

2022

PRELIMINARY REVIEWED
CONDENSED GROUP RESULTS

FOR THE YEAR ENDED 30 JUNE 2022
AND CASH DIVIDEND DECLARATION

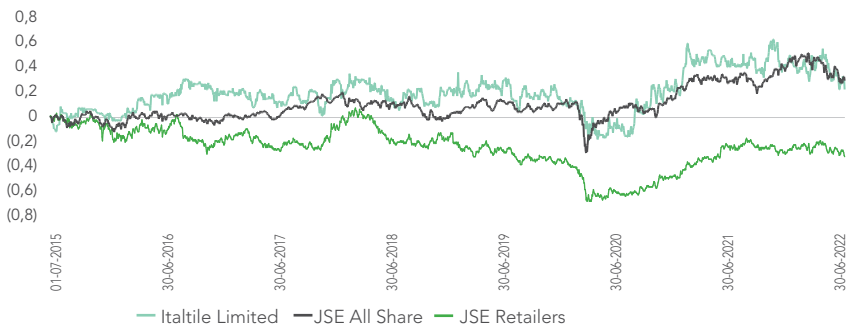


ITALTILE
LIMITED

Financial highlights

<p>▼ 2% System-wide turnover</p> <p>R11,3 billion</p> <p>2021: R11,6 billion</p>	<p>▲ 6% Trading profit</p> <p>R2,7 billion</p> <p>2021: R2,6 billion</p>	<p>▲ 8% Earnings per share</p> <p>152,0 cents</p> <p>2021: 140,7 cents</p>	<p>▲ 9% Headline earnings per share</p> <p>152,1 cents</p> <p>2021: 140,1 cents</p>
<p>▲ 9% Ordinary dividend per share</p> <p>61,0 cents</p> <p>2021: 56,0 cents</p>	<p>▲ 4% Net asset value per share</p> <p>575 cents</p> <p>2021: 554 cents</p>	<p>▼ 60% Cash and cash equivalents</p> <p>R0,4 billion</p> <p>2021: R1,1 billion</p>	<p>▲ 2% Store network</p> <p>211</p> <p>June 2021: 206</p>

7-year share price growth (%)



Commentary

Overview

Founded in 1969, Italtile 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 211 stores, including six online webstores. The brand offerings target 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. The manufacturers are Ceramic Industries Proprietary Limited ("Ceramic") and Ezee Tile Adhesive Manufacturers Proprietary Limited ("Ezee Tile"). The import businesses are Cedar Point, International Tap Distributors ("ITD") and Durban Distribution Centre ("DC").

The Group's aspiration is to become the best manufacturer and retailer of tiles, sanitaryware and ancillary products in Africa, by offering an unrivalled shopping experience through the strategy of ensuring the right product, at the right time, place and price.

OPERATING ENVIRONMENT

During the financial year (the "period"), prevailing conditions and emerging events caused significant instability in the global environment, and in turn, in our local economy and the construction industry.

Global

Supply chain disruptions and shipping constraints continued to cause delivery and pricing volatility in the first three quarters of the period. While instability of factory deliveries started to ease in the fourth quarter, it remains an area of concern, particularly out of China, where the zero-Covid policy results in swift and harsh lockdowns, which impose immediate strain on supply chains. Notably, average shipping costs are still higher than pre-pandemic levels and shipping remains disrupted.

The home improvement boom, which underpinned record growth of the industry worldwide, has come off the high levels of the previous financial year, although trends indicate that consumer demand is still slightly higher than pre-pandemic levels. It remains to be proved if this is a permanent shift or whether demand will fully unwind to former levels.

During the period, significant increases in inflation drove up input and other operating costs, and resulted in economies, including our own, raising interest rates as a counter-measure. As inflation simultaneously increased the price of goods and reduced available discretionary spend, affordability of product was negatively affected.

The progression of the tragic conflict in Eastern Europe has exacerbated the shortage of gas and key raw materials, further pushing up input costs and forcing customers to explore alternative markets.

South Africa

In the local market, the FNB/BER June 2022 consumer confidence index confirmed that consumer sentiment is at its lowest level in 35 years, aside from the level 5 lockdown period during the initial outbreak of the pandemic in South Africa. This deterioration in sentiment is centred on widespread despondency regarding political, social and economic conditions in the country, featuring rising living costs but low wage inflation, high levels of unemployment, growing poverty, crime and corruption, extensive service delivery failure and unprecedented energy load shedding.

Commentary continued

In the construction industry, with the broad re-opening of the economy, the decline of the cocooning trend, and return to work for many, consumers started to direct more spend away from home improvements to other recreational, discretionary and essential spend items, including transport. In addition, rising interest rates and inflationary pressure on building costs impacted on the affordability of renovation and building projects, causing cost-conscious consumers with finite disposable income to defer or scale down on projects.

The cost of country-specific risks to the construction industry continues to rise. Civil action on major transport routes and ongoing social unrest in volatile areas impacted on trading during the period, while notably higher crime levels drove up the cost of securing the safety of customers, employees and properties. In addition, the serious and growing trend of intimidation on building sites by organised criminals is cause for increasing concern.

The civil unrest and flooding which took place in KwaZulu-Natal ("KZN") in July 2021 and April 2022 respectively, had a devastating impact on the people of that province and we extend our condolences to those who lost loved ones, homes and possessions.

At the height of the unrest in July 2021, we closed all 18 stores in KZN for 10 days, as well as 16 stores in other hotspots for shorter periods. Thankfully, no injuries were sustained, but two TopT stores were looted and destroyed. This small number of damaged stores would have been substantially higher without the outstanding support received from our local communities, taxi associations, South African Police Service and the South African National Defence Force.

During the flooding in April 2022, our Ezee Tile operation and the CTM Prospecton store, the largest of our KZN stores, suffered severe damage, while the other stores were less badly affected. Tribute must be paid to the extraordinary efforts of our local teams, who ensured that operations in the province resumed as expeditiously as possible.

Our total insurance claim related to flood damage of assets and business interruption amounted to R20 million. We are in the process of finalising the claim with insurers, with interim payments having been received thus far.

Disruption and higher costs caused by increased load shedding continued to affect operations, with interruptions in the 2022 calendar year to date already exceeding those of the full year in 2021.

Throughout the pandemic our employees were exemplary in ensuring a zero-tolerance approach to non-compliance of restrictions, and in light of our protocols, our customers reported feeling safe and confident in our stores. Furthermore, strict compliance in the factories ensured they were also able to continue to operate, delivering uninterrupted supply to customers. While restrictions related to the pandemic have been lifted, our team remains vigilant regarding hygiene protocols and the safety of all concerned.

RESULTS

In the context of the adverse operating environment outlined, our strategic focus remained on the growth levers within our control and influence: constant innovation and investment in delivering an unsurpassed shopping experience for our customers; sales growth; productivity; cost leadership; and partnerships with our people.

The solid results reported for the period are primarily attributable to:

- improved retail excellence disciplines and enhanced efficiencies at key touchpoints (service, range, product differentiation, and availability of stock);
- our strategically integrated business model; and
- our high performance culture and the enormous contribution of our resilient team.

Sales related to Ceramic and Ezee Tile are referred to as 'manufacturing' sales to distinguish them from 'retail' sales reported by Italtile's retail brands, CTM, Italtile Retail, TopT and U-Light.

The Group reported a marginal decline in consolidated turnover, a satisfactory achievement given the high comparable base, which was underpinned by pandemic-related stay-at-home restrictions.

