PRESS INFORMATION

ITALTILE GROWS SALES AND CASH DESPITE CHALLENGING TRADING ENVIRONMENT

System-wide turnover: R6.2bn (2021: R6.1bn)

Trading profit: R1.4bn (2021: R1.5bn)

Earnings per share: 79.5 cents
(2021: 84.0 cents)

Headline earnings per share: 79.2 cents
(2021: 83.9 cents)

Dividend per share: 32.0 cents (2021: 34.0 cents)

Net asset value per share: 620.6 cents (2021: 543.5 cents)

Cash: R0.8bn (2021: R0.5bn)

Store network: 214 (June 2022: 211; Dec 2021: 209)

Johannesburg; Monday, 13 February 2023: Chief Executive Officer, Lance Foxcroft, says, "Notwithstanding the challenging environment, the Group achieved sales growth and substantially improved the underlying cash position, underpinned by our strategic, vertically integrated business model, diversification, and scale, which afford us the resilience and agility to navigate cyclical challenges and capitalise on opportunities that arise."

Established in 1969, Italtile Limited 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 214 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 notes, "During the review period, homeowners' disposable income remained under severe pressure and activity in home renovation continued to decline from the peak experienced during the pandemic. The generally adverse social and political environment weighed further on sentiment, influencing uncertain consumers to defer or scale down on renovation and new build projects."

He adds, "Inflation-driven input costs placed significant pressure on the business, which experienced material increases in the cost of fuel, imported raw materials, equipment maintenance, and property related expenses. In addition, unprecedented load shedding and failure of state energy infrastructure disrupted manufacturing and retail operations, impacting on productivity and profitability."

CONSUMER TRENDS: Foxcroft says, "Across the industry, foot traffic and transaction numbers declined to lower levels than pre-pandemic, which is largely a function of difficult economic conditions and unwinding of the pandemic-related home improvement boom."

He comments, "We are acutely aware of affordability of our products for our customers. Consumers are increasingly cost-conscious, reflected by a marked responsiveness to promotions and deals and the trend to buy-down in ancillary categories such as brassware, adhesives and sanitaryware. Accordingly, management focused on ensuring optimal price laddering and product mix to satisfy our customers' expectations."

Foxcroft states, "In this testing trading environment, we prioritised the growth levers in the business over which we have control and influence, being: constant innovation and investment in delivering an unsurpassed shopping experience for our customers through range, fashion, price and service; improved productivity; emphasis on cost leadership; and partnerships and profit-sharing with our people."

He notes, "Key factors that contributed to alleviating the adversities outlined and supported sales growth include the Group's robust business model; four new store openings and advancement of the store revamp programme; improved outcomes-based training which has resulted in stronger leadership and improved customer service; delivering a carefully curated, differentiated and aspirational range for our customers; and the Group's high-performance culture that continues to serve us well."

DIVISIONAL REVIEW - RETAIL BRANDS

Foxcroft says, "**CTM**, a well-loved household name in the local home-improvement market, will celebrate its milestone 40th anniversary this year, demonstrating the resilience of the brand and the support it enjoys from loyal customers." CTM is represented by 74 stores in South Africa and 26 in the rest of Africa.

"During the period, management's priority focus was on improving the shopping experience to retain existing customers and inspire new customers, by differentiating the offering from competitors," comments Foxcroft.

Italtile Retail: "This brand's premium-end offering occupies a unique position in the local market, which is maintained through careful custodianship of its range of fashionable, world class quality products," notes Foxcroft. He adds, "The Commercial Projects division reported increased activity in its market segment. New-build projects commissioned included residential properties, medical facilities and warehouses, while renovation projects were completed in shopping centres. This renewed activity in the development market is encouraging."

The brand is represented by 14 stores in South Africa and one in Gaborone, Botswana.

Foxcroft remarks, "The onerous increases in basic living costs, including food and transport, had a particularly severe impact on **TopT**'s market segment, much of which is dependent on social relief of distress grants."

He elaborates, "The business reported sales and profits in line with the prior comparable period, which is satisfactory, given the high prior-period base and the financial hardship experienced by customers. The strategy to centralise procurement, planning and logistics in order to free up operators to focus on enhancing the customer shopping experience continued to deliver good results, with better ranges, displays and levels of in-stocks in the stores. Elements of the brand's new look-and-feel were selectively rolled out to stores."

