LONG Recommendation

Current Share Price: 1.36 GBP

Target Share Price: 1.91 GBP

Upside: 41%

Date: 14 May 2026

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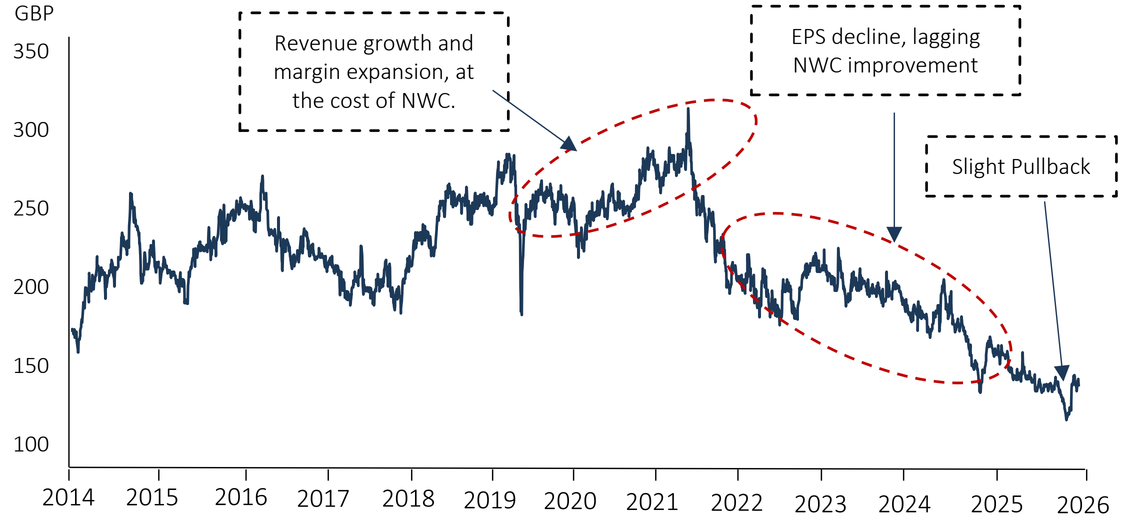
Executive Summary

The floor is yours: a hidden compunder trading at a bargain

Share Price Performance



Business Overview

- Founded in 1915, James Halstead is the UK's leading manufacturer of contract vinyl flooring for mission critical and end markets like hospitals, schools, airports, hotels and retail.
- The company operates on a strong balance sheet with a net cash position, as well as having consistent cash generation ability with a cash conversion of 1.2x.
- Through disciplined capital allocation the company has created an internationally diversified business 2/3 of revenue coming from outside the UK.

Financials

Share Price:	1.38 GBP
MCAP:	574,7
EV:	509,6
LTM EV/EBIT:	9.6x
LTM ROIC:	24.4%
LTM P/E	14.1x
LTM P/B	3.2x

Insider Ownership/ Main Shareholders

Insider Ownership

Mark Halstead	6.72%
David Drillingcourt	0.1%

Main Shareholders

James Halstead	19.1%
Rest of Halstead family	21.0%
Pilling stockbrokers LTD	7.72%

Investment Thesis

1 Expansion in Asia and North America

A new central hub in Malaysia and redirection of the management will drive top-line growth and profit margins. By focusing on own produced products with higher margins and shorten the lead times an EBIT-margin of 22% will be reached by 2027.

2 The new incinerator

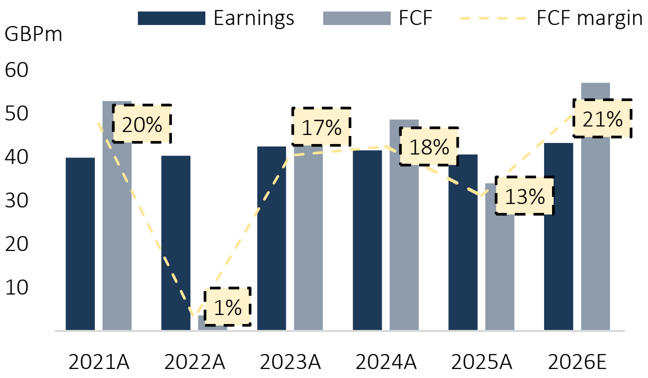
A more effective incinerator will cut the energy consumption in half which will improve gross margin from 44.5% to 48.3%. A higher usage of recycled materials will reduce petroleum dependency making the company less affected by volatile oil prices. The investment will strengthen FCF and ROIC.

3 Top-line weakness obscures a structurally stronger earnings profile

The company reduces trade and other receivables to reduce the risk for credit losses as simultaneously reduce more capital to the business. By optimizing stock holding and lead times the CCC will decrease by 44.4% until 2030. Thus, a high dividend payout ratio is maintained.

Why does the Opportunity Exist?

Although earnings has declined FCF has remained solid



- We believe the market is misunderstanding a slowdown EPS growth as structural demand problem, while in reality the company is taking necessary supply limiting precautions to improve FCF

- The market is undervaluing the operational leverage in the Asian expansion. The market believes in a growth in volume rather than margin expansion
- The market is punishing the company for decline in revenue, but misses the conscious strategic choice of reducing accounts receivables strengthening CCC

Sources: Bloomberg, Analysts estimates, the company

Industry Overview

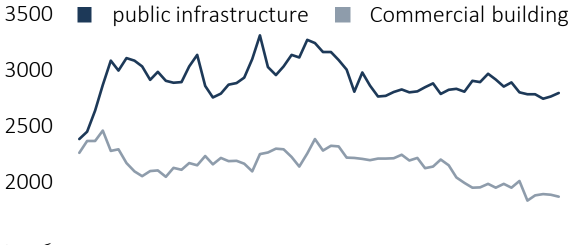
Public Sector Tailwinds, Private Sector Patience

James Halstead

Public and private sector

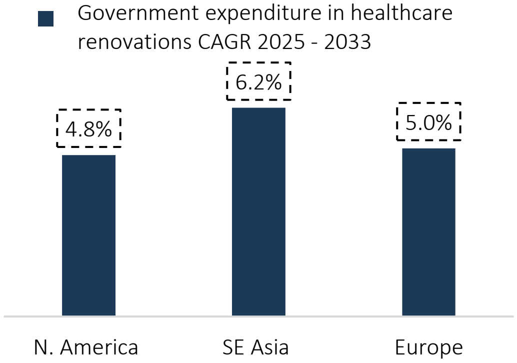
- James Halstead operates in both the public and private sector. With majority sales in the public

Total output UK construction market 2021 - 2026



Public infrastructure spending in UK picking up steam compared to commercial

Although the private sector market in Europe and N.America have somewhat stagnated, there is set to be significant growth in expenditure in public infrastructure in the coming years



Competitive landscape

The competitive environment remains fragmented

Forbo
- Forbo is a Swiss commercial flooring manufacturer with strong positions in healthcare, education, and public buildings.

