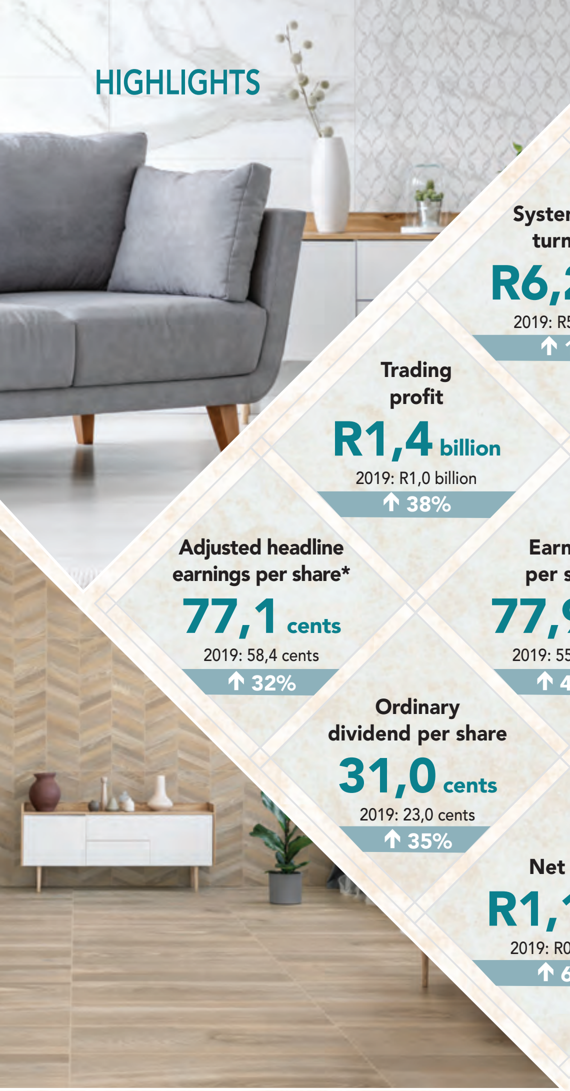
ITALTILE LIMITED

Reviewed condensed Group results for the six months ended 31 December 2020 and dividend declaration

HIGHLIGHTS



System-wide turnover
R6,2 billion
2019: R5,4 billion
↑ 14%

Trading profit
R1,4 billion
2019: R1,0 billion
↑ 38%

Adjusted earnings per share*
77,9 cents
2019: 58,4 cents
↑ 33%

Adjusted headline earnings per share*
77,1 cents
2019: 58,4 cents
↑ 32%

Earnings per share
77,9 cents
2019: 55,3 cents
↑ 41%

Headline earnings per share
77,1 cents
2019: 55,3 cents
↑ 39%

Ordinary dividend per share
31,0 cents
2019: 23,0 cents
↑ 35%

Store network
203
June 2020: 198
↑ 3%

Net cash
R1,1 billion
2019: R0,7 billion
↑ 62%

**Adjusted for once-off R39 million IFRS 2 charge related to the BBBEE transaction announced on SENS on 10 September 2019.*

COMMENTARY

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. 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.

TRADING ENVIRONMENT

The already-dire state of the local economy deteriorated markedly with the onset of the pandemic, which has added new pressure on employment, household disposable income and consumer and business confidence. As a consequence, the operating response for most businesses in South Africa over the past six months has been one of survival mode.

The primary challenge in our industry over the review period was the acute impact of the pandemic on global and local supply chains. The adverse effect of operating restrictions imposed on international factories was exacerbated by extremely constrained and costly shipping supply, a situation aggravated in South Africa by severe delays and dysfunctionality at the national ports, which resulted in imported products arriving infrequently, irregularly and at a higher cost. The lockdown in this country, which closed manufacturers for more than six weeks, also interrupted local supply in the short term. The result of this has been a period of volatility as operators struggled to navigate lengthy supply shortages followed by phases of oversupply.

In this testing context, the Group enjoyed significant benefit from its local integrated supply chain and manufacturing capacity, which negated the challenges regarding stock availability and pricing instability.

Contributing to the widespread stock shortage was higher than anticipated demand for home improvement products which the enforced stay-at-home regulations boosted. Trends over the past year since the pandemic took hold reveal that prolonged periods in the home afforded homeowners the opportunity to identify much needed and overdue DIY projects and provided the time to accomplish them. In addition, constraints on discretionary spend were partially eased by lower interest rates, payment holidays and availability of funds previously allocated to transport costs, travel and other recreational pastimes.

In general, the new build and commercial market segments were extremely subdued over the reporting period, with residential renovations and home improvement projects dominating market activity. Notably, the low interest rates and decline in property prices encouraged new first-home buyers, with a strong demand from young, female investors in the property market, a trend which was evidenced by the customers in our stores.

