PRESS INFORMATION

ITALTILE REPORTS CREDITABLE RETAIL RESULTS AND ROBUST CASH RESERVES DESPITE CHALLENGING ENVIRONMENT WHICH WEIGHED DOWN MANUFACTURING

System-wide turnover: R6.1bn (2022: R6.2bn)	**Trading profit: R1.1bn** (2022: R1.4bn)
Earnings per share: 67.5 cents (2022: 79.5 cents)	**Headline earnings per share: 67.2 cents** (2022: 79.2 cents)
Dividend per share: 27.0 cents (2022: 32.0 cents)	**Net asset value per share:** 684.4 cents (2022: 620.6 cents)
Cash: R1.5bn (2022: R0.8bn)	**Store network: 214** (2022: 214)

Johannesburg; Monday, 19 February 2024: Chief Executive Officer, Lance Foxcroft, says, "Our focus during the review period was on improving execution of the sales strategy in the retail division, improving performance in the manufacturing division and optimising our recently commissioned large-scale capex projects. We are pleased to report that the retail operation's results were creditable, progress was made in correcting performance in the manufacturing division, and we continued to bed down our Ezee Tile and Samca+ investments. However," he notes, "the remedial actions taken at Ceramic will only be felt in the period ahead; furthermore, the unrelentingly difficult external environment continued to weigh heavily on consumer sentiment and spend, which impacted on selling prices, volumes and efficiencies in Ceramic's factories, and had a significantly adverse effect on Group results."

Established in 1969, Italtile Limited is a Proudly South African manufacturer, franchisor and retailer of tiles, bathroomware and other complementary home-finishing products. The Group's retail brands are CTM, Italtile Retail and TopT, 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 comments, "The trading environment is extremely challenging. Global demand for tiles has continued to decline post-pandemic. Locally, consumers remained under financial pressure and our industry continued to be adversely affected by high interest rates and elevated input cost inflation, which impacted on affordability of products, installations and new build projects."

He adds, "Competition intensified across the industry – with an increase in capacity of both retailers and manufacturers. Country-specific risks, including sustained load-shedding, service delivery failure and uncertainty regarding the outcome of the national elections, impacted negatively on homeowners' investment sentiment."

CONSUMER TRENDS: Foxcroft states, "Across the industry, the home improvement boom experienced after the pandemic has waned and activity has declined to pre-pandemic levels. In light of constrained disposable income, consumers remained extremely cost conscious. This is exemplified by the strong response of TopT's customers to the brand's 2023 Black Friday and year-end sales promotions and the trend of buying-down across most product categories experienced by all three retail brands."

FOCUSED RESPONSE: He remarks, "Being mindful of the adverse trading conditions and consumers' price sensitivity, we continued to focus on our primary goal: to deliver an unrivalled, added-value shopping experience for our customers by capitalising on the following levers:

- our integrated business model which ensures the right product at the right time, place and price, and enables us to optimise our range to support sales volumes;
- our long-standing, high profile brands that strategically target homeowners across the demographic and economic spectrum and are widely recognised for offering exceptional service, quality and affordable fashion;

- our corporate ethos which esteems profit sharing and partnerships with our people and incentivises them to participate in the success of the business;
- our high-performance culture and unwavering focus on basic retail excellence disciplines, including constant innovation and investment in the omni-channel shopping experience; rigorous cost leadership; and ongoing improvements in productivity and operating efficiencies; and importantly,
- our hard working employees, who strived to retain and grow market share in the tightly contested fight for share of customers' wallets."

DIVISIONAL REVIEW - RETAIL BRANDS: Foxcroft notes, "Our retail stores are financially sound, underpinned by robust operating models. Notwithstanding consistently rewarding customer sentiment surveys endorsing our efforts to provide an unrivalled shopping experience, our retail brands collectively reported 3% lower first-half sales, reflecting the deterioration in consumer spend during the period."

Foxcroft says, "Despite lower sales, solid improvements were achieved by **CTM** in enhancing the quality of our stores and store operators across the business. The brand continues to invest and innovate in the shopping experience for our customers. We recently partnered with a well-known multi-talented local fashion designer to curate an exclusive collection of tiles. The initial customer response to this 'designed with local flavour and made locally' initiative has been positive. Innovations in the omnichannel space have included the addition of online video content on our webstores to assist homeowners with design and installation expertise. CTM's online sales achieved growth, endorsing our ongoing investment in the digital shopping experience."

CTM is represented by 75 stores in South Africa and 27 in the rest of Africa region. During the period, one store was opened In Walmer, Eastern Cape.

Foxcroft comments, "**Italtile Retail's** residential market is sensitive to local political and social developments, and historically, in the lead-up to national elections, customers tend to defer investments in their homes. The size of this market has also declined over recent years, in line with sustained emigration. Total sales and profits reported by the brand decreased slightly, as higher LSM groups started to feel the effects of higher inflation."

He notes, "It is pleasing to report that the Commercial Projects division, which contributes approximately 10% of Italtile Retail's total brand turnover, delivered double-digit growth, building on the momentum gained in the prior reporting period. Increased activity in this segment is largely a reflection of green shoots in the local listed-property sector. Italtile Retail is widely recognised as the industry front-runner in environmentally sensitive products, both imported and manufactured locally by Ceramic, and this affords the brand significant competitive advantage in the commercial projects market, where green credentials are increasingly specified."

Italtile Retail has a national network of 15 stores and one store in Botswana. One store was opened during the period, in Walmer, Eastern Cape.

