SHORT-FORM ANNOUNCEMENT AND CASH DIVIDEND DECLARATION FOR THE SIX MONTHS ENDED 31 DECEMBER 2021

ITALTILE LIMITED

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

"In the current challenging external environment, our strategic focus is on the growth levers within our control and influence: productivity, cost leadership, partnerships with our people, and constant innovation and investment aimed at delivering an unrivalled shopping experience for our customers."
Lance Foxcroft, CEO.

System-wide turnover
R6,1 billion
2020: R6,2 billion

Trading profit
R1,5 billion
2020: R1,4 billion

Earnings per share
84,0 cents
2020: 77,9 cents

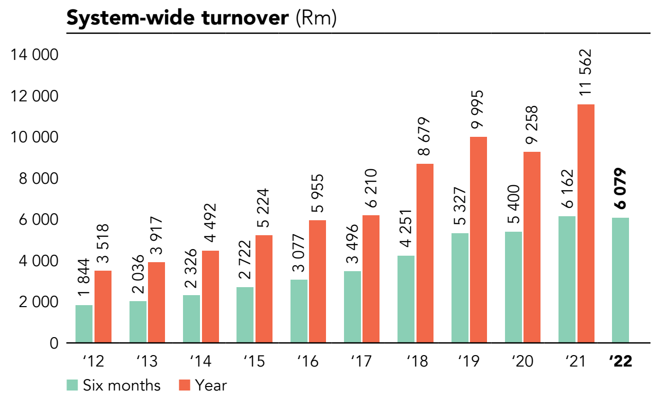
Headline earnings per share
83,9 cents
2020: 77,1 cents

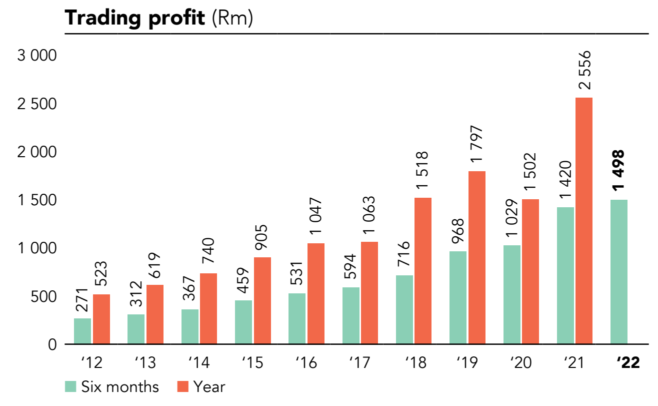
Net asset value
543,0 cents
2020: 517,0 cents

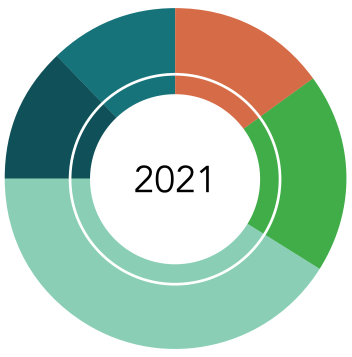
Ordinary dividend per share
34,0 cents
2020: 31,0 cents

Net cash
R0,5 billion
2020: R1,1 billion

Store network
209
June 2021: 206
December 2020: 203







Contribution to Group profit before tax
- Franchising: 15% (2020: 14%)
- Retail: 19% (2020: 22%)
- Manufacturers: 41% (2020: 41%)
- Properties: 13% (2020: 14%)
- Supply and Support Services: 12% (2020: 9%)

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 209 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.

TRADING ENVIRONMENT AND CONSUMER TRENDS

State of the consumer

During the review period, the local economic and socio-political environment remained fragile as the ongoing impact of the Covid-19 pandemic ("pandemic") continued to highlight major structural flaws and inequalities in the South African bedrock, and persistent corruption, infrastructure failure, poor service delivery, policy uncertainty, and general dissatisfaction regarding overdue transformational reforms weighed heavily on consumer and business confidence and spend.