RESULTS

In the Group's results announcement for the year ended 30 June 2020 we noted that the first six months of FY2021 would be very difficult. Our forecast was that while the Group would deliver positive sales and profit growth, comparatively stronger results would be reported in the second half, since the comparison would be against five months of trading in FY2020.

It is rewarding therefore 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.

The Group's results for the review period include the contribution of Ceramic and Ezee Tile, in which the Group holds a 95,47% stake and 71,54% stake respectively. Sales related to Ceramic and Ezee Tile are referred to as "manufacturing" sales to distinguish them from "retail" sales reported by Italtile's retail brands, CTM, Italtile Retail, TopT and U-Light.

Total system-wide turnover rose to R6,2 billion (2019: R5,4 billion), an improvement of 14%. System-wide turnover is the aggregate of the Group's consolidated turnover (total sales by Group-owned entities and corporate stores, excluding sales from owned supply chain businesses to corporate stores) and the retail turnover of franchisees of the Group.

Revenue from Group-owned stores and entities was 26% higher at R4,8 billion (2019: R3,8 billion), with the conversion of franchise stores to corporate stores contributing to this increase.

Retail store turnover increased 17% compared to the previous corresponding period, with average selling price inflation estimated at 6%. Like-for-like retail store turnover improved 15%. Retail store turnover is defined as the aggregate turnover of all stores, both corporate and franchised, in the Group's retail network.

In the supply chain, the import businesses (Cedar Point, ITD and DC) grew sales by 25% compared to the prior corresponding period. Average selling price inflation estimated at 10% partially offset higher purchase costs caused by exchange rate fluctuations.

Manufacturing sales for the review period rose by 18%, with average selling price inflation across the division estimated at 7%.

The Group's trading profit increased by 38% to R1 420 million (2019: R1 029 million).

The aggregated gross margin across the Group improved by 4%, largely reflecting the positive impact of full capacity utilisation and better efficiencies achieved in the manufacturing businesses. This significant improvement in margin afforded the retail operations leverage to use strategic price ladders to benefit cost-conscious consumers while still continuing to support franchisees' margins.

Adjusted basic earnings per share ("EPS") grew by 33% to 77,9 cents (2019: 58,4 cents), while adjusted headline earnings per share ("HEPS") rose 32% to 77,1 cents (2019: 58,4 cents). The basic EPS and HEPS were adjusted for the once-off charge of R39 million incurred in the prior corresponding period related to the (broad-based black economic empowerment ("BBBEE") transaction concluded with Yard Investment Holdings Proprietary Limited ("Yard") as announced on SENS on 10 September 2019.

The small disparity between HEPS and EPS is largely attributable to net profits of R16 million realised on the disposal of two local properties.

Inventory management was a major focus during the reporting period in light of constrained and irregular supply of product and unexpectedly high levels of demand. With the benefit of the Group's business optimisation programme, a nationwide programme was implemented to rebalance stock between our stores to ensure an optimal distribution of business-critical items across the network.

Inventory value, including the consolidated inventory balances of Ceramic and Ezee Tile was higher at R1 002 million (2019: R964 million), impacted by the addition of stock resulting from the net conversion of seven CTM and 26 TopT franchise stores to Group-owned, and the introduction of inventory for the new U-Light business. Same store and warehouse stockholding reduced by 5,6% compared to the prior corresponding period, reflecting rigorous stock management and consistently strong consumer demand.

Capital expenditure of R359 million (2019: R340 million) was incurred during the review period. Expansion projects in the order of R800 million, temporarily deferred due to the lockdown and trading restrictions in the first half of calendar 2020, were reinstated and are underway. These projects include the commissioning of revolutionary technology and equipment in the Samca floor tile factory; relocation of Ezee Tile's primary manufacturing facility to a new owned site; the construction of a new automated warehouse for Betta sanitaryware which will resolve capacity constraints; and development of a retail store node in Boksburg, which will feature all of the Group's retail brands. The balance of expenditure will be incurred on ongoing IT development and routine maintenance and expansion of properties.

The Group's cash balance at the end of the review period was R1 134 million (2019: R702 million). Material cash outflows for the period include:

- capital expenditure of R359 million (2019: R340 million);
- tax payments of R367 million (2019: R263 million);
- share purchases by the Group and the Italtile and Ceramic Foundation Trust of R179 million (2019: R214 million); and
- dividend payments totalling R152 million (2019: R1 184 million, being R880 million in ordinary and special dividends and R304 million related to the Yard BBBEE transaction).

The healthy cash reserves demonstrate the cash-generative nature of the business.

The Group's net asset value per share at the end of the reporting period was 517 cents (2019: 450 cents).

