

PRESS INFORMATION

**ITALTILE DELIVERS PLEASING ORGANIC GROWTH  
AND MEETS GROWING MARKET DEMAND WITH TWENTY NEW STORES**

- ↑ System-wide turnover up 14% to R5.96bn      ↑ Trading profit up 16% to R1.05bn  
↑ Headline earnings per share up 21% to 86,9 cents      ↑ Dividend up 16% to 29,0 cents per share

Italtile Limited is a franchisor and retailer of local and imported tiles, sanitaryware, bathware, shower enclosures, laminated flooring and other related home-finishing products. The Group's retail operation comprises three brands: Italtile Retail, CTM and TopT, represented by a total network of 146 stores in Southern and East Africa. The brand offering targets homeowners across the LSM categories 4 to 10.

The retail operation is strategically supported by a vertically integrated Supply Chain, investments in key suppliers, and an extensive property portfolio.

Chief Executive Officer, Nick Booth says, "The Group's overriding goal is to be the first-choice retailer in our market segment, by offering an unrivalled shopping experience for customers. This ambition is underpinned by the retail excellence strategy, 'right product, at the right time, place and price'. We made good progress in advancing this ambition during the review period."

He elaborates, "At the end of last year, we stated that there was clarity of strategy and structure across the organisation, and we identified opportunities for growth, both within the business and outside of it:

- Internally, our goal was to roll out the Business Optimisation Programme (BOP) from the Supply Chain businesses to the retail brand operations. During the period, we succeeded in entrenching BOP across the stores and started to record notable improvements in key areas, including stock management; human capital portfolio; and IT and e-commerce.
- Externally, we undertook to expand our retail footprint across all three brands, Italtile Retail, CTM and TopT, to build on the steady growth in market share which the company had gained over recent years. During the year we opened twenty new stores: fifteen TopTs, three CTMs and two Italtile Retail stores, and launched a CTM web store in Kenya."

**TRADING ENVIRONMENT:** While the renovations market grew during the reporting period, the new-build segment remained sluggish, illustrated by the negligible increase in the number of building plans passed. Across the industry competitor activity intensified, featuring aggressive pricing and promotions as traders sought to retain market share. Currency volatility and cash flow constraints led to further rationalisation of less established operators. In this context, the Group benefitted from its solid balance sheet and integrated Supply Chain which ensured consistent availability of high quality reputable brands and stable pricing.

**RESULTS:** Booth comments, "The Group reported improved results in each of the retail brands, as well as in all of our Support and Supply Chain businesses. This gratifying performance is attributable to continued expansion of the BOP across key areas of the Group, which facilitated further improvements within the business and a meaningful gain in market share from competitors."

**FINANCIAL HIGHLIGHTS**

System-wide turnover increased 14% to R5.96 billion (2015: R5.22 billion), while like-on-like revenue at the retail store level also grew 14% (compared to total retail growth of 17%). The full impact on revenue of the twenty new stores opened in the review period will only be reflected in the following six months.

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Trading profit rose 16% to R1,047 million (2015: R905 million), while margins firmed, primarily due to containment of increases in overhead expenses and increased rebate income. Average price inflation was 6.5%.

The Group's basic earnings per share ("EPS") rose 16% to 87,8 cents (2015: 75,9 cents), while headline earnings per share ("HEPS") increased 21% to 86,9 cents (2015: 71,6 cents).

Inventories rose to R693 million (2015: R479 million) to meet growing demand from the existing retail operation as well as the new stores added to the network during the period. The increase also reflects the weakening of the rand which impacted on the landed cost of imported inventory, as well as the introduction of the shower enclosure merchandise category into the Supply Chain operation. Stock management remained a core discipline across the business, with improved stock turn and reduced stock losses being key performance indicators.

Capital expenditure for the period was R375 million (2015: R219 million), incurred primarily on acquisitions and upgrades of properties to support the business's expansion programme.

Dividend payments totalled R279 million (2015: R212 million), resulting in net cash reserves of R347 million (2015: R392 million) at the end of the period.

The Group's net asset value was 362 cents per share (2015: 296 cents per share).

The dividend cover of three times has been maintained. A final gross cash dividend of 15,0 cents per share (2015: 13,0 cents per share) has been declared, which together with the interim gross cash dividend of 14,0 cents per share (2015: 12,0 cents per share), produces a total gross cash dividend for the year of 29,0 cents per share (2015: 25,0 cents per share), an increase of 16%.

### OPERATIONAL REVIEW

**RETAIL BRANDS:** "Improved performances were reported by the Group's retail operation, comprising Italtile Retail, CTM and TopT, with each brand recording double digit sales growth and a gain in market share across its trading regions and merchandise categories," says Booth.

**Italtile Retail:** Italtile Retail grew sales and profits. These results were primarily attributable to improved responsiveness to customer demand with the extension of the bathroom accessories, furniture and cladding categories, as well as wider ranges of highly fashionable large format tiles. The brand continued to benefit from its status as a purveyor of environmentally sensitive brassware (Tivoli and Idral) and sanitaryware (Laufen) products.

Booth notes, "During the period two new-generation stores were opened - in Northriding and Waterfall (Gauteng), and the Somerset West (Western Cape) store was comprehensively rebuilt. These stores showcase the brand's improved retail formula in terms of customer-centricity, and entrench Italtile's standing as a trendsetter in the home improvement market."

