

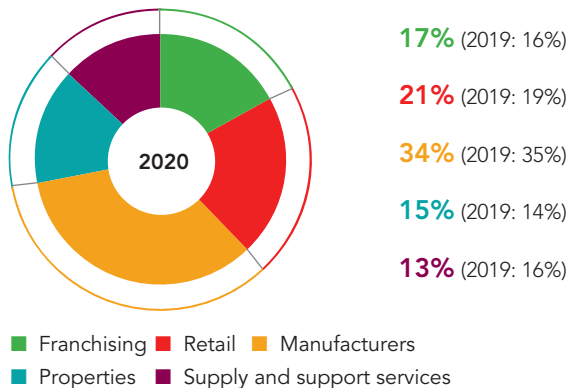
ITALTILE LIMITED

Share code: ITE ISIN: ZAE000099123
Registration number: 1955/000558/06
Incorporated in the Republic of South Africa
("Italtile" or "the Group" or "the Company")



" 'Unprecedented' is the word most frequently used when referring to the COVID-19 global pandemic. In these extraordinary times, our people have demonstrated energy, determination and resilience beyond our expectations. While we pride ourselves on a high-performance culture, the phenomenal response of our team has been unmatched. Their enthusiasm to revive the business after lockdown and their continued commitment to curbing the spread of the virus to ensure uninterrupted service to our customers has been key to this solid set of results and the long-term sustainability of our business. Special mention should also be made of our customers, whose support for our offering and endorsement of our rigorous safety protocols has been inspiring." Jan Potgieter, CEO

Contribution to Group profit before tax:



OVERVIEW

Established in 1969, Italtile Limited 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 total network of 198 stores, including six online webstores. The brand offering targets homeowners across the Living Standards Measure ("LSM") 4 to 10 categories. The retail operation is strategically supported by a vertically integrated supply chain, comprising key manufacturing and import operations, and an extensive property portfolio.

THE COVID-19 PANDEMIC

The safety of our customers and our people is of paramount importance, and we implement rigorous COVID-19 risk mitigating protocols across our business to ensure we play our role in curbing the spread of the virus. The response from our customers has been resoundingly encouraging and I would like to extend my heartfelt thanks to them for their support of our stringent health and safety protocols.

Our goal throughout this period was to come through the crisis well and in certain respects, better than before. The double-digit growth delivered in June and July, with a leaner team, less stock and healthy brands, is rewarding evidence of this. While the pandemic accelerated our efforts to continue to strengthen our business, this goal was facilitated by the extensive groundwork undertaken over the past 18 months. It is also pleasing to report that the pandemic has had no material impact on our debtors' book, which remains healthy, and furthermore that there has been no need to utilise the short-term contingency facility which we negotiated prior to the lockdown period.

Under the challenging conditions faced at present, our Proudly South African positioning, demonstrated across our business and in our campaigns, continued to find favour with customers who support our goal of 'making local and buying local', aimed at creating jobs and growing the economy. This endorsement has been evident during the pandemic which has fostered a strong 'we're in this together' sentiment.

PRIMARY FOCUS AREAS

- At the outset of the period, we identified key strategic imperatives to drive growth. It is pleasing to report on the progress made during the year under review:
 - good sales growth excluding impact of the lockdown, particularly in the tile category, through prioritising the shopping experience and entrenching retail excellence disciplines;
 - advanced the store roll out and revamp programme with 13 stores opened and 15 revamped;
 - expanded the U-Light business to six stores (including a webstore) and a substantial lighting offering in TopT;
 - developed the people pipeline, with good progress made at senior management and store operator level. Having the right people and the right size team is key to optimising productivity returns and improving our competitive posture;
 - improved the Group's BBBEE status from level 6 to level 4;
 - entrenched working capital and cash management as core disciplines, which afforded the flexibility required in the COVID-19 era. It also enabled the payment of a special dividend during the review period, the third for three consecutive financial years, and ensured the resumption of the Group's R800 million capital expenditure programme;
 - prioritised better stockturn and product mix, and improved the ratio of business-critical items;
 - improved manufacturing efficiencies and reduced waste, with both Ceramic Industries and Ezee Tile delivering very strong performances despite the impact of the pandemic;
 - bedded down the supply chain integration, reduced inefficiencies and leveraged opportunities in the logistics and distribution functions to conclude the first phase of a five-year supply chain programme; and
 - drove overall productivity to become more competitive by improving the output and returns on all resources and assets.

RESULTS

Despite the impact of the lockdown and related trading restrictions, the Group reported a solid set of results for the review period.