Total system-wide turnover decreased by 2,2% to R11,3 billion (2021: R11,6 billion). System-wide turnover is the aggregate of the Group's consolidated turnover (total sales by Group-owned entities and corporate stores, excluding sales from owned supply chain business to corporate stores) and the retail turnover of franchisees of the Group.

Revenue from Group-owned stores and entities declined by 1,7% to R9,0 billion (2021: R9,1 billion).

Lower sales volumes during the period were offset by selling price inflation. Across the business, the average selling price increase was 8%, although this varied significantly within the product range.

Where practicable, our integrated supply chain importers and manufacturing partners absorbed margin pressure to support our retail operation's price sensitive customers.

Retail store turnover rose by 2,8% compared to the previous corresponding period. Retail store turnover is defined as the aggregate turnover of all stores, both corporate and franchised, in the Group's retail network. Like-for-like retail store turnover, (excluding sales of stores opened and closed during the period), grew by 1,2%.

In the integrated supply chain import businesses, comprising Cedar Point, ITD and DC, sales decreased by 2,4% compared to the previous corresponding period, primarily due to unavailability of product during some periods and lower consumer demand, underpinned by reduced disposable income.

Combined manufacturing sales reported by Ceramic and Ezee Tile increased by 1,8%. Notably, the manufacturing division's results for the period are not comparable with the previous corresponding period due to the following factors:

- the resumption of routine annual shutdowns at all of Ceramic's factories over December 2021 and January 2022 for maintenance, compared to no shutdowns in the prior comparable period during which factories operated continuously due to unprecedented demand after the pandemic-mandated shutdown in March to May 2020. Consequently, lower volumes were manufactured and sold, and two years of maintenance-related costs were condensed into the period;
- Ceramic's Samca floor tile factory, relaunched as Samca+, was closed for five months spanning the prior and current year, while undergoing a major upgrade; and
- substantially more load shedding was experienced during the period.

The Group's trading profit grew by 6,3% to R2,7 billion (2021: R2,6 billion). Like-for-like operating costs (excluding profit share and Broad-Based Black Economic Empowerment ("B-BBEE") related costs) declined by 2,1% with manpower, property costs and stock control costs being well managed.

The consolidated gross margin across the Group improved by 1,7%, reflecting improvements in sales mix, reduced sales distribution costs and reduced inventory provisioning costs.

Commentary continued

Earnings per share ("EPS") grew by 8% to 152,0 cents (2021: 140,7 cents), while headline earnings per share ("HEPS") increased by 9% to 152,1 cents (2021: 140,1 cents). The increase in EPS and HEPS is attributable to modest profit growth, complemented by the following exceptional items:

- a decrease in the non-controlling interest percentage in Ceramic and Ezee Tile, following the vesting of Ceramic retention shares;
- the purchase of founder Mike du Plessis's 26% shareholding in Ezee Tile following his retirement on 30 June 2021; and
- a decrease in the weighted average number of shares used in the EPS and HEPS calculation, given the timing of share repurchases in the prior year.

The small disparity between EPS and HEPS is attributable to net profits of R0,7 million realised on the disposal of local properties and assets (2021: R19 million) and impairments of R1,7 million (2021: R10 million) on property, plant and equipment.

The consolidated inventory balance was R1,3 billion (2021: R1,2 billion), reflecting the strategic decision to retain higher than traditional stock levels to serve as cover against continued supply chain delays and pricing volatility.

The cash balance at the end of the period was R431 million (2021: R1 081 million). Material cash outflows for the period include:

- capital expenditure of R1 024 million (2021: R1 025 million);
- tax payments of R755 million (2021: R738 million);
- acquisition of the non-controlling interest in Ezee Tile for R120 million;
- retention scheme vesting payments of R118 million by Ceramic; and
- total dividend payments of R1 404 million (2021: R559 million).

The Group's net asset value per share at 30 June 2022 was 575 cents (2021: 554.0 cents).

GROUP PERFORMANCE

Primary focus areas

The following commentary provides a scorecard of the progress we made in achieving the key strategic imperatives we identified at the end of FY2021.

Open 10 to 15 new stores and advance the revamp programme

We achieved this goal, opening 10 new stores, including four CTMs, three TopTs, two U-Lights and one Italtile Retail, bringing the total network to 211 stores. During the period, heavy rains and social unrest delayed construction on some sites and a further five stores are scheduled to open in the first quarter of FY2023. In addition to the new store roll out, we revamped 15 stores and continued to roll out our Millennial-format Bathroom Boulevards across the CTM network.

Consistent, healthy returns from the property portfolio are imperative and where non-performing or marginal stores, specifically in the TopT network, fail to meet targets, they will be closed and/or relocated if opportunities exist. Four stores were closed during the period.

We have a strong pipeline of stores and equivalent demand from prospective franchisees.

Execute better by realising opportunities at all touchpoints of the customer experience

Our goal is to continue to improve the end-to-end customer journey – from manufacturer to after-installation service – focusing on service, fashion, quality and value. It is pleasing to report the progress made with regard to this strategic goal. In terms of our people, our improved outcomes-based training programmes have started to enhance the expertise of our team across the operations and align them better with our high performance culture. We anticipate that these improvements will continue to gain traction.

Following the easing of pandemic-related travel restrictions, we were once again able to connect with international suppliers. This has driven an intensified focus on exceeding our customers' expectations of competitively priced high fashion, through new and innovative products from existing suppliers, and developing interesting partnership opportunities with suppliers in alternative markets.

Improve stock turn and product mix

The Group derived significant benefit from our integrated supply chain, with 75% of total procurement sourced from local manufacturers and suppliers. However, global supply remained erratic, and in order to mitigate longer lead times resulting from import disruptions, the strategic decision was taken to increase investment in imported fast-moving business-critical stock and raw materials. While stock turn in Cedar Point and ITD declined as a result of the higher levels of inventory, this was outweighed by positive customer response to stock availability in the stores. Inventory levels will be reduced again as supply chain reliability improves, and managing stock turn at store level remains a key priority.

Our overriding focus is to deliver an offering that exceeds our customers' expectations. In this regard, the product fashion and range composition has improved, with a concerted effort from all our partners to introduce new innovative products in the post-pandemic era.

Leverage cutting-edge technology across all trading platforms

In our drive to elevate the end-to-end experience for our customers, we scrutinise opportunities to develop and implement technology to reduce inefficiencies, produce world-class products, and enhance customer service.

Our innovation projects during the period included improvement in the automation of warehouse and dispatch functions in our CTM stores, which ensures the customer's journey concludes on an efficient and expeditious note.

Good progress has also been made in the logistics and distribution processes to enhance replenishment of the stores by the integrated supply chain. Further integration of the transport management system ("TMS") into our own supply chain continued to add value by improving efficiencies and achieving cost savings, some of which were passed on to our customers.

Our omni-channel trading platform served the Group well during the pandemic, and with permanently raised levels of online research and sales, e-commerce remained a key investment priority, focused on providing customers with a seamless, personalised and differentiated digital experience. During the period, CTM enhanced its 3D tile viewer, which displays our products in a range of lighting conditions.

The first steps in enhancing the last-mile experience for customers were also executed. In the period ahead, management's priority regarding technological innovation will be to implement further opportunities identified to improve this offering.

During the period, our SAP infrastructure was successfully migrated to a new operating system platform and into the cloud with no disruption to the business.