OPERATIONAL REVIEW

At the end of the prior corresponding period, management identified a range of key priorities to boost growth in the low top-line trading environment, in keeping with the long-standing philosophy that growth in the Group will be derived from the internal levers within management's control. These focus areas centred on sales levers, range improvement, cost leadership, productivity improvements and performance culture.

Albeit that these goals were set in the pre-pandemic context, they remained relevant and continued to underpin operational strategy over the six months. 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 (reflected by an improvement in stock turns and enhanced quality and mix of stock, with a high ratio of business-critical items, and stronger cash reserves);
- intensified operational efficiencies and productivity in the stores and between the stores and the supply chain. The stated target over the past six months was to do more with less, without compromising the essence of the offering; 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.

With the onset of the pandemic and restrictive regulations imposed from April 2020, management anticipated that customer behaviour adopted during the lockdown would become permanent, and accordingly, 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 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 omnichannel 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.

This repositioning of the brand to home-finishing fashion icon continues to benefit from the growing number of new female homeowners and decision makers in our market.

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. This revamp format will continue to be rolled out across the network to capitalise on the opportunities presented.

CTM is represented by 72 stores in South Africa and 22 in the rest of Africa.

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. In recent years this market segment has been severely impacted by a shrinking customer base, eroded by the flight of capital, and reluctant investment sentiment. The brand's strong performance is largely attributable to its 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.

The new Botswana store, the brand's first foray into the rest of Africa region, exceeded management's expectations and augurs well for further cautious expansion in the territory.

Italtile Retail is represented by 14 stores.

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 market 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. A key element of the promotion is the opportunity for one lucky shopper to win a home. The campaign is expected to achieve strong consumer equity and drive sales as it gains traction in the months ahead.

Six stores were opened and three others were closed in marginal markets. TopT is represented by a total network of 87 stores.

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.

Two new franchise stores were opened, one in Polokwane and the other in Tzaneen, with both demonstrating good potential. U-Light is represented by eight stores.

SUPPLY CHAIN

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.

MANUFACTURERS

Ceramic Industries

This business offers 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.

During the review period Ceramic launched its innovative EcoTec tile ranges, building on the business's long-standing reputation for international standard, industry-leading eco-friendly technology. The EcoTec ranges, which comply with SABS standard tile requirements, compete favourably against imported product in terms of price and fashion, and have a substantially lower carbon footprint. Since the launch, this environmentally sensitive product has performed extremely well and is expected to continue to capture market share.

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.

Ceramic commissioned two capital expenditure projects in the review period, being the upgrade at the Samca floor tile factory making use of latest technology and the construction of a fully automated dark warehouse for the Betta Sanitaryware operation. Both projects are scheduled for completion by the end of the calendar year.

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.

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. While stockholding levels are slightly high in this division, it is deemed prudent to ensure sufficient stock on hand to navigate further disruptions expected in the months ahead. 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

The Group's property portfolio affords strategic advantage to the retail brand operations by ensuring stores are easily accessible, well presented and maintained, and contribute to an aspirational, aesthetically pleasing shopping experience. The Group's manufacturing operations consist of well-maintained state-of-the-art factories which are supplied with high quality raw materials sourced mainly from owned productive quarries in close proximity to the plants.

Management's ongoing strategy is to improve returns on this portfolio through optimal utilisation of existing owned land, strategic development of new store formats and achieving keener construction costs.

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.

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. Ceramic's factories rank among the most energy efficient in the world, while rehabilitation is conducted concurrently during use and at end-of-productive-life in the raw material quarries.

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_2. The product is deliberately designed thinner, therefore it requires 25% less packaging, less shipping, and costs 25% less per m^2 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.

STAFF SHARE SCHEME VESTING

The Group's equity-settled staff share scheme is designed to incentivise employees to participate in the growth and profitability of the business. In this regard, the fifth allotment of shares, granted in 2016, vested on 31 August 2020. A total of 116 employees qualified, of which one employee opted to receive shares and the balance received the net value of the awards in cash. Cash payments after tax averaged R106 984 per individual (aggregate payments including income tax totalled R16,2 million), funded by the sale of the related shares to the market. The employee who elected to receive shares received 10 178 Italtile Limited shares.

During the reporting period an eighth allotment of shares was made, comprising 4,2 million shares allocated to 170 eligible employees of the Group and franchisees. As at 31 December 2020, there were 455 participants in the scheme, holding 10,6 million Italtile shares.

PROSPECTS

While government's ability to manage the pandemic is of major concern to the people of this country, there is simultaneous pressure for the economy to be rebuilt and for long overdue transformational reforms to be made. The pandemic has highlighted and exacerbated the deep flaws in the socio-economic bedrock of South Africa and a key challenge for the leadership of this country is to restore business and consumer confidence through creating a business-friendly environment which incentivises investment and supports local industries to create jobs.

