PRESS INFORMATION

Italtile reports solid results, strong cash and further expansion plans

System-wide turnover: R9.3bn (2019: R10.0bn)

Trading profit: R1 502m (2019: R1 797m)

Adjusted earnings per share*: 81.5 cents (2019: 102.6 cents)

Adjusted headline earnings per share*: 82.3 cents (2019: 101.8 cents)

Dividend per share: 33.0 cents (2019: 41.0 cents)

Store network: 198 stores (June 2019: 189)

Cash: R860m (2019: R1 201m)

**adjusted for once-off R39m IFRS charge for BBBEE transaction*

Johannesburg, Tuesday, 25 August 2020: "In these extraordinary times, our people have demonstrated energy, determination and resilience beyond our expectations. Their enthusiasm to revive the business after lockdown and their continued commitment to curbing the spread of the virus to ensure uninterrupted service to our customers has been key to this solid set of results and the long-term sustainability of our business. The response from our customers has also been resoundingly encouraging; their support for our offering and endorsement of our rigorous safety protocols has been inspiring," says Jan Potgieter, CEO.

Established in 1969, Italtile Ltd 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 network of 198 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.

The COVID-19 pandemic

Potgieter notes, "Our goal throughout this period was to come through the crisis well, and in certain respects, better than before. The double-digit growth delivered in June to August, with a leaner team, less stock and healthy brands, is rewarding evidence of this. While the pandemic accelerated our efforts to continue to strengthen our business, this goal was facilitated by the extensive groundwork undertaken over the past 18 months. It is also pleasing to report that due to robust cash management disciplines and the strong cash-generating nature of the business, trading restrictions had no material impact on our debtors' book, and there has been no need to utilise the short-term contingency facility we negotiated before the lockdown."

He adds, "Under the challenging conditions we face as a country, our Proudly South African positioning, demonstrated across our business and in our campaigns, continued to find favour with customers who support our goal of 'making local and buying local', aimed at creating jobs and growing the economy, underpinned by the mindset that 'we're in this together' in SA."

Results

Potgieter remarks, "Despite the impact of the lockdown and related trading restrictions, the Group reported a solid set of results for the review period."

Total system-wide turnover of R9.3 billion (2019: R10.0 billion) was 7% lower than the prior comparable period. Retail store turnover declined 3.9%, with average selling price inflation estimated at 1.4% (2019: 2.7%). Like-for-like retail store turnover, (excluding sales of stores opened and closed during the period), decreased by 6.2%. Prior to the lockdown, up to 27 March, retail store sales were up 5.4% year-on-year. During the lockdown only marginal sales were recorded in April. In May and June, store sales grew 3% and 11% respectively. Encouragingly, sales growth of 14% was recorded in July 2020.

Supply chain sales decreased by 6.1% compared to the previous corresponding period. Prior to the lockdown, sales had decreased 1.4% year-on-year. Manufacturing sales for the review period declined by 8.8%, with average selling price inflation estimated at 1.0%. Prior to the lockdown, sales were flat year-on-year.

Trading profit decreased by 16% to R1 502 million (2019: R1 797 million).

Adjusted basic earnings per share (EPS) decreased by 21% to 81.5 cents (2019: 102.6 cents), while adjusted headline earnings per share (HEPS) declined by 19% to 82.3 cents (2019: 101.8 cents). EPS and HEPS were adjusted for the once-off charge of R39 million related to the BBBEE transaction concluded in October 2019.

The Group's cash balance was R860 million (2019: R1 201 million). Material cash flows for the review period include capital expenditure of R614 million; tax payments of R416 million; own share purchases totalling R243 million and total dividend payments of R1 481 million.

The total gross ordinary cash dividend declared for the year was 33.0 cents per share (2019: 41.0 cents per share), a decrease of 20%.

Operational review: primary focus areas

Potgieter states: "In line with our long-standing philosophy that growth will be derived from the internal levers within our control, the key focus areas for our management team continued to be sales, cost leadership, productivity improvements and performance culture. Pleasing progress was achieved across the following key strategic imperatives:

- *good sales growth (excluding during the lockdown), particularly in the tile category, through prioritising the shopping experience and entrenching retail excellence disciplines;*
- *we advanced the store roll out and revamp programme with 13 stores opened and 15 revamped;*
- *expanded the U-Light business to five stores and a webstore, and a substantial lighting offering in TopT;*
- *developed the people pipeline, with good progress made at senior management and store operator level;*
- *improved the Group's BBBEE status from level 6 to level 4, exceeding the target of level 5;*
- *entrenched working capital and cash management as core disciplines, which afforded the flexibility required in the COVID-19 era. It also enabled the payment of a special dividend during the review period, the third for three consecutive financial years, and ensured the resumption of the Group's roughly R800 million capital expenditure programme over the next 18 months;*
- *prioritised better stockturn and product mix, and improved the ratio of business-critical items;*
- *improved manufacturing efficiencies and reduced waste, despite lower production volumes;*
- *bedded down the supply chain integration to conclude the first phase of a five-year programme; and*
- *drove overall productivity to become more competitive.*

Retail brands and webstores: "Our three major retail brands, CTM, Italtile Retail and TopT, all gained market share, while our fledgling U-Light brand established a solid footprint in its first year of operation. The health and equity of our major brands improved, reflected by the good scores achieved across all customer satisfaction measures which we conduct to assess the appeal of the shopping experience in our stores," says Potgieter. He adds, "The Group's webstores have been established for several years and sales have grown consistently since their launch. This experience stood the business in good stead during the lockdown and subsequent restrictions, as online traffic escalated strongly during the last quarter, a trend which has continued post year-end."

