PRESS INFORMATION

ITALTILE'S STRATEGIC FOCUS ON INTERNAL GROWTH LEVERS COUNTERS CHALLENGING TRADING CONDITIONS

System-wide turnover: R11.3bn (2021: R11.6bn)	**Trading profit: R2.7bn** (2021: R2.6bn)
Earnings per share: 152.0 cents (2021: 140.7 cents)	**Headline earnings per share: 152.1 cents** (2021: 140.1 cents)
Dividend per share: 61.0 cents (2021: 56.0 cents)	**Net asset value per share:** 575 cents (2021: 554 cents)
Cash: R0.4bn (2021: R1.1bn)	**Store network: 211** (2021: 206)

Johannesburg, Thursday, 25 August 2022: "In the increasingly challenging operating environment, our goal is to provide an unrivalled end-to-end customer shopping experience that differentiates our offering and connects with our customers at every key touchpoint. Our focus is on basic retail excellence disciplines: delivering beautifully presented, aspirational products at the right time, place and price. Our aim is to provide our customers with leading-edge affordable fashion while pushing boundaries to reduce the impact on the planet - in line with our values and those of our customers," says Lance Foxcroft, Chief Executive Officer.

Established in 1969, Italtile Ltd is a Proudly South African 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 network of 211 stores, including six webstores. The brands target homeowners across the LSM 4 to 10 categories. The retail operation is strategically supported by an integrated supply chain, comprising key manufacturing and import operations, and an extensive property portfolio.

TRADING ENVIRONMENT

Foxcroft comments, "The shift in consumer spend away from home improvement to other recreational and discretionary purchases continued, as pandemic-related restrictions were lifted and various sectors of the economy reopened. Lower customer footfall and a decline in demand was widespread across the construction industry."

He adds, "Ongoing global supply chain disruptions continued to cause instability in supply and pricing for much of the year, while significant increases in inflation in most markets, including our own, drove up input and other operating costs and reduced discretionary spend."

"Locally, consumer confidence continued to decline, centred on widespread despondency regarding deteriorating political, social and economic conditions. Several successive interest rate increases and accelerating inflationary pressure on building costs subdued investment sentiment further and reduced affordability, influencing cost-conscious homeowners to defer or scale down on renovation and building projects. Disruption and higher costs caused by increased loadshedding up to Stage 6 – despite mitigating measures implemented by the Group –negatively affected operations and profitability." Foxcroft notes.

PRIMARY FOCUS AREAS:

"On balance," says Foxcroft, "we are satisfied that the goals we identified at the end of FY2021 have been accomplished; in line with our high-performance culture, we will continue to strive to outperform the targets we set for the year ahead. It is pleasing to report the following progress:

- in total, 10 new stores were opened and we advanced the revamp programme in 15 other stores;
- the R800 million capital expenditure programme was largely completed, with the commissioning of our state-of-the-art Samca+ factory; the launch of our flagship one-stop retail node in Boksburg, Gauteng, which showcases Italtile Retail, CTM and EasyLife Kitchens stores; construction of Betta Sanitaryware's 17 000 pallet warehouse; and the construction of Ezee Tile's new flagship factory in Gauteng;

- we executed better by realising opportunities at all touchpoints of the customer experience, including a renewed focus on new and innovative products from existing and new suppliers, which the easing of travel restrictions facilitated. We also introduced enhanced outcomes-based training for our people to support execution of disciplines to deliver improved customer service and the positive customer sentiment scores achieved by all of our brands during the year are rewarding recognition of our efforts;
- a strategic decision was made to increase our investment in business-critical stock and raw materials to mitigate against supply and pricing volatility, and while this raised inventory levels in the short term, it was outweighed by positive customer response to stock availability in the stores;
- we continued to invest in cutting-edge technology in our manufacturing operations and across our omni-channel trading platforms;
- in line with our goal to cautiously expand the Group's footprint in the rest of Africa, we opened three CTM stores in Kenya and Zambia. Our expansion plans are centred on proven markets with strong demand;
- we drove cost leadership and working capital management reporting a 2% decline in like-for-like operating costs;
- we continued to develop our people, focused on cultivating the right leaders in the business through training and mentorship programmes, and we continued to improve our employee engagement efforts, reflected by pleasing ratings recorded in the annual independent evaluation survey conducted across the business; and
- we advanced our ESG priorities to be a responsible, safe and sustainable business, through various initiatives, including the ongoing focus on reducing consumption of non-renewable resources across the business. Ceramic's factories are among the most-energy efficient in the world. In pursuit of our goal to introduce cleaner sources of energy in our operations, we will further reduce our consumption from the grid with the commissioning of 2.7 MW of solar power, which will potentially save up to 6 000 tonnes of CO_2 emissions annually."