Management's view is that the pandemic will continue to impact on the country for the next year, until the vaccination programme is rolled out sufficiently widely to guarantee the required herd immunity. In this regard, we anticipate that varying degrees of lockdown will be implemented, 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 (with commitments of R450 million for the second half of the financial year) 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

In the context of the pandemic, the trading environment remains extremely unpredictable, and it is therefore difficult to provide reliable guidance in terms of future performance. 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.

SUBSEQUENT EVENTS

No events have occurred subsequent to the review period that require any additional disclosures or adjustments.

ORDINARY CASH DIVIDEND

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 of 31,0 cents per share (2019: 23,0 cents), an increase of 35%.

DIVIDEND ANNOUNCEMENT

The 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 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 1 321 654 148 shares in issue including 16 211 753 shares held by the share incentive and retention trusts, 64 386 405 shares held as BBBEE 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.

This full long form announcement 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. The short form announcement was published on SENS on 11 February 2021 and is also available on Italtile's website at https://www.italtile.com.

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 lizwillis@ejaysecretarial.co.za

For and on behalf of the Board

J N Potgieter
Chief Executive Officer

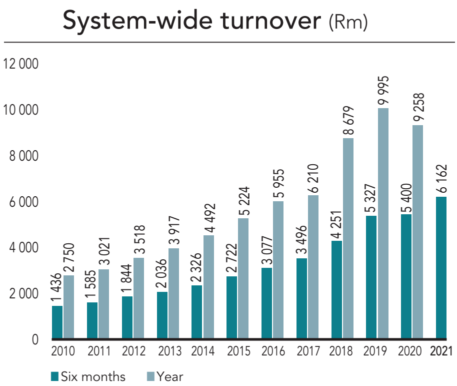
B G Wood
Chief Financial Officer

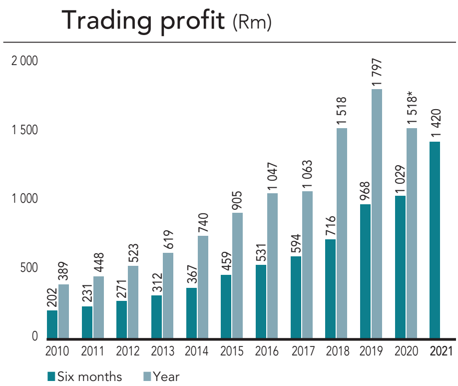
The condensed consolidated interim financial statements for the six months ended 31 December 2020 have been reviewed by PricewaterhouseCoopers Inc. ("PwC"), who expressed an unmodified conclusion thereon.

A copy of the auditor's report on the condensed consolidated interim financial statements is available for inspection at the Company's registered office, together with the financial statements identified in the auditor's report.

PwC's unmodified review conclusion does not necessarily report on all of the information contained in this reviewed condensed Group results announcement. Shareholders are therefore advised that in order to obtain a full understanding of the nature of auditors' engagement, they should obtain a copy of PwC's unmodified review opinion together with the accompanying financial information from the Company Secretary at the Company's registered office.

Johannesburg
11 February 2021





** Excludes once-off impairment charge of R16 million.*

SYSTEM-WIDE TURNOVER ANALYSIS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

(Rand millions unless otherwise stated)

	% increase	**Reviewed six months to 31 December 2020**	Reviewed six months to 31 December 2019	Audited year to 30 June 2020
Group and franchised turnover				
– By Group-owned stores and entities	26	**4 833**	3 824	6 690
– By franchise-owned stores (unaudited)	(16)	**1 329**	1 576	2 568
Total	14	**6 162**	5 400	9 258

STORE NETWORK

	As at 31 December 2020			As at 30 June 2020		
Region	**Franchise**	**Other**	**Total**	Franchise	Other	Total
South Africa						
– Italtile	**–**	**13***	**13***	–	13*	13*
– CTM	**32**	**40***	**72***	32	40*	72*
– TopT	**35**	**52***	**87***	34	49*	83*
– U-Light	**2**	**6***	**8***	–	6*	6*
Rest of Africa						
– Italtile	**–**	**1**	**1**	–	1	1
– CTM	**3**	**19***	**22***	4	18*	22*
– TopT	**–**	**–**	**–**	1	–	1
	72	**131***	**203***	71	127*	198*

** Includes webstore.*

CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

(Rand millions unless otherwise stated)

