ITALTILE REPORTS CREDITABLE RESULTS DESPITE WEAKER TRADING CONDITIONS

Johannesburg; Thursday, 13 February 2014: "In the six months ended 31 December 2013, the Group reported improved revenues across its retail operations and supply chain businesses, and gained market share across most of its merchandise categories," comments Brandon Wood, Italtile Ltd Chief Financial Officer.

Established 44 years ago, Italtile is South Africa's longest-standing and leading franchisor and retailer of local and imported tiles, sanitaryware, bathware, laminated wooden flooring and other related home-finishing products. The Group's brand portfolio comprises Italtile Retail, CTM and TopT and is represented locally by a national network of 98 stores with a further 16 stores situated in the rest of Africa. The brand offering targets homeowners in the LSM categories 3 to 10. Italtile's retail operation is underpinned by a strategic property investment portfolio and vertically integrated supply chain.

TRADING ENVIRONMENT: Wood says, **"**In the context of subdued economic growth and intensified pressure on consumer disposable income, the renovations sector continued to experience greater activity than the new build sector, but generally, growth in these markets remained muted." He notes, "Consumers in the middle income segment were particularly price sensitive, whereas our entry-level and premium-end customers demonstrated greater resilience."

FINANCIAL HIGHLIGHTS – CONTINUING OPERATIONS

Despite the testing trading conditions, the Group delivered sound results for the review period. The summarised financial information presented below refers to continuing operations:

- **System-wide turnover** grew 15% to R2.30 billion (2012: R2.00 billion).
- **Revenue** from Group-owned stores and entities increased 31% to R1.37 billion (2012: R1.05 billion), impacted by the conversion and contribution of nine previously franchised CTM stores to Group-owned stores and opening of one new CTM during the period.

Same-store turnover from comparable Group-owned stores and entities increased by 15%.

- **Reported trading profit** rose 22% to R379 million (2012: R311 million). The Group's achieved gross margins remained relatively constant due to containment of sales related costs, improvement in the sales mix, and despite cost pressures in the supply chain which were largely absorbed to support price competitiveness of the retail operations. Average selling prices were inflation-linked.
- **Basic earnings per share** ("EPS") increased 19% to 28.6 cents per share (2012: 23.9 cents), while **headline earnings per share** ("HEPS") grew 16% to 28.0 cents per share (2012: 24.0 cents). HEPS have been adjusted for the post-taxation impact of the following once-off events: profit of R2.4 million achieved on the sale of a property in South Africa; and profit of R4.4 million achieved on the sale of Allmuss Properties Zambia Limited (comprising an unutilised piece of property). Both the EPS and HEPS calculations include a R14 million IFRS 2 charge, of which R11 million is a once-off charge, related to an equity-settled staff share incentive scheme implemented during the six months.
- **Capital expenditure** of R102 million was incurred (2012: R95 million) largely aimed at enhancing the Group's global property investment portfolio and revamping store shop fittings and signage.
- **Cash and cash equivalent** reserves at the end of the period were R177 million reflecting capital expenditure, the payment during the reporting period of the special dividend of 50 cents per share declared for the 2013 financial year, and repayment of R150 million of a R400 million short-term loan. The business continues to be strongly cash generative, and management is satisfied that the Group's capital structure is being adequately employed.
- An **interim gross cash dividend** of 9.0 cents per share (2012: 8.0 cents), has been declared, a 13% increase.

KEY TO THE GROUP'S GROWTH

- In the current economic climate, the Group's year-round value offering (fashion, service, quality and price) continued to find favour with discerning, price-sensitive consumers.
- The Group's policy to offer the right product in the right place at the right time and price drove an increase in market share, and was supported by the Group's integrated supply chain which enabled competitive pricing and ensured stock availability.
- Intensified implementation of Best Practice disciplines enhanced systems and operations and improved the in-store shopping experience for customers.
- Cost containment and profitability remained a key performance indicator during the period and good progress was achieved in instilling practices to foster sustainable businesses.
- Ongoing implementation of IT innovation improved functionality in-store and increased the speed and quality of customer service. Further development of the Group's popular on-line web-shopping offering should continue to provide a material competitive advantage.