MOHAWK INDUSTRIES, INC.
- Mohawk Industries is a global flooring manufacturer with strong positions in residential, commercial, and industrial flooring.

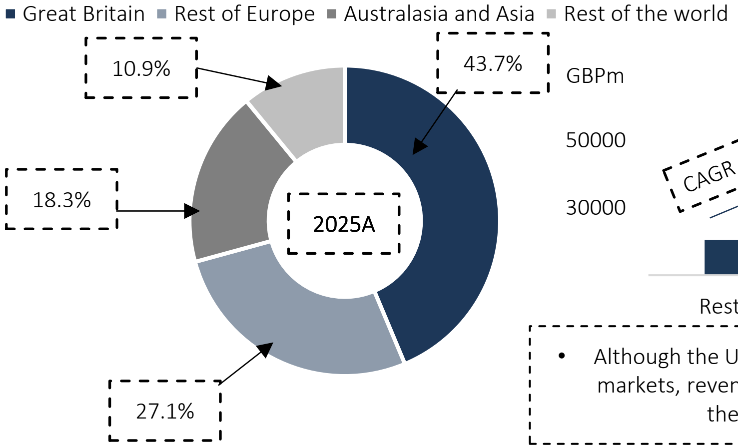
Tarkett
- Tarkett is a French commercial flooring manufacturer with strong positions in healthcare, education, and public buildings.

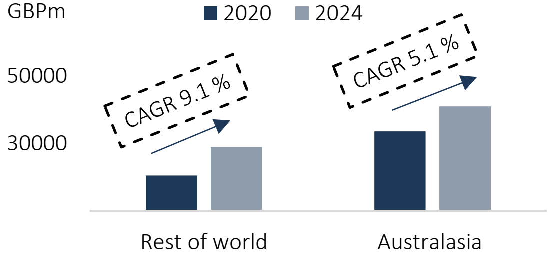
Gerflor
- Gerflor is a French commercial flooring manufacturer specializing in healthcare, transport, and technical resilient flooring products.

Revenue mix by geography

Geographical revenue split 2025A

Revenue concentrated in core markets, with significant growth in non core markets





- Although the UK and Europe are somewhat mature markets, revenue growth in Australasia and rest of the world have been steady

Regulatory specifications

Regulatory specification makes James Halstead one of few viable supplier in certain industries

ESD flooring – Electrostatic Discharge Flooring

- Used in environments where static electricity is a significant problem. Such as electronics manufacturing and usage of medical equipment.

NON –Silp flooring

- Used in environments where non slippage is a significant problem. Such as public pools or large-scale kitchens.

Sources: Bloomberg, Analysts estimates, Office for national statistics, OECD, the company

Business Overview

Sticky by Specification

Company description

- James Halstead ("the company") is a British supplier of vinyl flooring solutions operating under mainly two brands. Polyflor, producing vinyl flooring for commercial and residential spaces. And polysafe, a specialist range of vinyl flooring produced with dedicated safety concerns in mind. The two brands have a symbiotic relationship where sales in one area often translate to sale in the other

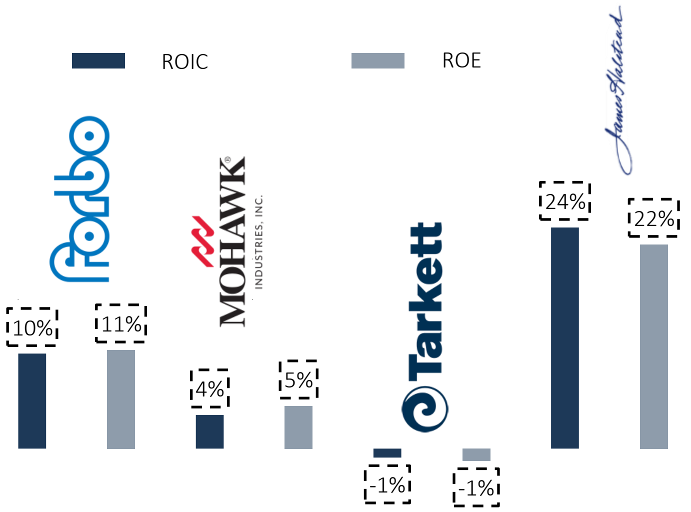
- The company´s production is done in two factories in the UK, one in Manchester and one in Teeside. Flooring is then shipped to regional distribution hubs from where sales and marketing is done from. By keeping production in the UK, the company has low incremental CAPEX when expanding

High returns in stagnating industry

By utilising superior sales channels and keeping production in the UK James Halstead is able to sustain consistently higher ROIC than closest competitors

Prioritizing customer with good credit worthiness and less price sensitivity enables the company to further increasing their returns

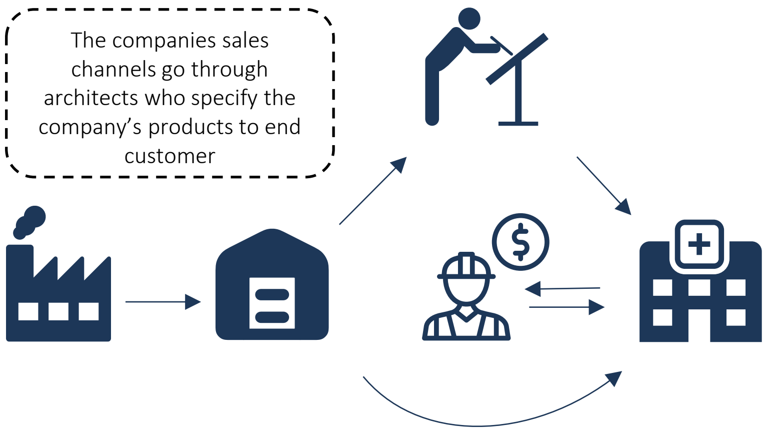
- Note, Forbo inc's ROIC is driven mostly by a subsidiary producing conveyer belts not by underlying flooring business