Our long-term investment approach in our manufacturing operations is to maximise our advantage in the industry as the leader in world-class technology. Our new Samca+ factory is one of the most advanced "slab cut to smaller size" plants in the world. The ultra-modern facility will deliver unrivalled productivity and versatility, while ensuring low energy consumption. Customer response to Samca+'s latest ranges is extremely positive and we are confident of establishing a leading position in this market segment.

Commentary continued

Cautiously expand the Group's retail and manufacturing footprint in the rest of Africa

It is pleasing to report good progress in attaining this goal. During the period, we opened a CTM store in Lusaka, Zambia, and two in Kenya, in Diani and Thika, while construction has also commenced on a store in Nakuru, Kenya. Good results were reported by our Kenyan and Tanzanian operations, which augurs well for further cautious expansion in select countries in the region. We will continue to investigate opportunities to expand the existing footprint and enter new markets where strong demand exists.

Instil productivity as a core discipline

Productivity is benchmarked against increases in sales per person in our retail division and in metre or unit output per person in our manufacturing division. It is encouraging to note that improvements were recorded across all productivity measures in our retail operations. Regrettably, productivity metrics in the manufacturing operations declined due to reduced consumer demand, increased load shedding and the resumption of annual maintenance.

Drive cost leadership and working capital management

Cost leadership is a key discipline across the business and each business unit manager is accountable for this important key performance indicator ("KPI") in his or her division. It is pleasing therefore to report that like-for-like operating costs were well controlled and held below inflation. This was achieved through improved productivity in the retail operations and reduced inefficiencies and consumption across the business. The consolidated gross margin across the Group improved by 1,7%, with margin absorption to support cost-conscious customers being offset by improved product mix. Our primary focus in the period ahead will be on containing above-inflation property-related and transport costs, and minimising stock control costs.

Demand forecasting has proved extremely challenging due to continued supply chain disruptions, and accordingly, we increased our investment in inventory to ensure we continued to meet our customers' requirements. While inventory levels remain relatively high, we are satisfied that this investment was prudent, given supply uncertainties; additionally, the stock comprises primarily fast-moving in-demand business-critical products.

By investing timeously in our core capital expenditure ("capex") projects, we have avoided inevitable future cost increases and delays, and are well positioned to capitalise on opportunities as trading conditions improve.

The Group ended the period with cash reserves of R431 million, despite higher levels of inventory and cash outflows of R3 421 million incurred on capex, payments on tax, dividends and retention scheme vesting, Ceramic retention scheme vestings, as well as the acquisition of the non-controlling interest in Ezee Tile.

Complete execution of the roughly R800 million capex programme during the financial year

Capex of R1 024 million was incurred in the period on expansion projects, ongoing IT development, and routine maintenance and upgrades of retail properties and manufacturing plants.

The pleasing progress achieved on our four major capital investment projects is outlined below.

Our R350 million upgrade of the Samca+ factory was commissioned and provides significant strategic advantage for the Group, complementing the existing range with another competitively priced import substitute. Since its launch, the highly fashionable, environmentally acclaimed product has captured market share and is expected to continue to gain traction.

The Group's new multi-brand retail node in Boksburg, Gauteng, opened successfully in mid-June 2022. This one-stop home improvement shopping solution comprises Italtile Retail, CTM and Easylife Kitchens ("ELK") stores. Customer feedback to date has been very positive, with good sales recorded since opening. This Company-owned property will also provide an opportunity to add on complementary offerings that are not included in the Group's brand portfolio.

Following severe pandemic-related construction and equipment delays, Ezee Tile's new factory in Vulcania, Gauteng will start commissioning in August 2022. The flagship factory provides scope and scale to expand the business's current capacity, streamline operations and improve efficiencies and productivity.

Construction of Betta Sanitaryware's fully automated warehouse has been completed and installation of racking in the 17 000 pallet warehouse is currently underway. The facility will be instrumental in improving stock management and service to facilitate expansion of the customer base. The warehouse will also enable Ceramic to increase capacity of the existing manufacturing site and to upgrade the factories to produce additional products. The facility is scheduled to be fully operational by the end of January 2023.

The Group's capex programme will be in the region of R650 million for the year ahead. We will continue to explore opportunities across our operations to expand our existing retail footprint and increase the capacity of our local facilities to grow the business. Shareholders will be advised timeously of any exceptional strategic expansion capex which the board of directors of Italtile (the "Board") might approve.

Optimise people development and improve employee engagement

Our consistent focus is on improving the competence of our people; developing a suitable pipeline to support improvement and growth; and transfer of skills to transform the business. During the period, we intensified our focus on cultivating the right leaders in the business. We revised the training programmes for our CTM and TopT leaders, introducing a more scientific outcomes-based approach to identify potential; determine the employee's fit for the organisation; design the appropriate training; and establish the most rewarding development path. These new programmes are better aligned to meet the business's personnel requirements and will enhance the state of readiness of candidates to fulfil successful leadership roles in their operations. We expect good returns from this initiative. Focus on e-learning training competences during the year also greatly improved the level of completion of training across the business.

In the voluntary independent evaluation surveys conducted annually to assess the quality of engagement with employees, Italtile and Ceramic scored 75% and 70% respectively. The scores achieved are classified in the "striving to be world class" category. This is a pleasing result, given the challenges faced by employees this year. Our goal in the year ahead is to address opportunities to improve our engagement ratings with our team.

Embed the Group's core values and performance culture across the business

While our employee engagement scores, as well as other operational metrics including KPI scorecards reflect pleasing results, there are still opportunities to internalise the Group's work ethic and customer service philosophy. Key to ensuring alignment with our high performance culture is to appoint the right people to the right positions and develop them accordingly. Recent improvements in our recruitment and training programmes are expected to deliver good results.

Commentary continued

B-BBEE: strive to maintain the current rating of level 2

Our B-BBEE rating as assessed in August 2021 is 96,84 points (level 2) and we anticipate achieving a similar rating this year. We are satisfied that this score reflects our ongoing, meaningful efforts across the Group to transform the business into a more equal and inclusive one.

Maintain a comprehensive and engaged shareholder and stakeholder management programme

We continued to engage frequently and transparently with our various stakeholders.

Community relations remained a key focus, given that most of Ceramic's factories are situated in areas experiencing socio-economic difficulties. Accordingly, our community outreach programmes are designed to provide employment, skills development and sustainable growth opportunities for local residents, while our corporate social investment ("CSI") interventions focus on upliftment in the areas of education, sport and conservation. We are fortunate and humbled to be able to make a meaningful difference in these communities.

It is anticipated that continued financial hardship and non-delivery of basic municipal services in our neighbouring communities may result in increased levels of civil unrest. Our constructive relations with local residents enable us to engage with them and implement contingency plans to manage interruptions to operations if necessary.

Environmental, social and governance ("ESG") priorities

Senior management, the Board and our Group culture all provide strong support for our ESG priorities. Our efforts to implement integrated ESG thinking have enabled us to expand our understanding of risk and value to drive more informed and sustainability-focused decision-making.

Our sustainability agenda is underpinned by our strategies, policies and practices, which are designed and managed to grow the business sustainably, while minimising our impact on the natural environment and local communities, and ensuring the mental and physical wellbeing of our people. This zero-harm philosophy is reflected by our carbon emission-reduction plans, eco-sensitive product offering, green property management ethos, profit sharing partnerships with our people, and our Proudly South African stance, which prioritises selling local products manufactured by local people.