In light of weak economic growth and record unemployment levels, homeowners faced growing financial hardship, experiencing low wage inflation, high levels of personal debt, rising consumer inflation and more recently, two interest rate increases.

In this context, consumer despondency and fatigue, which we flagged at year end, intensified and is reflected in the anecdotal evidence of our customers in the mass middle market specifically, who have significantly reduced or deferred investment in their homes over recent months.

Our industry

From an operational perspective, the pandemic continued to cause severe disruptions to global supply chains, a situation exacerbated by local port delays. Due to the severe disruptions in supply chains, stock availability across the industry has been erratic over the past 18 months. More recently, after prolonged shortages, stock levels have risen disproportionately to demand as sales fell short of anticipation.

Compounding the pressure on our industry, the review period featured rampant price inflation across the spectrum of input costs, further affecting affordability for consumers and resulting in a margin squeeze.

In this content, it is reassuring to report that the Group's local integrated supply chain and manufacturing capability afforded the business significant strategic advantage by alleviating supply volatility.

Home improvement trends

Since early 2020, pandemic-related work-and-study-from-home restrictions altered consumers' disposable income spending priorities and boosted strong demand for home improvement products. However, over the past six months, there has been a steady decline in this demand as lockdown restrictions were eased or lifted and various sectors of the economy reopened. The cocooning trend that prevailed since the pandemic emerged has diminished significantly, and disposable spend has been channelled away from home improvements back to other discretionary and lifestyle pursuits.

RESULTS

In the Group's prospects statement for the year ended 30 June 2021 and the voluntary sales update for the five months to 30 November 2021, management cautioned that the business would remain on track to deliver sales and profit growth for the full year, assuming trading conditions did not deteriorate materially in the balance of the current financial year. Regrettably, as outlined above, conditions have continued to worsen, resulting in a concomitant decline in sales growth from Q1 to Q2 of the review period, and leading into January 2022.

Notwithstanding this context, management remained consistent in prioritising and focusing on the growth levers in the business over which the Group has control and influence. The results reported for the period are a reflection of the following factors which contributed to supporting sales growth and off-setting the contextual adversities:
- our ongoing productivity drive, emphasis on cost leadership, and the extraordinary response of our team to adjusting to the new normal;
- management's focus on improving the customer shopping experience through enhanced ranges, presentation, and service;
- the Group's robust business model, specifically the local integrated supply chain, which ensured consistent availability of a wide product range at stable prices;
- continued innovation and investment in technology for the future – both in our factories and across the Group's omnichannel trading platforms;
- six new store openings, three store closures and the reinstatement of our store revamp programme;
- conscientious management of Covid-19 health and safety protocols for our customers and our people, which ensured all of our factories continued to operate without interruption throughout the pandemic, providing seamless service to our customers; and
- our ethos of partnership and profit-sharing with our people, which empowers them to participate in the success of the business.

DIVISIONAL REVIEW

RETAIL BRANDS: STORES AND WEBSTORES

As the pandemic-related cocooning trend declined, evidenced by consumers channelling discretionary spend away from home improvements to other lifestyle pursuits, our store operators were challenged to respond with resourcefulness and innovation to retain a share of customers' wallets.

CTM

CTM's performance for the period is largely a reflection of the stressed state of the mass middle market consumer. While most of the brand's key metrics improved, including sales per person and average basket value, total transactions declined as demand in this segment of the market waned. During the review period, a key focus was on store presentation and revamps, the latter having been postponed during the prior six months due to the pandemic. A total of 14 stores were revamped, with pleasing results reported by the stores post their refurbishment.

Management's focus in the forthcoming period will be on driving increased sales volumes through improved ranges and price laddering, enhanced service at all customer touchpoints, and entrenching key disciplines related to stock and cost controls and in-stock levels.

