

PRESS INFORMATION

ITALTILE REPORTS CONTINUED CONSECUTIVE DOUBLE DIGIT GROWTH IN SUBDUED TRADING CONDITIONS

- ↑ System-wide turnover up 13% to R3.08bn
- ↑ Trading profit up 16% to R531m
- ↑ Headline earnings per share up 22% to 43.4 cents
- ↑ Dividend up 17% to 14.0 cents per share

Johannesburg; Thursday, 11 February 2016: Italtile Limited is a franchisor and retailer of local and imported tiles, sanitaryware, bathware, laminated flooring and other related home-finishing products. The Group's retail brands are CTM, Italtile Retail and Top T, represented through a total network of 133 stores, 16 of which are located in the rest of Africa. The Group's offering targets homeowners in the LSM 4 to 10 categories. The Group's Retail brand operation is strategically supported by a vertically integrated Supply Chain, investments in key suppliers, and an extensive property portfolio.

CEO, Nick Booth says, "The performance reported by the Group for the six months ended 31 December 2015 is primarily attributable to:

- Management's commitment to instilling retail excellence across the key customer-facing components of the offering, which resulted in improved levels of customer satisfaction and increased sales for the period;
- the benefits realised from implementation of the Business Optimisation Programme ("BOP") in the Supply Chain and Support Services divisions and expansion of the programme into the Retail brand operations; and
- the Group's strategic investments in its principal local suppliers, Ceramic Industries Pty Limited ("Ceramic") and Ezeetile, which delivered pleasing returns and continued to support the business's growth agenda."

TRADING ENVIRONMENT: Booth notes, "The trading environment in the six months remained consistent with recent years, featuring moderate demand in the renovation and commercial projects markets, with little improvement experienced in the new build segment as public and private sector spend continued to stall."

He adds, "The reporting period was characterised by general economic uncertainty, currency volatility and constrained disposable income, all factors which served to subdue consumer confidence. Price competition among industry participants intensified."

"In this context," Booth comments, "consumers gravitated to value for money offerings (consistent availability of high quality products, good service and reputable brands). The Group's high profile offering, sound balance sheet and integrated Supply Chain provided a competitive advantage in retaining and gaining market share."

FINANCIAL HIGHLIGHTS

- System-wide turnover increased 13% to R3.08 billion (2014: R2.72 billion), while same store revenue improved 11%. Average selling price inflation was 4.7%. During the period six new TopT stores and one CTM store were opened bringing the total network to 133 stores.
- Reported trading profit rose 16% to R531 million (2014: R459 million), while profit from associates grew 63% to R44 million (2014: R27 million), translating into a 21% increase in profit after tax to R430 million (2014: R355 million).

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- Basic earnings per share (“EPS”) increased 21% to 44.3 cents (2014: 36.7 cents per share), while headline earnings per share (“HEPS”) grew 22% to 43.4 cents (2014: 35.7 cents per share).
- Inventories increased 8% to R532 million (2014: R494 million), to support stronger sales growth. Continued prioritisation of good stock management was reflected by the notable improvement in availability of high-demand items, enhanced range matrix and increased stock turn. Optimum stock management across the business remains a key strategic discipline aimed at promoting customer satisfaction.
- Capital expenditure of R242 million (2014: R109 million) was incurred primarily on enhancing the quality of the property portfolio through an ongoing store upgrade programme and property acquisitions. Investments were also made in IT requirements related to the BOP.
- Cash and cash equivalent reserves at the end of the period were R351 million (2014: R209 million) after capital expenditure, increased stock holding and provisional tax payments totalling R109 million.
- The Group has maintained its dividend cover of three times. An interim gross cash dividend of 14.0 cents per share (2014: 12.0 cents) has been declared, an increase of 17%.

OPERATIONAL REVIEW: Booth says, “The BOP and management’s parallel focus on inculcating attention to retail detail across the offering delivered good results. These initiatives are centred on creating an exceptional customer experience across all key customer contact points.” During the period sound progress was made in:

- enhancing insight into and understanding of customer expectations, and establishing defined benchmarks and measurements to gauge and improve the retail experience. Regular and frequent surveys demonstrate consistently improving levels of customer satisfaction.
- Investment in increasing operational capacity and improving competencies and capability of personnel at all levels, which has resulted in higher levels of staff morale and motivation, and impacted positively on the quality of customer engagement.

