ITALTILE DELIVERS ANOTHER CONSECUTIVE YEAR OF GROWTH AND CELEBRATES 50th ANNIVERSARY WITH SPECIAL DIVIDEND

- ↑ **System-wide turnover**: R10.0 bn (2018: R8.7 bn)
- ↑ **Trading profit**: R1 797m (2018: R1 518m)
- ↑ **Net cash**: R1 201m (2018: R679m)
- ↑ **Dividend per share**: 41.0 cents (2018: 38.0 cents)
- ↑ **Store network**: 189 stores (2018: 176)
- ↑ **Special dividend per share**: 50.0 cents (2018: 30.0 cents)

Johannesburg; Thursday, 22 August 2019: "Despite the exceptionally difficult trading conditions experienced, the Group has recorded a creditable performance, achieving our stated goal of delivering improved headline earnings growth for the year. The 7.2% increase is a reflection of leveraging opportunities in the business, from robust cost leadership to striving for an unparalleled customer experience. Our people, franchise partners and portfolio of brands are key to another successful year in the Group's five-decade history," says CEO, Jan Potgieter.

Italtile Limited is a manufacturer, franchisor and retailer of tiles, bathroomware and other related home-finishing products. The Group's retail brands are CTM, Italtile Retail and TopT, represented through a total network of 189 stores, including five online webstores. The brand offering targets homeowners across the LSM 4 to 10 categories. The retail operation is strategically supported by a vertically integrated supply chain, comprising key manufacturing and import operations, and an extensive property portfolio.

RESULTS

Potgieter notes, "In line with our guidance, the results for the first half of the year were stronger than the prior comparable period, due to a low-base effect, while the performance for the second half of the year was solid, albeit as forecast, less robust than the prior comparable period."

The Group's total system-wide turnover was R10.0 billion, 15.2% higher than the prior corresponding period (2018: R8.7 billion). Total retail store turnover grew 6.1%, while like-on-like retail store turnover increased by 4.2%. Manufacturing sales for the period rose 1.4%.

Trading profit increased by 18.4% to R1 797 million (2018: R1 518 million). Average selling price inflation is estimated at 2.7% in the retail operation and at 3.0% in the manufacturing operation.

Retail margins were higher due to intensified cost containment. Margins at Ceramic were lower mainly due to underutilisation of capacity, while Ezee Tile reported stable margins.

The Group's basic earnings per share grew by 8.0% to 102.6 cents (2018 95.0 cents), while headline earnings per share improved by 7.2% to 101.8 cents (2018: 95.0 cents).

Capital expenditure of R622 million was incurred during the period (2018: R669 million). This includes investments made across the Group's retail properties and manufacturing plants. "Significantly," says Potgieter, "despite material cash outflows, the Group's cash balance rose to R 1 201 million (2018: R679 million)."

A final ordinary dividend of 19.0 cents per share (2018: 21.0 cents) was declared, which together with the interim dividend of 22.0 cents per share (2018: 17.0 cents), produces a total ordinary dividend of 41.0 cents per share (2018: 38.0 cents), an increase of 8.0%. In addition, given strong cash reserves - in excess of operational requirements, and in celebration of the Group's 50th anniversary, a special dividend of 50.0 cents per share (2018: 30.0 cents) was declared.

OPERATIONAL REVIEW: GROUP PERFORMANCE

Potgieter comments, "The results reported for the review period are a good reflection of the Group's:

- robust proudly South African 50-year trading history as the industry trend setter and style icon;

- resilient business model, which offers a total solution through our integrated supply chain;
- competent team with clarity of purpose and clearly defined strategies;
- mutually beneficial partnerships with long-standing franchisees and operators;
- strong cash generative nature, disciplined cash management and cost leadership;
- portfolio of market leading retail brands which are strategically positioned to cater across the demographic and income spectrum, uniquely targeting each segment and supported by a multi-channel offering;
- consistent investment in the shopping experience and ongoing efforts to better execute retail excellence;
- leading edge technology in the manufacturing operations producing high quality fashionable product; and
- leveraging growth opportunities in the business through an unrelenting focus on the customer."

INDUSTRY TRENDS

Potgieter notes, "In line with the past several years, the new build market was virtually stagnant, with activity in the industry confined largely to commercial projects and residential renovations."

He adds, "A further development is the wider choice and better access that consumers have to our industry and products. This is facilitated by the increased use of technology and range of omni-channel purchasing options available; the globalisation of international fashion trends; and the proliferation of social and digital media (aligned with the role of influencers)."