RESULTS

Foxcroft notes, "The Group reported a marginal decline in consolidated turnover, a satisfactory achievement given the high comparable base, which was underpinned by pandemic-related stay-at-home restrictions. Lower sales volumes, reflecting softer market demand during the period, were offset by average selling price inflation of 8%. Trading profit rose by 6% to R2.7 billion."

He says, "In the difficult operating environment, our strategic focus remained on the growth levers within our control and influence: constant innovation and investment in delivering an unsurpassed shopping experience; sales growth; productivity; cost leadership; and partnerships with our people. The solid results are primarily attributable to improved retail excellence disciplines and enhanced efficiencies at key touchpoints (service, range, product differentiation, and availability of stock); our strategically integrated business model; and our high-performance culture and the enormous contribution of our resilient team."

DIVISIONAL REVIEW

RETAIL BRANDS: STORES AND WEBSTORES

Foxcroft observes, "Our intense focus on differentiating our customer shopping experience through custodianship of an exceptional range, affordably priced quality products, passionate service and expert product knowledge continued to be rewarded. Despite increased competition, our three major brands, Italtile Retail, CTM and TopT all reported positive key metrics, including productivity, sales per person, profits and average basket value."

ITALTILE RETAIL: This brand maintained its leadership status in the elite fashion premium end segment of the market, through careful custodianship of its range, which competes favourably at the highest international standard.

Foxcroft states, "Notable achievements during the period include strong growth in the sanitaryware segment, and the successful opening of the new Boksburg and revamped Umhlanga stores. A new store is also currently under construction in Gqeberha. While the commercial projects division contributes approximately only 10% of the brand's total turnover, it is encouraging to see some recovery in this segment of the market."

CTM: As the first choice in the highly competitive mass middle market segment, CTM continued to target market share gain through an optimal shopping journey focused on customer experience, widest range of fashionable differentiated products, inspirational presentation and availability of product.
Foxcroft notes, "Improvements in retail excellence disciplines as well as innovation and investment in technology across our online and in-store trading platforms continued to attract new customers. Our improved in-store pre-retailing initiatives, which are aimed at educating and informing our customers about products prior to them consulting with a salesperson, also continued to deliver good results."

TOPT: Foxcroft says, "An update of TopT's look-and-feel was trialled, with a pleasing response from customers. Elements of the new design will be rolled out to existing stores, while new stores will implement the full design." He adds, "We are improving TopT's back-office support to empower operators to focus on their customers and in-store disciplines, and the brand's everyday low-price positioning was complemented by an improved store layout, product range and presentation to drive increased market share in key categories."

WEBSTORES: "Sustained investment and creativity ensured that our various e-commerce platforms continued to improve the customer experience and deliver growth in online research and sales during the period. Our analysis confirms that more customers made use of our webstores' industry-leading augmented reality and visualiser functions, which is reward for our investment in cutting-edge technology," comments Foxcroft.

INTEGRATED SUPPLY CHAIN: MANUFACTURERS

CERAMIC INDUSTRIES: This business has significant strategic importance for the Group given that one out of every two tiles, baths and toilets purchased in South Africa are manufactured by Ceramic.

Ceramic's results for the year are not comparable with the prior year due to resumption of annual maintenance shutdowns. Foxcroft states, "While volumes declined year on year, price inflation resulted in an improvement in revenue. Profits were flat, as margins decreased under pressure from considerably higher input costs."

