Interim results press release
Final as at 12-02-2020

PRESS INFORMATION

ITALTILE'S RESILIENT BUSINESS MODEL AND INTERNAL FOCUS DEFY CHALLENGING TRADING ENVIRONMENT

↑ **System-wide turnover**: R5.4bn (2018: R5.3bn)

↑ **Trading profit**: R1 029m (2018: R968m)

↑ **Adjusted earnings per share***:58.4 cents (2018: 55.4 cents)

↑ **Adjusted headline earnings per share***: 58.4 cents (2018: 54.7 cents)

↑ **Dividend per share**: 23.0 cents (2018: 22.0 cents)

↑ **Store network**: 197 (June 2019: 189)

Johannesburg; Thursday, 13 February 2020: "Notwithstanding the challenging external environment, management remains committed to optimising on the opportunities within its control in the business to drive continued growth," says Italtile 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, TopT and U-Light, represented through a total network of 197 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 comments, "Despite the testing operating climate, the Group reported solid results for the review period, reflecting the strength of its strategically structured resilient business model. In light of unfavourable trading conditions and weak consumer demand, management's key focus areas were to: compete vigorously to win market share; increase productivity and extract efficiencies; entrench a performance-driven culture; and continue to invest across the business."

The Group's system-wide turnover for the review period was R5.4 billion, 1.4% higher than the prior corresponding period (2018: R5.3 billion).

Revenue from Group-owned stores and entities was R3.8 billion (2018: R3.7 billion).

Retail: total retail store turnover rose 4.5% for the review period compared to the previous corresponding period, with average selling price inflation estimated at 1.5%. Like-for-like retail store turnover growth of 1.7% was below management's benchmark.

Manufacturing: the manufacturing division's total sales (comprising Ceramic Industries and Ezee Tile) grew 1.3%. Estimated average selling price inflation in the division was 1.0% for the review period.

The Group's trading profit improved 6.3% to R1 029 million (2018: R968 million).

During the review period, average selling price increases in the retail operation were contained in the deliberate strategy to support price-sensitive consumers. In the supply chain, margins improved across the manufacturing and import businesses as a result of better efficiencies, supplier negotiations and range rationalisation.

***The Group's adjusted basic earnings per share improved 5.5% to 58.4 cents (2018: 55.4 cents), while adjusted headline earnings per share grew 6.8% to 58.4 cents (2018: 54.7 cents). This excludes the impact of a once-off BEE charge of R39 million on earnings.

Capital expenditure of R340 million (2018: R306 million) was incurred during the review period, primarily on investments across the Group's retail properties and manufacturing plants.

The Group's cash balance was R702 million (2018: R1 010 million), including the consolidated cash balances of Ceramic and Ezee Tile, totalling R231 million (2018: R326 million). Potgieter notes that material cash outflows for the period include:

- capital expenditure of R340 million (2018: R306 million);
- tax payments of R263 million (2018: R299 million);
- share purchases by the Group and Italtile and Ceramic Foundation Trust of R214 million (2018: R46 million); and
- dividend payments totalling R1 184 million (2018: R661 million).

An interim gross cash dividend of 23.0 cents per ordinary share was declared for the reporting period.

OPERATIONAL REVIEW

Potgieter states, "Over the past reporting period management committed to delivering on a range of key priorities. We made good progress attaining our goals, although opportunity exists for continued improvement. Key achievements include:

- **advancing the store roll-out and revamp programme:** 10 stores were opened in the review period, with another five to eight to follow in the next six months. 15 stores were revamped;
- **focusing on sales growth – specifically tile volumes.** While overall sales growth did not meet our benchmark, tile sales increased across the retail brands and market share was gained in a low demand environment. This is particularly pleasing recognition of the concerted effort to prioritise this key merchandise category, which contributes approximately half of total retail revenue;
- **prioritising the shopping experience through retail excellence disciplines and innovation.** Across the brands, independent customer surveys confirmed that the shopping experience, specifically range and presentation, continued to improve and translate into sales;
- **rolling out U-Light.** Our new lighting offering launched in the prior year, is now represented by five pilot stores; this footprint will determine the future viability and scalability of the model;
- **improving manufacturing efficiencies.** Both Ceramic and Ezee Tile reported sound results, derived from the focus on production efficiencies and cost management;
- **extracting synergies from the integrated supply chain**. Intensified efficiencies resulted in all three of the Group's supply chain import businesses recording pleasing growth; and
- **entrenching working capital and cash management as core disciplines**. Notwithstanding substantial cash outflows during the period, (including a special dividend), management believes there are further opportunities to improve the cash conversion rate."