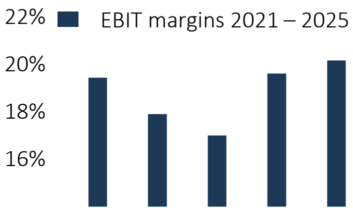
Superior sales channels bypassing contractors

Moving the sale downstream decreases distributers bargaining power subsequently allowing for superior margins

The companies sales channels go through architects who specify the company's products to end customer

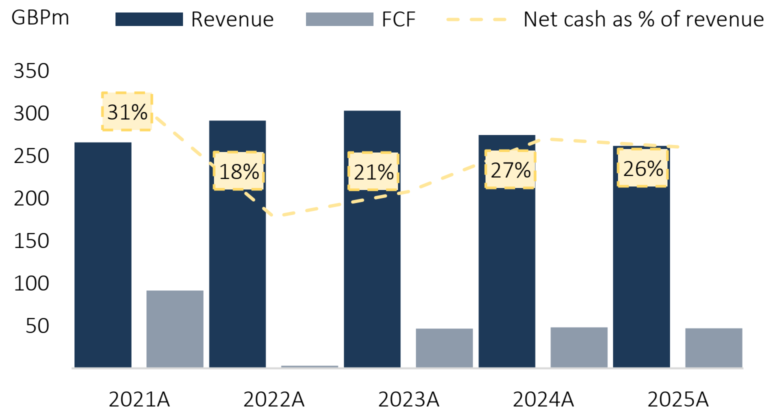


When a product from James Halstead is specified from the architect, the contractor has limited ability to influence the purchasing decision



Strong balance sheet and disciplined capital allocation

11% of MCAP made up of net cash position



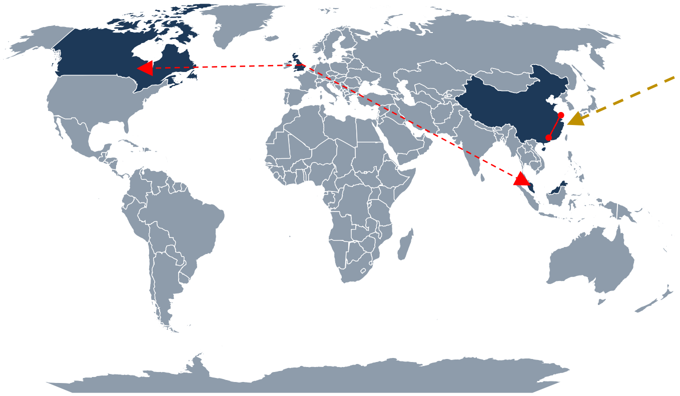
Disciplined capital allocation has caused the company to maintain positive FCF even in market downturns

Sources: Analysts estimates, Bloomberg, FactSet, the company

Thesis 1 – Expansion in Asia and North America

How global expansion is fueling the top line

Centralized management in Great Britain



The senior manager role is now based in Shanghai rather than Hong Kong as a operational benefit to be located closer to the big projects in China

The facility in Whitefield produces polyflor, while the Teesside facility produce riverside flooring

Stockholding in Canada, central hub i Malaysia for Asia region

Central management in Great Britain will ensure that the own produced products will be purchased rather than local products from external suppliers that are less profitable. A joint system will result in more efficient resource allocation. The management in Great Britain will make strategic business decisions, while local management will make operational decisions

Central hub in Malaysia

The new central hub in Malaysia will shorten lead-times, a long with serving as a reserve to ensure immediate availability which is crucial for winning projects

The new hub in Malaysia work as an operating engine with internal sales personnel focused solely on the Asia region and as a central stockholding for the region. The new hub work together with new management in Australia and the operating focus in Shanghai to create a uniform organisation

The company will focus on more inhouse produced inventory in the new hub, instead of locally bought products from external suppliers. The inhouse products are more efficient since the margins are higher

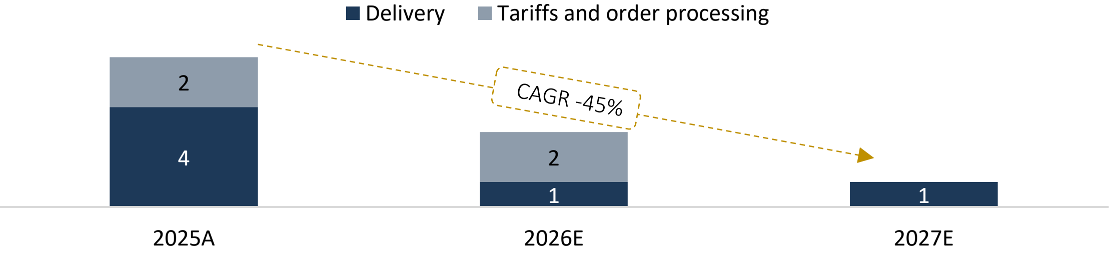
Decreasing lead times

Inventories will be redirected to Malaysia. Delivery will go from 3-5 days to next day delivery

A new tech free zone in Malaysia will erase logistics and tariffs handling

The overall stockholding will be reduced without impact on service to the customers