	% increase	**Reviewed six months to 31 December 2020**	Reviewed six months to 31 December 2019	Audited year to 30 June 2020
Turnover	26	**4 833**	3 824	6 690
Cost of sales		**(2 686)**	(2 290)	(4 145)
Gross profit	40	**2 147**	1 534	2 545
Other revenue and operating income		**216**	278	438
Operating expenses		**(956)**	(783)	(1 466)
Impairment of property, plant and equipment		**(4)**	–	(16)
Profit on sale of property, plant and equipment		**17**	#	1
Trading profit	38	**1 420**	1 029	1 502
Finance income		**22**	58	74
Finance cost		**(29)**	(37)	(81)
BBBEE transaction charge		**–**	(39)	(39)
Profit from associates – after tax		**–**	–	1
Profit before taxation	40	**1 413**	1 011	1 457
Taxation		**(394)**	(292)	(434)
Profit for the year	42	**1 019**	719	1 023
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Foreign currency translation difference		**(20)**	#	54
Total comprehensive income for the period	39	**999**	719	1 077
Profit attributable to:				
– Equity shareholders		**954**	679	964
– Non-controlling interests		**65**	40	59
	42	**1 019**	719	1 023
Total comprehensive income attributable to:				
– Equity shareholders		**934**	679	1 018
– Non-controlling interests		**65**	40	59
	39	**999**	719	1 077
Earnings per share (all figures in cents):				
– Earnings per share	41	**77,9**	55,3	78,3
– Diluted earnings per share	41	**77,5**	55,0	78,0

Less than R1 million.

CONDENSED GROUP STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

(Rand millions unless otherwise stated)

	Reviewed six months to 31 December 2020	Reviewed six months to 31 December 2019	Audited year to 30 June 2020
ASSETS			
Non-current assets	**4 979**	4 636	4 812
Property, plant and equipment	**4 409**	4 120	4 248
Right-of-use assets	**347**	286	349
Investments in associates	**49**	26	49
Long-term financial assets	**131**	163	133
Goodwill	**19**	19	19
Deferred taxation	**24**	22	14
Current assets	**3 231**	2 650	2 610
Inventories	**1 002**	964	896
Trade and other receivables	**1 035**	931	778
Cash and cash equivalents	**1 134**	702	860
Taxation receivable	**60**	53	76
Total assets	**8 210**	7 286	7 422
EQUITY AND LIABILITIES			
Share capital and reserves	**6 333**	5 543	5 634
Stated capital	**4 314**	4 314	4 314
Non-distributable reserves	**6**	11	26
Treasury shares	**(918)**	(702)	(735)
Share option reserve	**280**	217	280
Retained earnings	**2 327**	1 440	1 448
Non-controlling interests	**324**	263	301
Non-current liabilities	**525**	930	1 009
Interest-bearing loans	**6**	500	500
Lease liabilities	**316**	253	309
Deferred taxation	**203**	177	200
Current liabilities	**1 352**	813	779
Trade and other payables	**592**	384	617
Provisions	**173**	102	98
Interest-bearing loans	**502**	254	2
Lease liabilities	**45**	24	39
Taxation payable	**40**	49	23
Total equity and liabilities	**8 210**	7 286	7 422

CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

(Rand millions unless otherwise stated)

	Stated capital	Non-distributable reserves	Treasury shares	Share option reserve	Retained earnings	Total	Non-controlling interest	Total equity
For the six months ended 31 December 2019								
Audited balance at 30 June 2019	4 010	(28)	(497)	220	1 902	5 607	251	5 858
Profit for the year					679	679	40	719
Other comprehensive income for the year		#				#	–	#
Total comprehensive income for the year	–	#	–	–	679	679	40	719
Issue of shares	304					304	–	304
Purchase of own shares			(214)			(214)	–	(214)
Dividends paid					(1 160)	(1 160)	(24)	(1 184)
BBBEE transaction charge		39				39	–	39
Transactions with non-controlling interests						–	(1)	(1)
Share incentive costs (including vesting)			9	(3)	19	25	(3)	22
Reviewed balance at 31 December 2019	4 314	11	(702)	217	1 440	5 280	263	5 543
For the six months ended 31 December 2020								
Audited balance at 30 June 2020	4 314	26	(735)	280	1 448	5 333	301	5 634
Profit for the year					**954**	**954**	**65**	**1 019**
Other comprehensive income for the year		**(20)**				**(20)**		**(20)**
Total comprehensive income for the year		**(20)**			**954**	**934**	**65**	**999**
Purchase of own shares			**(179)**			**(179)**	**–**	**(179)**
Executive Retention Scheme repayment			**(5)**			**(5)**	**–**	**(5)**
Dividends paid					**(110)**	**(110)**	**(42)**	**(152)**
Transactions with non-controlling interests						**–**	**#**	**#**
Share incentive costs (including vesting)			**1**	**#**	**35**	**36**	**–**	**36**
Reviewed balance at 31 December 2020	**4 314**	**6**	**(918)**	**280**	**2 327**	**6 009**	**324**	**6 333**

Less than R1 million.

