PRESS INFORMATION

ITALTILE FOCUSES ON COST LEADERSHIP AND OPERATIONAL IMPROVEMENTS REWARDS SHAREHOLDERS WITH SPECIAL DIVIDEND

- ↑ **System-wide turnover**: R8.7 bn (2017: R6.2 bn)
- ↑ **Trading profit**: R1 518m (2017: R1 063m)
- ↑ **Net cash**: R679m (2017: R511m)
- ↑ **Dividends per share**: 38.0 cents (2017: 30.0 cents)
- ↑ **Net asset value**: 486 cents (2017: 402 cents)
- ↑ **Special dividend**: 30.0 cents (2017: nil)

Johannesburg; Wednesday, 22 August 2018: "2018 marks the 30th anniversary of the Group's listing on the JSE, and the commencement of the company's 50th year of trading. Over these decades, Italtile has laid down a strong track record of continued improvement, consistency and resilience. Central to this achievement is our unique business model which has served as a major differentiator in the industry and a strong investment proposition for franchisees and shareholders," says CEO, Jan Potgieter.

Italtile Limited is a franchisor, retailer and manufacturer of 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 176 stores, including four 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.

TRADING ENVIRONMENT: In the context of sustained economic pressure on disposable income, consumers remained restrained in their spend on non-essential items, and discerning in their selection of retailer - with the price/value proposition being a key driver of purchasing decisions.

Potgieter notes, "The Group's solid performance for the period is therefore largely a reflection of enhancements made across our operations, rather than improved sentiment or spend by consumers."

RESULTS** Potgieter comments, "In line with our expectations, improvements made to the business in the first half of the review period gained momentum, resulting in a stronger performance in the second half. While turnover growth reported for the period failed to meet our expectations, pleasing progress was made in improving profitability and stabilising margins, achieved through robust cost leadership."

System-wide turnover was R8.7 billion, 40% higher than the prior corresponding period (2017: R6.2 billion). System-wide turnover is defined as the aggregate of the Group's consolidated turnover (total sales by Group-owned entities and corporate stores, excluding sales from owned supply chain businesses to corporate stores) and the retail turnover of franchisees of the Group.

System-wide retail store turnover grew 2%, while like-on-like retail store turnover decreased by 1.4%. Retail store turnover is defined as the aggregate turnover of all stores, either corporate or franchised, in the Group's retail network. Manufacturing sales for the period from the acquisition of Ceramic Industries on 2 October 2017 to 30 June 2018 rose by 15.2% compared to the previous corresponding period, with manufacturing sales for the year growing by 10.6%.

Trading profit increased by 43% to R1 518 million (2017: R1 063 million). Average selling price inflation is estimated at 1% in the retail operation (2017: 4.3%) and at 3% in the manufacturing operation.

The Group's basic earnings per share grew by 6% to 95.0 cents (2017 adjusted: 89.7 cents), while headline earnings per share improved by 12% to 95.0 cents (2017 adjusted: 85.1 cents).

Retail margins were higher due to intensified cost containment, judicious price promotions which served to support margins, and an improved mix of higher margin products in the average basket.

Inventory value, excluding the consolidated inventory balances of Ceramic and Ezee Tile, decreased. Total inventory including Ceramic and Ezee Tile increased to R806 million (2017: R548 million). Management is satisfied that good progress has been made in the retail operation to de-stock, rationalise and improve the quality and mix of stock across the business.

Capital expenditure of R669 million was incurred during the period (2017: R334 million). This includes investments made across the Group's retail properties and manufacturing plants.

The Group's cash balance rose to R679 million (2017: R511 million).

Given the Group's consistent ability to generate cash, and in the interests of improving returns to loyal shareholders, the Board reduced the dividend cover from three times to two and a half times and declared a special dividend of 30.0 cents per share (2017: nil). A final ordinary dividend of 21.0 cents per share (2017: 14.0 cents) was declared, which together with the interim dividend of 17.0 cents per share (2017: 16.0 cents), produces a total dividend of 38.0 cents per share (2017: 30.0 cents), an increase of 27%.

OPERATIONAL REVIEW: Potgieter says, "In response to the prevailing adverse operating environment, management's primary focus was to leverage opportunities for growth within the business." Key priorities were:

- *Store roll out programme:* fifteen stores were opened
- *Further improvement of the working capital position through intensified control of inventory:* across the retail network and supply chain (importers), inventory management, inventory turn and inventory mix improved.
- *Better productivity, cost leadership and margin management resulted* in below-inflation cost growth, while margins improved across the Group despite the weak sales trend.
- *Developed capacity and leveraged opportunities in the supply chain*
- *Continued development of sector leading technology, retail innovations and market-disruptive strategies*
- *Drove the strategy to offer a customer-centric shopping experience which constantly delights customers*
- *Advanced the Group's East African expansion programme*

INDUSTRY TRENDS: Potgieter notes, "During the period a range of trends was evident, which we developed strategic and tactical responses to. These trends include: an increasingly competitive trading landscape, consumer demand for convenience, an industry-wide shortage of skilled retail-specialist personnel and the growing importance of innovative in-store shopping experiences."