We continue to invest in technologies to reduce the emissions we produce, as well as researching and introducing cleaner sources of energy for our operations.

We are satisfied that, on balance, the goals related to the KPIs and specific core focus areas that were identified at the end of FY2021 have been accomplished. However, in line with our high performance culture, there is always room for improvement, and we will continue to strive to outperform the targets we set for the year ahead.

DIVISIONAL REVIEW

Retail brands

With the re-opening of all sectors of the economy post-pandemic, home improvement spend is once again having to compete for a share of wallet. Furthermore, the financial hardship experienced by consumers has intensified over the period, while increased prices have reduced affordability. Their heightened cost consciousness is evidenced by elastic demand, which is very responsive to promotions and value deals. This trend is particularly noticeable in the mass middle market segment of the economy. Although the premium end and entry level segments remained relatively buoyant during the year under review, consumers at the lower end of the market appear heavily dependent on economic stimulus afforded by social relief of distress government grants.

Our three major brands, Italtile Retail, CTM and TopT all reported improvements in key metrics, including productivity, sales per person, profits and average basket value. Reduced footfall in the post-pandemic era is a trend which was widely experienced across the industry in the period.

Our intense focus on differentiating our customer shopping experience through custodianship of an exceptional range, affordably priced quality products, passionate service and expert product knowledge continued to be rewarded.

Italtile Retail

Italtile Retail maintained its leadership status in the elite fashion premium end segment of the market, through careful custodianship of its range, which competes favourably at the highest international standard.

Notable achievements during the period include strong growth in the sanitaryware segment, and the successful opening of the new Boksburg and revamped Umhlanga stores. A new store is also currently under construction in Gqeberha. It is pleasing to report that several large-scale developments that were temporarily postponed due to the pandemic recommenced. While the commercial projects division contributes approximately only 10% of the brand's total turnover, it is encouraging to see some recovery in this segment of the market.

CTM

As the first choice in the highly competitive mass middle market segment, CTM continued to target market share gain through an optimal shopping journey, focused on customer experience, widest range of fashionable differentiated products, inspirational presentation and availability of product. Improvements in retail excellence disciplines, including innovation and investment in technology across our online and in-store trading platforms, continued to entice new customers.

We improved in-store pre-retailing initiatives, which are aimed at educating and informing our customers about products prior to them needing to consult with a salesperson.

TopT

TopT's back-office support is being improved to empower operators to focus on their customers and in-store disciplines. During the period, TopT's everyday low-price positioning was complemented by an improved store layout, product range and presentation to drive market share gain in the brand's key categories. An update to TopT's brand look-and-feel was trialled with a pleasing response from customers. In the year ahead, elements of the new design will be rolled out to existing stores, while new stores will implement the full design.

U-Light

Development of U-Light's business model proceeded with improvements to the range and online offering. Two new stores were opened during the period and two were closed. The entity's results continue to fall short of management's targets, and the business remains the subject of critical review.

Webstores

E-commerce is a major focus for industry players, with significant investment being made in web- and app-based digital solutions. The Group achieved first-mover status in this space some seven years ago and is mindful that constant innovation is required to lead in this competitive market. Sustained investment and creativity ensured that our various platforms continued to improve the customer experience and achieve growth in online research and sales during the period. Our analysis confirms that more customers made use of our webstores' industry-leading augmented reality and visualiser functions, which is reward for our investment in cutting-edge technology.

Commentary continued

Integrated supply chain: Manufacturers

Ceramic Industries

South Africa

As detailed in the results commentary, Ceramic's results for the year are not comparable with the previous corresponding period. While volumes decreased year on year, price inflation resulted in an improvement in revenue. Profits were flat on the prior year, as margins declined under pressure from considerably higher input costs, specifically fuel and raw materials.

Tiles

Ceramic improved its offering with new product from Samca+. In addition, the new EcoTec tile ranges, which use fewer resources to produce per square metre, have been launched at all of our factories. These highly fashionable and affordable eco-sensitive tiles continue to gain traction in the market. Our EcoTec offering enhances Ceramic's reputation as competitive with the best international manufacturers.

In addition to commissioning the Samca+ factory, other highlights for the period include the commissioning of upgrades in the Pegasus factory, which served to extend capacity.

Sanitaryware

Betta's sales volumes declined significantly during the period as demand waned and retailers unwound high inventory positions. Margins and profits were affected accordingly. Design and development were a key focus during the period. Betta's new warehouse, scheduled to open in January 2023, will substantially resolve space constraints and improve efficiencies.

Energy

Aside from subduing consumer sentiment, unprecedented load shedding and energy infrastructure failure during the period caused significant downtime and damage to equipment at Ceramic. While the business has a range of contingency plans in place at our factories to mitigate the impact of load shedding up to stage 3, the effect on operations of stage 4 and above is very serious. In line with our goal to reduce the Group's consumption from the grid

and simultaneously limit our carbon footprint, 0,5 MW of solar power was commissioned at our site in Hammanskraal. We are in the process of installing a 2,2 MW system at our Vereeniging factories. Together, these will potentially save up to 6 000 tonnes of CO₂ emissions per year. The installed solar power capacity at Hammanskraal will be further increased in the forthcoming year.

Australia

In light of recent floods, fires and the impact of the pandemic, a delay in building completion has resulted in a backlog of projects, which has created an artificial and temporary slow-down in demand for building materials. Interest rate hikes have also affected affordability of housing in Australia. As a result, sales declined for the period while margins and profits deteriorated significantly as a result of exceptional gas price increases. The business did well to maintain market share despite the challenges faced. Management has taken steps to mitigate high gas pricing and expects improved performance in the forthcoming year.

Expanding the capacity of the Centaurus factory has been delayed due to current high construction and equipment costs, expected softer consumer demand, and to assess the effects of rising interest rates on the housing market. A final investment decision will be deferred until volatile gas, financial and construction markets improve.

Ezee Tile

Ezee Tile operates in a highly competitive market segment, with low barriers to entry. While Ezee Tile's high profile brands continued to lead in the market, it was evident that price sensitive customers trended to buying lower cost products in the range, and this change in product mix affected sales and margins. Furthermore, the industry faced severe raw material shortages and significant price increases during the period, which added to margin pressure. Input cost pressure was compounded by higher fuel prices, which inflated drying costs during the excessively wet rainy season. It is anticipated that increases temporarily absorbed to maintain affordability for customers will be passed on to recover margins in the period ahead.

Integrated supply chain: Importers

With the restrictions on travel lifted, we were once again able to visit suppliers in Europe and Asia to ensure our offering remains abreast of international trends. During the period, the supply chain management team focused on improving the fashion and value offering for our customers through sourcing new innovative products, and through keener negotiations with suppliers. Our customers' positive response and good sales growth of the new lines is encouragement for their efforts.

Cedar Point

Of our integrated supply businesses, Cedar Point was the most severely affected by global and local supply disruptions. Sales declined during the period and the deliberate strategy to support price-sensitive customers impacted on margins. Inventory levels were increased due to substantial investment made in business-critical products to ensure customer demand is met, and stock availability improved in the fourth quarter. The key focus during the period was on improving stock availability metrics, as well as optimising the range and value offering for our stores. An ongoing imperative is to source alternative direct supply, including local import substitute partners, to achieve better customer service and support our Proudly South African ethos. During the period, South African-made substitutes also suffered poor availability as local suppliers experienced raw material shortages.