CTM continued to benefit from the successful repositioning of the brand over the past 18 months – centred on the ethos, Sithi Wena (you deserve a beautiful home), and the sustained focus on embedding retail excellence disciplines. Among the key achievements reported was the launch of a multi-surface tile visualiser, innovative technology which enables customers to digitally view CTM's tiles in their own rooms and match wall and floor tile offerings in lifelike reality. Market share was also gained in the bathroomware category. CTM's footprint was expanded into the rest of Africa with the opening of one new store in Botswana and two stores in Kenya. The brand comprises a total network of 94 stores.

Italtile Retail: Despite pleasing operational improvements achieved, this division's results were negatively impacted by the downturn in investment in the upper-end LSM market. Subsequent to year-end, however, there has been an uptick in activity in the brand's retail market segment, which is encouraging.

During the review period, market leadership was retained in terms of range and availability of large-format floor and wall tiles and local porcelain tiles; the omni-channel experience was enhanced through a significant upgrade of the webstore platform with specific focus on mobile accessibility; substantial investment was made in improving the in-store shopping experience; and the brand also entered into the vinyl floor market, with good traction achieved. Italtile Retail's footprint was expanded into the rest of Africa region with the opening of one store in Gaborone, Botswana, bringing the store network to 14.

TopT continued to exceed management's expectations, delivering higher revenue and profit growth, despite the lockdown and trading restrictions. Particularly strong sales were reported by the brand's rural markets. Achievements reported during the period include better implementation of the business-critical framework to ensure consistent stockholding and range across all stores; improved social media content to engage customers more effectively online; and increased participation in regional community projects to raise brand awareness and build customer relationships. The programme to convert under-performing franchised stores to company-owned stores with prospective joint venture partners was progressed, and will afford the Group better visibility of performance and higher return on investment. TopT's total network consists of 84 stores.

U-Light: this newly launched business built brand awareness and gained traction in a new market segment for the Group. Unfortunately, the momentum achieved initially was diluted by the onset of the pandemic, which impacted on stock availability, resulting in weaker than anticipated sales in TopT as well as in the bespoke U-Light stores. The brand footprint comprises six stores, including a webstore.

Supply chain manufacturers: Ceramic Industries
Tiles: Despite reduced volumes produced due to lockdown restrictions, the tile factories made significant headway in enhancing yields and reducing waste. Improved efficiencies, intensified cost management and range rationalisation were key drivers during the period. The Australian tile operation also delivered solid results for the year, and despite the pandemic, reported improved sales and profits in the final quarter.

Potgieter notes, "Ceramic has a long-standing reputation for international standard, industry-leading technology, with operations that rank among the most energy efficient in the world. The continued focus on environmental sustainability will be furthered with the launch of EcoTec tiles - designed specifically to reduce carbon footprint." He adds, "The tiles are made from locally sourced materials and require 10% fewer natural resources. Heat and water are both recycled in the manufacturing process. When compared to imported tiles, the EcoTec manufacturing process emits 30% less CO_2, requires 25% less packaging and affords 25% more volume per load, contributing to a significant carbon reduction. We are confident this affordable, global-standard range will appeal to customers seeking stylish, locally made, environmentally-sensitive tiles."

Bathroomware and baths: The Betta Sanitaryware and Baths operations delivered an improved performance. The restructured management team has improved the quality of processes and planning, which augurs well for continued growth in the business.

Supply chain manufacturers: Ezee Tile: while year-on-year sales were lower due to trading restrictions, the improved production efficiencies and enhanced cost management achieved during the review period resulted in higher margins and profits for the year.

Supply chain: *importers*
The Group's import businesses are Cedar Point, International Tap Distributors and Durban Distribution Centre. Across their range offerings, product quality, mix and ratio of in-stocks improved. Despite irregular arrival of imported products due to global lockdown restrictions, all three businesses ensured consistent supply of business-critical items for customers. Additionally, by absorbing margin pressure, the operations played a vital role in supporting the retail brands and cost conscious consumers. A new transport management system has been implemented in the supply chain which will reduce distribution costs and improve efficiencies.

Property investment: As at 30 June 2020, the portfolio's estimated market value was R4.3 billion, comprising a retail portfolio valued at R3.3 billion (2019: R3.0 billion) and a manufacturing portfolio valued at R1.0 billion (2019: R0.8 billion). During the period, capital expenditure of R274 million was incurred across the retail portfolio on an ongoing store upgrade programme and the acquisition of five retail properties. R180 million was invested across the manufacturing operations on plant, warehouse and equipment upgrades.

Prospects
Potgieter comments, "We anticipate that economic conditions will remain extremely weak. Our challenge will be to continue to optimise on improvements made in our business to extract growth and gain market share.

- We are better structured operationally to reduce overhead costs across the business.
- The continued emphasis on the joint venture store model will afford improved profitability and oversight.
- Our Proudly South African focus on our local manufacturing and supply chain capability will remain a key priority.
- We will entrench and grow market leadership through our high-profile, trusted brands and continue to invest in new and upgraded stores and manufacturing plants.
- Technological innovation will remain a key driver of growth."

Potgieter concludes, "We anticipate that the first six months of the new financial year will be very difficult while the impact of the pandemic persists. We are optimistic that the second six months commencing 1 January 2021, will be more robust, particularly since the comparison will be against five months of trading in FY2020. Our expectation is that the Group will deliver positive sales and profit growth in the first half of the new financial year and comparatively stronger sales and profits in the second half."
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