PRESS INFORMATION

ITALTILE OUTPERFORMS PRIOR YEAR AND 2019 PRE-PANDEMIC RESULTS

System-wide turnover: R11.6bn (2020: R9.3bn)

Adjusted earnings per share*: 140.7 cents (2020: 81.5 cents)

Ordinary dividend per share: 56.0 cents (2020: 33.0 cents)
Special dividend per share: 50.0 cents (2020: 23 cents)

Net cash: R1.1bn (2020: R0.9bn)

Trading profit: R2.6bn (2020: R1.5bn)

Adjusted headline earnings per share*: 140.1 cents (2020: 82.3 cents)

Store network: 206 (2020: 198)

**adjusted for once-off R39m IFRS charge for BBBEE transaction*

Johannesburg, Thursday, 26 August 2020: "Over the past year, our Group's mindset evolved from single-minded survival mode to a profound sense of gratitude for our numerous blessings amid the challenges we face in South Africa. Our business performed extraordinarily well under very tough conditions and I am humbled to have led a team of people who demonstrated the best of humanity through their commitment, courage and resilience. In our business we say that our unique culture is the glue that binds us together – this tumultuous period has tested the glue and found it unyielding." Jan Potgieter, Chief Executive Officer.

Established in 1969, Italtile Ltd is a 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 network of 206 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.

The COVID-19 pandemic: Potgieter says, "We extend our heartfelt condolences to those whose loved ones have passed on during this time. We also pay tribute to the healthcare workers in this country who strive tirelessly and selflessly to save lives under excruciating conditions. We owe them a debt of gratitude."

"Aligned with the national experience, the third wave of the pandemic has proved far more severe on our business than the first two waves, with the logistical challenges of ensuring operational continuity testing our resolve and agility. Our customers have endorsed and complied with our stringent safety protocols and tolerated with good grace unscheduled store closures and unexpected stock shortages, and we are extremely grateful for their understanding," comments Potgieter.

He notes, "Despite the significant uncertainty created by the pandemic, our business weathered the challenges well and emerged a more resilient and self-reliant entity. This can be attributed to the extensive improvements made across the Group over the past three years, and our ability to respond with agility within the parameters of our proven, consistent strategies."

PRIMARY FOCUS AREAS: Potgieter notes, "Unchanged from prior years, the consistent key focus areas for management over the period were sales growth; cost leadership; productivity improvements; and leveraging our high-performance culture."

He reports on the Group's pleasing performance:

- *Opened 13 new stores, closed four non-performing stores and advanced the revamp programme.*
- *Improved stock turn, product mix and range.*

- *Employed disruptive tactical marketing campaigns which drove gains in market share and share of wallet.*
- *Leveraged cutting-edge technology across all trading platforms and in the integrated supply chain, and enhanced the IT risk and control environment.*
- *Progressed to the second phase of the five-year logistics and distribution programme, resulting in increased efficiencies and notable cost savings – some of which were passed on to customers.*
- *Entrenched our performance culture and embedded productivity as a core discipline, achieving enhanced output and returns on all resources and assets. Improved results were recorded across all operational metrics including scorecards, KPIs and employee engagement surveys.*
- *Delivered on our partnership and profit-sharing ethos by rewarding our team in excess of R290 million for their increased productivity and exceptional contribution.*
- *Drove cost leadership across all business units to manage margin pressure, achieving close-to-optimal margins, while supporting cost-conscious customers.*
- *Maintained efficient working capital management, closing the period with cash reserves of R1.1 billion (2020: R860 million), despite substantial cash outflows totalling R2.5 billion.*
- *Continued executing the roughly R800 million capital expenditure programme; four major capital expenditure projects are currently underway, all running on schedule and within budget.*
- *Continued to invest in leadership development to build a pipeline of talent, with a range of strategic management appointments made in our brand operations and IT and HR divisions.*
- *Converted non-performing franchise stores to JVs; the success of this conversion is confirmed by the enhanced productivity and increased sales and profitability reported by the stores.*
- *Entrenched retail excellence disciplines at more of our customer touchpoints; reflected by a gain in market share across our retail brands and higher scores across all our customer sentiment measurements.*
- *Progressed the journey to improve the Group's ESG credentials and expect to improve the BBBEE level 4 rating to level 3.*

