

Half-year results 2008

Victoria PLC

12 November 2008

Financial results
Half-year to September 2008
(unaudited)

Ian Davies

Group Finance Director

Half-year results (Unaudited) 2008

Income statement

	2008	2007	%
Revenue	£32.71m	£28.76m	+ 13.8
Operating profit	£1.64m	£1.58m	+ 3.5
Finance costs	£(0.36)m	£(0.38)m	- 4.2
Profit before tax	£1.28m	£1.25m	+ 2.8
Operating margin	5.0%	5.5%	- 0.5
Earnings per share	13.02p	12.92p	+ 0.8
Maiden interim dividend	4.00p	-	

Half-year results (Unaudited) 2008

Divisional revenue

	2008	2007	
	£'m	£'m	%
United Kingdom	12.44	12.43	-
Ireland	3.39	2.61	+29.7
Australia	16.88	13.72	+23.1
Group	32.71	28.76	+13.8

Half-year results (Unaudited) 2008

Divisional profits

	Operating profit		Profit before tax	
	2008	2007	2008	2007
	£'m	£'m	£'m	£'m
United Kingdom	0.15	0.26	0.05	0.14
Ireland	0.14	0.12	0.13	0.10
Australia	1.67	1.41	1.50	1.28
Canada	-	-	0.01	0.04
Central Costs	(0.32)	(0.21)	(0.41)	(0.31)
Group	1.64	1.58	1.28	1.25

Half-year results (Unaudited) 2008

Balance sheet

	2008	2007
	£'m	£'m
Intangibles, investments and deferred tax asset	2.36	2.25
Property, plant & equipment	24.76	24.35
Current assets	33.87	28.12
Current liabilities	(18.44)	(16.91)
Non-current liabilities	(10.46)	(7.98)
Net assets	32.09	29.83

Half-year results (Unaudited) 2008

Cash flow

	2008 £'m	2007 £'m
Operating profit	1.64	1.58
Depreciation & non-cash items	1.18	1.18
Exchange rate effect	(0.14)	0.36
Working capital	(3.80)	(0.37)
Interest	(0.37)	(0.38)
Tax	(0.60)	(0.38)
Cash from operating activities	(2.09)	1.99
Capital expenditure	(1.38)	(1.10)
Dividends	(0.97)	(0.87)
Exchange rate effect	0.04	(0.18)
Movement in net debt	(4.40)	(0.16)

Financial performance H1 2008

Summary

- Revenue flat in UK, but growth in Ireland and Australia, despite challenging market conditions in Q2
- Targeted price increases and cost savings introduced to mitigate cost increases
- Net borrowings increased to fund capital expenditure and working capital growth, primarily in Australia
- Existing debt facilities will provide sufficient capacity to cover both capital expenditure and expected working capital requirements
- Maiden interim dividend to be paid December 2008

Group review Half-year to September 2008

Alan Bullock
Group Managing Director

Divisional review – United Kingdom

▪ General economic background H1

- The UK economy had its first quarter (ending September 2008) of negative growth in 16 years
- The housing market remained weak
- Sterling weakened against the US Dollar and the Euro

▪ Market background H1

- Consumer confidence and discretionary spend on high ticket items reduced significantly
- Indications are that the UK carpet sales market has shown a double digit percentage decline on a like-for-like basis in recent months

Divisional review – United Kingdom (Cont.)

▪ Sales performance

- Increased market share enabled revenue to be held at £12.44m (2007: £12.43m), representing 38% of the Group's revenue for H1
- Home : Export carpet sales split 88.9% : 11.1%
 - Export carpet sales down by 1.0% from £1.51m to £1.50m
- UK carpet sales up by 1.0% from £11.46m to £11.58m
 - Independent retailers represent 64.5% (2007: 67.4%) of carpet sales
 - Contract carpet sales up by 86.2% from £0.46m to £0.86m

▪ Profitability and margin

- Material, energy and fuel cost inflation in first half
 - Price increase roll out commenced August
- Investment in new contract division will benefit future years
- Operating profit down from £262k to £145k
- Pre-tax profit down from £135k to £57k

Divisional review – Ireland

- **General economic background H1**
 - Irish economy entered recession
 - Fall in housing completions
 - Consumer confidence remained low

- **Market background H1**
 - Residential sector has been affected by lack of consumer confidence and slow down in the housing market
 - Contract market has remained highly competitive

Divisional review – Ireland (Cont.)