CONDENSED GROUP CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

(Rand millions unless otherwise stated)

	Reviewed six months to 31 December 2020	Restated six months to 31 December 2019	Audited year to 30 June 2020
Cash generated by operations (note 7)	**1 324**	953*	2 159
Finance income	**22**	58	74
Finance costs	**(14)**	(25)	(55)
Lease liability finance costs	**(15)**	(12)*	(26)
Dividends paid	**(152)**	(1 184)	(1 481)
Taxation	**(367)**	(264)	(416)
Cash flow from operating activities	**798**	(474)*	255
Additions to property, plant and equipment	**(359)**	(340)	(614)
Proceeds on disposal of property, plant and equipment	**30**	–	36
Increase/(decrease) in long-term financial assets	**(3)**	(3)	6
Purchase of interest in subsidiaries and associates	**–**	(1)	(22)
Cash flow from investing activities	**(332)**	(344)	(594)
Proceeds of share issue	**–**	304	304
Increase in loans and borrowings	**6**	250	380
Decrease in loans and borrowings	**–**	–	(381)
Acquisition of non-controlling interest	**#**	–	–
Treasury share movements	**(179)**	(214)	(243)
Lease liability payments	**(19)**	(21)*	(62)
Cash flow from financing activities	**(192)**	319*	(2)
Net movement in cash and cash equivalents for the period	**274**	(499)	(341)
Cash and cash equivalents at the beginning of the period	**860**	1 201	1 201
Cash and cash equivalents at the end of the period	**1 134**	702	860

Less than R1 million.

** Cash flows related to IFRS 16 have been restated in order to correct a disclosure error as detailed in note 8.*

SEGMENTAL REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

(Rand millions unless otherwise stated)

Reviewed six months to 31 December 2020	Retail	Manufacturing*	Supply and Support Services*
Turnover	**2 729**	**2 632**	**1 371**
– From external customers*	**2 729**	**1 841**	**263**
– Intersegment	**–**	**791**	**1 108**
Turnover from franchise stores**	**1 329**		
Achieved gross margin	**991**	**844**	**152**
Depreciation	**(28)**	**(108)**	**(10)**
Impairment of property, plant and equipment	**–**	**(4)**	**–**
Profit on sale of property, plant and equipment	**#**	**#**	**#**
Trading profit	**308**	**568**	**137##**
Finance income	**3**	**13**	**17**
Finance costs	**#**	**(1)**	**(24)**
Profit before taxation	**311**	**580**	**130**

* *Turnover from external customers includes sales to franchise stores.*
** *Franchise stores are not controlled by the Group.*
# *Less than R1 million.*
Includes franchise income of R28 million disclosed in note 6.
Includes royalty income of R67 million disclosed in note 6.

(Rand millions unless otherwise stated)

Reviewed six months to 31 December 2019	Retail	Manufacturing*	Supply and Support Services*
Turnover	1 878	2 228	1 094
– From external customers*	1 878	1 663	283
– Intersegment	–	565	811
Turnover from franchise stores**	1 576	–	–
Achieved gross margin	669	606	121
Depreciation	(25)	(109)	(7)
Profit on sale of property, plant and equipment	–	–	#
Trading profit	171	363	107##
Finance income	2	18	41
Finance costs	–	(1)	(15)
BBBEE transaction charge	–	–	(39)
Profit before taxation	173	380	94

* *Turnover from external customers includes sales to franchise stores.*
** *Franchise stores are not controlled by the Group.*
# *Less than R1 million.*
Includes franchise income of R56 million disclosed in note 6.
Includes royalty income of R78 million disclosed in note 6.

Franchising	Properties	Consolidation	Total
–	–	(1 899)	4 833
–	–	–	4 833
–	–	(1 899)	–
		(1 329)	–
–	–	130	2 117
#	(42)	–	(188)
–	–	–	(4)
–	16	–	17
206###	212	(11)	1 420
–	4	(15)	22
–	(19)	15	(29)
206	**197**	**(11)**	**1 413**

Franchising	Properties	Consolidation	Total
–	–	(1 376)	3 824
–	–	–	3 824
–	–	(1 376)	–
–	–	(1 576)	–
–	–	113	1 509
#	(39)	–	(178)
–	–	–	#
207###	177	7	1 029##
–	7	(10)	58
–	(31)	10	(37)
–	–	–	(39)
207	153	7	1 011

GEOGRAPHICAL ANALYSIS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

(Rand millions unless otherwise stated)

	South Africa	Rest of Africa	Australia	Consolidation	Group
Reviewed six months to 31 December 2020					
Turnover	**5 921**	**493**	**318**	**(1 899)**	**4 833**
Non-current assets	**5 848**	**308**	**229**	**(1 406)**	**4 979**
Reviewed six months to 31 December 2019					
Turnover	4 645	316	238	(1 375)	3 824
Non-current assets	5 130	268	224	(1 009)	4 613
Audited year to 30 June 2020					
Turnover	7 802	726	485	(2 323)	6 690
Non-current assets	5 431	343	247	(1 209)	4 812

NOTES

1. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICY

Basis of preparation

The condensed consolidated interim financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements and the requirements of the Companies Act of South Africa. The Listings Requirements require interim reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS") and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and to also, as a minimum, contain the information required by International Accounting Standard ("IAS") 34 Interim Financial Reporting.