Foxcroft says, "TopT's enormously popular Woza Ekhaya – Win a Home competition celebrated its second year, with a TopT customer winning a free home in Limpopo." Four stores were opened, bringing the network to 93 stores; additional stores will be opened in proven markets.

INTEGRATED SUPPLY CHAIN - MANUFACTURERS: Weaker demand, steep inflationary costs and production inefficiencies impacted adversely on the manufacturing operations of Ceramic Industries and Ezee Tile, constraining sales, profit and margin growth. The combined manufacturing business contributed approximately 37% to total profit before tax, and therefore, the poor results reported by these entities had a severe impact on the Group's performance.

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

Foxcroft comments, "The review period proved particularly difficult for Ceramic. The business is a volume-driven operation flourishing at full-capacity utilisation, and hence the soft market demand and sub-optimal capacity utilisation had a significant effect on efficiencies, productivity and costs." He explains, "The unrelenting load shedding and power interruptions resulted in wastage and impacted on yields; damage to equipment and a consequential maintenance costs; downtime which impacted on productivity metrics; and opportunity costs resulting from the inability to timeously deliver product to customers. In addition, input costs increased substantially during the period."

Foxcroft adds, "Bedding down new-format technology at the Samca+ operation took longer than anticipated and the plant only reached capacity utilisation in line with specification late in the review period. Given strong demand for the new EcoTec product manufactured by this plant, management is optimistic that once Samca+ attains its benchmarks, it has the potential to be a leader in the market."

"Management is confident that there are opportunities within the business that can be leveraged to improve productivity, efficiencies, profits and margins. However, in the current testing economic climate featuring subdued demand, sustained price inflation, and ongoing - and possibly more severe - load shedding, it is likely that profitability and margins will remain under pressure," cautions Foxcroft.

Betta sanitaryware: Foxcroft says, "Commissioning of the new warehouse commenced in January. The facility will substantially improve stock management and other efficiencies, and facilitate expansion of the customer base. It will also enable Ceramic to build capacity at the existing sanitaryware manufacturing site to improve production volumes."

Ezee Tile: Foxcroft notes, "This business experienced a particularly tumultuous six months, reflected by the decrease in revenue, based on lower demand, and the sharp decline in margins and profits. Significant price increases and shortages of raw materials were major challenges, exacerbated by higher fuel prices, and extensive delays caused by key suppliers and local authorities in relocating Ezee Tile's primary factory to new owned-premises in Vulcania, Gauteng."

"The new plant is expected to be in full production by the end of February 2023, which will enable an improvement in performance and efficiency. We are confident that there is significant upside to be derived from this restructured business," says Foxcroft.

INTEGRATED SUPPLY CHAIN - IMPORTERS: "The three integrated import businesses, Cedar Point, ITD and DC, reported slightly higher sales than the prior comparable period, but lower margins. Given high levels of stock across the market and subdued local demand, this division absorbed significant margin pressure to support volumes in the retail business," comments Foxcroft.

ENERGY PROGRAMME: "The cost of supply and the detrimental impact of load shedding and energy infrastructure failure on equipment and productivity, particularly in the manufacturing operations, continues to drive our aggressive pursuit of energy projects that will facilitate independence from the national grid," notes Foxcroft. He adds, "Key developments for the period include the launch of the Group's second entirely off-grid store - CTM Protea Glen in Gauteng; successful use of domestically extracted liquefied natural gas in Ceramic's operations; additional solar capacity commissioned at Ceramic's Gryphon, Samca+ and Samca Wall factories and at Ezee Tile's new facility at Vulcania; and investigation into implementing an electricity-wheeling arrangement. Given greater certainty on gas pricing, we will also resume work on the Group's feasibility study regarding a Combined Heat and Power programme."

PROSPECTS: Foxcroft says, "We will continue to roll out new stores, revamp existing stores, and enhance the capacity of our supply chain and manufacturing operations. We will prioritise our key growth drivers, including productivity, efficiency, cost leadership, inventory management, and development of our human capital. There are also opportunities to leverage synergies through further vertical integration of operations in the business."

OUTLOOK: Foxcroft concludes, "We anticipate that projected interest rate hikes and prevailing challenging economic conditions will intensify financial hardship and pressure on homeowners' disposable income, and subdued demand and investor confidence is likely to persist in the short term. However, we will continue to focus on the growth levers within our control and influence."

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