International Tap Distributors

ITD reported good results for the year, growing sales, margins and profits. As the leading importer of taps in South Africa, ITD has established a reputation for being first to market with emerging fashion trends, and the strong support received from customers during the period endorses this. Sizeable investment was made in inventory to ensure stock availability and mitigate against continued supply chain disruptions, which impacted on stock turn. Price inflation on brassware has yet to abate, and margins are expected to remain under pressure as increased prices affect affordability.

Distribution Centre

Considered investment in inventory enabled this business to maintain an in-stock position for both CTM and TopT, a commendable achievement given erratic supply over the period. The division also did well to achieve further efficiencies in the TMS.

ASSOCIATE INVESTMENT

EasyLife Kitchens

ELK is a leading manufacturer and installer of kitchen, bathroom, vanity, built-in-cupboards, bar and storage design. The Group holds a 30% stake in the business, an investment which is in line with our goal to provide customers with complete specialist solutions in home finishing. There are good synergies between our businesses, with ELK manufacturing products for our integrated supply chain, while benefitting from cross-selling opportunities where ELK stores are situated on Group sites. During the period, ELK margins came under pressure due to increased input costs.

There are opportunities to open further ELK stores and expand the national footprint of this business.

PROPERTY PORTFOLIO

The Group's property portfolio affords strategic advantage to the retail brand operations by ensuring stores are easily accessible, well presented and maintained, and contribute to an aspirational, aesthetically pleasing shopping experience. The Group's manufacturing operations consist of well-maintained, state-of-the-art factories, which are supplied with high quality raw materials sourced from owned productive quarries in close proximity to the plants.

During the period, capex of R398 million was incurred on an ongoing retail property enhancement programme and acquisition of six properties.

The portfolio's goal is to consistently enhance returns through optimal use of owned land, reduce operational risks, strategic development of new store formats, and innovation to reduce construction costs.

SUSTAINABILITY PRIORITIES

The Group's sustainability agenda is underpinned by our practices, properties and product offering, which are designed and managed to limit the Group's carbon footprint, minimise impact on the natural environment, enhance our positive impact on local communities, and ensure the mental and physical wellbeing of our people. Our Proudly South African ethos prioritises selling local products manufactured by local people, thereby creating jobs, providing training, and contributing to the economy.

STAFF SHARE SCHEME VESTING

The Group's equity-settled staff share scheme is designed to incentivise employees to participate in the growth and profitability of the business. In this regard, the sixth allotment of shares, granted in 2018, vested on 31 August 2021. A total of 104 employees qualified, of which three employees opted to receive shares and the balance received the net value of the awards in cash. Cash payments after tax averaged R175 830 per individual (aggregate payments including income tax totalled R27,8 million), funded by the sale of the related shares to the market. The employees who elected to receive shares, received 10 603 Italtile shares each (dependent on the individual's effective income tax rate).

As at 30 June 2022, there were 286 participants in the scheme, holding 6,8 million Italtile shares. The Group is currently in the process of developing a new staff share scheme to replace this existing scheme and relevant approval from shareholders will be sought in due course.

BOARD COMPOSITION

As announced on SENS on 26 May 2022, the following changes were made to the composition of the Board and the Audit and Risk Committee ("Committee"): Ms Alex Motshwanetsi Mathole was appointed as an independent non-executive director with effect from 1 June 2022;

Mr Isaac Malevu tendered his resignation as a non-executive director and Chairman of the Committee with effect from 31 July 2022; and Ms Lushane Prezens replaced Mr Malevu as Chairman of the Committee with effect from 1 August 2022. The Board would like to thank Mr Malevu for his contribution and welcomes Ms Mathole.

PROSPECTS

Higher inflation and further interest rate hikes will impact on consumer affordability and we are concerned for the financial health and investment sentiment of the customer in the context of rapidly rising living costs and general disillusionment with the local socio-political environment. As discretionary spend deteriorates, the competitive landscape will also become more aggressive in the fight for share of wallet and market.

Energy security and consumption will also be top of mind for our management team both in this country and our Australian operations. Global pricing uncertainties, local capacity constraints (load shedding is expected to persist for at least the medium term), and reducing our carbon footprint are all issues we will be focused on.

Subsequent to year end, we are still awaiting an announcement from NERSA and Sasol regarding a potential increase in pipeline gas prices. A significant increase is likely to have an impact on affordability of product as well as on manufacturing margins.

In this environment, we will continue to focus on the growth levers within our control and influence. We will place an untiring focus on exceptional product ranges and retail excellence disciplines, underpinned by improved outcomes-based training and development of our people.

The Group's long-standing track record of consistent delivery is attributable to our robust business model, our steadfast strategies and our resilient team.

In terms of our growth programme, we have identified the following focus areas for the forthcoming period, aligned with management's KPIs.

- Retain and grow market share by optimising our customers' shopping experience at every touchpoint on the end-to-end customer journey. Key areas include people, service, fashion, value and presentation.
- Improve recruitment, development and training of our people to achieve their full potential and meet the Group's demanding growth targets.
- Drive KPIs that enhance growth, including cost leadership, inventory management, efficiency and productivity.
- Continue to roll out new stores, revamp existing stores, and enhance the capacity of our supply chain and manufacturing operations.
- Leverage and invest in cutting-edge technology and innovations to entrench our competitive advantage across all our trading platforms and in all our operations.
- Capitalise on synergies in the integrated supply chain and opportunities in the external supply chain.
- Pursue our ESG journey to enhance our sound credentials as a responsible, safe and sustainable business.
- Cautiously build on our footprint in the rest of Africa, focusing on tested markets where our success is proven.

OUTLOOK

By consistently investing in the future of our business and providing an unrivalled customer shopping experience, we will position our operations to continue to grow and gain market share.

Given the prevailing instability in the global environment, the fragile state of the local economy, uncertain energy pricing and ongoing and unresolved country risks, it is imprudent to provide more specific guidance regarding future performance at this point.

SUBSEQUENT EVENTS

As discussed in the commentary under Prospects, subsequent to year end, we are still awaiting an announcement from NERSA and Sasol regarding a potential increase in pipeline gas prices. A significant increase is likely to have an impact on affordability of product as well as on manufacturing margins. No other events have occurred subsequent to the period that require any additional disclosures or adjustments.

ORDINARY CASH DIVIDEND ANNOUNCEMENT

The Group's dividend cover is two and a half times. The Board has declared a final gross ordinary cash dividend (number 112) for the period ended 30 June 2022 of 27,0 cents per ordinary share (2021: 25,0 cents per share), to all shareholders recorded in the shareholder register of Italtile as at the record date of Friday, 16 September 2022. This final dividend, together with the interim gross ordinary cash dividend of 34,0 cents per share (2021: 31,0 cents per share), produces a total gross ordinary cash dividend declared for the year ended 30 June 2022 of 61,0 cents per share (2021: 56,0 cents per share), an increase of 9%.

In accordance with paragraphs 11.17(a)(i) to 11.17(ix) and 11.17(c) of the Listings Requirements of the Johannesburg Stock Exchange, ("JSE Listings Requirements") the following additional information is provided:

- The dividend has been declared out of income reserves;
- The local dividend withholding tax rate is 20% (twenty percent);
- The gross local ordinary dividend amount is 27,0 cents per share for shareholders exempt from the dividends tax;
- The net local ordinary dividend amount is 21,6 cents per share for shareholders liable to pay the dividends tax;

Commentary continued

- The local ordinary dividend withholding tax amount is 5,4 cents per share for shareholders liable to pay the dividends tax;
- Italtile's income tax reference number is 9050182717; and
- The Group has 1 321 654 148 shares in issue including 17 918 705 shares held by the share incentive and retention trusts, 64 616 725 shares held as B-BBEE treasury shares and 25 309 356 shares held by Italtile Ceramics Proprietary Limited.