GROUP PERFORMANCE: OPERATIONAL REVIEW

In line with our long-standing philosophy that growth will be derived from the internal levers within our control, the key focus areas for our management team continued to be sales, cost leadership, productivity improvements and performance culture.

Retail brands and webstores

Our three major retail brands, CTM, Italtile Retail and TopT, all gained market share, while our fledgling U-Light brand established a solid footprint in its first year of operation. The health and equity of our major brands improved, reflected by the good scores achieved across all customer satisfaction measures which we conduct to assess the appeal of the shopping experience in our stores.

In terms of key metrics, as a consequence of the lockdown and subsequent trading restrictions, Italtile Retail and CTM's year on year sales and profits declined. In contrast, and in line with the annual December holiday trend, TopT's sales were buoyed by the migration of a big portion of its customer base from urban areas back to primary rural family homes. Once lockdown restrictions eased, sales in these rural areas made a material contribution to TopT's higher year on year growth.

The Group's webstores have been established for several years and sales have grown consistently since their launch. This operating experience stood the business in good

SHORT FORM ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2020

↓7%

System-wide turnover

R9,3 billion
2019: R10,0 billion

↓16%

Trading profit

R1 502 million
2019: R1 797 million

↓24%

Earnings per share

78,3 cents
2019: 102,6 cents

↓22%

Headline earnings per share

79,2 cents
2019: 101,8 cents

↓21%

Adjusted earnings per share*

81,5 cents
2019: 102,6 cents

↓19%

Adjusted headline earnings per share*

82,3 cents
2019: 101,8 cents

↓20%

Ordinary dividend per share

33,0 cents
2019: 41,0 cents

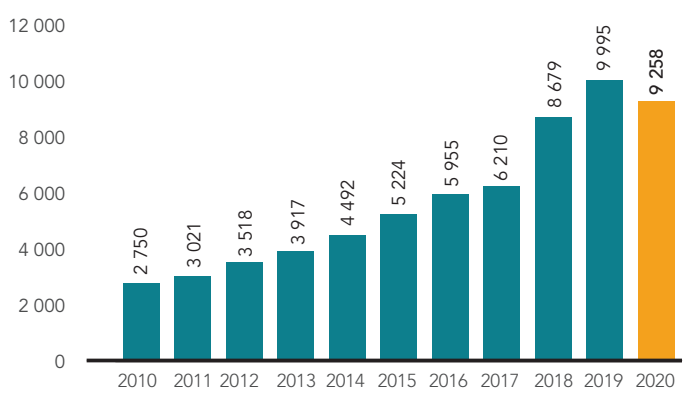
↓28%

Cash

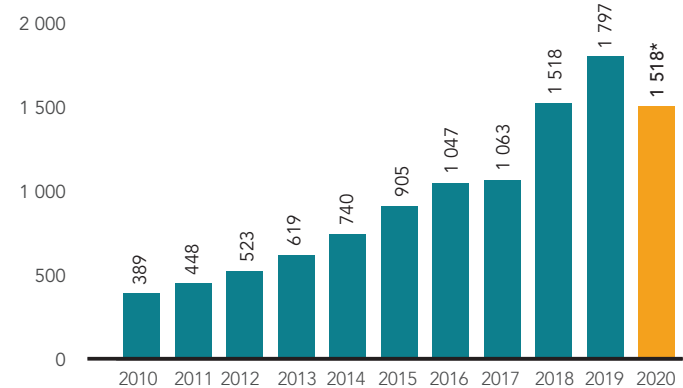
R860 million
2019: R1 201 million

* Adjusted for once-off R39 million IFRS 2 charge for a BBBEE transaction.

System-wide turnover (Rm)



Trading profit (Rm)



* Excludes once-off impairment charge of R16 million.

stead during the lockdown and related restrictions, as online traffic escalated strongly during the last quarter, a trend which has continued post-year end.

CTM

CTM continued to benefit from the successful repositioning of the brand over the past 18 months – centred on the ethos, Sithi Wena (you deserve a beautiful home), and the sustained focus on embedding retail excellence disciplines. Among the key achievements reported during the period include improved productivity levels through entrenching an accountable-with-consequences culture; a solid gain in market share in the bathroomware category; and further development of the people pipeline, specifically at store operator level, through our Operator Training Programme. The brand also upgraded the webstore shopping experience with the launch of a multi-surface tile visualiser – one of the first in the world – which enables customers to digitally view our tiles in their own rooms and match wall and floor tile offerings in lifelike reality. CTM's footprint was expanded into the rest of Africa with the opening of one new store in Botswana and two stores in Kenya.

