PRESS INFORMATION

ITALTILE FOCUSES ON INTERNAL GROWTH: IMPROVES TRADING PROFIT, MARGINS AND CASH AND INTEGRATES ACQUISITIONS

↑ **System-wide turnover: R4.3bn up 22%**

↑ **Trading profit: R716m up 21%**

↑ **Headline earnings per share: 48.6 cents up 5%**

↑ **Net cash: R562m up 209%**

↑ **Net asset value: 500.0 cents up 29%**

↑ **Dividends per share: 17.0 cents up 6%**

↑ **Store network: 174** (2016: 156)

Johannesburg, 7 February 2018.

OVERVIEW

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 174 stores, 19 of which are located in the rest of Africa. 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.

IMPACT OF CERTAIN TRANSACTIONS ON THE GROUP'S RESULTS AND REPORTING REFERENCE TERMS: Comparable disclosure and analysis of the Group's results for the six month period ended 31 December 2017 with the prior corresponding period have been impacted on by the acquisition of Ceramic Industries Limited ("Ceramic") and a partially underwritten renounceable Rights Offer in November 2017. Refer to the attached SENS announcement for full details.

TRADING ENVIRONMENT: In the context of sustained subdued economic conditions and socio-political uncertainty, new-build growth was limited, while in the renovations market, homeowners continued to invest in their properties, however, the frequency and value of that spend declined compared to prior years.

Italtile Chief Financial Officer, Brandon Wood, says, "In response to this adverse operating environment, our primary focus over the period was twofold, namely to leverage opportunities for growth within the business through intensified implementation of retail excellence disciplines and trading innovations, and to improve the Group's working capital position through aggressive enhanced inventory management and cost leadership."

"In light of limited disposable income, consumers were increasingly discerning in their choice of suppliers, selecting offerings which provided superior value, quality, service and convenience. Our high profile strategic brand portfolio ranging across the income spectrum and sustained investment in the shopping experience continued to appeal to traditional and new customers," he notes.

RESULTS: Wood comments, "We were dissatisfied with turnover growth recorded for the period, however, good progress was made in terms of improving profitability and stabilising margins – achieved through resolute cost leadership – with operating costs decreasing 3% on a like-for-like basis. In the retail operation, trading margins improved despite average selling price deflation. While the supply chain absorbed the impact of currency volatility on imported products and increased industrial input costs, management of overheads reduced the impact on trading margins."

The Group's system-wide turnover for the review period was R4.3 billion, 21.6% higher than the prior corresponding period (2016: R3.5 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.

Like-on-like retail store turnover decreased by 3.9% compared to the previous corresponding period, with average selling price deflation estimated at 1%. Retail store turnover is defined as the aggregate of turnover of all stores, either corporate or franchised, in the Group's retail network.

Manufacturing sales for the period from 2 October to 31 December 2017 grew by 8.8% compared to the previous corresponding period. Manufacturing sales for the six month period from 1 July to 31 December 2017 increased by 3.7% compared to the prior corresponding period. Average selling price inflation for the six months is estimated at 2%.

Trading profit grew 21% to R716 million (2016: R594 million).

Basic earnings per share decreased 4.3% to 48.6 cents (2016 adjusted: 50.8 cents), while headline earnings per share increased 4.7% to 48.6 cents (2016 adjusted: 46.4 cents). This disparity is attributable to a gain of R37 million realised during the prior comparable period on the disposal of the Italtile Australia property holding business, and a gain of R15 million realised during the prior comparable period on the disposal of South African properties.

The Group's cash balance increased to R562 million (2016: R182 million), including the consolidated cash balances of Ceramic and Ezee Tile, totalling R174 million. Significant cash flows for the period included: capital expenditure of R313 million (incurred on enhancing the property portfolio and manufacturing facilities to support the Group's growth programme); tax payments of R220 million; cash consideration for the Ceramic acquisition of R1.8 billion; cash proceeds of the Rights Issue of R1.6 billion; and dividend payments of R148 million.

Wood comments, "Notwithstanding the above, the improvement in the Group's cash balance is also attributable to focused cost leadership and working capital management, and the cash generative nature of the business."

An interim gross dividend of 17.0 cents per share (2016: 16.0 cents) was declared for the period.

OPERATIONAL REVIEW:

RETAIL BRANDS: Twelve stores were opened during the six months: ten TopT's, one CTM and one Italtile Retail store. The Group's total footprint comprises 88 CTM, 12 Italtile Retail and 74 TopT stores.