RETAIL BRANDS

"In a very competitive market, the unwavering focus on improving the customer shopping experience was rewarded by a growth in market share across the retail brands, Italtile Retail, CTM and TopT, while our new offering, U-Light, started to gain traction in an untapped category for the Group," notes Potgieter.

CTM's improved performance reported is a reflection of the successful repositioning of the brand over the past year and an enhanced focus on in-store presentation and range. Both sales and average basket value grew, although margin pressure contained profitability. Measures to improve store productivity are underway and should reflect in the next six months to 12 months.

Italtile Retail: while revenue reported was flat and profits declined marginally, the average basket value increased and margins were maintained. The disappointing sales performance is a reflection of the downturn in investment by the shrinking upper-LSM market as the flight of capital continued, as well as the decline in the commercial projects business as developments were deferred or cancelled for the foreseeable future.

TopT delivered double-digit sales and profit growth once again, albeit not at the levels achieved in previous years. Margins were down, in keeping with the strategy to support cash strapped homeowners. An improvement in the average basket value was recorded and store productivity rose. Continued investment in the range and presentation underpinned TopT's gain in market share in a particularly difficult environment.

U-Light, the Group's new lighting offering, is now represented by five pilot stores, each comprising a unique format and catering to a specific target market. In addition to the standalone U-Light stores, the offering is available across the Group's branded retail store network and aligns with management's strategy to offer customers a total solution. The business broke even in the review period.

SUPPLY CHAIN: MANUFACTURERS

Potgieter says, "The integration of Ceramic and Ezee Tile, acquired in 2017, continued to deliver on management's strategy to provide a complete solution to customers. Improved planning and production efficiencies benefitted both the stores and the factories and underpinned the Group's policy of ensuring the 'right product at the right time, place and price'."

Ceramic Industries. "In the SA manufacturing operation, tile volumes and sales were under pressure due to weak demand, however, Ceramic did well to grow profits and margins through range rationalisation, improved efficiencies and cost management. This achievement is particularly noteworthy given the direct loss of R12 million suffered due to load shedding during the review period," comments Potgieter.

The business reported solid results in Australia, while export sales into the rest of Africa region declined slightly due to the poor performance in certain markets including Zambia and Zimbabwe.
Solid results were recorded by the bathroomware and bath division.

Ezee Tile. Potgieter remarks, "With the implementation of remedial measures, Ezee Tile turned around the unsatisfactory performance reported in the prior year; higher volumes and sales were recorded and margins and profitability grew."

SUPPLY CHAIN: IMPORTERS

All three of the import businesses, Cedar Point, International Tap Distributors and Durban Distribution, reported increased sales, profits and margins. Notwithstanding the late arrival of imported stock, the product quality, mix and ratio of in-stocks improved. The establishment of three Cedar Point distribution centres in Gauteng, Cape Town and KwaZulu Natal also had a positive impact on logistics and distribution efficiencies.

PROPERTY INVESTMENT

As at 31 December 2019, the estimated market value of the portfolio was R4.1 billion, comprising a retail portfolio valued at R3.2 billion (2018: R3.0 billion) and a manufacturing portfolio valued at R0.9 billion (2018: R0.8 billion).

Potgieter says, "We continued to invest in the business, reflected by capex of R165 million incurred on an ongoing store upgrade programme, and R113 million invested across the manufacturing operations on plant and equipment upgrades." He adds, "We remain committed to achieving our ambitious growth targets though sustained investment."

PROSPECTS

Potgieter notes, "While the prevailing weak macro-economic conditions are extremely challenging and expected to persist for the foreseeable future, we remain optimistic that the Group will deliver growth for the full financial year. Growth in the second half of the year is anticipated to be in line with the current review period."

He concludes, "In a projected environment of minimal top-line growth, the Group's key goals in the period ahead will be to continue to compete aggressively to gain market share through better execution of retail excellence disciplines; improve management of stockholding and working capital; optimise operational efficiencies and productivity across the business and leverage integration between the stores and supply chain."

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