Italtile Retail

Despite pleasing operational improvements achieved across the business, this division's results were negatively impacted by the downturn in investment in the upper-end LSM market. Subsequent to year end, there has been an uptick in activity in the brand's market segment, which is encouraging.

The following highlights were recorded for the period: market leadership was retained in terms of range and availability of large-format floor and wall tiles and local porcelain tiles; the omnichannel experience was enhanced through a significant upgrade of the webstore platform with specific focus on mobile accessibility; substantial investment was made in improving the in-store shopping experience; and the brand also entered into the vinyl floor market, with good traction achieved.

Italtile Retail's footprint was expanded into the rest of Africa region with the opening of one store in Gaborone, Botswana.

TopT

This brand continued to exceed management's expectations, delivering higher revenue and profit growth, despite the lockdown and trading restrictions. Achievements reported during the period include better implementation of the business-critical framework to ensure consistent stockholding and range across all stores; introduction of a Franchise Partner Development Programme to address succession planning in the business; increased participation in regional community projects to raise brand awareness and build customer relationships; and improved social media content to engage and establish active interaction with customers online. The programme to convert under-performing franchised stores to company-owned or joint venture stores was progressed, and will afford the Group better visibility of performance and higher return on investment.

U-Light

In the year under review, this newly launched business built brand awareness and gained traction in a new market segment for the Group. Unfortunately, the momentum achieved initially was diluted by the onset of the pandemic, which impacted on stock availability, resulting in weaker than anticipated sales in TopT as well as in the five bespoke U-Light stores.

SUPPLY CHAIN: manufacturers

Ceramic Industries Tiles

Despite reduced volumes produced due to lockdown restrictions, the tile factories made significant headway in enhancing yields and reducing waste. Improved efficiencies, intensified cost management and range rationalisation were key drivers during the period.

The Australian tile operation also delivered solid results for the year and, despite the pandemic, reported improved sales and profits in the final quarter. As the only local manufacturer of tiles in Australia, it is likely the business benefited from growing consumer loyalty to locally manufactured product.

Ceramic's long-standing reputation for international standard, industry-leading technology and focus on environmental sustainability will be furthered with the launch of EcoTec tiles - designed specifically to reduce carbon footprint. The tiles are made from locally sourced materials and require 10% fewer natural resources. When compared to imported tiles, the EcoTec manufacturing process emits 30% less CO₂, requires 25% less packaging and affords 25% more volume per load, contributing to a significant carbon reduction. It is anticipated that this affordable, global-standard range will appeal to customers seeking stylish, locally made, environmentally-sensitive tiles.

Bathroomware and baths

The Betta Sanitaryware and Baths operations delivered an improved performance. The restructured management team has improved the quality of processes and planning, which augurs well for continued growth in the business. Construction of the warehouse facility was temporarily deferred in light of the pandemic and will continue once favourable conditions resume.

Ezee Tile

While year on year sales were lower due to trading restrictions, the improved production efficiencies and enhanced cost management achieved during the review period

resulted in higher margins and profits for the year. Good progress was also recorded as follows: the new factories in Lusaka and Harare were stabilised and market share was secured in Zambia and Zimbabwe; operational efficiencies were enhanced through the introduction of improved KPIs and measurement systems; a turnaround was achieved in the Mokopane factory through securing cost-effective supply of raw materials and increased production capacity and efficiency; the Cape Town operation was successfully relocated to a new site; and the business launched a range of European-quality tile adhesive for extra large format tiles.

SUPPLY CHAIN: importers

Cedar Point

During the review period, Cedar Point, concluded the successful commissioning and bedding down of the new Durban DC warehouse facility which services the KwaZulu-Natal and Eastern Cape regions; achieved good progress in improving the range and replacing some import supply with local product; and reduced distribution costs by integrating into the new transport management system ("TMS"), with further opportunities to cut costs.

At year end, the business insourced the Vereeniging DC which had previously been managed by an external third party. Bedding down management of the facility has been a challenging project and is work in progress.

International Tap Distributors ("ITD")

This business delivered a very pleasing performance for the year, reporting double-digit profit growth. Key achievements include improved working capital management and cost controls; increased stock turn and reduced total stockholding; higher margins and average selling price through an improved range offering and better buying; and enhanced efficiencies in the robotic warehouse, which reduced downtime during the year and achieved a new record for single-day pickings.

Durban Distribution Centre

A good performance was reported by this division, which exceeded sales budgets despite the weak sales environment. Significant achievements include: rationalisation of the tile ranges for CTM and TopT and continued improvement in stockholding levels and stock turn; enhancement of the procurement process with the introduction of new suppliers in India as well as locally; relocation to the new Durban facility, which has delivered the envisaged efficiencies and benefits; and implementation of the Group's new TMS, which will improve logistics efficiencies and reduce costs.