Price per square meter floor will decline

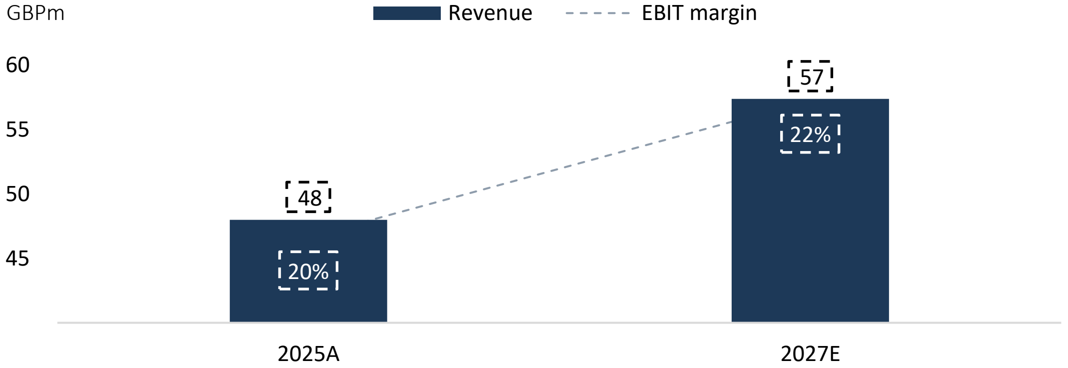


Top line growth and margin expansion in Asia

Increased presence in the region

Next day delivery

Market CAGR of 6% in the region until 2030

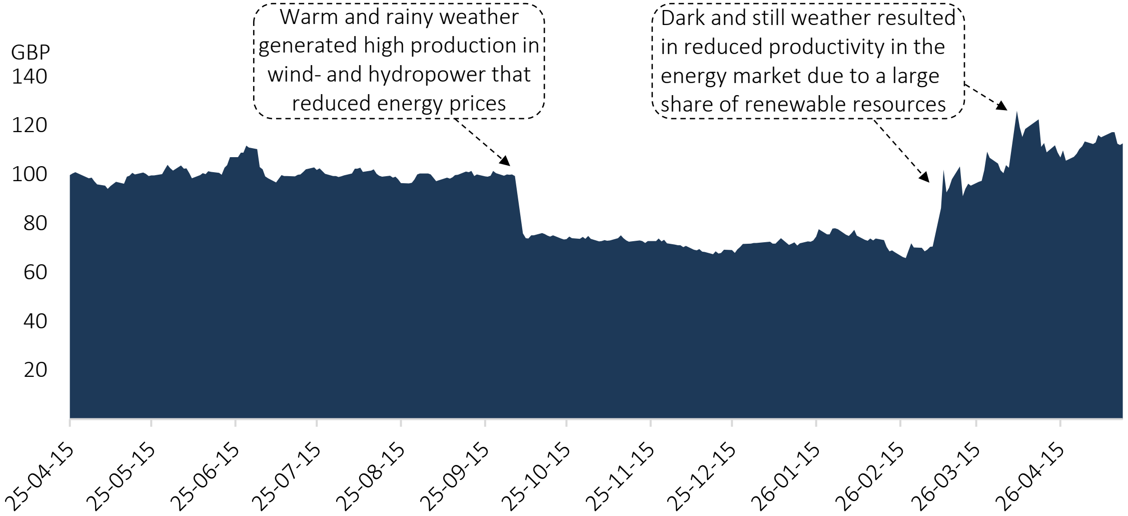


Sources: Analysts estimates , the company

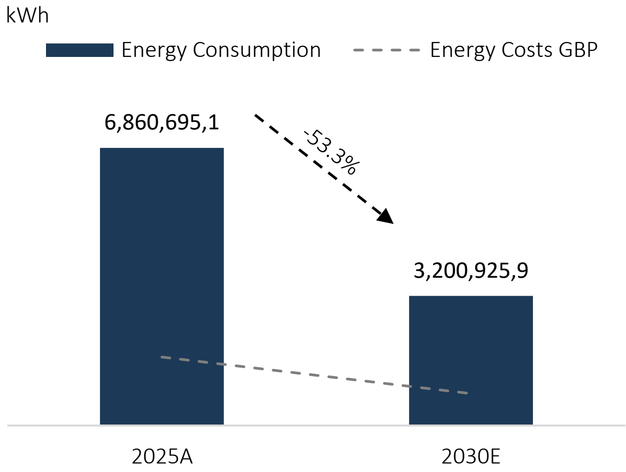
Thesis 2 –The new incinerator

From energy drain to profit engine

Volatile energy prices



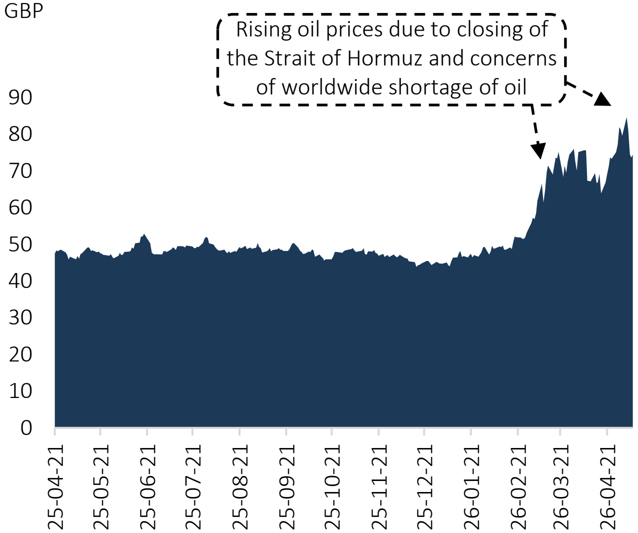
Energy consumption and costs reduces due to new incinerator

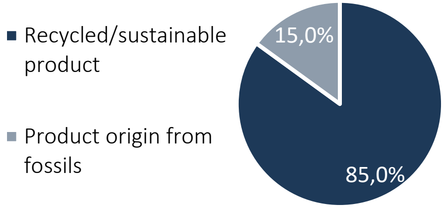


The new incinerator is considerably more technically efficient than the old equipment. The new combines modern technology with improved curing of the floors. Hence the facilities can produce more with less energy consumption per unit. Simultaneously, the throughput have increased.

To counteract high and volatile energy prices in Great Britain, the company has improved the machine utilization rate on all the production lines. By running the machines more efficiently and with less interruptions the fixed energy costs per square meter floor will be reduced.

Decreasing dependency upon petroleum





The company actively reduces their dependency on oil by increasing the share of recycled material in the produced floor

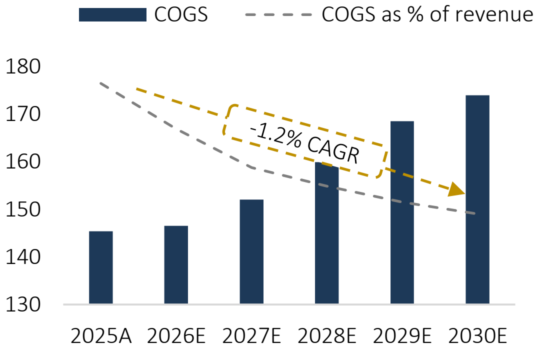
The company is also evaluating alternative sources of polymer that are not based on fossils, to further decrease the dependency upon petroleum

