

Results for the  
52 weeks ended  
27 September 2014



- **Introduction – Matthew Williams**
- **Performance – Rob Parker**
- **Strategy & Operations – Matthew Williams**

# Introduction

**Matthew Williams**  
Chief Executive Officer

## 3 key numbers

10% increase in sales

- Continuing to outperform the market
- Effective initiatives to take market share
- Quality new store growth

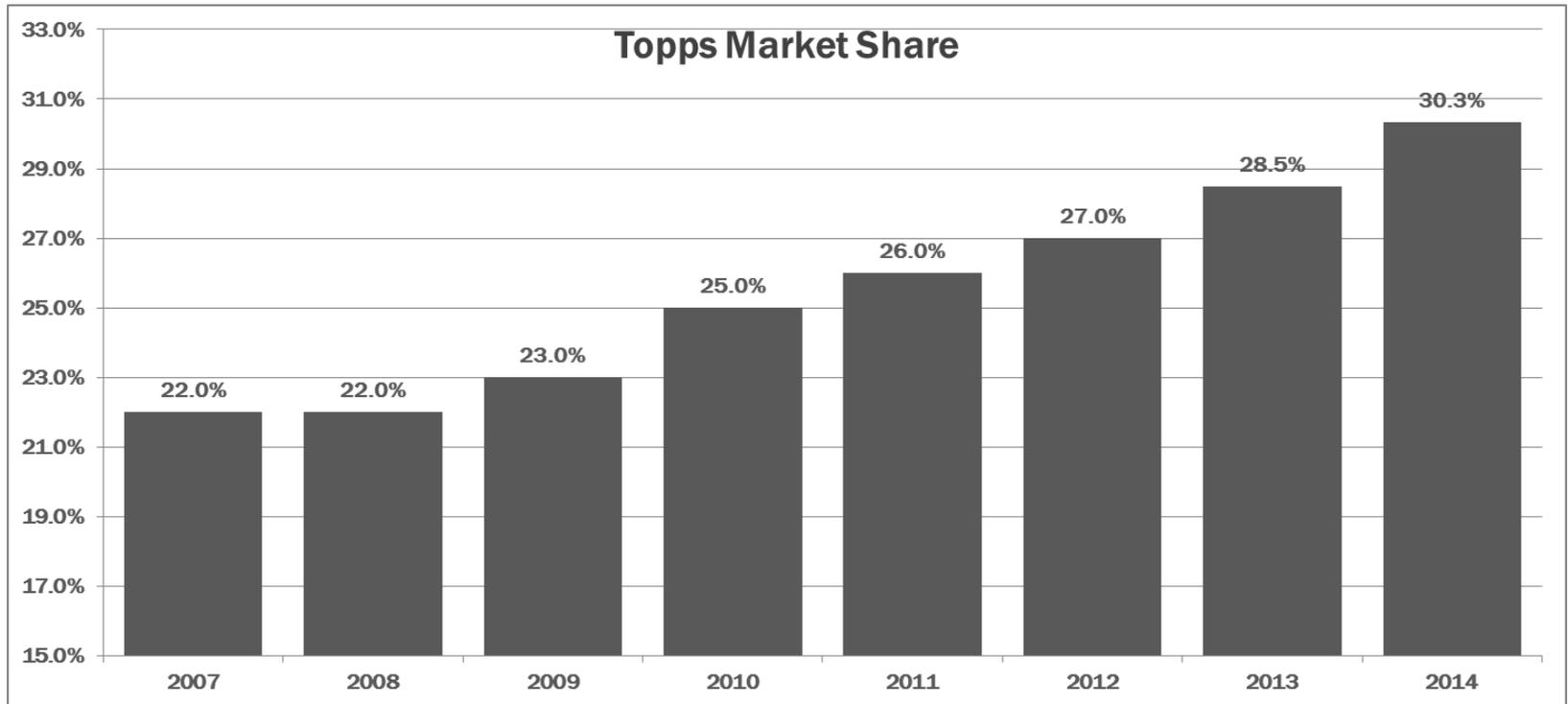
30% increase in profits

- Focused on adding value and ensuring market share we take is profitable
- Increased gross margin
- Greater efficiency/operational leverage

50% increase in dividend

- Strong cash generation / reduction in net debt
- Established a good balance between capital efficiency and financial flexibility
- Greater share of earnings can be returned to shareholders

**Topps' #1 goal remains to take profitable market share, targeting £1 in every £3 of domestic tile spend**



**Assumptions:**

MBD forecast volume growth for 2014 = 5.2%, assumed value growth of 7.2%, and Topps tile sales growth of 14%

