	H1 FY2024	H1 FY2023	Full year FY2023
Revenue	*649*	*776*	*1,461*
% growth	*(16.6)%*	*58.7%*	*43.2%*
Underlying EBITDA	**95.8**	**100.1**	**196.0**
% margin	*14.9%*	*13.0%*	*13.4%*
Payments under right-of-use lease obligations	(16.4)	(13.5)	(29.3)
Non-cash items	(1.8)	(0.4)	(15.1)
Underlying movement in working capital	(27.6)	(46.8)	6.3
Operating cash flow before interest, tax and exceptional items	**50.0**	**39.4**	**157.8**
% EBITDA conversion[1]	62%	44%	92%
Interest paid	(14.3)	(20.4)	(34.8)
Income taxes received / (paid)	0.8	(7.3)	(11.4)
Replacement capex	(15.9)	(19.5)	(45.6)
Proceeds from fixed asset disposals	2.0	2.4	5.3
Free cash flow before exceptional items	**22.6**	**(5.3)**	**71.3**
% EBITDA conversion[1]	28%	(6)%	42%
Expansionary and synergy capex	(12.8)	(21.8)	(54.1)
Exceptional working capital movement	-	(17.3)	(17.3)
Deferred consideration and earn-out payments	(10.5)	(3.5)	(4.6)
Exceptional cash items	(17.7)	(6.2)	(29.3)
Dividends	-	-	-

Note
1. Conversion against EBITDA on a pre-IFRS 16 basis

Executive summary

Final major reorganisation costs paid – c.£10m increase in net debt from prior year



Note

1. Net debt shown before right-of-use lease liabilities, bond premia and prepaid finance costs, consistent with the measure used by our lending banks

Executive summary
Increase in net debt

£m	H1 FY2024	H1 FY2023	YE FY2023
Net cash and cash equivalents	91.3	73.5	90.4
Senior secured debt (at par)	(650.6)	(659.4)	(660.2)
Other loans and unsecured facilities	(110.3)	(65.6)	(87.5)
Finance leases and hire purchase arrangements (pre-IFRS 16)	(1.0)	-	(1.0)
Net debt (before obligations under right-of-use leases)	**(670.6)**	**(651.5)**	**(658.3)**
Bond premium – non-cash (related to initial value of redemption option)	(3.0)	(4.3)	(3.6)
Pre-paid finance costs on senior debt	6.8	8.8	7.9
Preferred equity and associated instruments (classed as financial instruments under IFRS 9)	(295.2)	(268.5)	(281.2)
Factoring and receivables financing facilities	(19.7)	-	(25.1)
Obligations under right-of-use leases (incremental to pre-IFRS 16 finance leases)	(162.6)	(156.0)	(171.3)
Statutory net debt (net of prepaid finance costs)	**(1,144.3)**	**(1,071.5)**	**(1,131.5)**
Adjusted net debt / EBITDA	**3.8x**	**3.4x**	**3.4x**

Operational Overview

VICTORIA PLC

UK & Europe Soft Flooring – margin growth, with continued focus on reorganisation activities

	H1 FY24	H1 FY23
Revenue	£318.6 million	£372.0 million
Underlying EBITDA	£43.2 million	£37.2 million
Underlying EBITDA margin	13.6%	10.0%
Underlying EBIT	£20.7 million	£15.7 million
Underlying EBIT margin	6.5%	4.2%

Carpet & Underlay – focus on Balta integration

- Broadloom manufacturing relocation complete and fully integrated into UK operations, with slicing exercise on non-profitable sales also undertaken
- Medium to high-end UK carpet brands performed well, complemented by logistics service offering
- Move to the *net carbon zero* Worcester distribution centre has been completely digested and service is better than ever with 95% of orders on available goods within 2 days
- Strong performance from the largest underlay component of the Group, but demand pressure on lower-end products