**CTM:** During the year under review, the brand recorded an improved quarter-on-quarter performance, with a strong final quarter. Results for the year reflect good organic sales growth and an increase in profits. The average basket grew in value, although margins declined very slightly, primarily a function of the strategy to retain key price points in the tile category to anchor the brand's competitive value positioning.

Booth remarks, "CTM's improvement over the year is based on sustained efforts to grow sales and gain market share through improved execution and operational effectiveness. This was manifested through improved stock-turn and in-stock levels of business critical products; enhanced product innovation and range development; and an increased and concentrated marketing effort at a national and local level."

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Three new stores were launched, in Mitchells Plain (Western Cape), Hazyview (Mpumalanga) and Waterfall (Gauteng) during the year. The Waterfall flagship 'Millennial' store is a new generation concept, which while retaining CTM's heritage, features a more contemporary design and customer-centric technology aimed at improving the shopping experience.

The brand's web store also continued to gain traction with customers, illustrated by good growth in total user sessions and an increase in online sales.

**TopT** opened fifteen new stores, to bring the total network to fifty stores and extend the brand's footprint to eight provinces across the country. Fifteen stores are planned for opening in the forthcoming financial year in order to extend the brand's network in the Free State and establish a footprint in the Western Cape.

Booth notes, "TopT gained market share in both its existing and new markets, attracting a wider audience of consumers based on its improved range and growing appeal to a new segment of cost-conscious shoppers seeking quality value offerings in the difficult economic climate."

Other factors underpinning the brand's growth is its focus on delivering consistent, large volumes of affordable and aspirational products in a market segment that has traditionally been informal, costly and poorly organised, as well as its flexibility to adapt to new home improvement trends by introducing innovative products and categories as demand emerges.

**SUPPLY CHAIN:** The Group's vertically integrated Supply Chain performs a key strategic support function for the retail brand operations through ensuring consistent availability of the right product at the right time, place and price. The Supply Chain's component businesses are: International Tap Distributors (importer of brassware and accessories), Cedar Point (importer of laminate flooring, bathroom furniture, shower enclosures, decor and other home finishing products) and Distribution Centre (importer of polished and glazed porcelain). Each of these businesses reported increased sales and profitability, driven by strong demand from the store network across the retail brands. In the context of currency volatility a tactical decision was taken to contain price increases to support the Group's competitive offering, which served to create margin pressure.

**INVESTMENT IN ASSOCIATES:** The Group holds strategic stakes in its two key suppliers, namely: 20% in Ceramic Industries, a manufacturer of tiles, sanitaryware and bathware, and a 46% stake in Ezee Tile, a national manufacturer of grout, adhesive and related products. These tactical investments are significant in underpinning Italtile's growth agenda.

The combined contribution from Ceramic and Ezee Tile to Group profits rose 53% to R95 million (2015: R62 million).

During the review period, Ceramic launched its new Gryphon plant, which manufactures large format glazed porcelain tiles that compete favourably with high quality imported product. Market response to the range has been very positive. Gryphon's impact on turnover is expected to grow over time.

**OFFER TO ACQUIRE SHARES IN CERAMIC:** Italtile has submitted a binding offer to Ceramic, to acquire up to a further 73,5% of the company's issued share capital. Italtile's rationale for acquiring Ceramic is based on management's positive view of opportunities for growth in this country, and the far-ranging benefits of this transaction for both Italtile and Ceramic. A further consequence of this transaction will be an increase in the Group's total effective holding in Ezee Tile to 68,95%. The transaction is subject to attainment of certain conditions precedent, including the approval from competition authorities and Italtile shareholders.

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**PROPERTY INVESTMENT PORTFOLIO:** The Group's property portfolio affords strategic advantage to the retail brand operations by ensuring stores are easily accessible, well-presented and maintained, and contribute to an aspirational shopping experience.

Booth comments, "During the period, good progress was made in terms of securing and developing a pipeline of properties to meet the Group's robust expansion programme over the next few years."

As at 30 June 2016 the portfolio had an estimated market value of R2.4 billion (2015: R2.0 billion). In the year under review R284 million (2015: R164 million) was invested in an ongoing store upgrade programme and the acquisition of seven properties.

**PROSPECTS:** Prevailing economic and socio-political conditions are unlikely to improve materially in the forthcoming year. In this context, consumers will continue to allocate their discretionary spend cautiously, seeking out optimal value offerings. Furthermore, competition in the market will intensify, as participants strive to retain and gain market share.

Faced with these trading conditions, management is emphatic that to sustain results at current levels, opportunities for growth must be realised within the business. In this regard, the following priorities have been identified:

- Ensure that the business is steeped in the principles of retail excellence as a standard throughout the organisation.
- Continue to expand the Group's store network, including opening fifteen TopT stores in the year ahead, and additional CTM and Italtile stores in the following year;
- Capitalise on opportunities to gain market share from imported product through Gryphon's glazed porcelain tile ranges;
- Leverage growth levers in the Supply Chain, in particular improving logistics and distribution;
- Continue to invest in information technology and e-commerce; and
- Assuming the successful conclusion of the acquisition of Ceramic Industries, integrate Ceramic and Ezee Tile into the Group's IT platform as seamlessly as possible.

Booth concludes, "To attain our goal of being the first choice retailer in our segment, we are cognisant that all components of the business, namely the retail brand operations and the Support and Supply Chain businesses, need to operate at their peak and interface flawlessly. Our priority focus in the period ahead will be to drive that strategy."

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