

ITALTILE

LIMITED

Share code: ITE ISIN: ZAE000099123

Registration number: 1955/000558/06

Incorporated in the Republic of South Africa

("Italtile" or "the Group")

www.italtile.com

SHORT FORM ANNOUNCEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

<div><div>System-wide turnover</div><div>R6,2 billion</div><div>2019: R5,4 billion</div><div>↑ 14%</div></div>	<div><div>Trading profit</div><div>R1 420 million</div><div>2019: R1 029 million</div><div>↑ 38%</div></div>	<div><div>Earnings per share</div><div>77,9 cents</div><div>2019: 55,3 cents</div><div>↑ 41%</div></div>	<div><div>Adjusted earnings per share*</div><div>77,9 cents</div><div>2019: 58,4 cents</div><div>↑ 33%</div></div>	<div><div>Net cash</div><div>R1,1 billion</div><div>2019: R0,7 billion</div><div>↑ 62%</div></div>	<div><div>Headline earnings per share</div><div>77,1 cents</div><div>2019: 55,3 cents</div><div>↑ 39%</div></div>
<div><div>Adjusted headline earnings per share*</div><div>77,1 cents</div><div>2019: 58,4 cents</div><div>↑ 32%</div></div>	<div><div>Ordinary dividend per share</div><div>31,0 cents</div><div>2019: 23,0 cents</div><div>↑ 35%</div></div>	<div><div>*Adjusted for once-off R39 million IFRS 2 charge related to the BBBEE transaction announced on SENS on 10 September 2019.</div></div>			
<div><div>Net asset value</div><div>517 cents</div><div>2019: 450 cents</div><div>↑ 15%</div></div>	<div><div>Store network</div><div>203</div><div>June 2020: 198</div><div>↑ 3%</div></div>				

“ Partnership with our people is a very strong culture in our business and it is extremely satisfying that through our widespread profit-sharing schemes, they were appropriately rewarded for their extraordinary efforts during the reporting period. ” Jan Potgieter, CEO

Contribution to Group profit before tax

Category	2020 (%)	2019 (%)
Franchising	9%	12%
Retail	14%	20%
Manufacturers	22%	17%
Properties	41%	36%
Supply and support services	14%	15%

System-wide turnover (Rm)

Year	Six months	Year
2010	436	2 750
2011	1 595	3 021
2012	1 844	3 518
2013	2 036	3 917
2014	2 326	4 492
2015	2 722	5 224
2016	3 077	5 955
2017	3 496	6 210
2018	4 251	8 679
2019	5 327	9 995
2020	5 400	9 258
2021	6 162	

Trading profit (Rm)

Year	Six months	Year
2010	202	389
2011	231	448
2012	271	523
2013	312	619
2014	367	740
2015	459	905
2016	531	1 047
2017	594	1 063
2018	716	1 518
2019	968	1 797
2020	1 029	1 518*
2021	1 420	

OVERVIEW

Founded in 1969, Italtile Limited 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 203 stores, including six online webstores. The brand offering targets 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 dream 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.

THE COVID-19 PANDEMIC ("PANDEMIC")

The safety of our customers and our people remained a key priority over the review period and we continued to implement stringent risk-mitigating protocols across the business. Our internal audit department is responsible for ensuring compliance and we enforce a zero-tolerance policy regarding contraventions of the prescribed safety protocols. This prudent approach has served us well, reflected by the strong support received from our customers who have acknowledged and endorsed our safety measures across a variety of consumer feedback forums.

Inevitably, the pandemic has had a disruptive effect on the business, both directly through supply chain interruptions, but also indirectly, requiring significant commitment of time and resources in our operations to help curb the spread of the virus in our communities. It is testament to the stellar efforts of our people, their resilience and ability to adapt to challenging conditions that we have managed to continue to deliver safe, consistent service and dependable supply of products to our customers.

RESULTS

It is rewarding to report that despite the unprecedented trading environment, the Group has delivered a pleasing performance for the review period, recording double-digit sales and profit growth across all of our operations: retail brands, supply chain importers and manufacturing businesses.

These gratifying results are attributable to the following factors, augmented by the impact of the pandemic on consumers' enforced time in the home and altered spending priorities:

- the extraordinary response of our team to adjusting to the new normal;
- productivity drive and cost leadership gains across the business derived from ongoing improvements made over the past 18 months;
- continued investment in technology for the future – both in our factories and across the Group's omnichannel trading platforms; and
- the power of our strategically robust integrated business model, which is volume-driven, cash generative and centred on a high-performance culture.

OPERATIONAL REVIEW

In keeping with the long-standing philosophy that growth in the Group will be derived from the internal levers within management's control, our key focus areas centred on sales levers, range enhancement, cost leadership, productivity improvements and performance culture.

Good progress was achieved by the business as follows:

- continued to compete aggressively, gain share of the wallet through better execution of retail excellence disciplines and consistent investment in the shopping experience;
- improved the management of stockholding and working capital;
- intensified operational efficiencies and productivity in the stores and between the stores and the supply chain; and
- reduced manufacturing production costs to entrench the Group's position as the preferred import substitute.