"Notably," says Potgieter, "given the highly fashionable nature of our products and the aesthetically appealing in-store shopping experience, increasingly we are seeing greater numbers of women customers, and more women making the key purchasing decisions in store. This anecdotal experience is also aligned with industry statistics which show that growing numbers of women are becoming homeowners."

RETAIL BRANDS

Potgieter states, "Most of the key metrics improved across the brands, including sales, average basket and selling price, margins, profit and productivity. Retail excellence disciplines also improved, reflected by better in-stock levels, enhanced store and merchandise presentation, technological innovation, and better analytical reporting, resulting in a better customer experience. CTM maintained its market share, while Italtile Retail and TopT continued to make gains in the competitive environment. Seventeen stores were opened across the portfolio during the review period."

CTM: "Pleasingly, CTM commenced a turnaround, despite the target market remaining under intense financial pressure. Growth was reported across sales, margins, profits and store productivity. This improvement is attributable to our focus on retail excellence principles; roll out of the new store format and revamp of older stores; the emphasis on product (cost leadership, differentiation and trend-setting fashion); and a brand repositioning campaign (Sithi Wena – "You deserve it"), which built meaningful equity. Key leadership changes were implemented, which should also continue to positively impact on CTM's performance," he says.

Italtile Retail: Potgieter comments, "The customer shopping experience was improved with the introduction of innovative webstore and digital initiatives; roll out of the new store format; and an extended range of large format imported tiles and local porcelain tiles. However, some margin was sacrificed due to an import substitute strategy centred on lower margin local merchandise." He adds, "While the Commercial Projects division delivered another strong performance, post year-end there has been a noticeable slow-down in commissioning of new developments in the industry, and generally, spend at the upper end of the market has declined as consumers defer investment in the current conditions."

TopT: Potgieter notes, "TopT reported another strong performance, recording double-digit like-on-like sales and profit growth. The brand continued to benefit from successful implementation of the business optimisation programme; roll out of new stores to underserviced markets and a growing national presence; constant range re-evaluation and responsiveness to customers; and the introduction of several profile building initiatives including a mobile store (the Gig Rig), a webstore and a dedicated training centre."

U-Light: During the year, the Group commenced trialling a new lighting merchandise category which was rolled out to all the TopT stores. Potgieter says, "To test the scalability and viability of the U-Light offering as a standalone brand, five pilot stores will be opened in Gauteng by the end of August 2019; the five stores will each comprise a slightly different format and target a different market segment. This start-up business will benefit from existing store locations, customer base, business partners and an effective back-office set up."

MANUFACTURERS

Ceramic Industries: Potgieter notes, "The acquisition of Ceramic some 20 months ago continues to deliver the gains envisaged, among them, a stronger combined balance sheet for future expansion, and improved planning and production efficiencies, benefitting both the stores and the factories."

He comments, "Generally softer retail demand and the overstock position of tile retailers and wholesalers in the industry impacted negatively on capacity utilisation at Ceramic's tile factories. In the South African tile operation, solid results reported in the first half of the year were eroded by a weaker performance in the second six months. The Australian tile operation reported improved profitability for the review period, and the investment to increase capacity and product range was completed. In the bathware division, both Betta Sanitaryware and Betta Baths reported an improved second six months after a difficult first half. As with the tile factories, focus will remain on reducing costs and improving yields."

Ezee Tile: Potgieter says, "In the first half of the year, the business underperformed our expectations. Remedial actions implemented in the second half addressed operational inefficiencies and resulted in an improved performance in the latter six months, although there is still room for further improvement. Good progress was achieved in upgrading the plant in Mombasa and developing new production facilities in Lusaka and Harare. The business also succeeded in gaining market share in the paint and construction chemicals segments."

SUPPLY CHAIN: IMPORTERS

Potgieter comments, "Across our import businesses, Cedar Point, ITD and Durban Distribution Centre, management's key focus areas were range rationalisation, reducing stock levels and improving stock turn and good progress was made."

PROSPECTS

"Despite the very testing operating environment, we remain optimistic that those factors within our own control provide prospects for growth, and we will continue to invest accordingly. We plan to open 15 stores in the next financial year and will continue to build capacity in the supply chain," says Potgieter.

"We derive significant confidence from the Group's strong 50-year track record and the business model which has proved to be resilient and robust over the past five decades. We anticipate that the Group will deliver growth for the full year. Given the high base effect, we expect that growth in the first six months is likely to be lower than growth in the second half of the year," Potgieter concludes.

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