"**TopT** delivered low single-digit growth in sales and profits for the six months, finishing on a very strong note – the brand's December sales were its highest-ever sales recorded in a single month, a significant milestone," comments Foxcroft. "This achievement is attributable to the robust response to TopT's promotional activity, which boosted traditionally strong year-end sales driven by customers returning to their rural homes for the holidays."

He adds, "TopT offers a uniquely high standard of service and expertise in its entry-level market, adding unrivalled value for customers," says Foxcroft. During the review period, the brand made further progress in improving its overall offering, including enhancing the calibre of its store operators. Investment was also made in curating ranges which are better aligned with customers' expectations.

TopT has a national footprint of 92 stores. One store was opened during the period in Nhzelele, Limpopo.

INTEGRATED SUPPLY CHAIN: MANUFACTURERS - Ceramic Industries and Ezee Tile: Foxcroft notes, "Over the previous financial year, the manufacturing division's performance failed to meet expectations. Soft market demand and fierce competition impacted adversely on operations that flourish at full capacity utilisation. In this regard, management's core focus was on ameliorating the operating inefficiencies experienced in the prior year and extracting projected benefits of the large-scale capex investments made over the past 18 months. Critical remedial actions were implemented, including capacitating and restructuring teams to leverage competencies, efficiencies, quality and costs."

CERAMIC INDUSTRIES: This business manufactures one out of every two tiles, baths and toilets purchased in South Africa, affording the Group significant strategic advantage.

Foxcroft says, "Steep inflationary input costs, excess local and global production capacity, weak market demand and aggressive pricing by importers remained the key challenges facing the business in the six months under review. While foundations were laid for internal improvements and efficiency enhancements, the benefits will only be felt in the forthcoming period, and sales, profits and margins were lower than the prior comparable period," says Foxcroft. He adds, "Ceramic contributes significantly to Group profits, and hence its poor performance and 32% decline in profits had a sizeable impact on the results of the whole Group."

Foxcroft elaborates, "Among the improvements made during the period was the installation of a new senior management team, which will impact positively on the business." He adds, "In the new Samca+ factory, quality, throughput and yields started to improve towards the end of the period and the plant is close to achieving design capacity. Once the operation is operating at its full potential, it will start to unlock profitability. Furthermore, it is anticipated that the Vitro kiln upgrade will be commissioned in the third quarter of the current financial year, which will improve yields and efficiencies and enable production of new-format rectified tiles, enhancing Ceramic's competitive position in the market."

Foxcroft cautions, "While improvements made in the period will continue to impact positively on performance, for the business to grow materially and recover margins, it is imperative to achieve strong sales volumes and optimal capacity utilisation."

Betta Sanitaryware's sales were in line with the prior comparable period, although margins declined significantly due to the deliberate strategy to withhold passing on price increases to the highly cost-conscious market. Betta recently launched multiple import-substitute products as well as several new-concept ranges of baths and sanitaryware, which grew market share for the business.

Centaurus Australia: Foxcroft says, "This operation delivered another solid performance, growing sales, margins and profits. The stabilisation of energy costs (gas and electricity tariffs) assisted the good performance, which was achieved in a challenging trading environment featuring high interest rates and consequent weak consumer demand."

EZEE TILE: "Our flagship plant in Vulcania, Gauteng, was fully commissioned during the period. Teething problems experienced with new equipment have largely been resolved and the plant is slowly meeting the production standards expected," states Foxcroft, "In the six months under review, sales, profits and margins grew, albeit off a low base. Improved margins are attributable to better production efficiencies and average price increases of 4,4%. Margin pressure, is however, still being experienced due to cost-conscious customers buying down in the range."

Foxcroft says, "We are confident that there are opportunities to grow this business sustainably and build market share."

INTEGRATED SUPPLY CHAIN: IMPORTERS - Cedar Point, International Tap Distributors and Distribution Centre

In the context of weak demand, management's key focus in this division was on improving efficiencies and productivity, and enhancing procurement, cost-containment and stock management. Lower sales volumes in the retail stores impacted negatively on sales through these businesses. While stockholding was well managed in all of these businesses inventory will be closely monitored given potential import supply constraints that may develop due to ongoing local port inefficiencies, volatile shipping capacity and geo-political tensions.

ENERGY PROGRAMME: Foxcroft cautions, “Availability and pricing of energy are critical considerations in our business, specifically for the manufacturing division, which accounts for 98% of the Group’s total energy consumption. Of major concern is the uncertainty surrounding Sasol’s supply of LNG from Mozambique, which could terminate as early as mid-2026. Management is urgently investigating opportunities and developments to secure future gas supply to the factories. Furthermore, we also continue to explore other energy solutions including developing a biogas supply, a combined heat-and-power plant and electricity-wheeling arrangements.”

PROSPECTS AND OUTLOOK: Foxcroft comments, “We anticipate that the building cycle will only recover once interest rates decline and consumer confidence is restored.” He adds, “It is imperative that we grow volumes and optimise capacity utilisation to improve efficiencies and drive up profitability. Margin pressure is likely to intensify with increased manufacturing competition, which will reduce the ability to recover higher costs through price increases. Accordingly, strategic management of margins and effecting improvements in productivity and cost leadership will remain key priorities for the business.”

Foxcroft concludes, “Despite the adverse context, we will continue to focus on the growth levers within our control, by prioritising consistent innovation and investment in delivering industry-leading products and an unsurpassed shopping experience for customers.”

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