RETAIL BRANDS: STORES AND WEBSTORES

Robust growth was achieved in-store across all three major brands, CTM, Italtile Retail and TopT, across all merchandise categories, across all regions, and across key metrics including sales, profits, average basket value, stock turn and sales per person.

The Group has invested substantial resources in developing and implementing innovative technology online to enhance our competitive offering. During the review period, record unique visitor traffic was reported across all of the webstores, reflecting the sustained trend of consumers to conduct their pre-store visit research online. In addition, growing numbers of customers concluded sales online, demonstrating the relevance of the Group's omni-channel offering which aims to provide a seamless shopping experience across all trading platforms.

**CTM:** Introduced two years ago, the Sithi Wena (you deserve a beautiful home) culture is well-entrenched across the brand offering and continues to underpin the step-change that is epitomised by improvements in the range, presentation and look-and-feel in the stores.

CTM grew share of wallet and delivered double-digit sales and profit growth in the reporting period. This performance was particularly commendable given the lower personnel headcount and competitive trading environment. Margins improved in light of the strategic composition of product mix and price ladders, ensuring that price-sensitive customers continued to enjoy CTM's year-round value proposition. While good sales growth was recorded across all key merchandise categories, notably strong results were achieved by the bathroomware division, specifically in stores that have been converted to the highly stylish Millennial format.

**Italtile Retail:** This brand reported rewarding sales and profit growth and improved store productivity. Particularly pleasing was the strong gain in market share, entrenching Italtile as the leader in the premium-end segment. This strong performance is largely attributable to Italtile Retail's unique offering, being a balance of high-end imported product and the best that the local market has to offer at competitive prices, which has attracted new customers. The retail business, which is largely driven by renovations, outperformed the projects division and is likely to continue to do so until new build and commercial projects regain momentum over the longer term.

**TopT:** Consistent with the brand's performance over recent years, TopT delivered double-digit sales and profit growth, and improved margins, average basket value and store productivity. The brand succeeded in maintaining market share, despite fierce competition in its segment. In line with the strategy to convert non-performing franchise stores to corporate, the Group took back three regions in the prior financial year and has seen a pleasing turnaround in turnover and profitability in those territories.

TopT has launched a major new positioning campaign, Woza Ekhaya (Come Home), centred on helping customers to create their dream home; the underlying theme is the importance of community, TopT's role as part of that community, and its proudly South African credentials. The campaign is expected to achieve strong consumer equity and drive sales as it gains traction in the months ahead.

**U-Light:** Work continues to be done on optimising the business model and management team of this new brand. While the pandemic had an extremely severe impact on availability of imported stock sourced by external suppliers, good progress has been made in setting up an in-house supply chain which has resulted in a significant improvement in product differentiation, price and consistent supply.

SUPPLY CHAIN: MANUFACTURERS

The Group's integrated supply chain continued to deliver on management's strategy to provide a complete solution to customers, and underpins the policy of ensuring the 'right product at the right time, place and price'.

At the end of the prior reporting period, management noted that a key focus in the supply chain would be to extract efficiencies and reduce costs by leveraging opportunities in the logistics and distribution functions. Pleasing progress was made in this regard, with the expansion of the transport management system across the Group's supply chain operations, resulting in notable cost savings which we were able to pass on to our customers.

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.

Ceramic's tile operations in South Africa and Australia recorded robust sales and profit growth in the review period, as unrelenting demand in both markets drove full capacity utilisation in the factories, boosting efficiencies and lowering unit costs. Management's sustained focus on enhancing yields and reducing costs and waste in the operations also contributed to the strong results.

The Betta Sanitaryware and Baths operations delivered a solid performance, reflecting ongoing improvements in the quality of processes and planning implemented by the restructured management team.

Ezee Tile

This business continued to gain momentum as a result of improved production efficiencies and intensified cost management. Double-digit sales growth was recorded, while profits rose strongly, derived from full capacity utilisation and operational enhancements in all its factories.

SUPPLY CHAIN: IMPORTERS

All three import businesses, Cedar Point, ITD and DC, improved their sales, profits and margin metrics. In light of the disruption to international supply chains, management in these operations did exceptionally well to leverage long-standing relationships with suppliers and transporters to negotiate steady supply to our stores. As a proudly South African company and aligned with our deliberate long-term strategic shift, the Group will continue to replace imported product with local supply where appropriate and viable.

PROPERTY INVESTMENT

As at 31 December 2020, the estimated market value of the portfolio was R4,4 billion (2019: R4,1 billion), comprising a retail portfolio valued at R3,4 billion (2019: R3,2 billion) and a manufacturing portfolio valued at R1,0 billion (2019: R0,9 billion). Two properties were sold during the review period, realising a net profit of R16 million. In the six months under review, capital expenditure of R189 million was incurred on an ongoing property enhancement programme, while R88 million was invested across the manufacturing operations on plant and equipment upgrades.

FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

ENVIRONMENTAL PRIORITIES

The Group's sustainability agenda is underpinned by:

**Properties** which are constructed and renovated using cost-effective, energy-efficient and environmentally sensitive practices and building materials. Optimal use is made of natural light, solar technology, new-generation lighting, water-saving taps and rainwater harvesting. The Group has embarked on an extensive solar power rollout.

**Operations** which are managed with a view to limiting our carbon footprint and enhancing the natural environment by using latest technology to reduce consumption of non-renewable resources and recover, recycle and reuse them where possible.

**Product offering:** our range of eco-friendly, water-saving products continues to expand across our brands and includes taps, shower heads and toilets. Our recently launched EcoTec tiles are a ground-breaking innovation in the local market; in comparison to imported tiles, the manufacturing process requires 10% fewer natural resources and emits 30% less CO<sub>2</sub>. The product is deliberately designed thinner, therefore it requires 25% less packaging, less shipping, and costs 25% less per m<sup>2</sup> to transport from source, contributing to a significant carbon reduction.

**Philosophy:** our proudly South African culture is demonstrated across our operations which prioritise selling local products manufactured by local people, thereby creating jobs, providing training and contributing to the wellbeing of our people.

ORDINARY CASH DIVIDEND ANNOUNCEMENT

The Group's dividend cover is two and a half times. The Board of directors of Italtile ("Board") has declared an interim gross cash dividend (number 109) for the review period ended 31 December 2020 of 31,0 cents per ordinary share (2019: 23,0 cents), to all shareholders recorded in the shareholder register of Italtile as at the record date of Friday, 5 March 2021.

In accordance with paragraphs 11.17(a)(i) to (x) and 11.17(c) of the Listings Requirements of the JSE Limited ("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 dividend amount is 31,0 cents per share for shareholders exempt from the dividends tax
- The net local dividend amount is 24,8 cents per share for shareholders liable to pay the dividends tax
- The local dividend withholding tax amount is 6,2 cents per share for shareholders liable to pay the dividend tax
- Italtile's income tax reference number is 9050182717
- The Group has 1 321 654 146 shares in issue including 16 211 753 shares held by the share incentive and retention trusts, 64 386 405 shares held as broad-based black economic empowerment treasury shares and 24 070 812 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, 2 March 2021. The shares will commence trading ex-dividend from the commencement of business on Wednesday, 3 March 2021 and the record date will be Friday, 5 March 2021. The dividend will be paid on Monday, 8 March 2021. Share certificates may not be rematerialised or dematerialised between Wednesday, 3 March 2021 and Friday, 5 March 2021 both days inclusive.

PROSPECTS

Management anticipates that varying degrees of lockdown will continue to be implemented over the next year which, while damaging the economy generally, will likely favour the prevailing home improvement trend. Albeit that consumers will face greater financial hardship and constrained disposable income in the year ahead, current evidence indicates that they will continue to spend on their homes when funds permit; low, single-digit interest rates are expected to be retained for the short to medium term, which will further encourage homeowners to invest in their primary asset.

In this light, management is optimistic about the Group's growth prospects and accordingly, has developed strategies to optimise on opportunities presented; we will also continue to roll out capital expenditure projects and new store openings where proven consumer demand exists. Simultaneously, preparations are in place to manage the anticipated continued disruption of imported product, and to ensure uninterrupted supply from our own and other local manufacturing operations to all of our markets in South Africa and the rest of Africa.

OUTLOOK

Should current trading conditions and COVID-19-related restrictions remain stable in the forthcoming six months, we anticipate that the Group will deliver double-digit sales and profit growth on that reported in the prior corresponding period, given that the comparison will be against five months of trading in FY2020. However, should trading conditions deteriorate and/or COVID-19 restrictions be intensified resulting in an adverse impact on our operations, this guidance will no longer apply. In this regard, management will endeavour to continue to provide regular, transparent communication to the market over the forthcoming period.

For and on behalf of the Board

J N Potgieter  
Chief Executive Officer

B G Wood  
Chief Financial Officer

11 February 2021

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 long form announcement which is available at: <https://senspdf.jse.co.za/documents/2021/jse/isse/ite/interims21.pdf> and on Italtile's website at <https://www.italtile.com>. This short form announcement was published on SENS on 11 February 2021.

Any investment decisions made 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, as detailed herein.

Both the short form and full announcement are also available for inspection at the registered offices of Italtile and sponsor, Merchantec Capital, during business hours, and copies may be obtained at no cost on request from the Company Secretary, who is contactable on +27 11 882 8200 or [lizwillis@ejaysecretarial.co.za](mailto:lizwillis@ejaysecretarial.co.za).

[www.italtile.com](https://www.italtile.com)

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Registered office: The Italtile Building, corner William Nicol Drive and Peter Place, Bryanston, 2021 (PO Box 1689, Randburg, 2125) Transfer secretaries: Computershare Investor Services Proprietary Limited Company Secretary: E J Willis Sponsor: Merchantec Capital Auditor: PricewaterhouseCoopers Inc.