ITALTILE DELIVERS ANOTHER CONSECUTIVE SET OF SOLID RESULTS

Johannesburg; Wednesday, 14 August 2013: Italtile Ltd has reported solid results for the year ended 30 June 2013. The Group is the leading franchisor and retailer of local and imported tiles, sanitaryware, bathware, laminated flooring and other related home-finishing products in South Africa. The Group's national branded retail store network comprises 117 CTM, Italtile Retail and TopT stores and has appeal for homeowners in the LSM categories 3 to 10. The brands are supported by a property investment portfolio and vertically integrated supply chain.

Chief Financial Officer, Brandon Wood, says, "Both the retail operations and the supply chain grew revenue and profitability and gained market share amongst new and existing customers. Higher sales volumes were achieved primarily in the DIY / renovations and Commercial projects markets. Central to this growth were more fashionable ranges, a deliberate strategy to upsell complete solutions of products, and ensuring that the brands remained leaders in offering best value (defined by consumers as fashion, quality, price and service). Improved profitability was achieved through continuous and consistent efficiency improvements in the business."

TRADING ENVIRONMENT: General economic uncertainty continued to constrain public and private sector investment in the new-build segment of the industry, although some improvement in the renovations market was experienced. In the context of subdued global trading conditions, a sustained influx of imported product remained a feature of the local industry. Currency volatility experienced during the period served to strain working capital of smaller businesses, restricting their investment in inventory; the Group's policy of ensuring consistent levels of stock on hand, facilitated by its strong balance sheet, proved to be an important competitive advantage.

FINANCIAL HIGHLIGHTS (CONTINUING OPERATIONS)

- **System-wide turnover** increased 11% to R3.82 billion (2012: R3.43 billion).

- **Revenue** from Group-owned stores and entities grew 16% to R2.05 billion (2012: R1.76 billion).
- **Reported trading profit** improved 18% to R611 million (2012: R520 million). For the full year, gross margins declined slightly, a function of the Group's decision to absorb increased costs and currency fluctuations to support franchisees and customers and demonstrate Italtile's everyday value positioning.
- **Basic earnings per share** for continuing operations increased 18% to 48.2 cents (2012: 40.8 cents per share) while headline earnings per share ('HEPS') for continuing operations rose 16% to 47.3 cents (2012: 40.7 cents per share). HEPS have been adjusted for a R13 million profit achieved on the disposal of property in South Africa and a R5 million impairment on Group property in Australia.
- **Inventory** remained stable at R335 million (2012: R339 million), this level of stock-holding is part of the deliberate strategy to ensure consistent availability of a large range of merchandise, and a function of adding new ranges while continuing to sell out older ranges. Average stock turn improved across most operations.
- **Capital expenditure** of R168 million (2012: R120 million) was incurred, primarily related to enhancing the Group's property investment portfolio and revamping showrooms.
- Notwithstanding this capital expenditure, the repayment of a R300 million long-term loan, and the acquisition of a 20% stake in Ceramic Industries, **cash reserves** were R303 million (2012: R917 million), reflecting Italtile's strong cash generative nature.
- **Net asset value** per share increased by 15% to 250 cents (2012: 218 cents).
- **A final dividend** of 8.0 cents per share (2102: 7,0 cents) has been declared, which together with the interim dividend of 8,0 cents, produces a total dividend declared for the year of 16 cents (2012: 14 cents) per share, an increase of 14%.
- Furthermore, a **special dividend** of 50 cents per ordinary share has been declared.

KEY TO THE GROUP'S GROWTH

- Structured best practice benchmarks across all core areas were refined, delivering encouraging results.
- Each of the brands focused greater attention on in-store efficiency improvements and training.
- Ranges were revisited and refreshed and ambitious targets implemented to maximise the average basket and sales of complete solutions.
- Cost containment and profitability were instilled as key performance indicators, assisting operators to build more lucrative businesses.
- Throughout the supply chain improvements were evident in inventory and range management.
- Innovations in technology were a focus, including improvements in the Group's online web-shopping capabilities, streamlined automated ordering systems, and in-store point-of-sales functionality.
- The policy of ensuring constant availability of the right stock at the right price afforded the Group a significant competitive advantage.

OPERATIONAL REVIEW: Wood comments,"The Group's improved results were derived largely from organic growth, since a net increase of only five stores, mostly opened in the latter part of the review period, was recorded."
In general, consumers remained cost conscious, and whilst the upper and lower LSM segments were reasonably buoyant, middle income consumers were less resilient.

"This price sensitivity was responded to across the brand network: Italtile Retail broadened its range to include appeal to the top end of the middle market, while CTM moved to increase its commodity-priced range for the cost-conscious and contract markets. TopT, which operates in the entry-level sector has developed its offering extensively for lower income earners," says Wood. "Significantly," he adds, "based on strong demand for the offering, an aggressive TopT store roll-out is planned for the next five years."

Gauteng, North West, Mpumalanga and the Free State regions recorded good growth, while Limpopo and the coastal markets lagged the other provinces.

REST OF AFRICA: The Group is represented by 17 CTM stores in this region. Good growth was reported by CTM's recently opened store in Kenya, as well as its existing stores in Tanzania, Namibia, Botswana andLesotho.

AUSTRALIA: The Group has elected to discontinue its retail operation in Australia, which currently comprises of 7 CTM stores, trading out of predominantly company-owned properties. Accordingly, a buyer for the retail brand component is currently being sought, and the Group's future focus will be concentrated on management of the properties.

SUPPORT SERVICES: The Group's vertically integrated supply chain comprises International Tap Distributors, an importer of brassware and accessories, Cedar Point, an importer and distributor of laminated flooring, cabinets, tiling tools and accessories, and Distribution Centre, which procures imported tiles for the retail brands and provides warehousing, distribution and foreign exchange services to the Group.

Wood comments, "Each of our suppliers played an important role in underpinning the brands by enhancing their fashion / value offering. The individual business units all reported improved sales and trading profit, although some margin squeeze was experienced as a result of the deliberate strategy to support the retail operations' pricing advantage."

A new Distribution Centre was established in Cape Town during the period; this facility will streamline distribution and logistics of imported product in the Western Cape and should assist in improving the Group's performance in the region.

The Group also holds strategic investments in Ceramic Industries (20%) and Eezetile (46%), the former is a manufacturer of tiles and sanitaryware, while the latter manufactures adhesives, grout paint and related additives.

GLOBAL PROPERTY INVESTMENT: The Group's property portfolio supports its brands through high profile, easily accessible store locations, and well maintained aesthetically attractive shopping environments. Net of sale of properties, the estimated current market value of this portfolio increased by R100 million to R1.6 billion.

PROSPECTS:

Wood says, "Innovation in both products and technology is key to retaining and growing market share. The Group will continue to commit resources to furthering our goal to be at the forefront of leading-edge trends and developments in order to provide our customers with a superior shopping experience and our shareholders with a satisfying return on investment." "Efficiency and cost-containment drives will remain a priority, both in terms of improving profitability for the business as well as providing favourable pricing for customers based on a lower margin offering," he adds.

Wood concludes, "Continued difficult trading conditions will be exacerbated by Rand weakness, and competition in the industry is likely to intensify. Based on consistent efforts to enhance the quality of the business, the supply chain and retail brands are expected to continue to deliver growth for the forthcoming period." "Notably," he adds, "a better than average contribution is anticipated from TopT specifically, as the impact of the aggressive planned store roll-out programme filters through."

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