▪ Sales performance

- Revenue in Ireland was up 11.5% from €3.84m to €4.28m
- Irish revenue represents 10.4% of consolidated Group revenue
- Navan Carpets' sales were up 6.3% on prior year
- Munster Carpets' sales were up by 22.8% on prior year

▪ Profitability and margin

- Product offering is being widened for both Navan and Munster
- Irish division's operating profit was up by 1.2% from €174k to €176k
- Operating profit margin down from 4.5% to 4.1%
- Pre-tax profit was up 11.2% to €163k (2007: €147k)

Divisional review – Australia

▪ General economic background H1

- The economy remained relatively buoyant until August
- Housing market slowed, although Australia does not have the large overhang of unsold houses as seen in the US
- Economic concerns resulted in interest rates being lowered in recent months
- September saw the start of the weakening of the Australian dollar against Sterling, the Euro and US Dollar

▪ Market background H1

- Victoria is the second largest carpet manufacturer in the Australian market and the third largest in Australasia
- Succeeded in capturing market share, whilst seeking to maintain margins in a market where price competition remained intense

Divisional review – Australia (Cont.)

▪ Sales performance

- Revenue increased by 9.7% from A\$ 32.70m to A\$35.88m, which represents 51.6% of the Group's consolidated revenue
- Good start to the period but the market weakened in August and September
 - Victoria gained market share in both Australia and New Zealand
- Home : Export carpet sales split 87.4% : 12.6%
 - Export carpet sales up by 21.6% from A\$3.95m to A\$4.81m

▪ Profitability and margins

- Operating profit up 5.6% from A\$3.37m to A\$3.56m
- Operating margin down slightly from 10.3% to 9.9%
- Pre-tax profit up from A\$3.04m to A\$3.18m, an increase of 4.6%
- Pre-tax profit margin is now 8.9% (2007: 9.3%)

Divisional review – Canada

(Colin Campbell & Sons – Associate company)

▪ **General economic background**

- Western Canada's commodity based economy has slowed in recent months
- The 2010 Winter Olympics to be held in Vancouver has supported demand in recent years but will have a reducing impact

▪ **Market background**

- The residential interior design market in Calgary has been more challenging
- The pipeline of contract residential developments in Vancouver shows signs of slowing
- The US residential market remains challenging
- Increased competitor activity in all areas

Divisional review – Canada *(Cont.)* (Colin Campbell & Sons – Associate company)

■ Sales performance

- Continued growth in revenue which is up 3.4% from C\$4.87m to C\$5.04m
- Contract residential sales in wool carpets in Vancouver remained strong, but significant slowdown in new projects
- Nature's Carpet^R marketing package rolled out in US with inventory availability improved by presence in new Georgia warehouse facility

■ Profitability and margins

- Nature's Carpet^R sampling and warehousing costs impacted Colin Campbell's H1 trading profit
- Profit before tax down from C\$252k to C\$41k

Future outlook

Alan Bullock

Group Managing Director

Future outlook

- **United Kingdom and Ireland**
 - **Economic and market conditions:**
 - Housing market likely to further decline
 - Consumer confidence to remain weak
 - Competition from home and abroad to remain intense
 - It may be 18 months before we see normal trading conditions
 - **Focus on:**
 - Winning market share
 - Ensuring products offer quality and value for money
 - Leveraging the modern, efficient manufacturing operation and the material supply chain relationships to minimise costs
 - Review further cost reduction opportunities as appropriate
 - Developing the contract sales team and contract portfolio including the distribution agreement with Mannington Inc.

Future outlook *(Cont.)*

▪ Australia

- Economic and market conditions:
 - Australian government to implement measures to support consumer confidence and stimulate the housing market
 - Interest rates may fall further
 - Australian Dollar may remain weak against Sterling, The Euro and US Dollar potentially increasing the cost of materials
 - The market lacks any clear visibility to determine if the slowdown is a short or medium term trend
- Focus on:
 - Continue to win market share
 - Review cost reduction opportunities
 - Maximise opportunities from the investment in the new tufting equipment coming on-stream
 - Leverage customer relationships and strong product offer

Future outlook *(Cont.)*

▪ Canada

• Economic and market conditions

- Western Canadian economy anticipated to remain weaker than in recent years
- US economy for residential carpets remains challenging
- Slowdown in funding for major new residential condominium projects

• Focus on:

- Leveraging excellent reputation with the Architect and Design community
- Continuing roll-out of Nature's Carpet[®] offering to retailers in the US and Canada
- Keep targeting higher margin area of market

Summary

- *The Group's geographical spread, high quality product portfolio coupled with prudent management has given us the ability to continue to invest in areas which offer future growth potential and has enabled the business to perform ahead of the market.*
- *With the UK and Ireland both having entered into recession, the housing market likely to weaken further and unemployment likely to rise, it is likely to be at least 18 months before we see a return to more normal trading conditions.*
- *Our Australian operation also began to witness a hardening in its markets and within the last month we have seen a significant slowdown in the Australian economy. There is a lack of visibility as to whether this is a short or longer term trend. There is also an uncertainty about the direction of the Australian Dollar / Sterling exchange rate with its potential impact on the consolidated result.*
- *Given the high degree of uncertainty that now exists in all markets and coupled with the likelihood that they may yet deteriorate still further, the Board anticipates that the results for the full year are likely to be significantly down on those achieved last year.*
- *We remain confident that we have a sound and solid business model to see out the down-turn and to build upon once confidence returns to the markets and the global economies.*