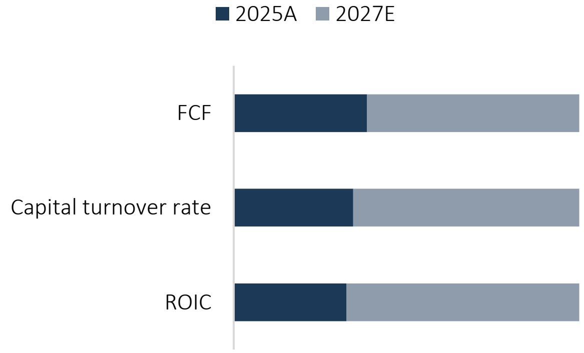
Higher gross margin & improved efficiency

The new incinerator will cut energy costs. Simultaneously, the petroleum dependency will decrease

COGS will decline 19.7% as a % of revenue resulting in gross margin improve from 45.5% to 48.3%

Improved efficiency driven by higher ROIC, stronger capital turnover and increasing FCF



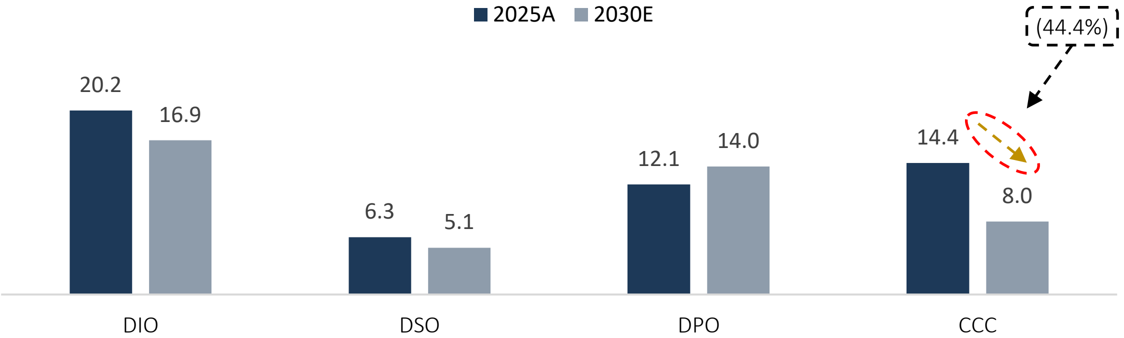


Sources: Analysts estimates, Bloomberg, the company

Thesis 3 – Top-line weakness obscures a structurally stronger earnings profile

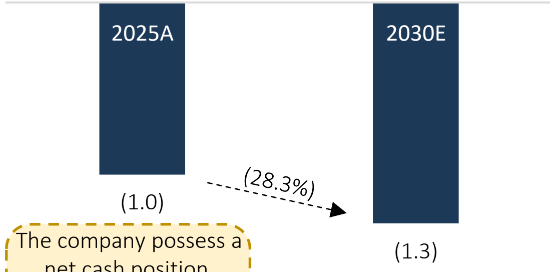
Quality over quantity

CCC will decrease



- DIO will decline since the lead times will decrease reducing the need for a safety bargain. The new incinerator will make the production more efficient making less capital tied up in the production
- DSO will decrease since the company is selective in the credit time to customers, especially in economic challenging times.
- DPO will decrease from economies of scale and a strong negotiation position

Negative ND/EBITDA



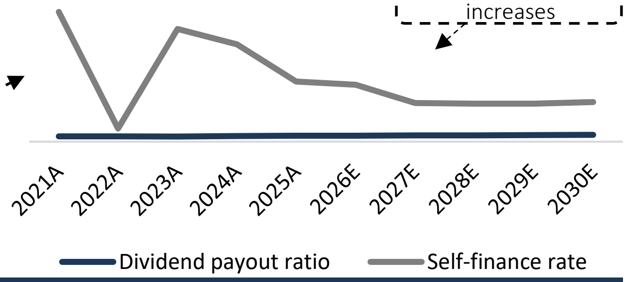
The company possess a net cash position, hence negative ND/EBITDA, which will decrease going forward

Weaker cashflow due to a 72.7% increase in raw materials and 86.2% increase in finished goods

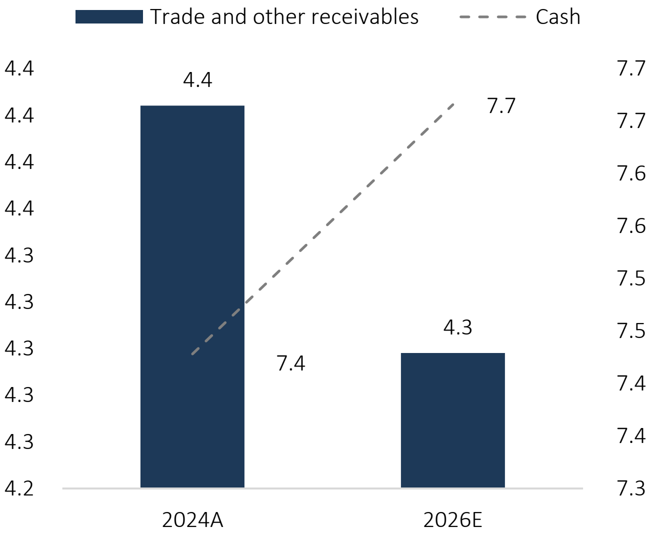
The company currently possess a 89.8% dividend payout ratio, which will increase with a CAGR of 3.1% until 2030

Remaining cash is partly used to pay down the small debt position the company holds, but mostly it is reinvested into the business

Declines when CAPEX increases



Released capital from restrictive credit terms

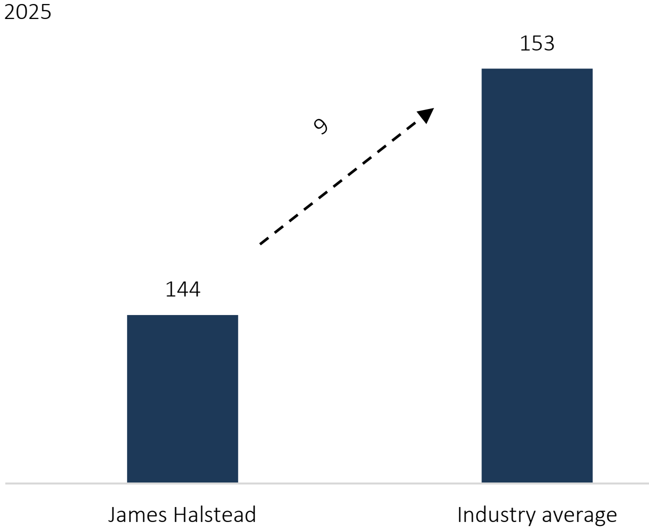


Trade and other receivables will decrease as a % of revenue with a -3.4% CAGR 2025-2030

The market is punishing the company when revenue is declining. However, the decline in revenue is an immediate effect of the company being selective in the credit time to the customers. This method is minimizing the risk of credit losses and capital tied up in the operation.

