CHAIRMAN'S STATEMENT









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Overview

This year marks the 45th anniversary of the founding of the Group in 1969, and the 26th anniversary of its listing on the Johannesburg Stock Exchange in 1988.

Over this period I have witnessed numerous changes in the industry – and as many in this business – both in response to the evolving environment and in anticipation of what the future in merchandise fashion and design would hold.

In the highly competitive industry we operate in, retailers are constantly under pressure to deliver an innovative, reinvigorated and better 'value' offering, in terms of price, fashion, quality and service to an increasingly discerning customer base. This imperative to continuously improve the comprehensive offering is at the core of a sustainable business, and one which we recognise will ensure our continued existence in the long term.

In this vein, Italtile Retail, first launched 45 years ago, has remained a consistently sought-after brand in the premium-end market, while recent market research confirmed that our CTM brand, established in 1983, is still regarded as an iconic household name in South Africa, 31 years later. The sustained and growing brand equity and affinity CTM enjoys in its market is a reflection of our consistent efforts to meet our customers' expectations through our goal to deliver an unparalleled shopping experience. We look forward to the challenge of building a similarly broad-based reputation for our TopT brand and will strive to attain market leadership in this segment as our private label brands, Kilimanjaro, ProGrip and Elf have accomplished in the tile, adhesive and grout and laminated flooring categories respectively.

Underpinning our mission to be a sustainable, ascendant organisation are the key disciplines which centre on best practice benchmarks and controls across the business. In this regard, good progress was achieved in the areas of inventory and range management, cost containment, innovation in product and technology and leadership and team development.

In this milestone year, it is particularly fitting to pay tribute to the people of this business who have played an indispensable role in its accomplishments. Their commitment and effective teamwork is an asset to the Group. It is rewarding to see a strengthening sense of responsibility amongst our future leaders, and a keen desire for empowerment and growth.

Trading conditions

Whilst slow but steady growth was evident in the renovations and professional projects segments of the market, the new build segment remained sluggish, a trend which is likely to continue for the foreseeable future. In the context of continued general economic uncertainty, consumers remained highly price-sensitive, fuelling aggressive price competition in the industry. The weakening of the currency during the year exacerbated margin pressure and led to further instability in the market.

Results

The Group delivered sound growth during the period, across the brands and the integrated supply chain. Intensified focus on our policy of ensuring the 'right product at the right time, place and price' led to improvements in the range and the supply and sale of products across the merchandise categories, which had a positive impact on results. Notably, CTM, which under-achieved my expectations in the prior year, reported a much improved performance, particularly in the tile category.

In the context of Rand weakness during the period, strategic advantage was afforded by the integrated supply chain which supported competitive pricing in the stores and ensured consistent availability of affordable products.

System-wide turnover from continuing operations increased 17% to R4,46 billion (2013: R3,82 billion), predominantly derived from organic growth, as a net increase of only six stores took place during the year.

Trading profit from continuing operations grew 23% to R751 million (2013: R611 million).

The Group's continuing operations' basic earnings per share (EPS) rose 19% to 57,4 cents (2013: 48,2 cents) while the continuing operations' headline earnings per share (HEPS) increased 24% to 58,7 cents (2013: 47,3 cents). It is important to note that HEPS have been adjusted for the post-taxation impact of an impairment of R20 million (2013: R5 million) recorded for property held in Australia. Furthermore, both the EPS and HEPS calculations include a R17 million IFRS 2 charge, of which R11 million is a once-off charge, related to an equity-settled staff share incentive scheme implemented during the year, which I discuss on page 11 of this report.

Ordinary dividend

The Board has approved a final ordinary dividend of 10,0 cents per ordinary share (2013: 8,0 cents per share), which together with the interim ordinary dividend of 9,0 cents per share (2013: 8,0 cents per share) produces a total ordinary dividend declared for the year of 19,0 cents per share (2013: 16,0 cents per share), an increase of 19%. The Group's dividend cover remains unchanged at three times.

Corporate governance and sustainability

A detailed analysis of the progress achieved in compliance-related matters is contained in the Material Issues and Corporate Governance reports on pages 13 and 52 respectively. In this, our fourth Integrated Annual Report, we are able to report on improved application in the business of the principles of the King Report on Governance for South Africa, 2009 and further demonstrate Italtile's continued commitment to a sustainable business and an ethical corporate culture.

