JAMES HALSTEAD PLC
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1 August 2022

JAMES HALSTEAD PLC
(the "Company")

Trading Update

James Halstead plc, the commercial flooring manufacturer and international distributor, is providing the following trading update ahead of its results for the year ended 30 June 2022.

We can report that turnover in the year has been robust and will be around 9-10% ahead of the previous year. The sales growth has been in all our main markets.

Being, principally, a UK manufacturer has definitely been advantageous throughout the last two years as customers in our main markets look to the advantages of local supply in a way not seen for a generation, and whilst this is tempered by the difficulties, delays and costs that we face in export transportation of goods to our global customers we have the experience to manage the situation.

The inexorable increases in input costs, be it energy, fuel or international freight rates have affected margins. As a manufacturer we require volume to maintain our economies of scale and we operate in a sector that has excess manufacturing capacity. Consequently, in seeking to protect our volume we have been very cautious in our approach to price increases in regard to scale and timing. Selling price increases have consistently lagged cost rises, a policy based on both fairness to customers and awareness of possible migration to competitors. Nevertheless, during the year we have been able to pass costs onto the customers in all our markets either as price uplift or by delivery surcharges, in some cases both. Inevitably delays in increasing prices have had an effect on margins however the actions we have taken have helped to contain this impact. Importantly, our volume has been preserved.

In recent months the complexities and challenges of rising energy costs, key material shortages and inflation have required fresh solutions and forward planning. During the Covid-19 pandemic we were left short of manpower with many days of lost output and with a resulting reduction in productivity. This meant that we started our financial year with a much lower than optimal level of finished goods.

In response to these challenges and with more man-hours available (particularly as the self-isolation rules relaxed) we have worked to raise stock levels. With better availability of certain bulk raw materials (sourced from Asia) and labour over the last few months, whilst still facing risks of further shortages and very uncertain future energy costs, we resolved to invest in stock. This decision to significantly increase stock holding by utilising our significant cash resources gives as a hedge against very likely increased costs and shortages whilst giving up modest interest receipts. These stock levels are historically exceptional and are not sustainable over the long term but against the backdrop of the current world stage are defensive and risk limiting. All markets are facing inflation and it may be the case that the ongoing energy crisis curtails our ability to manufacture or the affordability of doing so. The risks exist that energy shortages in Europe reduce the availability of raw material supply and that industrial action in our supply chain curtails the ability to manufacture. Stock is our hedge and provides us the means to better withstand these potential challenges, though not indefinitely. Against this we have also gauged demand risk since it is possible that in the face of cost increases demand will slow.

On the positive side the year has, in many markets, seen strong demand for commercial contract flooring relative to last year. To a degree this demand increase results from the low comparatives from sectors such as hospitality and retail where this year has been more normalised.

During the last two years with work from home policies and the lack of foreign holidays floor layers (that service both domestic and commercial markets) were busy on extensions and refurbishment of homes. The repair and refurbishment of flooring is resilient as the work needs to be done. However, these sales are dependent on the availability of floor layers and we have seen a far greater focus on commercial work than at any time in the last two years. This means shortened lead times and for a period the increased demand might lead, at least to an extent, to a backlog of commercial work. Notwithstanding our caution about the durability of this demand as a "bubble" we can take confidence that the demand is there and ongoing. Furthermore, it is clear that there is a trend of commercial contract flooring work moving in the direction of vinyl floorcovering and away from the alternatives (be it for example ceramics, timber or carpet). This is not a new trend but is noticeably increased. Moreover, despite the large increases in raw material costs that have driven up vinyl flooring prices, our vinyl flooring products cover a range of price points, typically lower than alternative floor coverings. Historic experience of previous periods of expenditure constraint or recession have shown vinyl to have benefited from "trading down" from these alternatives. Analysis of our sales suggests this is, to a degree, already happening.

This update is in regard to the trading conditions that have prevailed in the year. It is still the case that our balance sheet remains strong and that the Company remains ungeared with positive cash balances.

The Company continues to be in robust shape to weather the conditions it faces.

The Company will announce its full results for the year to 30 June 2022 around the end of September 2022.

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