A decline in trade and other receivables will therefore release more cash to the company since less capital is tied in trade and other receivables

Lower CCC than industry average



James Halstead's lower CCC than industry average imply a lower finance costs than competitors since the need for loan is lower. This results in a higher profit margin

A lower CCC also indicates a resilience in economic challenging times, since inflow of capital is constant even if sales volume slightly decline. That enables the company to maintain their high dividend yield

A higher CCC implies revenue of higher quality since each pound in revenue reaches cash flow quicker with lower credit risk than the average company in the sector

Sources: Analysts estimates, Bloomberg, the company

The Market Is Leaving Money on the Floor

James Halstead

Substantial upside in base case

EV/FCFF	FY 25	FY26	FY 27	FY28	ROIC LTM
Howden joinery	22.5x	18.5x	17.5x	15.4x	16.3%
Luceco	9.8x	29.1x	19.3x	15.7x	20.2%
Genuit group	18.9x	16.8x	13.3x	12.0x	6.9%
Average	17.1x	21.5x	16.3x	14.4x	14.5%
James Halstead	8.8x	8.2x	10.4x	10.0x	24%
Discount	93%	162%	56%	44%	

Despite greater returns on capital, James Halstead still trades at a significant discount to other British compounders

- James Halsteads operational efficiency drives greater returns on invested capital than comps

Due to compressed earnings because of NWC improvements, the analysts decided a FCF multiple more fit

Base case DCF indicates substantial upside

Even if margins compress under our estimates, the company is still trading below intrinsic value

Implied share price from DCF	
Sum of PV of FCF	350
Terminal growth rate	2%
WACC	10%
Terminal value	868
PV of terminal value	334
Enterprise value	684
(-) Net debt	(87)
Equity value	771
Diluted shares outstanding (m)	416
Implied share price	1.9
Current share price	1.4
Return potential	34.2%

	Gross Margin 2035E					
TGR	1.852	46.3%	47.3%	48.3%	49.3%	50.3%
	1.50%	1.80	1.80	1.80	1.80	1.80
	1.75%	1.83	1.83	1.83	1.83	1.83
	2.00%	1.85	1.85	1.85	1.85	1.85
	2.25%	1.88	1.88	1.88	1.88	1.88
	2.50%	1.91	1.91	1.91	1.91	1.91

	WACC					
TGR	1.852	9.0%	9.5%	10.0%	10.5%	11.0%
	1.50%	2.02	1.90	1.80	1.71	1.63
	1.75%	2.06	1.93	1.83	1.73	1.65
	2.00%	2.09	1.96	1.85	1.75	1.66
	2.25%	2.13	2.00	1.88	1.78	1.68
	2.50%	2.18	2.03	1.91	1.80	1.71

Bull and Bear scenario

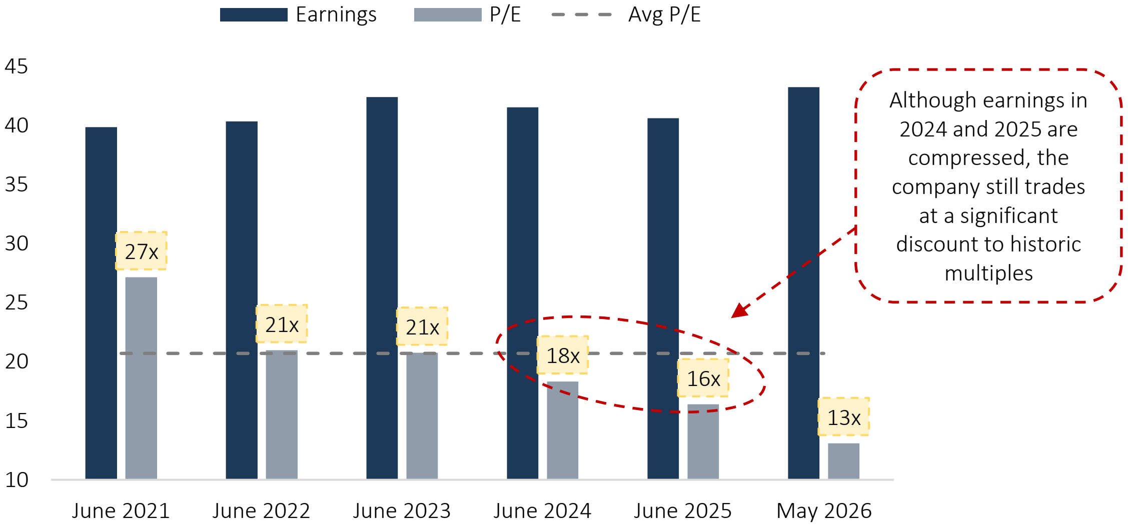
Even in our bear scenario the company still trades at a discount

Bull	FY26	FY27	FY28
Revenue	282.9	304.9	329.0
CCC	95	76	66
EV/FCF	8.0x	9.0x	8.9x
Weighed upside	107%	64%	54%
Bear	**FY26**	**FY27**	**FY28**
Revenue	265.0	268.2	272.4
CCC	144	144	144
EV/FCF	12.0x	11.8x	11.5x
Weighted upside	45%	19%	13%

- In the bull scenario the analysts are assuming faster revenue growth in core markets than expected as well as bigger NWC improvements

- In the bear scenario the analysts are assuming 0 % revenue growth in core markets as well as elevated NWC levels persisting

Trading well below historic multiples



Sources: Analyst estimates, Bloomberg, FactSet

Key Risks and Mitigations

Summary: Key risks and mitigations

Key risks	Mitigations
Competition from new entrants	Long standing customer relationships, specification selling targeting architects
Continued weak macro in the UK and Europe	Focus on international expansion into faster growing emerging markets
Iran pressuring PVC prices upwards to unsustainable levels	Keeping more inventories to hedge against volatile input prices

