PRESS INFORMATION

ITALTILE 'S CREDITABLE RESULTS ATTRIBUTABLE TO INTERNAL FOCUS IN DIFFICULT EXTERNAL ENVIRONMENT

- ↑ **System-wide turnover**: R5.3 bn (2017: R4.3bn)
- ↑ **Trading profit**: R968m (2017: R716m)
- ↑ **Earnings per share**: 55.4 cents (2017: 48.6 cents)
- ↑ **Headline earnings per share**: 54.7 cents (2017: 48.6 cents)
- ↑ **Dividends per share**: 22.0 cents (2017: 17.0 cents)
- ↑ **Store network**: 182 (June 2018: 176)

Johannesburg; Thursday, 14 February 2019: "2019 marks the Group's 50th anniversary since it was founded in 1969. The Group's creditable results reported for the period are primarily attributable to the integrated business model which has evolved and adapted over the past five decades to withstand severe adversity, and to management's unrelenting customer-centric focus," CEO, Jan Potgieter comments.

OVERVIEW: Italtile Limited is a manufacturer, franchisor and retailer of tiles, bathroomware and related products. The Group's retail brands are CTM, Italtile Retail and TopT, represented through a total network of 182 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.

TRADING ENVIRONMENT: Weak trading conditions persisted over the review period, and subdued consumer discretionary spend and confidence restrained meaningful investment in properties. While the upper-LSM segment remained relatively resilient, activity in the lower end of the market slowed and, in line with recent years, the middle-income segment continued to display the clearest signs of financial hardship. The renovations market continued to fuel modest growth in the sector, however new build activity was largely stagnant.

Potgieter says, "In light of the testing external environment, management's deliberate strategy continued to be to focus on those internal conditions within our control, by leveraging opportunities for growth within the business. Our key priorities were to better execute basic retail excellence principles, further improve the Group's working capital position, and intensify cost leadership and margin management."

RESULTS: Revenue for the review period was R3.8 billion, an improvement of 30.0%. System-wide turnover was R5.3 billion, up 23.3%. 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.

Total retail store turnover grew 6.3% while like-on-like retail store turnover increased by 4.6%, with average selling price inflation estimated at 2.4%. Retail store turnover is defined as the aggregate turnover of all stores, either corporate or franchised, in the Group's retail network.

Manufacturing sales included in the consolidated results for the review period grew by 105.9%. Manufacturing sales for the period 1 July 2018 to 31 December 2018 improved by 6.1% compared to the same period in the prior year. Average selling price inflation for the review period is estimated at 3.5%.

The Group's trading profit rose 35.2% to R968 million (2017: R716 million).

Basic earnings per share increased 13.9% to 55.4 cents, while headline earnings per share rose 12.6% to 54.7 cents. The disparity between basic earnings and headline earnings growth is attributable to a profit of R11 million on the disposal of a local property.

Inventory value, including the consolidated inventory balances of Ceramic and Ezee Tile increased to R846 million (2017: R824 million). Excluding the consolidated inventory balances of Ceramic and Ezee Tile, the Group's inventory balance was R556 million (2017: R580 million).

Potgieter notes, "We are satisfied that current stock levels are in line with operational requirements. Import replacement through the integrated suppliers has played an important role in stabilising stock holding."

Capital expenditure of R306 million (2017: R313 million) was incurred during the review period, primarily on investments across the Group's retail properties and manufacturing plants.

The Group's cash balance improved to R1 010 million (2017: R562 million), including the consolidated cash balances of Ceramic and Ezee Tile, totalling R326 million (2017: R174 million).

The Group's dividend cover is two and a half times (2017: three times). The Board has declared an interim gross dividend of 22.0 cents per share (2017: 17.0 cents), an increase of 29%.

OPERATIONAL REVIEW: Potgieter says, "With the integration of Ceramic and Ezee Tile, the business model now offers a total solution to customers, underpinning the Group's policy of 'right product at the right time, place and price'."

RETAIL BRANDS: "Instilling retail excellence disciplines throughout the business remained a key priority," explains Potgieter. "Across the brands, the stronger sales are due to the unwavering emphasis on enhancing the customer shopping experience through better execution. Our key focus areas included improvement of sales levers, and enhancing the range, fashion and availability of business-critical merchandise."

Potgieter notes, "In-store sales growth was complemented by an improvement of more than 40% in combined webstore revenue reported by CTM and Italtile Retail. This increasingly important income stream demonstrates our customers' appreciation of the Group's omni-channel 'total solution' offering."

The Group opened nine stores and closed three under-performing stores during the period, and plans to open a similar number in the next six months. Potgieter elaborates, "Our store roll-out programme reflects management's belief that significant opportunity exists to grow the tile category in this country, given that per capita tile consumption is approximately only half of that reported in other emerging markets."