The accounting policies applied in the preparation of the condensed consolidated interim financial statements are in terms of IFRS and are consistent with those applied in the previous consolidated annual financial statements. These results have been prepared under the supervision of the Chief Financial Officer, Mr B G Wood.

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of these reviewed interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2020, except for the adoption of new and amended IFRS and International Financial Reporting Interpretations Committee interpretations which became effective during the current review period. The application of these standards and interpretations did not have a significant impact on the Group's reported results and cash flows for the six months ended 31 December 2020 and the financial position at 31 December 2020.

2. COMMITMENTS AND CONTINGENCIES

There are no material contingent assets or liabilities at 31 December 2020.

(Rand millions unless otherwise stated)

Capital commitments	**31 December 2020**	31 December 2019	30 June 2020
– Contracted	**328**	307	358
– Authorised but not contracted for	**122**	287	355
Total	**450**	594	713

3. FAIR VALUES OF FINANCIAL INSTRUMENTS

The Group does not fair value its financial assets or liabilities in accordance with quoted prices in active markets or market observables, as there is no difference between their fair value and carrying value due to the short-term nature of these items, and/or existing terms are equivalent to market observables. There were no transfers into or out of Level 3 during the period.

4. STAFF SHARE SCHEME

During the 2014 financial year, the Group implemented a share incentive scheme for all employees of the Group and its franchisees that had been in the employ of the Group and/or franchise network for a period of three uninterrupted years at each allotment date in August every year from implementation date. As a result, 10,5 million of the Group's shares net of forfeitures were held by qualifying staff members at 31 December 2020 (2019: eight million). Until vesting, the shares will continue to be accounted for as treasury shares and have an impact on the diluted weighted average number of shares.

The fifth allotment of shares in the scheme, granted in 2017, vested on 31 August 2020. A total of 116 employees qualified for the vesting (2019: 94), of which one employee opted to retain the shares (2019: five) and the balance received the net value of the awards in cash. This resulted in a decrease in treasury shares of 1 128 860 (2019: 909 106) shares.

The scheme is classified as an equity settled scheme in terms of IFRS 2, Share-based Payment, and has resulted in a charge of R13 million (2019: R15 million) to the Group's income; R9 million (2019: R13 million) of this charge is a once-off accelerated expense for franchise staff.

5. EARNINGS PER SHARE

	Reviewed six months to 31 December 2020	Reviewed six months to 31 December 2019	Audited year to 30 June 2020
Reconciliation of shares in issue (all figures in millions):			
– Total number of shares issued	**1 322**	1 322	1 322
– Shares held by Share Incentive Trust	**(10)**	(10)	(10)
– Shares held by Retention Trust	**(6)**	–	–
– BEE treasury shares	**(64)**	(63)	(64)
– Shares held by Italtile Ceramics Proprietary Limited	**(24)**	(16)	(18)
Shares in issue to external parties	**1 218**	1 233	1 230
Reconciliation of share numbers used for earnings per share calculations (all figures in millions):			
Weighted average number of shares	**1 225**	1 231	1 231
Dilution effect of share awards	**6**	6	5
Diluted weighted average number of shares	**1 231**	1 237	1 236
Reconciliation of headline earnings (Rand millions):			
– Profit attributable to equity shareholders	**954**	679	964
– Profit on sale of property, plant and equipment – after taxation	**(13)**	–	(1)
– Impairment of plant and equipment – after taxation	**4**	–	11
Headline earnings	**945**	679	974
Adjusted EPS (cents)*	**77,9**	58,4	81,5
Adjusted diluted EPS (cents)*	**77,5**	58,1	81,1
Headline EPS (cents)	**77,1**	55,3	79,2
Adjusted headline EPS (cents)*	**77,1**	58,4	82,3
Diluted headline EPS (cents)	**76,8**	55,0	78,8
Adjusted diluted headline EPS (cents)*	**76,8**	58,1	82,0
Dividends per share (cents)	**31,0**	23,0	33,0
Net asset value per share (cents)	**517,0**	450,0	458,0

** Adjusted for once-off charge of R39 million in the prior period related to the BBBEE transaction.*

No adjustments to earnings are required for diluted earning per share calculations, as the share awards do not have an impact on diluted earnings.

6. DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

(Rand millions unless otherwise stated)

	Reviewed six months to 31 December 2020	Reviewed six months to 31 December 2019	Audited year to 30 June 2020
Turnover#	**4 833**	3 824	6 690
Royalty income from franchising	**67**	78	129
Other franchise income	**28**	56	89
	4 928	3 958	6 908

Turnover represents net revenue from sale of goods, excluding value added tax and intercompany sales.

7. RECONCILIATION OF PROFIT BEFORE TAX TO CASH GENERATED FROM OPERATIONS

(Rand millions unless otherwise stated)

	Reviewed six months to 31 December 2020	Restated six months to 31 December 2019	Audited year to 30 June 2020
Cash flows from operating activities:			
Profit before taxation	**1 413**	1 011	1 457
Adjusted for:			
Income from associates	**–**	–	(1)
BBBEE transaction charge	**–**	39	39
Depreciation	**154**	157	299
Depreciation – right-of-use asset	**34**	24	62
Lease liability finance cost payment	**15**	12	26
Lease payment	**–**	–*	–
Profit on sale of property, plant and equipment	**(17)**	#	(1)
Impairment of property, plant and equipment	**4**	–	16
Finance income	**(22)**	(58)	(74)
Finance costs (excluding IFRS 16 finance costs)	**14**	25	55
Share-based payment expenses	**35**	33	84
Foreign currency translation difference	**(13)**	2	9
Working capital changes:			
Inventory	**(106)**	(107)	(39)
Trade and other receivables	**(237)**	(81)	90
Trade and other payables (including provisions)	**50**	(104)	137
Cash generated by operations	**1 324**	953*	2 159

Less than R1 million.
** Cash flows related to IFRS 16 have been restated as detailed in note 8.*

8. RESTATEMENT OF CASH FLOW DISCLOSURE

Cash flows related to IFRS 16 have been restated as disclosure requirements of IFRS 16 Leases were incorrectly applied on adoption of the standard (lease capital payments and interest payments were erroneously disclosed in aggregate in operating cash flows). Accordingly, the comparative figures have been adjusted to apportion the lease payment under operating activities and lease liability capital repayments under financing activities.

The restatement had the following impact on cash flow disclosures:

(Rand millions unless otherwise stated)

	As previously disclosed	Restatement	Restated disclosure
Cash flow from operating activities			
– Lease payment	**(33)**	**33**	**–**
Cash generated by operations	**920**	**33**	**953**
– Lease liability finance costs	**–**	**(12)**	**(12)**
Total cash flow from operating activities	**(495)**	**21**	**(474)**
Cash flow from financing activities			
– Lease liability payments	**–**	**(21)**	**(21)**
Total cash flow from financing activities	**340**	**(21)**	**319**

9. INTEREST-BEARING LOANS

An interest-bearing loan of R500 million is repayable in full on 29 November 2021, and as such, has been disclosed as a current liability as at 31 December 2020.

10. COVID-19

During the fourth quarter of the prior financial year, trading in the Group's operations ceased for a five-week period as a result of the national lockdown brought about by the COVID-19 pandemic. During this time, the Group incurred losses as it was unable to trade and profits remained suppressed thereafter as activities resumed incrementally with the phased relaxation of regulated restrictions. During the final month of the prior financial year, much improved trading results and profit growth were achieved. The Group has since seen robust demand for its products and recorded increased turnover and profits.

To date, the pandemic has not had a materially adverse effect on collection of receivable balances due to the Group, no material impairments directly attributable to the pandemic have been recorded, and the Group remains a robust going concern with positive prospects for growth.

11. EVENTS AFTER REPORTING DATE

The directors are not aware of any matters or circumstances arising since the end of the reporting period which significantly affect the financial position at 31 December 2020 or the results of its operations or cash flow for the period then ended.

ADMINISTRATION

ITALTILE LIMITED

Share code: ITE
ISIN: ZAE 000099123
Registration number: 1955/000558/06
Incorporated in the Republic of South Africa
("Italtile" or "the Group" or "the Company")

Registered office

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Corner of William Nicol Drive and Peter Place
Bryanston
2021

Postal address

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2125

Transfer secretaries

Computershare Investor Services Proprietary Limited

Company Secretary

E J Willis

Sponsor

Merchantec Capital

Auditor

PricewaterhouseCoopers Inc.

DIRECTORS

Executive directors

J N Potgieter (Chief Executive Officer)
B G Wood (Chief Financial Officer)

Non-executive directors

G A M Ravazzotti (Chairman), L R Langenhoven (Deputy Chairman),
S M du Toit (Lead Independent Director), S G Pretorius, N P Khoza, I N Malevu

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