Competetion

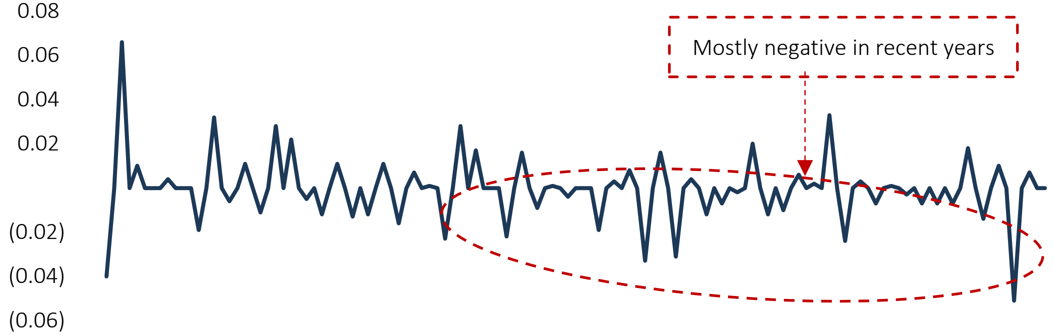
The flooring market is highly competitvie and James Halstead's relativly smaller size creates some exposure to risk of being outcompeted

Forbo	Mohawk Industries, Inc.	Tarkett	James Halstead
MCAP: 1,039.0 Revenue: 992.9	MCAP: 4,549 Revenue: 8,195.4	MCAP: 569.0 Revenue: 2,820.6	MCAP: 562.2 Revenue: 259.1

- James Halsteads relatively smaller size puts them at risk from more established players entering the company's niche, Driving down returns

Continued weak macro in Europe and UK

Construction of buildings EU area YOY % change

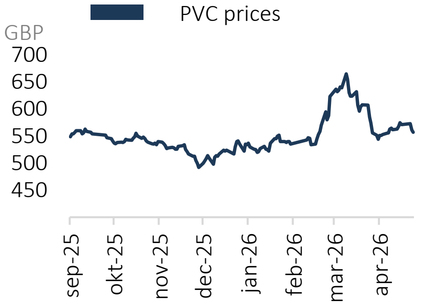


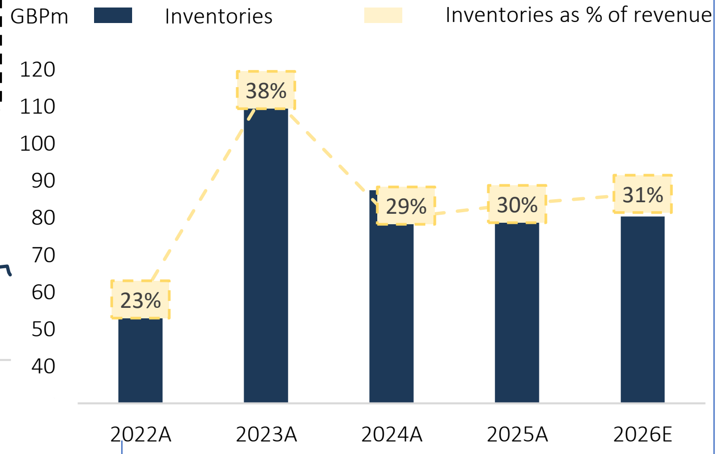
Continued weak macroeconomic climate in UK and Europe poses a major risk for the company could drive top-line slowdown

Iran war increasing petroleum prices to unsustainable levels

- James Halsteads biggest input factor is PVC, making up 50 % of all input factors
- PVC is directly derived from oil production
- Prices have reacted somewhat to IRAN war

By keeping significant inventories, the company hedges against volatile input prices





Sources: Bloomberg, Eurostat, the company

Management

Management & Board

David Drillingcourt - CFO

- Chartered accountant, appointed CFO in January 2024. Joined in 1996 as Group Accountant. Company secretary 2013-2019. Corporate Development Director 2019-2024.
- Shares: 7,170 (£9,822.9)

Michael Halstead – Independent Director

- Appointed in December 2017. Previous experience in the advertising industry. Also chairs the Remuneration Committee of the board.
- Shares: 1,454,434 (£2,036,080.2)

Gordon Oliver - CEO

- Charted accountant, group financial controller since 1987. Group finance director 1999-2024. Appointed CEO in 2024.
- Shares: 463,770 (£649,278)

Russell Whiting – Senior Independent Director

- Independent Director 2017-2024. Appointed as a Senior Independent Director in March 2024.
- Shares: 14,363 (£20,108.2)

Mark Halstead – Executive chairman

- Been with the company for more than 30 years. Executive chairman since April 2024. Former CEO.
- Shares: 26,523,406 (£37,132,768.4)

Deborah Harrison – Independent Director

- Appointed as an Independent Director in January 2024. Charted Accountant with broad expertise in IFRS and Corporate reporting. Also chairs the Audit Committee of the board.
- Shares: N/A

Incentive program

EPS → Incentive programs based on performance

Performance-based rewards: Management's incentives are directly tied to a measurable goal that drive the company's profitability and total shareholder return

Limits: The total number of shares for all employee incentive arrangements can not exceed 10% of the company´s issued share capital. The payout is limited by an individual grant limit based on a percentage of annual salary.

Malus and clawbacks: Payouts are adjusted or demanded back if it is proven that results are based on errors or mismanagement

LTIP: New long-term incentive program (LTIP) from June 2025. LTIP follows market price and market practice with vesting of awards being conditional of achievement of performance criteria and the subsequent exercising of awards being subject to malus and clawback provisions

Notes: Mark Halstead controls about 22,200,000 shares through a financial manager, besides his private holding. Gordon Oliver and David Drillingcourt shares a financial manager interest of 250,668 shares besides their private holdings.