CTM's key metrics improved, with a growth in sales, margins, profits and store productivity, while stock holding stabilised. The brand succeeded in retaining market share.

Potgieter says, "CTM's ongoing efforts to improve the customer shopping experience continued to gain momentum, and the brand's positive turnaround from the prior corresponding period is largely derived from enhanced efficiencies in the business. In addition, good progress was made in repositioning the offering by building brand recognition among existing and new customers through our high-profile multi-media advertising campaign, *Sithi Wena* ("You deserve it"), which has been well received by customers.

Three stores were opened, bringing the total CTM network to 90 stores; a further three new stores outside South Africa are scheduled to open in the remainder of the financial year.

Italtile Retail reported double digit sales growth and improved profits, stock turn and store productivity. A gain in market share was achieved, driven in part by the Commercial Projects Division, which delivered another pleasing performance.

Potgieter notes, "Some margin pressure was experienced in light of import replacement strategies to support pricing to customers, and the trend by a segment of consumers to shop down in the constrained disposable income environment."

A further store will open in Clearwater, Gauteng, in the next six months, bringing the footprint to 13 stores.

TopT consistent with this brand's track record, double digit sales growth was reported, while profits, margins, store productivity and stock turn improved. During the period, TopT launched its online webstore, an e-learning platform, as well as a bespoke training academy for staff.

Six new stores were opened, bringing the total TopT network to 80 stores. A possible further six stores are planned for the current financial year.

SUPPLY CHAIN: The Group's retail brand operation is strategically supported by its vertically integrated supply chain businesses which comprise manufacturing businesses, Ceramic and Ezee Tile, and importers, International Tap Distributors (ITD), Distribution Centre and Cedar Point.

SUPPLY CHAIN: MANUFACTURERS

Potgieter notes, "The integration of Ceramic and Ezee Tile continued to progress well and to deliver benefits."

Ceramic Industries

Tiles: Ceramic's South African operation reported good results for the review period, underpinned by a favourable response from existing customers to the latest enhanced tile range, and a gain in new open market customers. Increased sales volumes resulted in efficient capacity utilisation across the tile plants, improving profitability.

Solid growth was recorded by the Australian tile plant, in line with management's projections.

Exports into Africa grew during the review period, however, current political and economic instability in Zimbabwe and Zambia, Ceramic's primary export markets, are likely to impact on sales to those countries.

Bathroomware

"The sanitaryware and bath businesses continued to undergo restructuring to enable them to attain their full potential. Management's priority focus in the operations is to ensure consistency and improve quality and yields," comments Potgieter.

Ezee Tile under-performed management's expectations, failing to timeously address changing market conditions. While sales improved, margins, profits and market share declined. Management is satisfied that the operational inefficiencies experienced in the review period will be remedied in the short-term.

SUPPLY CHAIN: IMPORTERS ITD, Cedar Point and Distribution Centre achieved higher sales and profits for the review period.

Potgieter says, "Stock management remained a key focus in the businesses and good progress was reported, albeit that further improvements can be made. Under intensified focus, margins improved slightly in these operations, although not in line with management's target benchmark. While aggressive pricing in the market, currency volatility, and the deliberate decision to support the retail brand price offering to customers eroded some profitability in the review period, it is anticipated that margin growth will be achieved in the second half of the year."

PROPERTY INVESTMENT: As at 31 December 2018, the estimated market value of the portfolio was R3.8 billion, comprising a retail portfolio valued at R3.0 billion (2017: R2.8 billion) and a manufacturing portfolio valued at R0.8 billion (2017: R0.8 billion). During the review period, capital expenditure of R144 million was incurred on an ongoing store upgrade programme and the acquisition of four retail properties, while R105 million was invested across the manufacturing operations on plant and equipment upgrades.

PROSPECTS: It is anticipated that trading conditions will remain very difficult over the next six months.

Potgieter comments, "Despite this adverse context, management is optimistic that in the short-term there are further opportunities to grow market share through making continuous improvements to the Group's shopping experience. Over the longer-term, there is potential to grow the tile category in this country in line with South Africa's global emerging market peers."

"In the coming six months, management's key goals will be to continue to entrench retail excellence disciplines across the business and drive sales through our customer centric shopping experience strategy and innovation. We will also advance the store roll out programme and revamp existing stores. Another major focus area will be to leverage opportunities in the supply chain, including launching new merchandise categories to enhance the total solution to customers, and continuing to extract synergies from our integrated supply chain businesses," he says.

Potgieter concludes, "We believe that solid headline earnings growth will be achieved in the forthcoming six months, albeit not at the same level as the prior corresponding period."

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***Comparable disclosure and analysis of the Group's results for the six months with the previous corresponding period have been impacted on by the acquisition of Ceramic and the partially underwritten renounceable Rights Offer.*