TIMETABLE FOR CASH DIVIDEND

The cash dividend timetable is structured as follows: the last day to trade *cum dividend* in order to participate in the dividend will be Tuesday, 13 September 2022. The shares will commence trading ex-dividend from the commencement of business on Wednesday, 14 September 2022 and the record date will be Friday, 16 September 2022. The dividend will be paid on Monday, 19 September 2022. Share certificates may not be rematerialised or dematerialised between Wednesday, 14 September 2022 and Friday, 16 September 2022, both days inclusive.

This full-long form and short-form announcement was published on SENS on 25 August 2022 and is also available on Italtile's website at <https://www.italtile.com>.

Both the short-form and full announcement are also available for inspection at the registered offices of Italtile and its sponsor, Merchantec Capital, during business hours. Copies of the full announcement are available at no cost on request from the Company Secretary who is contactable on +27 11 882 8200 or lizwillis@jaysecretarial.co.za

For and on behalf of the Board

L A Foxcroft

Chief Executive Officer

B G Wood

Chief Financial Officer

No forward looking statements in this announcement have been reviewed or reported on by the Group's auditors.

These condensed consolidated financial statements for the year ended 30 June 2022 have been reviewed by PricewaterhouseCoopers Inc. ("PwC"), who expressed an unmodified review conclusion thereon. A copy of the auditor's review report on the condensed consolidated financial statements is available for inspection at the Company's registered office, together with the financial statements identified in the auditor's report.

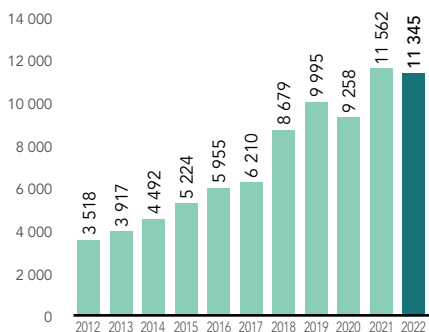
PwC's unmodified review conclusion does not necessarily report on all of the information contained in this reviewed condensed Group results announcement. Shareholders are therefore advised that in order to obtain a full understanding of the nature of auditor's engagement, they should obtain a copy of PwC's unmodified review opinion together with the accompanying financial information from the Company Secretary at the Company's registered office or on Italtile's website at <https://italtile.com/investor-reports-and-results.asp>.

The Board takes full responsibility for the preparation of this announcement and confirms that the financial information has been correctly extracted from the underlying reviewed condensed consolidated financial statements.

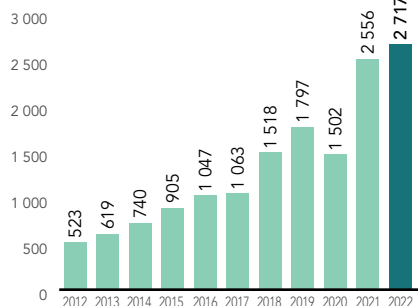
Johannesburg

25 August 2022

System-wide turnover (Rm)



Trading profit (Rm)



System-wide turnover analysis

for the year ended 30 June 2022

(Rand millions unless otherwise stated)

	% decrease	Reviewed year to 30 June 2022	Audited year to 30 June 2021
Group and franchised turnover			
– By Group-owned stores and entities	(2)	8 981	9 135
– By franchise-owned stores	(3)	2 364	2 427
Total	(2)	11 345	11 562

Store network

at 30 June

Region	2022			2021		
	Franchise	Owned	Total	Franchise	Owned	Total
South Africa						
– Italtile	1	13*	14*	–	13*	13*
– CTM	29	44*	73*	30	42*	72*
– TopT	37	53*	90*	36	54*	90*
– U-Light	3	4*	7*	2	6*	8*
Rest of Africa						
– Italtile	–	1	1	–	1	1
– CTM	3	22*	25*	3	19*	22*
– U-Light	1	–	1	–	–	–
	74	137*	211*	71	135*	206*

* Includes webstores.

Condensed Group statement of comprehensive income

for the year ended 30 June 2022

		(Rand millions unless otherwise stated)	
	% (decrease)/ increase	Reviewed year to 30 June 2022	Audited year to 30 June 2021
Revenue	(2)	8 981	9 135
Cost of sales		(4 867)	(5 106)
Gross profit	2	4 114	4 029
Other revenue and operating income		471	383
Operating expenses		(1 867)	(1 865)
Impairment of property, plant and equipment		(2)	(10)
Profit on sale of property, plant and equipment		1	19
Trading profit	6	2 717	2 556
Finance income		39	57
Finance cost		(63)	(59)
Profit from associates – after tax		7	3
Profit before taxation	6	2 700	2 557
Taxation		(765)	(712)
Profit for the year	5	1 935	1 845
Other comprehensive income			
<i>Items that may be re-classified subsequently to profit or loss:</i>			
Foreign currency translation difference		17	(38)
Total comprehensive income for the year	8	1 952	1 807
Profit attributable to:			
– Equity shareholders		1 850	1 718
– Non-controlling interests		85	127
	5	1 935	1 845
Total comprehensive income attributable to:			
– Equity shareholders		1 867	1 680
– Non-controlling interests		85	127
	8	1 952	1 807
EPS (all figures in cents):			
– EPS	8	152,0	140,7
– Diluted EPS	8	151,5	140,1

Condensed Group statement of financial position

as at 30 June 2022

	(Rand millions unless otherwise stated)	
	Reviewed year to 30 June 2022	Audited year to 30 June 2021
ASSETS		
Non-current assets	6 112	5 483
Property, plant and equipment	5 512	4 866
Right-of-use assets	354	381
Investments in associates	70	55
Long-term financial assets	141	144
Goodwill	19	19
Deferred taxation	16	18
Current assets	2 637	3 124
Inventories	1 286	1 164
Trade and other receivables	853	811
Cash and cash equivalents	431	1 081
Taxation receivable	67	68
Total assets	8 749	8 607
EQUITY AND LIABILITIES		
Share capital and reserves	6 998	6 713
Stated capital	4 314	4 314
Non-distributable reserves	5	(12)
Treasury shares	(935)	(904)
Share option reserve	242	219
Retained earnings	3 070	2 736
Non-controlling interests	302	360
Non-current liabilities	1 026	526
Interest-bearing loans	500	5
Lease liabilities	343	352
Deferred taxation	183	169
Current liabilities	725	1 368
Trade and other payables	416	572
Provisions	200	227
Interest-bearing loans	52	502
Lease liabilities	47	48
Taxation payable	10	19
Total equity and liabilities	8 749	8 607

Condensed Group statement of changes in equity

for the year ended 30 June 2022

(Rand millions unless otherwise stated)