Wood says, "Across the brands, investment continued to be made in optimising personnel; IT and digital capacity; and store revamps, aimed at delivering an unparalleled shopping experience for customers. The Business Optimisation Programme (BOP) continued to assist in improving stock management through more scientific analysis and forecasting, and proved successful where it has been comprehensively implemented, such as in the TopT network."

CTM's primary target market, middle-income consumers, continued to experience substantial economic hardship as disposable income remained stagnant or declined and indebtedness levels rose. During the period, while the brand's sales and market share declined, profits and margins improved due to an aggressive campaign to drive down operating overheads; good progress was achieved in reducing transport, inventory control and personnel costs.

Wood notes, "Management's major focus in the six months was the development of store operator skills, growing the personnel pipeline and entrenching retail excellence in all disciplines. Successful execution of BOP remains a key goal, and once attained, will afford a significant improvement in stock management in this business." He adds, "Continued investment in IT systems and functionality affords CTM strategic advantage in the market. During the period, the webstore reported an increase in online sales in excess of 30%, and also drove traffic to the stores."

Italtile Retail: Trading in the premium-end of the market continued to improve incrementally over the period. Wood observes, "Homeowners and developers who had temporarily deferred investment in properties, adopting a wait-and-see stance, reinstated projects and drove sales growth for the brand. The business also recorded a growth in market share, resulting from initiatives implemented over recent months, including an improved range and better in-stock levels, roll-out of a new look to most stores across the network, and enhanced customer service facilitated by bespoke interior design training completed by all sales consultants."

Improved sales were accompanied by increased profitability, and margins were maintained despite price deflation. Key to this achievement was an import substitution strategy facilitated by Ceramic's high-end Gryphon ranges, which were warmly received by customers.

TopT continued to meet management's robust forecasts, delivering improved sales, profitability and margins, and growing market share in new and existing markets. Central to these results was an enhanced merchandise range and consistently good in-stock levels, achieved through optimal implementation of BOP across the business. An improved marketing strategy and better brand awareness among personnel also contributed to TopT's growth.

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, Distribution Centre and Cedar Point).

Wood notes, "Slower sales and de-stocking in the Group's stores had a negative knock-on impact on both the manufacturing and import businesses in the supply chain."

MANUFACTURING

Ceramic Industries: Wood says, **"**Across the business, sales growth failed to meet management's high expectations. Lower production volumes resulted in inefficient capacity utilisation, and, together with the deliberate strategy to defer price increases to support beleaguered customers, eroded profitability and margins in the context of higher industrial input costs. Despite this, the business made good progress in improving its logistics and distribution operations, resulting in cost savings."

In the tile division Gryphon's second production line and a new rectification line were commissioned, increasing Ceramic's capacity to meet growing demand for its premium-end import substitute-quality products. In the sanitaryware division, specifically the bath factory, better utilisation of available resources and capacity will be prioritised in the period ahead.

Ezee Tile: Consistent, reliable supply to TopT supported that brand's strong growth during the period, however, sales to CTM were negatively affected by reduced sales in the stores. In line with its strategic intent, Ezee Tile succeeded in gaining market share in the open market.

Wood comments, "While modest sales growth was achieved, profitability remained flat and margins declined as a result of higher volume sales of lower margin products. Efficiencies resulting from plant upgrades are expected to improve profitability in the next six months."

IMPORT BUSINESSES: De-stocking activities in the store network impacted on sales and profitability, while margins were adversely affected by limited price inflation aimed at supporting price-sensitive customers, and currency volatility, which drove up the landed price of imports.

Wood says, "We are pleased to report however, that stock management improved during the period resulting in increased stock turn and an enhanced mix and quality of inventory."

PROPERTY INVESTMENT: Investments of R209 million were incurred on the acquisition of properties, new build projects and an ongoing store revamp programme. At 31 December 2017, the estimated market value of the portfolio was R3.5 billion (2016: R2.6 billion), with a carrying value of R2.3 billion (2016: R1.8 billion).

PROSPECTS: Wood says, "Despite the improved outlook for South Africa and a gain in consumer confidence stemming from recent political events, the macro economic environment will remain challenging in the short term." He adds, "However, management anticipates that the second half of the year will be stronger than the second half of the prior year, with growth exceeding that of the current first-half period under review. Our stance is based on the expectation that further growth momentum will be derived from the initiatives implemented and action taken in the period."

He concludes, "The Group plans to open at least another 10 stores in the next six months, which will bring the total number of stores opened during the full year to 22, exceeding the 20 stores we previously committed to."

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