Italtile Retail

Following a very strong performance in FY2021, Italtile Retail delivered another pleasing set of results. Key metrics improved, including sales per person, profits, average basket value and productivity. While the residential/retail component accounted for the bulk of sales, the Commercial Projects division showed very early signs of recovery in the latter part of the review period. The business unit has a good pipeline of prospective projects and management is hopeful that improved investor sentiment in this market segment will continue to gain traction.

The brand opened a pilot small-format store in George, Western Cape, during the review period.

TopT

The brand reported a sound performance, with improvements recorded across most key metrics: sales per person, profits, average basket value and productivity. During the review period encouraging opportunities were identified to optimise in-stocks and price laddering through enhanced procurement, planning and logistics. As a result, the business model will be simplified to centralise these functions, thereby freeing up operators to focus on sales and in-store disciplines to provide an improved customer shopping experience. With 92 stores in the network, this specialised, centralised capability will add value by leveraging untapped synergies across TopT's regions.

The brand has a strong pipeline of new stores which will be rolled out in proven markets as opportunities arise.

U-Light

While performance is still below management's expectations, further progress was made during the review period with improving the business model. It is pleasing to report that the webstore gained traction and is a valuable tool in the customer offering. In the period ahead the business will focus on range enhancements; growing market share in the external projects segment, where initial inroads have been made; and further developing the webstore offering.

WEBSTORES

The Group operates six webstores, one each for Italtile Retail, TopT and U-Light, and three for CTM's markets in South Africa, Tanzania and Kenya. In general, user traffic across the webstores remained above pre-pandemic levels, affirming that consumer behaviour has modified permanently. Given the growing contribution of this offering to the Group's multi-channel sales platform, management continues to invest in developing and enhancing the capability to provide customers with a seamless, personal digital experience to differentiate our offering from our peers, in a market space which is becoming increasingly sophisticated and competitive.

INTEGRATED SUPPLY CHAIN: MANUFACTURERS

Ceramic Industries

This business has significant strategic advantage for the Group given that one out of every two tiles, baths and toilets purchased in South Africa are manufactured by Ceramic.

As a volume-driven operation, Ceramic prospers at full-capacity utilisation. In light of the decline in customer demand and annual shutdown, specifically in Q2, Ceramic's profits and margins for the period were flat. Although improvements were made in efficiencies throughout the operations, particularly with regard to the logistics function, the impact of unforeseen inflationary costs and the decision to withhold price pressure on customers off-set these.

During the period, additional capacity was unlocked in the Gryphon and Pegasus factories, and continued investment in technology was made throughout the division to facilitate new finishes and features on products. It is also pleasing to report a gain in share of the large format as well as the import substitute tile markets.

The Samca Plus factory underwent a major upgrade, comprising the installation of state-of-the-art Italian technology and equipment. The commissioning of the R350 million factory in November 2021 provides a significant strategic advantage for the Group, complementing Ceramic's existing range with another premium-end import substitute offering. The early response from customers has been favourable, and management is satisfied that the product will capture market share in the import segment.

Management is confident that there are strong growth prospects for the entire Ceramic business through import product substitution; improving alignment in the Group's integrated supply chain; and unlocking value in the stores, which will drive volumes in the factories.

Shutdowns for annual maintenance performed in December and January will result in incomparable performance in January.

Ezee Tile

Directly aligned to weaker demand from the retail brands, specifically CTM, this business reported solid results in Q1 and a softer performance in Q2. International supply chain bottlenecks were particularly testing during the period, resulting in inconsistent supply of raw materials and steeply inflated input cost price increases. Notwithstanding severe pandemic-related supplier delays, Ezee Tile will relocate and upgrade its Germiston factory from rented premises to an owned site in Brakpan, Gauteng in April 2022. The new site will provide substantial opportunity to streamline operations and expand the business's current capacity.