PROPERTY INVESTMENT

As at 30 June 2020, the portfolio's estimated market value was R4,3 billion, comprising a retail portfolio valued at R3,3 billion (2019: R3,0 billion) and a manufacturing portfolio valued at R1,0 billion (2019: R0,8 billion). During the period, capital expenditure of R274 million was incurred across the retail portfolio on an ongoing store upgrade programme and the acquisition of five retail properties. R180 million was invested across the manufacturing operations on plant, warehouse and equipment upgrades.

ORDINARY CASH DIVIDEND

The Board has declared a final gross ordinary cash dividend of 10,0 cents per share (2019: 19,0 cents per share), which together with the interim gross ordinary cash dividend of 23,0 cents per share (2019: 22,0 cents per share), produces a total gross ordinary cash dividend declared for the year ended 30 June 2020 of 33,0 cents per share (2019: 41,0 cents per share), a decrease of 20%.

The dividend cover remains at two and a half times.

DIVIDEND ANNOUNCEMENT

The Board has declared a final gross ordinary cash dividend (number 108) for the year ended 30 June 2020 of 10,0 cents per ordinary share, to all shareholders recorded in the books of Italtile as at the record date of Friday, 18 September 2020.

In accordance with paragraphs 11.17(a)(i) to (x) and 11.17(c) of the Listings Requirements of the JSE ("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 10,0 cents per share for shareholders exempt from the dividends tax.
- The net local ordinary dividend amount is 8,0 cents per share for shareholders liable to pay the dividends tax.
- The local ordinary dividend withholding tax amount is 2,0 cents per share for shareholders liable to pay the dividends tax.
- Italtile's income tax reference number is 9050182717.
- The Group has 1 321 654 148 shares in issue including 9 824 614 shares held by the Italtile Share Incentive Trust, 63 722 861 shares held as BEE treasury shares and 17 621 666 shares held by Italtile Ceramics Proprietary Limited ("Italtile Ceramics").

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, 15 September 2020. The shares will commence trading ex-dividend from the commencement of business on Wednesday, 16 September 2020 and the record date will be Friday, 18 September 2020. The dividend will be paid on Monday, 21 September 2020. Share certificates may not be rematerialised or dematerialised between Wednesday, 16 September 2020 and Friday, 18 September 2020, both days inclusive.

PROSPECTS

The consequences of the pandemic will be evident for the foreseeable future, and given the weak underlying structural fundamentals, the economy is likely to struggle to recover, even after all risk-adjusted restrictions have been lifted. Our clear challenge will be to continue to optimise on improvements made in our business to extract growth and gain market share.

- We are better structured operationally to reduce overhead costs across the business.
- The continued heightened emphasis on the joint venture store model will afford improved profitability and oversight.
- Our Proudly South African focus on our local manufacturing and supply chain capability will remain a key priority.
- We will entrench and grow market leadership through our high-profile, trusted brands and continue to invest in new and upgraded stores and manufacturing plants.
- Technological innovation will remain a key driver of growth.

In terms of the forthcoming financial year, we anticipate the first six months will be very difficult while lockdowns persist. We are optimistic that the second six months commencing 1 January 2021, will be more robust, particularly since the comparison will be against five months of trading in FY2020. Our expectation is that the Group will deliver positive sales and profit growth in the first half of the new financial year and comparatively stronger sales and profits in the second half.

For and on behalf of the Board

J N Potgieter
Chief Executive Officer

B G Wood
Chief Financial Officer

SHORT FORM ANNOUNCEMENT

The content of this short form announcement is the responsibility of the directors. Shareholders are advised that this short form announcement represents a summary of the information contained in the full announcement which is available at <https://senspdf.jse.co.za/documents/2020/jse/isse/ite/ye20.pdf> and on Italtile's website at <https://www.italtile.com/investor-reports-and-results.asp>. The short form announcement was published on SENS on 25 August 2020 and is also available on Italtile's website at <https://www.italtile.com/investor-reports-and-results.asp>.

The preliminary condensed consolidated financial statements were reviewed by the Group's auditors, PricewaterhouseCoopers Inc., who expressed an unmodified review conclusion thereon.

Any investment decisions by investors and/or shareholders should be based on a consideration of the full announcement as a whole and investors and shareholders are encouraged to review the full announcement, which is available as detailed herein.

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 ilwizilis@ejayssecretarial.co.za.

www.italtile.com

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