Press release
Final

PRESS INFORMATION

ITALTILE DELIVERS SOLID RESULTS DESPITE PRESSURE ON MASS MIDDLE MARKET AND DECLINE OF HOME IMPROVEMENT BOOM

System-wide turnover: **R6.1 bn** (2020: R6.2 bn)	**Trading profit**: **R1.5 bn** (2020: R1.4 bn)
Earnings per share: **84.0 cents** (2020: 77.9 cents)	**Headline earnings per share**: **83.9 cents** (2020: 77.1 cents)
Dividend per share: **34.0 cents** (2020: 31.0 cents)	**Store network: 209** (December 2020: 203)

Johannesburg, Thursday, 10 February 2022: "In the current challenging external environment, our strategic focus is on the growth levers within our control and influence: productivity, cost leadership, partnerships with our people, and constant innovation and investment aimed at delivering an unrivalled shopping experience for our customers," says Chief Executive Officer, Lance Foxcroft.

Founded 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 total network of 209 stores, including six online webstores. The brand offering targets homeowners across the Living Standards Measure 4 to 10 categories. The retail operation is strategically supported by a vertically integrated supply chain comprising key manufacturers and import operations and an extensive property portfolio.

TRADING ENVIRONMENT AND CONSUMER TRENDS

State of the consumer: Foxcroft comments, "During the review period, the local economic and socio-political environment remained fragile and weighed heavily on consumer and business confidence and spend. Homeowners faced growing financial hardship, and the despondency and fatigue which we flagged at the financial year-end intensified - and is reflected in the anecdotal evidence of our customers in the mass middle market, specifically, who have significantly reduced or deferred investment in their homes over recent months."

Our industry: He adds, "From an operational perspective, the pandemic continued to cause severe disruptions to global supply chains, a situation exacerbated in our country by delays at the local ports. Due to the severe bottlenecks in supply chains, stock availability across the industry has been erratic over the past eighteen months. More recently, after prolonged shortages, stock levels have risen disproportionately to demand as beleaguered customers reduced spend, resulting in intensified competitor activity and margin squeeze. Compounding the pressure on our industry, the review period featured rampant price inflation across the spectrum of input costs."

Foxcroft says, "In this context, it is reassuring that the Group's local integrated supply chain and manufacturing capability afforded the business significant strategic advantage by alleviating supply volatility."

Home improvement boom: "Since early 2020, pandemic-related work-and-study-from-home restrictions altered consumers' disposable income spending priorities, which supported strong demand for home improvement products. However, over the past six months, there has been a decline in this demand as lockdown restrictions were eased or lifted and various sectors of the economy were reopened. The cocooning trend that prevailed since the pandemic emerged has diminished significantly, and disposable spend has been channelled away from home improvements back to other discretionary and lifestyle pursuits," notes Foxcroft.

RESULTS: Foxcroft says, "Notwithstanding the challenging context, management remained consistent in prioritising and focusing on the growth levers in the business over which the Group has control and influence. The results reported for the period are a reflection of the following factors which supported sales growth:

- our ongoing productivity drive and emphasis on cost leadership;
- management's focus on improving the customer shopping experience through enhanced ranges, presentation, and service;
- the Group's local integrated supply chain, which ensured availability of a wide product range at stable prices;
- continued innovation and investment in technology for the future – both in our factories and across the Group's omnichannel trading platforms;
- six new store openings, three store closures, and the reinstatement of our store revamp programme;
- conscientious management of Covid-19 health and safety protocols for our customers and our people; and
- our ethos of partnership and profit-sharing with our people, which empowers them to participate in the success of the business."

Total system-wide turnover decreased 1% to R6.1 billion (H1 2021: R6.2 billion) and is 13% higher when compared to turnover of R5.4 billion in H1 2020. The Group's trading profit grew by 5% to R1 498 million (H1 2021: R1 420 million). Foxcroft says, "This profit growth is pleasing given the comparison with the very high base of H1 2021."

Like-for-like operating cost growth declined by approximately 2%, with manpower, property costs and stock control costs being well managed.

Capital expenditure of R527 million (2020: R359 million) was incurred. The major capital expenditure programmes completed during the period or currently underway are the upgrade of the Samca Plus floor tile factory (commissioning started in November 2021); development of a multi-brand retail node in Boksburg; relocation of Ezee Tile's primary factory; and construction of Betta's automated warehouse. Foxcroft remarks, "By investing timeously, we have avoided inevitable future cost increases and delays and are well positioned to take advantage as trading conditions improve."

DIVISIONAL REVIEW
RETAIL BRANDS: STORES AND WEBSTORES

Foxcroft explains, "As the pandemic-related cocooning trend declined, evidenced by consumers channelling discretionary spend away from home improvements back to other lifestyle pursuits, our store operators were challenged to respond to retain a share of customers' wallets."

He says, "**CTM's** performance for the period is largely a reflection of the stressed state of the mass middle market consumer. While most of the brand's key metrics improved, including sales per person and average basket value, total transactions declined as demand in this segment of the market waned. During the review period, a key focus was on store presentation and revamps, the latter having been postponed during the prior six months due to the pandemic. A total of 14 stores were revamped, with pleasing results reported by the stores subsequent to their refurbishment."