	Stated capital	Non-distributable reserves	Treasury shares	Share option reserve	Retained earnings	Total	Non-controlling interest	Total equity
Audited balance at 30 June 2020	4 314	26	(735)	280	1 448	5 333	301	5 634
Profit for the year	–	–	–	–	1 718	1 718	127	1 845
Other comprehensive income for the year	–	(38)	–	–	–	(38)	–	(38)
Total comprehensive income for the year	–	(38)	–	–	1 718	1 680	127	1 807
Purchase of own shares	–	–	(184)	–	–	(184)	–	(184)
Executive retention scheme repayment	–	–	(5)	–	–	(5)	–	(5)
Dividends paid	–	–	–	–	(490)	(490)	(69)	(559)
Transactions with non-controlling interests	–	–	–	–	14	14	1	15
Share incentive costs (including vesting)	–	–	20	(61)	46	5	–	5
Audited balance at 30 June 2021	4 314	(12)	(904)	219	2 736	6 353	360	6 713
Profit for the year	–	–	–	–	1 850	1 850	85	1 935
Other comprehensive income for the year	–	17	–	–	–	17	–	17
Total comprehensive income for the year	–	17	–	–	1 850	1 867	85	1 952
Purchase of own shares	–	–	(67)	–	–	(67)	–	(67)
Dividends paid	–	–	–	–	(1 349)	(1 349)	(55)	(1 404)
Transactions with non-controlling interests	–	–	–	–	(32)	(32)	(88)	(120)
Share incentive costs (including vesting)	–	–	36	23	(135)	(76)	–	(76)
Reviewed balance at 30 June 2022	4 314	5	(935)	242	3 070	6 696	302	6 998

Condensed Group cash flow statement

for the year ended 30 June 2022

(Rand millions unless
otherwise stated)

	Reviewed year to 30 June 2022	Audited year to 30 June 2021
Cash generated by operations (note 7)	2 876	2 696
Finance income	39	57
Finance costs	(34)	(29)
Lease liability finance costs	(29)	(30)
Dividends paid	(1 404)	(559)
Taxation paid	(755)	(738)
Cash flow from operating activities	693	1 397
Additions to property, plant and equipment	(1 024)	(1 025)
Dividend income from associates	1	-
Proceeds on disposal of property, plant and equipment	17	83
Increase/(decrease) in long-term financial assets	3	(3)
Purchase of interest in subsidiaries and associates	(7)	(2)
Cash flow from investing activities	(1 010)	(947)
Increase in loans and borrowings	645	5
Decrease in loans and borrowings	(600)	-
Share scheme vesting	(136)	-
Acquisition of non-controlling interest	(120)	-
Treasury share purchases	(67)	(184)
Lease liability payments	(55)	(50)
Cash flow from financing activities	(333)	(229)
Net movement in cash and cash equivalents for the period	(650)	221
Cash and cash equivalents at the beginning of the period	1 081	860
Cash and cash equivalents at the end of the period	431	1 081

Segmental report

for the year ended 30 June 2022

(Rand millions unless otherwise stated)

Reviewed year to 30 June 2022	Supply and Support Services*		
	Retail	Manufacturing*	
Turnover	5 349	5 128	2 548
– From external customers*	5 349	3 052	580
– Intersegment	–	2 076	1 968
Turnover from franchise stores**	2 364	–	–
Achieved gross margin	1 957	1 565	300
Depreciation	(81)	(231)	(21)
Impairment of property, plant and equipment	(2)	–	–
Profit on sale of property, plant and equipment	1	#	#
Trading profit	570	1 052	391##
Finance income	6	18	28
Finance costs	(1)	(1)	(20)
Income from associates	–	–	–
Profit before taxation	575	1 069	399

* Turnover from external customers includes sales to franchise stores.

** Franchise stores are not controlled by the Group.

Less than R1 million.

Includes franchise income of R61 million disclosed in note 6.

Includes royalty income of R153 million disclosed in note 6.

(Rand millions unless otherwise stated)

Audited year to 30 June 2021	Supply and Support Services*		
	Retail	Manufacturing*	
Turnover	5 136	5 040	2 614
– From external customers*	5 136	3 452	547
– Intersegment	–	1 588	2 067
Turnover from franchise stores**	2 427	–	–
Achieved gross margin	1 864	1 594	300
Depreciation	(55)	(219)	(20)
Impairment of property, plant and equipment	–	(10)	–
Profit on sale of property, plant and equipment	#	#	4
Trading profit	548	1 074	324##
Finance income	6	24	41
Finance costs	(2)	(3)	(13)
Income from associates	–	–	–
Profit before taxation	552	1 096	352

* Turnover from external customers includes sales to franchise stores.

** Franchise stores are not controlled by the Group.

Less than R1 million.

Includes franchise income of R52 million disclosed in note 6.

Includes royalty income of R122 million disclosed in note 6.

Franchising	Properties	Associates	Consolidation	Total
-	-	-	(4 044)	8 981
-	-	-	-	8 981
-	-	-	(4 044)	-
-	-	-	(2 364)	-
-	-	-	245	4 067
#	(105)	-	-	(438)
-	-	-	-	(2)
#	#	-	-	1
331###	391	-	(18)	2 717
#	13	-	(26)	39
#	(67)	-	26	(63)
-	-	7	-	7
331	337	7	(18)	2 700

Franchising	Properties	Associates	Consolidation	Total
-	-	-	(3 655)	9 135
-	-	-	-	9 135
-	-	-	(3 655)	-
-	-	-	(2 427)	-
-	-	-	223	3 981
(2)	(88)	-	-	(384)
-	-	-	-	(10)
#	15	-	-	19
281###	364	-	(35)	2 556
#	10	-	(25)	57
#	(66)	-	25	(59)
-	-	3	-	3
281	308	3	(35)	2 557

Geographical analysis

for the year ended 30 June 2022

(Rand millions unless otherwise stated)

	South Africa	Rest of Africa	Australia	Consolidation	Group
Reviewed year to 30 June 2022					
Turnover	11 450	985	590	(4 044)	8 981
Non-current assets	7 549	359	219	(2 015)	6 112
Audited year to 30 June 2021					
Turnover	11 219	937	634	(3 655)	9 135
Non-current assets	6 507	366	218	(1 608)	5 483

Notes

1. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICY

Basis of preparation

The reviewed preliminary condensed consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements and the requirements of the Companies Act of South Africa. The Listings Requirements require preliminary reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS") and the South African Institute of Chartered Accountants Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting.

The accounting policies applied in the preparation of the reviewed preliminary condensed consolidated financial statements are in terms of IFRS and are consistent with those applied in the previous consolidated annual financial statements. These results have been prepared under the supervision of the Chief Financial Officer, Mr B G Wood.

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of these preliminary condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2021, except for the adoption of new and amended IFRS and International Financial Reporting Interpretations Committee interpretations which became effective during the current review period. The application of these standards and interpretations did not have a significant impact on the Group's reported results and cash flows for the year ended 30 June 2022 and the financial position at 30 June 2022.

2. COMMITMENTS AND CONTINGENCIES

There are no material contingent assets or liabilities at 30 June 2022.

Capital commitments (Rand millions)	30 June 2022	30 June 2021
– Contracted	256	541
– Authorised but not contracted for	229	275
Total	485	816

Capital commitments will be funded by cash generated by operations.

3. FAIR VALUES OF FINANCIAL INSTRUMENTS

The Group does not fair value its financial assets or liabilities in accordance with quoted prices in active markets or market observables, as their carrying value approximates fair value due to the short-term nature of these items and/or existing terms are equivalent to market observables. There were no transfers into or out of level 3 during the period.

4. STAFF SHARE SCHEME

During the 2014 financial year, the Group implemented a share incentive scheme for all employees of the Group and its franchisees that had been in the employ of the Group and/or franchise network for a period of three uninterrupted years at each allotment date in August every year from implementation date. As a result, 6,8 million of the Group's shares, net of forfeitures were held by qualifying staff members at 30 June 2022 (2021: 9,9 million). Until vesting, the shares will continue to be accounted for as treasury shares and have an impact on the diluted weighted average number of shares.