RETAIL BRANDS: Potgieter comments, "Better execution of basic retail excellence principles and increased focus on key targets resulted in an improved second half performance across all the brands. Italtile Retail and TopT built on their solid first half results, delivering double digit growth. While CTM recorded lower year-on-year sales as middle-income consumers continued to show stronger symptoms of economic hardship, low single digit growth was reported in the second six months."

He adds, "During the review period, we gauge that Italtile Retail and TopT grew market share, while CTM succeeded in gaining back share lost in the first half of the year."

CTM: Good progress was achieved in growing profits and margins, and pleasing results were recorded in attaining key priorities, including driving customer service excellence, enhancing the human capital structure and skills development, and building stronger relationships with suppliers. Management is satisfied that the range, product mix and ratio of business-critical items has been enhanced. One new Millennial-format store was opened (2017: two opened).

Italtile Retail: The brand achieved improved sales and profitability and reduced general operating costs across the business. Good progress was made in improving the range overall, centred on new technologies. The Commercial Projects division delivered a strong performance and has become an important contributor to the business. One new store was opened during the year, in Polokwane (2017: 0 opened).

TopT: Improvements were reported across all key metrics including sales, profits and margins, and the brand grew its contribution to total Group retail sales. Stock turn increased, while stock management resulted in lower average store inventory and improved product mix. TopT also enhanced its franchise partner- and operator training programmes; built on collaboration with suppliers; continued to grow its profile; and enhanced logistics and distribution to the stores. Thirteen stores were opened (2017: 14).

SUPPLY CHAIN: MANUFACTURERS
Ceramic Industries: Potgieter says, "Over the past nine months since the acquisition, our focus has been on improving business-to-business communication, including enhanced production and logistics planning between the stores and the factories."
Tiles: Improvements were made to the tile matrix, including developing innovative new products and rationalising the ranges. The key challenge facing the business is constrained market demand which is prevalent in the sector at present.

Bathroomware and Baths: Operational inefficiencies at Betta Sanitaryware, exacerbated by warehouse space constraints, hampered the division's performance. A new management team has been appointed and a comprehensive review and restructuring of the operation is underway to enable the business to meet the strong demand for its products. After a difficult first six months at BettaBaths, remedial measures implemented served to address shortcomings, and the division reported an improved performance in the second half.

Ezee Tile made good progress in its local market, with the implementation of improvements at several of its production facilities; expansion of product lines; and increased penetration of the open market. The business also furthered its goal to expand into Africa, concluding joint venture partnerships with resident partners to build three manufacturing plants.

SUPPLY CHAIN: IMPORTERS
Both International Tap Distributors (ITD) and Cedar Point made good progress in rationalising ranges, although stockholding targets were not achieved. This will remain a key imperative in the year ahead. Severe supply disruptions out of China in the first half of the year impacted on the Group's in-stock position, however better anticipation and prudent inventory management eased the situation in the second half, which proved less challenging.

PROPERTY INVESTMENT: At 30 June 2018, the portfolio's estimated market value was R3.7 billion, comprising a retail portfolio valued at R2.9 billion (2017: R2.6 billion) and a manufacturing portfolio valued at R0.8 million. Capital expenditure of R355 million was incurred on the retail portfolio on an ongoing store upgrade programme and the acquisition of five retail properties, while R277 million was invested across the manufacturing operations on plant and equipment upgrades.

PROSPECTS: "We anticipate that our first half results for the new financial year will be better than the comparable first half of the prior year, due to the low base effect. Results in the second half of the year are expected to be less robust than the second half of the year under review, unless country-specific risk factors reduce materially," notes Potgieter.

"While the short to medium term socio-economic forecast is pessimistic, we remain confident that our resilient business model will stand us in good stead, as it has over the past 50 years. We are optimistic that there are opportunities within the business to capitalise on and we have a competent team with clarity of purpose and strategy to achieve our growth targets. Our goal for the new financial year will be to continue to deliver improved headline earnings growth. We also plan to open 10 to 15 stores and will continue to build capacity in the supply chain," Potgieter concludes.
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***Comparable disclosure and analysis of the Group's results for the year with the prior year have been impacted on by the acquisition of Ceramic and the partially underwritten renounceable Rights Offer.*