RESULTS: Potgieter comments, "It is gratifying to report that the business delivered double-digit sales and profit growth across all our business units, all merchandise categories and all trading geographies in the year under review. These creditable results are testament to the agile response of our resilient team; our robust business model and integrated supply chain; our unwavering focus on continuous enhancement of the customer shopping experience; our continued investment and focus on innovating for the future; and our ethos of profit-sharing and partnership with our people."

Total system-wide turnover of R11.6 billion (2020: R9.3 billion) was 25% higher than the prior comparable period and 16% higher when compared to FY2019. Retail store turnover increased by 26% compared to the previous corresponding period and by 22% compared to FY2019, with average selling price inflation estimated at 7% (2020: 1.4%) and 2.7% in FY2019. Like-for-like retail store turnover, (excluding sales of stores opened and closed during the period), rose by 23%, and by 16% compared to FY2019.

In the supply chain, the import businesses, Cedar Point, International Tap Distributors and Durban Distribution Centre, grew sales by 42% compared to the previous corresponding period and by 38% compared to FY2019. Average selling price inflation was 12%. Manufacturing sales for the period rose by 35% compared to the previous corresponding period and by 23% compared to FY2019, with average selling price inflation across the division estimated at 7% (2020: 1.0%).

Trading profit increased by 70% to R2 556 million (2020: R1 502 million) and by 42% compared to FY2019.

Adjusted basic earnings per share increased by 73% to 140,7 cents (2020: 81.5 cents) and by 37% compared to FY2019, while adjusted headline earnings per share grew by 70% to 140.1 cents (2020: 82.3 cents) and by 38% compared to FY2019.

The total gross ordinary cash dividend declared for the year was 56.0 cents per share (2020: 33.0 cents per share), an increase of 70%. A gross special cash dividend of 50.0 cents per share (2020: 23.0 cents) was also declared.

OPERATIONAL REVIEW

RETAIL BRANDS: STORES AND WEBSTORES: Potgieter comments, "The Group's three major retail brands, Italtile Retail, CTM and TopT all delivered pleasing results, reporting improvements in all key metrics: total sales and sales per person, profits, average basket value and stock turn. They also improved customer sentiment scores, reflected by a gain in market share in their respective segments." He adds, "Over recent years, the Group has invested substantial resources in developing and implementing innovative technology to enhance our competitive offering across all digital trading platforms. The agility of our e-commerce team to adapt technological innovations to evolving trading conditions and customer demands during the pandemic was very successful, and our webstores reported record unique visitor traffic and significantly increased online sales."

CTM built on the momentum gained through the Sithi Wena ("You deserve a beautiful home") repositioning campaign and the roll out of the Millennial-look store formats, to deliver pleasing results for the period. Good progress was also achieved with entrenching retail excellence disciplines and optimising sales levers. Pre-retailing 'silent salesperson' initiatives were piloted and made a notable contribution to increased productivity and an enhanced shopping experience. The contribution of the sanitaryware category grew strongly, primarily due to revamps implemented in our Bathroom Boulevards and improved ranges.

Italtile Retail recorded a stellar performance for the year, underpinned by enforced stay-at-home orders and restrictions on international travel and other luxury pursuits, which resulted in premium-end consumers reallocating funds to substantial home improvements. Other key factors which contributed to the brand's performance were meticulous execution of retail excellence disciplines and outstanding marketing campaigns across a range of platforms.

TopT reported strong results, boosted by the conversion of all remaining non-performing regions from franchised to Group-owned, which afforded improved oversight and profitability. The brand also leveraged its strong customer positioning as a community-centred offering, with the launch of the enormously successful interactive Woza Ekhaya ("Come home") campaign, which culminated in a customer winning a new home.