The sixth allotment of shares in the scheme, granted in 2018, vested on 31 August 2021. A total of 104 employees qualified for the vesting (2021: 116), of which three employees opted to retain the shares (2021: one). This resulted in a decrease in treasury shares of 1 163 757 (2021: 1 128 860) shares.

The scheme is classified as an equity-settled scheme in terms of IFRS 2, Share-Based Payment, and has resulted in an expense of R7 million (2021: R19 million) to the Group's income; no accelerated once-off charge was recorded in the current year as no new allotments were made (2021: R9 million).

Notes continued

5. EARNINGS PER SHARE

	Reviewed year to 30 June 2022	Audited year to 30 June 2021
Reconciliation of shares in issue (all figures in millions):		
– Total number of shares issued	1 322	1 322
– Shares held by the Italtile Share Incentive Trust	(10)	(10)
– Shares held by the Italtile Retention Scheme Trust	(8)	(6)
– Black economic empowerment treasury shares	(65)	(65)
– Shares held by Italtile Ceramics Proprietary Limited	(25)	(24)
Shares in issue to external parties	1 214	1 217
Reconciliation of share numbers used for EPS calculations (all figures in millions):		
Weighted average number of shares	1 217	1 221
Dilution effect of share awards	4	6
Diluted weighted average number of shares	1 221	1 227
Reconciliation of headline earnings (Rand millions):		
– Profit attributable to equity shareholders	1 850	1 718
– Profit on sale of property, plant and equipment – after taxation	(1)	(16)
– Impairment of property, plant and equipment – after taxation	2	8
Headline earnings	1 851	1 710
Headline EPS (cents)	152,1	140,1
Diluted headline EPS (cents)	151,5	139,4
Dividend per share (cents)	61,0	56,0
Net asset value per share (cents)	575,0	554,0

6. DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

	(Rand millions unless otherwise stated)	
	Reviewed year to 30 June 2022	Audited year to 30 June 2021
Turnover*	8 981	9 135
– Retail	5 349	5 136
– Manufacturing	3 052	3 452
– Supply and support services	580	547
Royalty income from franchising	153	122
Other franchise income	61	52
	9 195	9 309

* Turnover represents net revenue from sale of goods, excluding value added tax and intercompany sales.

7. RECONCILIATION OF PROFIT BEFORE TAX TO CASH GENERATED FROM OPERATIONS

(Rand millions unless otherwise stated)

	Reviewed year to 30 June 2022	Audited year to 30 June 2021
Cash flows from operating activities:		
Profit before taxation	2 700	2 557
<i>Adjusted for:</i>		
Income from associates	(7)	(3)
Depreciation	369	314
Depreciation – right-of-use asset	69	70
Finance cost – lease liability	29	30
Profit on sale of property, plant and equipment	(1)	(19)
Impairment of property, plant and equipment	2	10
Finance income	(39)	(57)
Finance costs (excluding lease liability finance costs)	34	29
Share-based payment expenses	75	81
Foreign currency translation difference	(8)	(23)
Working capital changes:		
Inventory	(122)	(268)
Trade and other receivables	(42)	(95)
Trade and other payables (including provisions)	(183)	70
Cash generated by operations	2 876	2 696

8. INTEREST-BEARING LOANS

An interest-bearing loan of R500 million was repaid in full on 29 November 2021 using the proceeds of another R500 million loan from another financial institution. This loan is repayable in November 2024 and has thus been disclosed as a non-current liability at 30 June 2022.

An interest-bearing loan of R45 million is repayable in full in October 2022 and has thus been disclosed as a current liability at 30 June 2022.

9. PURCHASE OF EZEE TILE NON-CONTROLLING INTEREST

The founder and non-controlling shareholder in Ezee Tile Adhesive Manufacturers Proprietary Limited (“Ezee Tile”), Mike du Plessis, retired with effect from 30 June 2021. As a result, the Group acquired his shareholding in Ezee Tile for R120 million during July 2021 increasing the Group’s stake in this company to 98,29% (June 2021: 71,04%).

10. CERAMIC INDUSTRIES RETENTION SCHEME VESTING

Awards issued in accordance with the Ceramic Industries Escrow Scheme (a retention scheme) and which vested on 31 December 2020, resulted in a cash outflow of R99 million from the Group during the year as vested shares were acquired from participants. This acquisition of the vested retention shares has increased the Group's effective holding in Ceramic Industries to 98,06% (June 2021: 95,47%).

11. CIVIL UNREST

During the social unrest in July 2021 experienced in Gauteng and KwaZulu-Natal ("KZN"), the Group closed all of its 18 stores in KZN for 10 days, as well 16 stores in other hotspots for shorter periods of time. Although trade was disrupted and two of the Group stores looted, the Group was fortunate to not experience material loss during this time. Business interruption and asset loss insurance claims have been finalised with insurers.

12. KWAZULU-NATAL FLOODS

Flooding in April 2022 caused extensive damage to the Ezee Tile operation in KZN and the CTM Prospecton store, the largest of the Group's stores in the region. The insurance claim related to flood damage of assets and business interruption and totalled R20 million. The claim is being finalised with insurers, and an interim payment of R7 million had been received by year end.

13. IMPAIRMENTS

In the current year, an impairment of R2 million was recorded for shopfitting assets of the U-Light business unit following closure of two stores and reduction of the retail footprint of two other stores (these assets could not be sold or repurposed).

In the prior year, the following impairments were recorded:

- an impairment of R4 million on a building used for administration purposes that was structurally unsound and demolished; and
 - an impairment of R6 million on equipment at PiviCal Panels that was not fit for purpose and/or damaged, and required replacement.
-

14. COVID-19

During the prior financial year, the Group experienced robust demand for its products as the home improvement industry's share of wallet was elevated, given that various other sectors of the economy experienced restricted trade. As lockdown restrictions eased, this demand has tapered off, with the continued impact of the pandemic being disruptions to global supply chains.

To date, the pandemic has not had a materially adverse effect on collection of receivable balances due to the Group, no material impairments directly attributable to the pandemic have been recorded, and the Group remains a robust going concern.

15. EVENTS AFTER REPORTING DATE

The directors are not aware of any other matters or circumstances arising since the end of the period which significantly affect the financial position at 30 June 2022 or the results of its operations or cash flow for the year then ended.

Administration

ITALTILE LIMITED

Share code: ITE

ISIN: ZAE000099123

Registration number: 1955/000558/06

Incorporated in the Republic of South Africa
("Italtile" or "the Group" or "the Company")

Registered office

The Italtile Building
Corner of William Nicol Drive and Peter Place
Bryanston
2021

Postal address

PO Box 1689
Randburg
2125

Transfer secretaries

Computershare Investor Services Proprietary Limited

Company Secretary

EJ Willis

Sponsor

Merchantec Capital

Auditor

PricewaterhouseCoopers Inc.

DIRECTORS

Executive directors

LA Foxcroft (Chief Executive Officer)

BG Wood (Chief Financial Officer)

Non-executive directors

GAM Ravazzotti (Chairman), LR Langenhoven (Deputy Chairman), SM du Toit (Lead Independent Director),
SG Pretorius, NP Khoza, LC Prezens, JN Potgieter, AM Mathole



Physical and registered address

The Italtile Building
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Bryanston 2021
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