He adds, "In the local market, Ceramic improved its offering with new product from the upgraded Samca+ factory. In addition, the new EcoTec tile ranges, which use fewer resources to produce per square metre, were launched at all of our factories. These highly fashionable and affordable eco-sensitive tiles continue to gain traction in the market. Our EcoTec offering enhances Ceramic's reputation as competitive with the best international manufacturers."

Betta's sales volumes declined significantly on reduced demand and retailers unwound high inventory positions. Margins and profits were affected accordingly. Design and development were a key focus during the period. Betta's new warehouse, which will open in January 2023, will resolve space constraints and improve efficiencies.

Foxcroft notes, "In the Australian market, the business did well to maintain market share despite the challenges faced. Recent floods, fires and the impact of the pandemic resulted in a backlog of projects being completed, which created an artificial and temporary slow-down in demand for building materials. Interest rate hikes have also affected affordability of housing. As a result, sales declined for the period while margins and profits deteriorated significantly due to exceptional gas price increases; management has taken steps to mitigate high gas pricing and expects improved performance in the forthcoming year."

EZEE TILE: Foxcroft says, "This business operates in a highly competitive market segment, with low barriers to entry. While Ezee Tile's high-profile brands continued to lead in the market, it was evident that price-sensitive customers trended to buying lower-cost products in the range, and this change in product mix affected turnover and margins. Furthermore, the industry faced severe raw material shortages and significant price increases during the period, which added to margin pressure."

INTEGRATED SUPPLY CHAIN: IMPORTERS

CEDAR POINT, INTERNATIONAL TAP DISTRIBUTORS AND DISTRIBUTION CENTRE: "The supply chain management team focused on improving stock availability, fashion and the value offering for our customers through sourcing new innovative products and keener negotiations with suppliers. Our customers' positive response and good sales growth of the new lines is encouraging," states Foxcroft.

Inventory levels were increased due to substantial investment made in business-critical products to ensure customer demand is met. An ongoing imperative is to source alternative direct supply, including local import substitute partners, to achieve better customer service and support the Group's Proudly South African ethos.

PROSPECTS AND OUTLOOK

"Higher inflation and further interest rate hikes will impact on consumer affordability and we are concerned for the financial health and investment sentiment of the customer in the context of rapidly rising living costs and general disillusionment with the local socio-political environment. As discretionary spend deteriorates further, the competitive landscape will also become more aggressive in the fight for share of wallet and market," notes Foxcroft.

He comments, "Energy security and consumption will be top of mind for our management team both in this country and in our Australian operation. Global pricing uncertainties, local capacity constraints, and reducing our carbon footprint are all issues we will be focused on. Subsequent to year end, we are still awaiting an announcement from NERSA and Sasol regarding a potential increase in pipeline gas prices. A significant increase is likely to have an impact on affordability of product as well as on manufacturing margins."

"In this environment," says Foxcroft, "we will continue to focus on the growth levers within our control and influence. We will place an untiring focus on exceptional product ranges and retail excellence disciplines, underpinned by improved outcomes-based training and development of our people."

He adds, "The Group's long-standing track record of consistent delivery is attributable to our robust vertically integrated business model, our steadfast strategies and our resilient team. Our growth programme will prioritise the following imperatives for the forthcoming period, aligned with management's KPIs:

- retain and grow market share by optimising our customers' shopping experience at every touchpoint on the end-to-end customer journey. Key areas include people, service, fashion, value and presentation;
- improve recruitment, development and training of our people to achieve their full potential and meet the Group's demanding growth targets;
- drive KPIs that enhance growth, including cost leadership, inventory management, efficiency and productivity;
- continue to roll out new stores, revamp existing stores, and enhance the capacity of our supply chain and manufacturing operations;
- leverage and invest in cutting-edge technology and innovations to entrench our competitive advantage across all our trading platforms and in all our operations;
- capitalise on synergies in the integrated supply chain and opportunities in the external supply chain;
- pursue our ESG priorities to enhance our sound credentials, including maintaining our BBBEE level 2 rating; and
- cautiously build on our footprint in the rest of Africa."

Foxcroft concludes, "By consistently investing in the future of our business and providing an unrivalled customer shopping experience, we will position our operations to continue to grow and gain market share."

ends

For further information:
Lance Foxcroft: 011 510 9054 *Del-Maree English: 083 395 8608*