OPERATIONAL REVIEW: BRANDS – ITALTILE RETAIL, CTM AND TOPT

Wood says, "Each of our three brands, Italtile Retail, CTM and TopT increased both their basket sizes and the number of transactions completed. Good growth was reported in most of the regions. The improved performances delivered by the Western Cape and KwaZulu-Natal regions are attributable to the Group's deliberate strategy to re-invigorate underperforming regions through enhanced management structures, facilitating greater collaboration between stores regarding stock management and benchmark operating practices."

REST OF AFRICA: Good growth was achieved in the East African region, with the recently opened CTM store in Nairobi trading soundly and a new CTM store opened in Tanzania. Despite this performance and the strong demand from markets in the territory, logistical and infrastructural constraints continue to hamper expansion of the Group's store footprint. Sales in neighbouring countries, Swaziland, Namibia, Lesotho and Botswana also increased due to improved stock availability and an enhanced offering.

CTM: AUSTRALIA: During the period the Group disposed of its non-core CTM retail business in Australia via a facilitated management buyout. The intention in the short term is to retain and manage this operation's property portfolio; market conditions will determine the longer-term strategy regarding this investment.

SUPPORT SERVICES: The Group's vertically integrated supply chain comprises ITD (an importer and supplier of brassware), Distribution Centre (an importer and distributor of tiles and sanitaryware) and Cedar Point (an importer and supplier of laminated flooring, bathroom furniture and décor).
Wood reports, "During the six months improvements in the supply chain were achieved, and despite increased input costs, each of the businesses played a critical role in supporting the retail operations through competitive pricing. Prudent inventory levels ensured consistent availability of product and assisted the Group in gaining market share in a volatile environment."

INVESTMENT IN ASSOCIATES

CERAMIC INDUSTRIES LIMITED ("CERAMIC"): Wood says, "The Group's tactical investment in this business aimed at supporting its growth strategy proved particularly beneficial in the reporting period. Uninterrupted supply of sanitaryware was achieved during the second quarter when a general shortage developed in the market. In addition, Ceramic's high quality large format tiles provided an important alternative to imported product which became increasingly costly as the Rand devalued."
Across this business, an enhanced financial performance was delivered, resulting in a R10 million contribution to Group profit for the period.

EZEETILE: This business continued to improve its efficiencies. Good sales growth was experienced in both the Group's store network and amongst independent customers. Higher imported raw material costs and distribution costs offset the improved performance, and Ezeetile's

contribution to Group profits for the period totalled R3 million
(2012: R3 million).

STAFF SHARE SCHEME: "During the period the Group implemented an equity-settled staff share scheme, consistent with our ethos of promoting partnership with employees and incentivising them to participate in the growth and profitability of the business," Wood notes. As at 1 August 2013, 15 million shares were allocated to qualifying South African staff members, including those of franchised stores, with a minimum of three years of service, translating into 30 000 shares per individual. The shares have a three year vesting period, and the net shareholding at the end of the period is dependent on the appreciation of the Group's share price. A second allocation will be made on 1 August 2014 to all qualifying foreign staff and other staff members who achieve 3 years of service at this date.

PROSPECTS: The impact of rising living costs on disposable income will continue to constrain consumption, particularly in the middle income segment. Additional anticipated interest rate increases induced by rising inflation resulting from further Rand weakness, will exacerbate the hardship.
Wood says, "Markets at the top and bottom ends of the LSM spectrum are likely to remain more buoyant and provide good growth prospects to retailers with unique offerings targeted at those consumers."

"Inevitably the durable merchandise market segment will face increasing pressure as discretionary spend tightens further, and intensified price wars are likely to ensue. In this environment, the Group's policy is to adhere to our year-round value offering position (fashion, quality, price and service) and prioritise operational and supply chain efficiencies to provide consumers with pricing advantages wherever possible."

Wood concludes, "The Group will continue to focus on improving performance consistency across its stores. Continued investment in systems and skills training will remain a priority, while innovation in products and technology will continue to underpin our unwavering goal to retain and grow our market leadership position."