Rugs – operational reorganisation resulting in improved margins

- Manufacturing footprint focused towards the two Turkish sites for improved cost efficiency
- Internal yarn production has been replaced with outsourced purchasing, providing lower costs and more flexibility
- Soft H1 demand but anticipated to improve in H2 FY24

UK & Europe Ceramic Tiles – softened demand, offset through cost rationalisation

	H1 FY24	H1 FY23
Revenue	£185.3 million	£254.4 million
Underlying EBITDA	£39.1 million	£51.0 million
Underlying EBITDA margin	21.1%	20.0%
Underlying EBIT	£25.3 million	£37.5 million
Underlying EBIT margin	13.7%	14.7%

UK & Europe – Ceramic Tiles

- Focus on cost rationalisation through the reformulation of tile production and rightsizing operations
- Initiative to leverage the Group's US distribution channels has been undertaken
- Exercise is underway on maximising working capital efficiency and manufacturing footprint across the different geographies
- Manufacturing levels managed to successfully mirror demand and ensure efficiency maintained
- Further headcount reduction undertaken to manage cost base

Australia – margins maintained despite demand softness

	H1 FY24	H1 FY23
Revenue	£54.0 million	£64.2 million
Underlying EBITDA	£6.9 million	£8.2 million
Underlying EBITDA margin	12.8%	12.8%
Underlying EBIT	£4.4 million	£5.6 million
Underlying EBIT margin	8.1%	8.8%

Australia

- Revenues and margins under more pressure with demand slowing down in certain product categories
- High-end synthetic residential as well as natural fibre qualities (wool) with a service program are performing better than lower-end synthetic products. Internal wool yarn production capability is set to benefit
- The distribution of LVT under the Dunlop brand has been fed with new product developments which should sustain the demand in H2

North America – improved margins with further upside to come

	H1 FY24	H1 FY23
Revenue	£85.5 million	£80.9 million
Underlying EBITDA	£9.6 million	£4.9 million
Underlying EBITDA margin	11.2%	6.0%
Underlying EBIT	£7.2 million	£3.7 million
Underlying EBIT margin	8.5%	4.6%

North America

- Profit margins and revenue improved despite demand softness in H1, which has seen many retailers were destocking, footfall in shops was down as well as online consumer appetite
- In spite of the continued West Coast shipping disruption, Cali has succeeded in balancing inventory levels to meet demand and maintain service levels. Orders have been slow in H1 but margins have improved due to improved product mix and sales channels
- Further product diversification is underway for H2, with a focus on limiting SKUs and maximising the service offering. The east coast Cali distribution centre is now fully operational and has added to the east coast national distribution capacity which now consists of 4 DC's (Palm City, Charleston, Rome and Savannah)

Outlook

- Near term macro-economic challenges; positive outlook

- Increasing synergies

- Growing cash generation

- Leverage ratio to fall

Near term macro-economic challenges; positive outlook

European Flooring Demand	2023 vs 2022
Italian ceramics industry (sqm)	-19.3%
Spanish ceramics industry (sqm)	-30.2%
UK carpet industry (sqm)	-20.0%

Sources
- IntraStat
- Cofindustria
- Jeffries
- Market est.

US Home Improvement / Flooring Foot Traffic

JEF Coverage Y/Y Comparable Store Visits

Company	September	October
ARHS	-26.8%	-25.0%
BBY	-10.6%	-15.0%
FND	-15.0%	-16.3%
HD	-10.3%	-12.6%
LESL	-14.9%	-12.4%
LOW	-13.9%	-16.6%
PetSense	-9.9%	-11.3%
Pottery Barn	-3.2%	-11.3%
Pottery Barn Kids	-18.7%	-12.8%
RH	-11.4%	-20.3%
Tempur-Pedic	0.1%	3.9%
TSCO	-6.9%	-11.5%
West Elm	-10.3%	-15.7%
Williams-Sonoma	-1.6%	-8.9%
Average	-11.0%	-13.3%
Median	-10.5%	-12.7%