Booth elaborates, “In a competitive trading environment which rewards high quality customer service, our people gave us the edge.”

- Upgrading IT systems, in-store devices and the online retail offering to support the drive for improved customer service and a seamless shopping experience across sales platforms.
- Improved use of business information to facilitate better stock management and logistics to ensure consistent levels of the right product, at the right time, place and price.”

RETAIL BRANDS: All three of the Group’s brands, Italtile Retail, CTM and TopT, grew turnover and profit, and gained market share across most of their merchandise categories. Stores in the coastal markets and Limpopo province outperformed their counterparts: the coastal stores, well stocked with local product, enjoyed a competitive advantage over importers who had to contend with the deteriorating currency, while in the Limpopo region the improved performance was achieved through better execution of all key disciplines in-store.

Once again stronger growth was reported in the lower LSM segment of the business than the top end.

- Italtile Retail: homeowners in the high-end LSM categories adopted a measured approach to investment in their properties based on their concerns about economic stability in this country. In contrast, the brand’s

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Commercial Projects division continued to deliver growth, gaining further market share in its non-residential market segment.

- Standardisation and improved execution of best practice disciplines in-store underpinned continued growth in the CTM business. Enhanced marketing of the brand's value for money proposition and tailored promotional activity, centred on private label brands, served to entrench CTM's top of mind awareness as the sector market leader.
- Top T continued to gain traction in its market, opening six (2014: four) new stores in the review period, bringing the total network to 41 stores. Given consumers' positive response to this offering, management is optimistic that the brand's goal of opening five to ten new stores per year is achievable.

SUPPLY CHAIN: Each of these vertically integrated businesses, International Tap Distributors, Distribution Centre and Cedar Point recorded improved sales.

Booth says, "While margin pressure was experienced as a result of the deliberate strategy to contain price increases to the stores to support their value offering to customers, this impact was offset by efficiencies achieved through substantially improved stock management and cost containment derived from the BOP."

INVESTMENT IN ASSOCIATES: The total contribution from associates to Group profits for the period rose 63% to R44 million (2014: R27 million).

Ceramic, a manufacturer of tiles, sanitaryware and baths, reported double digit growth in both its South African and Australian operations, contributing R36 million (2014: R21 million) to Group profit for the six months. This improved performance is attributable to higher production volumes (buoyed in the local operation by Rand weakness), which resulted in enhanced capacity utilisation and consequent efficiencies.

Booth comments, "Ceramic's new tile plant, Gryphon, was commissioned in December 2015 and is expected to provide a significant alternative offering in the local market to imported large format glazed porcelain tiles."

Ezeetile, a manufacturer of grout, adhesive, paint and related products, grew sales to Italtile's store network as well as independent customers, contributing R8 million (2014: R6 million) to Group profit for the period.

GLOBAL PROPERTY INVESTMENT: The Retail brand operation gains strategic benefit from the Group's property investment portfolio. The market value of this portfolio is in excess of R2.20 billion (2014: R1.90 billion), with a carrying value of R1.50 billion (2014: R1.20 billion). Investments of R200 million (2014: R74 million) were incurred on store refurbishments, new build and acquisition of properties during the six months.

PROSPECTS: Booth notes, "Historically, the Group has delivered a stronger performance in the first six months of the financial year than the latter half. This is a function of robust trading in the second quarter based on consumers having access to additional funds from bonuses and stokvel pay-outs and capitalising on in-store festive season promotional activity." He adds, "In the context of continued socio-economic uncertainty and further constraints on discretionary spend anticipated in the forthcoming period, it is highly likely that this trend will persist, with the second half proving increasingly challenging for all participants in the sector."

"Notwithstanding this subdued trading environment," Booth confirms, "management is satisfied that there is clarity of strategy and structure across the company, which will enable the Group to capitalise on growth opportunities both within the business and in the marketplace. In the forthcoming period, the BOP will be further embedded in the Retail brand operations and should deliver improvements in line with management's

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expectations. In addition, subject to availability of suitable sites and operators, the store roll-out programme will continue apace.”

“Further investment will be made on expanding the business to achieve the Group’s strategic growth goals, including expenditure on systems, technology and human resources. Italtile’s cash reserves will support this strategy,” Booth concludes.

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