INTEGRATED SUPPLY CHAIN: IMPORTERS

Global supply chain interruptions had a harsh impact on the three import businesses – Cedar Point, ITD and DC – which collectively reported lower sales due to erratic or non-delivery of imported products. Pricing volatility was another significant adverse factor, and in light of these obstacles, which are expected to continue for the short-term, greater focus will be placed on exploring local import substitute alternatives that will ease supply and pricing volatility and further the Group's proudly South African ethos.

SUSTAINABILITY PRIORITIES

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

PROPERTY PORTFOLIO

As at 31 December 2021, the estimated market value of this portfolio was R4,8 billion (2020: R4,4 billion), comprising a retail portfolio valued at R3,6 billion (2020: R3,4 billion) and a manufacturing portfolio valued at R1,2 billion (2020: R1,0 billion). During the reporting period, capital expenditure of R205 million was incurred on an ongoing property enhancement programme, while R217 million was invested across the manufacturing operations on plant and equipment upgrades.

DECLARATION OF ORDINARY CASH DIVIDEND

The Group's dividend cover is two and a half times. The board of directors of Italtile ("the Board") has declared an interim gross cash dividend (number 111) for the review period ended 31 December 2021 of 34,0 cents per share (2020: 31,0 cents) out of income reserves to all shareholders of Italtile as at the record date of Friday, 4 March 2022. The dividend per share is calculated based on 1 321 654 148 shares (2020: 1 321 654 148 shares) in issue at the date of dividend declaration. The net local dividend amount is 27,2 cents per share for shareholders liable to pay dividends tax and 34,0 cents per share for shareholders exempt from paying dividends tax.

Dividend declaration date	Thursday, 10 February 2022
Last day to trade cum the dividend	Tuesday, 1 March 2022
Date to commence trading ex-dividend	Wednesday, 2 March 2022
Record date	Friday, 4 March 2022
Payment date	Monday, 7 March 2022.

Share certificates may not be rematerialised or dematerialised between Wednesday, 2 March 2022 and Friday, 4 March 2022, both days inclusive.

PROSPECTS

The Group's most powerful assets are its robust business model and its innovative, resilient people. Management is gratified by the Group's performance over the past six months in very trying circumstances, and is confident that the challenges that lie ahead will be overcome.

Focus will be centred on the following growth levers in the period ahead:
- gaining market share will be a key priority, particularly in the tile segment catering for the mass middle market; this will be achieved through improving ranges and instilling retail excellence disciplines at every customer touchpoint;
- the ongoing store roll out programme – specifically in underserved markets – and the continued upgrade of stores across the network;
- opportunities to leverage both the integrated and external supply chains, and improve in-stocks across the Group;
- our capital expenditure investments are counter-cycle, and by investing timeously, we have avoided inevitable future cost increases and delays; we are well positioned to take advantage as trading conditions improve;
- we will explore opportunities to expand our existing local facilities and increase capacity;
- we will pursue opportunities to capitalise on the Group's footprint in Africa, and expand cautiously where appropriate; and
- over the past six months, input cost inflation has risen significantly – where feasible, costs have been absorbed in the short term, but prices and margins will be adjusted in the forthcoming periods to support business units and store operators.

OUTLOOK

Notwithstanding the challenging external environment, management remains optimistic that there are opportunities for growth in our business, and in line with our stated philosophy, we will continue to focus on levers within our control and influence. We continue to target improved sales and profits for the year, despite the current challenging conditions. Given the uncertainties related to persistent country-specific risks and ongoing pandemic-related concerns, it is imprudent to provide more specific guidance in terms of future performance at this point. In this regard, management will continue to provide regular, transparent communication to the market over the forthcoming period.

For and on behalf of the Board

L A Foxcroft	**B G Wood**
Chief Executive Officer	Chief Financial Officer

10 February 2022

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/2022/jse/isse/ite/interims22.pdf and on Italtile's website at **https://www.italtile.com**. This short-form announcement was published on SENS on 10 February 2022.

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 announcements 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.

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.

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