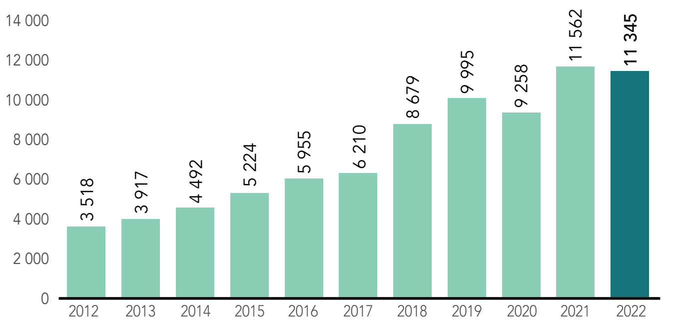
ITALTILE LIMITED

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

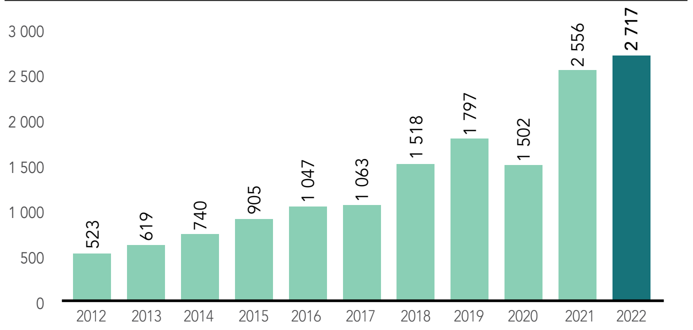
SHORT FORM ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2022 AND CASH DIVIDEND DECLARATION

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

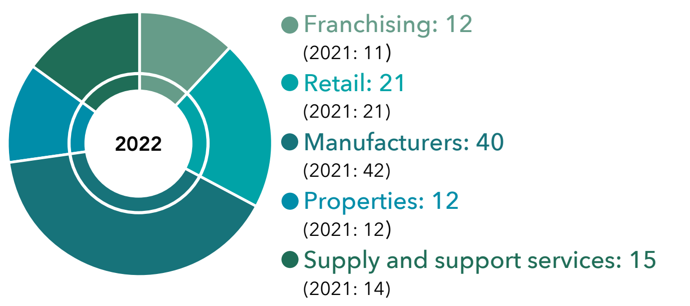
System-wide turnover (Rm)



Trading profit (Rm)



Contribution to Group profit before tax (%)



www.italtile.com

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 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.

TRADING ENVIRONMENT AND CONSUMER TRENDS

During the year, prevailing conditions and emerging events caused significant instability in the global environment, our local economy and the construction industry.

The shift in consumer spend away from home improvement to other recreational and discretionary purchases continued, as pandemic-related restrictions were lifted and the economy broadly reopened. Lower customer footfall and a decline in demand was widespread across the industry.

Ongoing global supply chain disruptions continued to cause instability in supply and pricing for much of the year. Significant increases in inflation in most markets, including our own, drove up input and other operating costs and reduced discretionary spend.

In South Africa, consumer confidence continued to decline, centred on widespread despondency regarding deteriorating political, social and economic conditions. Several successive interest rate increases and accelerating inflationary pressure on building costs subdued investment sentiment further and reduced affordability, influencing cost-conscious homeowners to defer or scale down on renovation and building projects.

Disruption and higher costs caused by increased load shedding – despite mitigating measures implemented by the Group – continued to negatively affect operations and profitability.

PRIMARY FOCUS AREAS

On balance, we are satisfied that the goals we identified at the end of FY2021 have been accomplished; in line with our high-performance culture, we will continue to strive to outperform the targets we set for the year ahead. It is pleasing to report progress on the following:

- in total, 10 new stores were opened and we advanced the revamp programme;
- the R800 million capital expenditure programme was largely completed during the financial year, with the commissioning of our state-of-the-art Samca+ factory; the launch of our flagship one-stop retail node in Boksburg, Gauteng, which showcases Italtile Retail, CTM and Easylife Kitchens stores; construction of Betta Sanitaryware's 17 000 pallet warehouse; and the construction of Ezee Tile's new flagship factory in Vulcania, Gauteng;
- we executed better by realising opportunities at all touchpoints of the customer experience, including introducing enhanced outcomes-based training for our people and driving a focus on new and innovative products from existing and new suppliers, which the easing of travel restrictions facilitated. The positive customer sentiment scores achieved by all of our brands during the year are a rewarding recognition of our efforts;
- a strategic decision was made to increase our investment in business-critical stock and raw materials to mitigate against supply and pricing volatility, and while this raised inventory levels in the short term, this was outweighed by positive customer response to stock availability in the stores;
- we continued to invest in cutting-edge technology in our manufacturing operations and across our omni-channel trading platforms;
- in line with our goal to cautiously expand the Group's footprint in the rest of Africa, we opened three CTM stores in Kenya and Zambia. Our expansion plans in the rest of Africa are centred on proven markets where strong demand exists;
- we drove cost leadership and working capital management reporting a 2% decline in like-for-like operating costs;
- we continued to develop our people, focused on cultivating the right leaders in the business through training and mentorship programmes, and we continued to improve our employee engagement efforts, reflected by pleasing ratings recorded in the annual independent evaluation survey conducted across the business; and
- we advanced our ESG priorities to be a responsible, safe and sustainable business, through various initiatives, including the ongoing focus on reducing consumption of non-renewable resources across the business. Ceramic's factories are among the most-energy efficient in the world; in pursuit of our goal to introduce cleaner sources of energy in our operations, we will further reduce our consumption from the grid with the commissioning of 2,7 MW of solar power at the Hammanskraal and Vereeniging factories, which will potentially save up to 6 000 tonnes of CO_2 emissions annually.