Human capital development

The sustainability of most organisations is determined by the calibre of its people. In acknowledging this, one of the Group's primary focus areas is the development of skills and competencies of its personnel and the mentorship and empowerment of potential leadership talent across the business.

I am pleased to report that during the year improved training initiatives produced good results in growing our pool of high-performing individuals.

Management believes that the spirit of entrepreneurship is a vital asset in enabling this business to reach its full potential. This culture is fostered through a deliberately flat management structure, remuneration and reward structures which compare well with the industry average and are designed to narrow the gap between the highest and lowest income earners in the Group, and opportunities for employees to partner with the business through joint venture and co-ownership arrangements in the Group's operations.

Directorate

In line with the Group's strategy to enhance management depth and succession planning across the company, two key executive directors have been appointed to the Board. Nick Booth, formerly Chief Executive Officer (CEO) of Ceramic Industries for 13 years, assumed the position of CEO from 1 July 2014. As former CEO of our largest supplier, he has extensive knowledge of Italtile and the industry.

Jan Potgieter has been appointed as Chief Operating Officer with effect from 1 August 2014. Jan is a chartered accountant and has considerable senior level experience in the retail and supply chain sectors, having most recently served as divisional CEO and formerly divisional financial director at his previous company, a major national South African retailer.

It is my pleasure to welcome Nick and Jan to the Board. I am confident that they will add valuable depth to the management structure.

With effect from 20 August 2014, Ms Ndumi Medupe was appointed to the Board as a non-executive director. Ms Medupe, CA(SA) is a founder and director of Indyebo Consulting (Pty) Limited. The Board welcomes Ms Medupe and looks forward to her contribution.

Pending Nick's appointment, I served as interim CEO of the Group, while my fellow Board member, Brand Pretorius, assumed the role of interim Chairman. I would like to extend my sincere thanks to Brand for the contribution he made in that role.

Staff share scheme

During the reporting period we implemented an equity-settled staff share scheme, consistent with the Group's ethos of promoting partnership with our employees and incentivising them to participate in the growth and profitability of the business. On 31 August 2013, 15 million shares were allocated to 499 qualifying South African staff members, including those of franchised stores, translating into 30 000 shares per individual. The shares have a three year vesting period, and the net shareholding at the end of the period is dependent on the appreciation of the Group's share price. A second allocation of shares will be made during the 2015 financial year to qualifying foreign staff and other staff members who achieved three years of service on 31 August 2014.

Prospects

In the absence of a strong economic recovery in the short term, consumers will remain cost-conscious, with higher expectations of value-for-money offerings. In addition to price, there will be growing demand for good service, quality and style.

In this environment, the Group's key differentiator, its unique business model, will stand it in good stead. Our high-profile brands have appeal across the income and fashion spectrum, whilst the established supply chain supports our year-round value offering.

Management is mindful that the Group's legacy of almost five decades has been achieved through continuous and consistent improvement across its operations. The challenge in the forthcoming decades will be to build on those foundations and elevate the business to new levels.

A range of opportunities has been identified which will advance our ambitious growth plans. Amongst those is to grow market share in existing and new markets, including developing new store formats to provide expansion flexibility. Intensified implementation of our best practice benchmarks and controls across all major disciplines of the business and supply chain should also deliver an enhanced performance.

Finally, the appointment of Nick Booth and Jan Potgieter will complement the skills and experience of the existing management team and ensure we are positioned to achieve our vision for the business for the future.

Appreciation

I have referred earlier in this report to the invaluable contribution which the people of Italtile Limited make to the success of this business. They are to be applauded, and I look forward to their continued commitment as we reach for our next set of goals.

I would like to thank my fellow Board members for their input. As always, I value their considered guidance.

Our suppliers, advisers and business partners play an important role in supporting us, for which I thank them.

The continued investment by our long-standing shareholders is rewarding endorsement of our unwavering efforts to grow this business and improve returns to all stakeholders. We remain committed to exceeding their expectations.

In closing, I would like to thank our customers, who are at the heart of our business. Their loyalty is the inspiration which drives us to continuously enhance their shopping experience in our stores, and they can be assured of our dedication to delivering an ever-better offering.