£20+ million of synergies

Integration of Balta

The Balta integration consisted of three key projects:

- The relocation of Balta's carpet manufacturing from Belgium to the Group's UK factories. 80% of Balta's carpet is sold in the UK and this move will lower production and transport costs and improve customer service with shorter delivery times.
- The consolidation of the Balta rug manufacturing operation onto Victoria's large site at Sint-Baafs Vijve, Belgium, together with the relocation of some production to Usak, Turkey, where the Group has two very modern rug and yarn extrusion factories.
- The sale of non-core assets acquired with the Balta transaction where the opportunity for synergies with the Group's existing businesses are minimal, with the proceeds being used alongside the Group's operational cash generation to further reduce Group leverage.

Integration of Graniser Ceramics

There are two integration projects in progress at Graniser:

- Investment in new production technology and production integration with Victoria's Spanish and Italian factories have enabled Graniser to increase spare production capacity to c.8 million sqm.
- Investment in new printers & packaging lines alongside integration into Victoria's existing ceramics distribution network will increase higher margin export revenue.

Integration of Cali Flooring

Cali's integration will benefit the business by:

- Access to Victoria's supply chain lowers COGS
- Integration into Victoria's US logistics platform improves delivery times and reduces costs

Growing cash generation

Major Integration Projects Completed

De minimis exceptional costs

- Redundancies payments
- Restructuring costs

Normal Capex spending

- £28.7 million for the period. (This compares with £41.3 million in H1 FY2023 and £99.6 million for the full year FY2023)

Increasing earnings

- Cash flow leverage (capex and interest costs ‘fixed’)

Inventory Management

Lower raw material prices reduces the capital invested in inventory (given constant volumes) and generate cash as inventory turned

Sale of Non-core Assets

- The sale of non-core assets acquired with the Balta transaction where the opportunity for synergies with the Group’s existing businesses are minimal.
- Proceeds expected throughout FY2024/25

Capital Allocation

Capital generated by the business will be used thoughtfully to:

- Reduce leverage
- Preferred shares repurchase. Call option at par.
- Share repurchase if valuation attractive

Leverage ratio to fall

Reason for the change in policy

Victoria has for the last 10 years maintained its leverage at around 3-3.5x EBITDA – a policy that made sense to us given:

- the stable nature of our business,
- the terms of our debt (covenant-lite, fixed-rate, long-dated bonds), and
- ultra-low interest rates.

Changed capital markets conditions, means Victoria intends to reduce the Group's net debt/EBITDA ratio ahead of refinancing the current bond issues

How?

Reducing the numerator

- Increasing operating cash flow
- Sale of non-core assets

Increasing the denominator

- Higher earnings from completion of integration projects

Shareholder Register

Shareholder register

Rank	Investor Name	Holding as of October 2023	% IC
1.	Spruce House Investment Mgt	23,770,000	20.67
2.	Mr Geoff Wilding	22,438,650	19.51
3.	KED Victoria Investments	12,500,000	10.87
4.	Vulcan Value Partners	9,463,037	8.23
5.	Capital Research Global Investors	9,200,079	8.00
6.	Morgan Stanley Investment Mgt	4,508,970	3.92
7.	Columbia Threadneedle Investments	4,222,032	3.67
8.	Redmayne Bentley Stockbrokers	3,385,358	2.94
9.	Camelot Capital Partners	3,378,782	2.94
10.	Orbis Investment Mgt	3,069,179	2.67
11.	Mr M Karim	2,231,500	1.94
12.	Hargreaves Lansdown Asset Mgt	1,579,284	1.37
13.	Baillie Gifford & Co	1,365,096	1.19
14.	Mr Rodney Style	1,315,000	1.14
15.	Interactive Investor	1,186,436	1.03
Total shares on issue		**103,613,403**	**90.1**

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