"Our focus in the forthcoming period will be on driving up sales volumes through improved ranges and price laddering, increased in-stock levels, enhanced service at all customer touchpoints, and entrenching key disciplines related to stock and cost controls," Foxcroft adds.

"Following a very strong performance in FY2021, **Italtile Retail** delivered another pleasing set of results," says Foxcroft. Key metrics improved, including sales per person, profits, average basket value and productivity.

He notes, "While the residential/retail component accounted for the bulk of sales, the Commercial Projects division showed very early signs of recovery in the latter part of the review period. The business unit has a good pipeline of prospective projects and management is hopeful that improved investor sentiment in this market segment will continue to gain traction."

TopT reported a sound performance, with improvements recorded across most key metrics: sales per person, profits, average basket value, and productivity. During the review period encouraging opportunities were identified to optimise in-stocks and price laddering through enhanced procurement, planning and logistics. "As a result," comments Foxcroft, "the business model will be simplified to centralise these functions, thereby freeing up operators to focus on sales and in-store disciplines to provide an improved customer shopping experience. With 89 stores in the network, this centralised capability will add value by leveraging untapped synergies across TopT's regions."

The brand has a strong pipeline of new stores which will be rolled out as opportunities arise.

U-Light: "While performance is still below management's expectations, further progress was made during the review period with improving the business model. It is also pleasing to report that the webstore gained traction and is a valuable tool in the customer offering." says Foxcroft.

WEBSTORES: The Group operates six webstores, one each for Italtile Retail, TopT and U-Light, and three for CTM's markets in South Africa, Tanzania and Kenya. Foxcroft notes, "In general, user traffic across the webstores remained above pre-pandemic levels." He adds, "Given the growing contribution of this offering to the Group's multi-channel sales platform, management continues to invest in developing and enhancing the capability to provide customers with a seamless, personal digital experience to differentiate our offering from our peers, in a market space which is becoming increasingly sophisticated and competitive."

INTEGRATED SUPPLY CHAIN: MANUFACTURERS

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 is manufactured by Ceramic.

Foxcroft remarks, "Despite the decline in customer demand and annual shutdowns that were not in the base, Ceramic's profits and margins for the period were flat. Although improvements were made in efficiencies throughout the operations, specifically with regard to the logistics function, the impact of unforeseen inflationary costs and the decision to delay price increases offset these."

During the period, additional capacity was unlocked in the Gryphon and Pegasus factories, and continued investment in technology was made throughout the division to facilitate new finishes and features on products.

"The Samca Plus factory underwent a major upgrade, comprising the installation of state-of-the-art Italian technology and equipment. The commissioning of the R350 million factory upgrade commenced in November 2021 and provides a significant strategic advantage for the Group, complementing Ceramic's existing range with another premium-end import substitute offering. The early response from customers has been favourable, and management is satisfied that the product will capture market share," says Foxcroft.

He adds, "We are confident that there are strong growth prospects for the entire Ceramic business through import product substitution and improving alignment in the Group's integrated supply chain."

Ezee Tile: Directly aligned to weaker demand from the market, this business reported solid results in Q1 and a softer performance in Q2. International supply chain disruptions were particularly testing during the period, resulting in inconsistent supply of raw materials and steeply inflated input cost price increases. Ezee Tile will relocate and upgrade its Germiston factory from rented premises to an owned site in Brakpan, Gauteng in April

2022. The new site will provide substantial opportunity to streamline operations and expand the business's capacity.

INTEGRATED SUPPLY CHAIN – IMPORTERS: "Global supply chain interruptions impacted harshly on the three businesses, Cedar Point, ITD and DC, which collectively reported lower sales due to erratic or non-delivery of imported products. Pricing volatility was another significant adverse factor, and in light of these obstacles which are expected to continue in the short term, greater focus will be placed on exploring import substitutes to ease supply volatility and further the Group's Proudly South African ethos," comments Foxcroft.

PROPERTY PORTFOLIO: As at 31 December 2021, the estimated market value of this portfolio was R4.8 billion (2020: R4.4 billion), comprising a retail portfolio valued at R3.6 billion (2020: R3.4 billion) and a manufacturing portfolio valued at R1.2 billion (2020: R1.0 billion). During the reporting period, capital expenditure of R205 million was incurred on an ongoing property enhancement programme, while R217 million was invested across the manufacturing operations on plant and equipment upgrades.

PROSPECTS AND OUTLOOK: Foxcroft says, "The Group's most powerful assets are our robust business model and innovative, resilient people. Notwithstanding the challenging external environment, management will continue to target opportunities for growth in our business, and will focus on levers within our control and influence. This includes: gaining market share through enhanced retail levers; our ongoing store roll out programme and upgrade of stores across the network; leveraging opportunities both in the integrated and external supply chains to improve in-stocks across the Group; continued investment in innovation and technology; exploring opportunities to expand our existing local facilities and increase capacity; and pursuing opportunities to capitalise on the Group's footprint in Africa by expanding cautiously where appropriate."

Foxcroft concludes, "We are committed to delivering improved sales and profits for the year despite the current testing conditions."

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