U-Light: while this division fell short of revenue targets, the business succeeded in building the existing lighting offering in TopT and grew lighting sales for the brand. During the period, the Company-owned model was expanded with two pilot franchised stores, and in the year ahead, the goal is to build scalability of the business. Opportunities are also currently being explored to expand the integrated import supply capability.

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 are manufactured by Ceramic.

Tiles (South Africa and Australia): Ceramic is a volume-driven operation that thrives at full capacity utilisation, which results in lower production costs, reduced inefficiencies and a concomitant positive impact on profits. During the review period, the business benefitted from a range of conducive factors that drove volumes, including robust demand caused by enforced stay-at-home orders; low interest rates; severe import supply chain disruptions; a weak currency; high shipping costs and a 'buy-local' consumer philosophy. Ceramic grew its market share of the import substitute segment and is likely to continue to build on those gains. The tile factories all reported improved productivity and cost leadership, and successfully expanded the range of the new low carbon footprint, industry-leading EcoTec tiles.

Bathroomware and baths (South Africa): Betta Sanitaryware and Betta Baths both increased production, gained market share and improved their distribution model, which enhanced customer service. In the sanitaryware market, a key local manufacturer ceased production during the year and will henceforth import stock, which will afford Ceramic a competitive advantage.

***Ezee Tile*:** This business unit delivered another pleasing result, achieved through improved production efficiencies and intensified cost management. Double-digit sales and profit growth were recorded for the period, derived from full capacity utilisation and operational improvements in all the factories.

IMPORTERS: Cedar Point, ITD and DC: Improved sales and profits reported by the three import businesses are particularly creditable given ongoing disruptions to global supply chains and volatile pricing of imported products and shipping rates experienced during the period. Aligned with the Group's long-term strategic shift to support the economy, imported product will be replaced with local supply where available and viable.

PROPERTY INVESTMENT: As at 30 June 2021, the portfolio's estimated market value was R4.5 billion, comprising a retail portfolio valued at R3.5 billion (2020: R3.3 billion) and a manufacturing portfolio valued at R1.0 billion (2020: R1.0 billion). During the period, capital expenditure of R420 million was incurred on the retail portfolio on an ongoing store upgrade programme and acquisition of eight properties. A further R462 million was invested across the manufacturing operations on plant, warehouse and equipment upgrades.

PROSPECTS

Potgieter says, "In the current challenging trading conditions, our priority is to focus on those factors within our control and influence.

- We expect the home improvement trend to remain relatively strong until there is a comprehensive roll out of vaccines, and stay-at-home orders are eased. In addition, it has always been the Group's contention that consumption of tiles in the local market is substantially lower than comparable emerging markets and therefore offers a very strong growth opportunity.
- By executing retail excellence disciplines better at every customer touchpoint and reducing inefficiencies in our business, there are opportunities to achieve sales and profit growth and gain market share.
- As a Proudly South African company, we will continue to invest in the future of our business and the local economy through our store roll-out and upgrade programme and our capital expenditure projects. We will also continue to invest in ensuring our innovative online offering provides customers with a seamless, personal digital experience to differentiate us from our peers.
- After a year of low-price inflation and margin sacrifice, average selling prices will be increased in line with inflation and margins will be adjusted to support our business units and store operators.
- For the foreseeable future, the pandemic will continue to impact on the economy and our business. We are satisfied that our clear-cut strategies, responsive systems, hands-on management team, and resilient business model will enable the Group to continue to respond nimbly and timeously to future challenges."

Potgieter concludes, "We anticipate that our results for the first half of the new financial year will be in line with the prior corresponding period. This conservative forecast is in view of the high base we reported in H1 2020, which was driven by pent-up demand, as well as the adverse impact the unrest and ongoing pandemic have had since year end. Given prevailing uncertainty, it is difficult to predict with accuracy the performance in the second half of the year, however, assuming trading conditions do not deteriorate even further, we anticipate delivering sales and profit growth for the full year."

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