PRESS INFORMATION

ITALTILE BUILDS CASH RESERVES AND INVESTS FOR GROWTH

↑ **System-wide turnover**: R6.21 bn (2016: R5.96 bn)

↑ **Trading profit**: R1 063m (2016: R1 047m)

↑ **Net cash**: R511 million (2016: R347 million)

↑ **Dividends per share**: 30.0 cents (2016: 29.0 cents)

↑ **Net asset value**: 403 cents (2016: 362 cents)

↑ **Store network**: 162 (2016: 146)

Johannesburg; Wednesday, 16 August 2017: "Under difficult trading conditions experienced in the reporting period, the Group's robust business model served it well. Our strategic retail brand portfolio, integrated supply chain, strong partnerships with entrepreneurial franchisees, property portfolio, and long-standing solid reputation, together with sustained investment continued to appeal to traditional customers as well as new, emerging homeowners," says CEO, Jan Potgieter.

Italtile Limited is a franchisor and retailer of local and imported tiles, sanitaryware, bathware, laminated and vinyl flooring and other related home-finishing products. The Group's retail brands are CTM, Italtile Retail and TopT, represented through a total network of 162 stores, 18 of which are located in the Rest of Africa. The brand offering targets homeowners across the LSM 4 to 10 categories. The retail operation is strategically supported by an integrated Supply Chain, investments in key suppliers, and an extensive property portfolio.

TRADING ENVIRONMENT: In the prevailing adverse economic and socio-political environment homeowners curtailed or deferred discretionary spend on residential improvements and renovations, while the new-build segment declined further. In general, large segments of the market remained overstocked, and, with the industry-wide fall in sales, price competition and margin pressure intensified.

INDUSTRY TRENDS: Potgieter comments, "With intensified pressure on disposable incomes, homeowners increasingly view property spend as a luxury indulgence and are significantly more discerning in their purchases, (which are now less frequent than in prior years), and more selective in their choice of retailers."

"While price and service remain key sales drivers, consumers are also gravitating to 'convenience' offerings – accessibility of brick and mortar stores as well as innovative online and digital technology offerings. The continued investment in our national store network and digital and in-store technology is designed to cater to this trend," he says.

Potgieter adds, "Rapidly evolving technology has had a significant influence on driving quicker changes in fashion trends and a growing demand from consumers seeking latest fashion products with limited lead times. Our associate, Ceramic Industries' state of the art inkjet printing technology has been a game changer for the business, enabling its factories to respond timeously to up to the minute design trends."

"Furthermore, the widespread availability of technology to consumers and their access to online research serves to educate them and influence their expectations of the in-store experience. Up-weighting the 'delight' and 'disruptive' factors in the shopping experience is now a major strategy for our brands," he notes.

RESULTS: The Group's results in the second six months were weaker than the first six (being typical of the Group's cyclical long-term retail sales trend), but also weaker than the comparable second six months of 2016.

Sales and profitability failed to meet management's targets primarily due to: the slow-down in discretionary spending; volatility of the currency; the Group's overstock position - which while substantially improved over the past six months - remains a key focus area; and general country-specific risks which continue to cause both private and public sectors to suspend investment in property.

System-wide turnover for the period increased by 4% to R6.21 billion (2016: R5.96 billion). System-wide turnover is the aggregate of the Group's consolidated turnover as reported (total sales by Group owned entities and corporate stores, excluding sales from owned supply chain businesses to corporate stores) and the turnover of franchisees of the Group.

Like-on-like retail store turnover for the period increased by 2.7%. Retail store turnover is defined as the aggregate of turnover of all stores, either corporate or franchised, in the Group's network.

Trading profit increased by 2% to R1 063 million (2016: R1 047 million). While turnover for the period includes the partial or full contribution of the 10 corporate TopT stores opened during the period, profitability was offset by high pre-opening expenses. Average price inflation of 4.3% was lower than the prior comparative period (2016: 6.5%).

Retail margins were only slightly lower despite both de-stocking activities and the retail brands continuing to offer competitive value to price-conscious customers. This was achieved through improved containment of costs in the second half of the period; prudent marketing activities; improved use of trading intelligence and an enhanced mix of higher margin products in the average basket.

The Group's basic earnings per share rose by 3% to 90.3 cents (2016: 87.8 cents), while headline earnings per share decreased 1% to 85.7 cents (2016: 86.9 cents).

Good progress was achieved in terms of the Group's stated goals for the second half of the period, namely to reduce operating costs and to improve its working capital position. Cash and cash equivalent reserves at the end of the period grew to R511 million (2016: R347 million), up 47%. Inventory levels reduced to R548 million (2016: R693 million), a decline of 21%, while simultaneously reflecting enhanced quality of mix. Stock management remains a core discipline across the business.

During the period capital expenditure of R334 million (2016: R375 million) was incurred, primarily on property acquisitions and upgrades to underpin the Group's growth programme.

A final gross cash dividend of 14.0 cents per share (2016: 15.0 cents) has been declared, which together with the interim gross cash dividend of 16.0 cents per share (2016: 14.0 cents), produces a total gross cash dividend of 30.0 cents per share (2016: 29.0 cents), an increase of 3%.