RESULTS

In the context of the adverse operating environment, 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.

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. Lower sales volumes, reflecting softer market demand during the period, were offset by average selling price inflation of 8%.

DIVISIONAL REVIEW

Retail brands: stores and webstores

Consumers' 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 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 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. Despite increased competition, our three major brands, Italtile Retail, CTM and TopT all reported positive key metrics, including productivity, sales per person, profits and average basket value.

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.

"Every customer desires a beautiful home – our goal is to help them realise that dream through providing an unrivalled end-to-end customer shopping experience that differentiates our offering in the increasingly competitive marketplace. Our connection with our customers at every key touchpoint is critical, and our focus is on basic retail excellence disciplines: delivering beautifully presented, aspirational products at the right time, place and price." *Lance Foxcroft, Chief Executive Officer*

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 which 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 increased market share 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

Sustained investment and creativity ensured that our various e-commerce 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.

Integrated supply chain: Manufacturers

The Group's integrated manufacturers and importers enable us to provide a complete solution to customers, and underpin our policy of ensuring the 'right product at the right time, place and price'.

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 results for the year are not comparable with the previous corresponding period due to resumption of annual maintenance shutdowns. While volumes declined year on year, price inflation resulted in an improvement in revenue. Profits were flat on the prior year, as margins decreased under pressure from considerably higher input costs, specifically fuel and raw materials.

In the local market, Ceramic improved its offering with new product from the upgraded Samca+ factory. 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.

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 for opening in January 2023, will substantially resolve space constraints and improve efficiencies.

In the Australian market, recent floods, fires and the impact of the pandemic resulted in a backlog of projects being completed, 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 due to 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.

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 turnover and margins. Furthermore, the industry faced severe raw material shortages and significant price increases during the period, which added to margin pressure.

Integrated supply chain: Importers

Cedar Point, International Tap Distributors and Distribution Centre

During the period, the supply chain management team focused on improving stock availability metrics, and 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. Inventory levels were increased due to substantial investment made in business-critical products to ensure customer demand is met. 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.

In the brassware segment, price inflation has yet to abate, and margins are expected to remain under pressure.

The integrated supply chain also did well to achieve further efficiencies in the Group's Transport Management System.

PROPERTY PORTFOLIO

The Group's property portfolio affords strategic advantage to the retail brand operations by ensuring stores are accessible and contribute to an aspirational, aesthetically pleasing shopping experience, and to the manufacturing operations by comprising well-maintained state-of-the-art factories supplied with high-quality raw materials sourced from owned productive quarries in close proximity to the plants. During the period, capital expenditure of R398 million was incurred on an ongoing retail property enhancement programme and the 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

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, enhancing our positive impact on 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 initiatives, profit-sharing partnerships with our people, and our Proudly South African stance, which prioritises selling local products manufactured by local people.

PROSPECTS AND OUTLOOK

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 further, the competitive landscape will also become more aggressive in the fight for share of wallet and market.

Energy security and consumption will be top of mind for our management team both in this country and in our Australian operation. Global pricing uncertainties, local capacity constraints, and reducing our carbon footprint are all issues we will be focused on.

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.

Our growth programme will prioritise the following imperatives 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 priorities to enhance our sound credentials, including maintaining our BBBEE rating of level 2; and
- cautiously build on our footprint in the rest of Africa, focusing on tested markets where our success is proven.

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

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 which requires any additional disclosures or adjustments.

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 a final gross ordinary cash dividend (number 112) for the year ended 30 June 2022 of 27,0 cents per share (2021: 25,0 cents) out of income reserves to all shareholders of Italtile as at the record date of Friday, 16 September 2022. The dividend per share is calculated based on 1 321 654 148 shares (2021: 1 321 654 148 shares) in issue at the date of dividend declaration. Italtile's income tax reference is 9050182717 and the local dividend withholding tax rate is 20% (twenty percent). The net local dividend amount is 21,6 cents per share for shareholders liable to pay dividends tax and 27,0 cents per share for shareholders exempt from paying dividends tax. The total gross ordinary cash dividend for the year amounts to 61,0 cents per share (2021: 56,0 cents).

Dividend declaration date	Thursday, 25 August 2022
Last day to trade *cum* the dividend	Tuesday, 13 September 2022
Date to commence trading *ex* dividend	Wednesday, 14 September 2022
Record date	Friday, 16 September 2022
Payment date	Monday, 19 September 2022

Share certificates may not be dematerialised or rematerialised between Wednesday, 14 September 2022 and Friday, 16 September 2022, both dates inclusive.

For and on behalf of the Board

L A Foxcroft *Chief Executive Officer*

B G Wood *Chief Financial Officer*

25 August 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/ye22.pdf** and on Italtile's website at **https://www.italtile.com/investor-reports-and-results.asp**. This short form announcement was published on SENS on 25 August 2022.

The preliminary condensed consolidated financial statements were reviewed by the Group's auditors, PricewaterhouseCoopers Inc., who expressed an unmodified review conclusion thereon. Shareholders are advised that, in order to obtain a full understanding of the nature of the auditor's engagement and more specifically, the nature of the information that has been reviewed, they should obtain a copy of the auditor's report available through the following link: **https://www.italtile.com/investor-reports-and-results.asp**. This report sets out key audit matters and the basis for the unmodified opinion.

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, which is available as detailed herein.

Both the short form and full announcements are also available for inspection at the registered offices of Italtile and its 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 (PO Box 1689, Randburg 2125) **Transfer secretaries:** Computershare Investor Services Proprietary Limited **Company Secretary:** E J Willis **Sponsor:** Merchantec Capital **Auditor:** PricewaterhouseCoopers Inc.