Stock options: Besides the direct holdings the managing directors holds stock options assignable to the old long-term incentive program. Mark Halstead holds 380,000 stock options with strike prices between 192.75-238.25p. Gordon Oliver holds 380,000 stock options with strike prices between 192.75-238.25p. David Willingcourt holds 270,000 stock options with strike prices between 192.75-262.67p

James Halstead

Appendix

Income statement

James Halstead, GBPm Income statement	2021A	2022A	2023A	2024A	2025A	2026E	2027E	2028E	2029E	2030E
Revenue	266	292	304	275	262	270	287	305	324	337
Revenue growth	*12%*	*10%*	*4%*	*(9%)*	*-5%*	*3%*	*6%*	*6%*	*6%*	*4%*
COGS	(155)	(178)	(188)	(155)	(145)	(147)	(152)	(160)	(169)	(174)
Gross profit	**112**	**114**	**115**	**120**	**117**	**124**	**135**	**145**	**155**	**163**
Gross margin	*42%*	*39%*	*38%*	*44%*	*44%*	*46%*	*47%*	*48%*	*48%*	*48%*
Selling & Marketing	(46)	(50)	(53)	(53)	(49)	(51)	(56)	(59)	(62)	(63)
as % of sales	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
General & Administrative	(7)	(4)	(4)	(7)	(7)	(7)	(8)	(8)	(8)	(8)
as % of sales	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Depreciation & Amortization	(7)	(7)	(7)	(7)	(8)	(10)	(10)	(11)	(11)	(12)
as % of sales	0	0	0	0	0	0	0	0	0	0
EBIT	**52**	**52**	**52**	**54**	**53**	**55**	**61**	**67**	**74**	**79**
EBIT margin	*19%*	*18%*	*17%*	*20%*	*20%*	*21%*	*21%*	*22%*	*23%*	*24%*
Finance income	0	0	1	3	3	2	2	2	2	2
Finance costs	(1)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
EBT	**51**	**52**	**52**	**56**	**55**	**58**	**63**	**69**	**76**	**81**
EBT margin	*19%*	*18%*	*17%*	*20%*	*21%*	*21%*	*22%*	*23%*	*23%*	*24%*
Income tax expense	(11)	(12)	(10)	(15)	(15)	(14)	(16)	(17)	(19)	(20)
Tax rate	*22%*	*23%*	*19%*	*26%*	*26%*	*25%*	*25%*	*25%*	*25%*	*25%*
Profit	**40**	**40**	**42**	**42**	**41**	**43**	**47**	**52**	**57**	**61**
Profit margin	*15%*	*14%*	*14%*	*15%*	*16%*	*16%*	*17%*	*17%*	*18%*	*18%*

KPI's	2021A	2022A	2023A	2024A	2025A	2026E	2027E	2028E	2029E	2030E
Revenue growth	12%	10%	4%	(9%)	-5%	3%	6%	6%	6%	4%
Gross margin	42%	39%	38%	44%	44%	46%	47%	48%	48%	48%
Profit margin	15%	14%	14%	15%	16%	16%	17%	17%	18%	18%
EPS	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1

Appendix

Balance sheet

Balance sheet	2021A	2022A	2023A	2024A	2025A	2026E	2027E	2028E	2029E	2030E
Non current assets										
Property, plant and equipment	37.2	36.7	35.9	35.0	34.7	36.4	39.2	42.3	45.5	48.9
Right of use assets	6.0	5.6	7.2	6.2	4.4	4.4	4.4	4.4	4.4	4.4
Intangible assets	3.2	3.2	3.2	3.2	3.2	3.4	3.4	3.4	3.4	3.4
Retirement benefit asset		6.1		0.1	0.6	0.6	0.6	0.6	0.6	0.6
Deferred tax assets	254.0	0.2	0.1	0.2	1.6	1.6	1.6	1.6	1.6	1.6
Total non current assets	**46.7**	**51.9**	**46.4**	**44.6**	**44.5**	**46.3**	**49.2**	**52.2**	**55.5**	**58.8**
Current assets										
Inventories	60.7	112.3	87.4	82.3	80.4	72.9	71.9	74.1	78.1	80.6
Trade and other receivables	42.9	51.2	47.0	44.0	45.2	43.0	44.2	45.6	47.0	47.4
Derivative financial instruments	0.8	2.2	0.8	0.5	0.2	0.2	0.2	0.2	0.2	0.2
Current tax			0.7	1.3	1.5	1.5	1.5	1.5	1.5	1.5
Cash and cash equivalents	83.3	52.1	63.2	74.3	68.4	76.7	66.9	53.6	37.6	22.1
Total current assets	**187.7**	**217.8**	**199.1**	**202.4**	**195.7**	**194.3**	**184.7**	**175.0**	**164.4**	**151.8**
Total assets	**234.5**	**269.7**	**245.5**	**247.0**	**240.3**	**240.6**	**233.9**	**227.2**	**219.8**	**210.6**

Appendix

Balance sheet

Balance sheet	2021A	2022A	2023A	2024A	2025A	2026E	2027E	2028E	2029E	2030E
Current liabilities										
Trade and other payables	65.6	84.5	60.7	57.5	48.1	56.3	58.5	61.5	64.8	66.9
Derivative financial instruments	0.9	0.5	0.2	0.1	1.9	1.9	1.9	1.9	1.9	1.9
Current income tax liabilities	1.2	2.1	0.4	0.3		0.0	0.0	0.0	0.0	0.0
Lease liabilities	2.9	2.2	2.7	2.7	1.9	1.9	1.9	1.9	1.9	1.9
Total current liabilities	69.8	89.3	64.1	60.6	52.0	60.2	62.3	65.4	68.7	70.8
Non current liabilities										
Retirement benefit obligations	4.4		1.5			0.0	0.0	0.0	0.0	0.0
Other payables	0.4	0.5	0.4	0.4	0.3	0.0	0.0	0.0	0.0	0.0
Deferred tax liabilities		2.9	0.6	0.9	3.0	3.0	3.0	3.0	3.0	3.0
Lease liabilities	3.2	3.5	4.6	3.7	2.7	2.7	2.7	2.7	2.7	2.7
Preference shares	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Total non current liabilities	8.2	7.1	7.2	5.1	6.3	6.0	6.0	6.0	6.0	6.0
Total liabilities	78.0	96.4	71.3	65.7	58.3	66.2	68.3	71.3	74.6	76.7
Equity										
Equity share capital	10.4	20.8	20.8	20.8	20.8	20.8	20.8	20.8	20.8	20.8
Equity share capital (B shares)	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Total equity share	10.6	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0
Share premium account	4.1		0.1	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Capital redemption reserve	1.2									
Currency translation reserve	5.0	5.9	4.1	3.8	1.8	1.8	1.8	1.8	1.8	1.8
Hedging reserve	1.1	0.9	0.8	0.3	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1
Retained earnings	134.6	145.4	148.3	156.0	160.3	152.2	143.4	133.6	123.0	111.7
Total equity attributable to shareholders of the parent	156.5	173.3	174.2	181.3	182.0	174.4	165.6	155.9	145.2	133.9
Total equity and liabilities	234.5	269.7	245.5	247.0	240.3	240.6	233.9	227.2	219.8	210.6