OPERATIONAL REVIEW: Good progress was recorded in several areas across the Group, including the expansion of the store network with the addition of 14 TopT and two CTM stores; implementation of the Group's Business Optimisation Programme (BOP) across the business resulting in improved efficiencies; and continued investment in IT to upgrade the brands' webstores and websites as well as enhance technology in-store to improve the customer shopping experience. Pleasing results were also achieved in terms of improving working capital and inventory management during the second half of the period.

Potgieter says, "While all of these initiatives contributed to enhancing the business, numerous additional opportunities exist to leverage further growth and efficiencies. Management acknowledges that substantial progress needs to continue to be made to attain the Group's ambitious growth targets."

Retail Brands: Despite the competitive landscape, CTM maintained its share of market, while Italtile Retail and TopT continued to grow their respective customer bases in both existing and new markets. All three brands grew sales and total value of the average basket, however Italtile Retail and CTM recorded lower profitability, while TopT's profits rose.

Potgieter comments, "While CTM's results underperformed our targets, under new operational leadership the business made progress on improving basic disciplines. Enhanced efficiencies were achieved in warehouse management, and the brand's performance rating programmes recorded better levels of customer service and sentiment in the stores."

He says, "Italtile Retail's premium-end market niche continued to contract as wary consumers postponed their investment decisions in the current climate. Furthermore, the Commercial Projects division which reported an upturn in recent months experienced another setback, as a number of projects were put on hold following the sovereign credit downgrade. During the period the brand elevated its bespoke sales consultant training programmes, raising service benchmarks, and is positioned for growth when conditions improve."

"In the year under review, TopT achieved national brand status with the expansion of its store footprint to all nine provinces. The good local geographical distribution of sites was complemented with the opening of a store in Botswana in July 2017. TopT's solid results illustrate the optimal use of BOP across the store network, with a strong correlation between availability of business critical stock and higher sales," notes Potgieter.

Supply Chain: The Group's strategically integrated Supply Chain comprises International Tap Distributors, Cedar Point and Distribution Centre. In the context of reduced consumer demand and sub-optimally high levels of stock across the industry, the three businesses collectively recorded a 1.3% increase in sales and a 2.5% decline in profitability.

INVESTMENT IN ASSOCIATES

Ceramic Industries: The Group holds a 21% strategic stake in manufacturer Ceramic, its primary supplier of tiles, sanitaryware and bathware. Ceramic's results in the first half of the period were substantially stronger than the second half. Locally, in the latter six months the business experienced a fall in sales in light of the general economic slow-down and overstocked position of most of its customers, exacerbated by the high level of imported product in the market. Accordingly, Ceramic's contribution to Group profit for the period decreased by 2% to R81 million (2016 R83 million).

Despite prevailing difficult trading conditions, Ceramic remains optimistic about growth opportunities in South Africa and Australia and will continue to invest in upgrading its factories and facilities to ensure it is optimally positioned to capitalise on any increase in market demand.

Ezee Tile: The Group holds an effective 46% stake in Ezee Tile, a manufacturer of grout, adhesive and related products. In the context of subdued consumer demand across the industry, Ezee Tile's sales, profits, margins and stock turn for the period, although improved, were less buoyant than the previous period. The business contributed R13.5 million (2016: R12 million) to Group profit, an increase of 13%.

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. As at 30 June 2017 the portfolio had an estimated market value of R2.6 billion (2016: R2.4 billion). In the period under review R232 million (2016: R284 million) was invested in an ongoing store upgrade programme and the acquisition of eight properties.

PROSPECTS: Despite the negative macro-economic outlook, the Group remains confident that its robust brands and resilient business model can capitalise on growth opportunities in the market, particularly given the relatively low per capita consumption of tiles in this country compared to peer economies.

Potgieter says, "We are satisfied that our competent leadership team, clearly defined strategies and clarity of purpose, positions the business well for continued growth. The Group's competitive advantage will continue to be furthered by our tactical brand portfolio, integrated supply chain, strong entrepreneurial partnerships and long-standing solid reputation."

While advancement of the store roll out programme will be determined by market demand and availability of suitable sites and operators, the Group's goal is to open a total of 20 new stores over the next financial year, including at least one Italtile Retail store and three CTM stores. Furthermore, capacity in the Supply Chain will also continue to be developed to support anticipated growth over the long term.

Potgieter concludes, "Opportunities for growth also exist within the business itself, through improved competencies, efficiencies, and conceptualisation of retail innovations and market-disruptive strategies. Our key focus areas will include further improvement of the working capital position; optimising our personnel complement to enable the growth strategy; continuing to develop sector-leading technology; and driving the strategy to offer a customer-centric shopping experience which constantly delights our customers. Notwithstanding the context of country-specific socio-political and economic risks, we have confidence in the potential of the business and the market, and will continue to commit investment to realise growth opportunities."

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Jan Potgieter
Chief Executive Officer, Italtile Ltd
Tel: 011 510 9050

Del-Maree English
Investor Communications
Mobile: 083 395 8608