# Performance

**Rob Parker**

Chief Financial Officer

# Income Statement Highlights - Adjusted

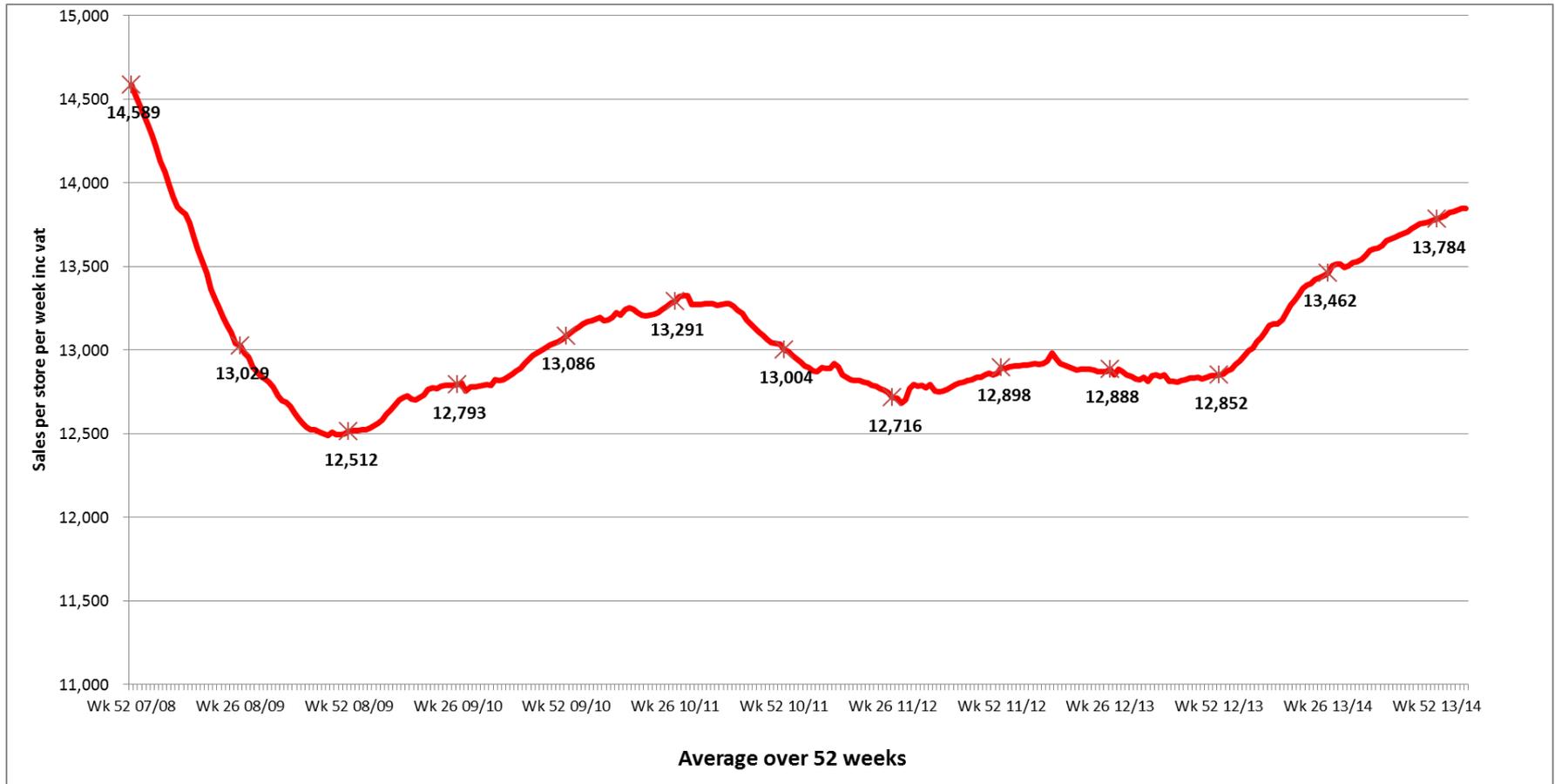
52 weeks ended 27 September 2014

**Topps Tiles**

	<b>FY 14</b>	<b>FY 13</b>	<b>YoY</b>
Sales - £m	195.2	177.8	9.8%
Gross Profit - £m	118.9	107.0	11.1%
Gross Margin %	60.9%	60.2%	0.7%
Adjusted Opex - £m	(100.2)	(91.5)	9.5%
<b>Adjusted Operating Profit - £m</b>	<b>18.7</b>	<b>15.6</b>	<b>19.9%</b>
Adjusted Interest - £m	(1.6)	(2.5)	-36.0%
<b>Adjusted PBT - £m</b>	<b>17.1</b>	<b>13.0</b>	<b>31.5%</b>
Adjusted Net Margin %	8.7%	7.3%	1.4%
Adjusted EPS - pence	6.63	5.44	+21.9

- Strong sales growth – 8.1% on a LFL basis
- Interest benefited from hedge exit during H2 FY13
- Adjusted PBT of £17.1m, improved by £4.1m (+31.5%)
- Final dividend of 1.60 pence per share, full year of 2.25 pence per share, +50%

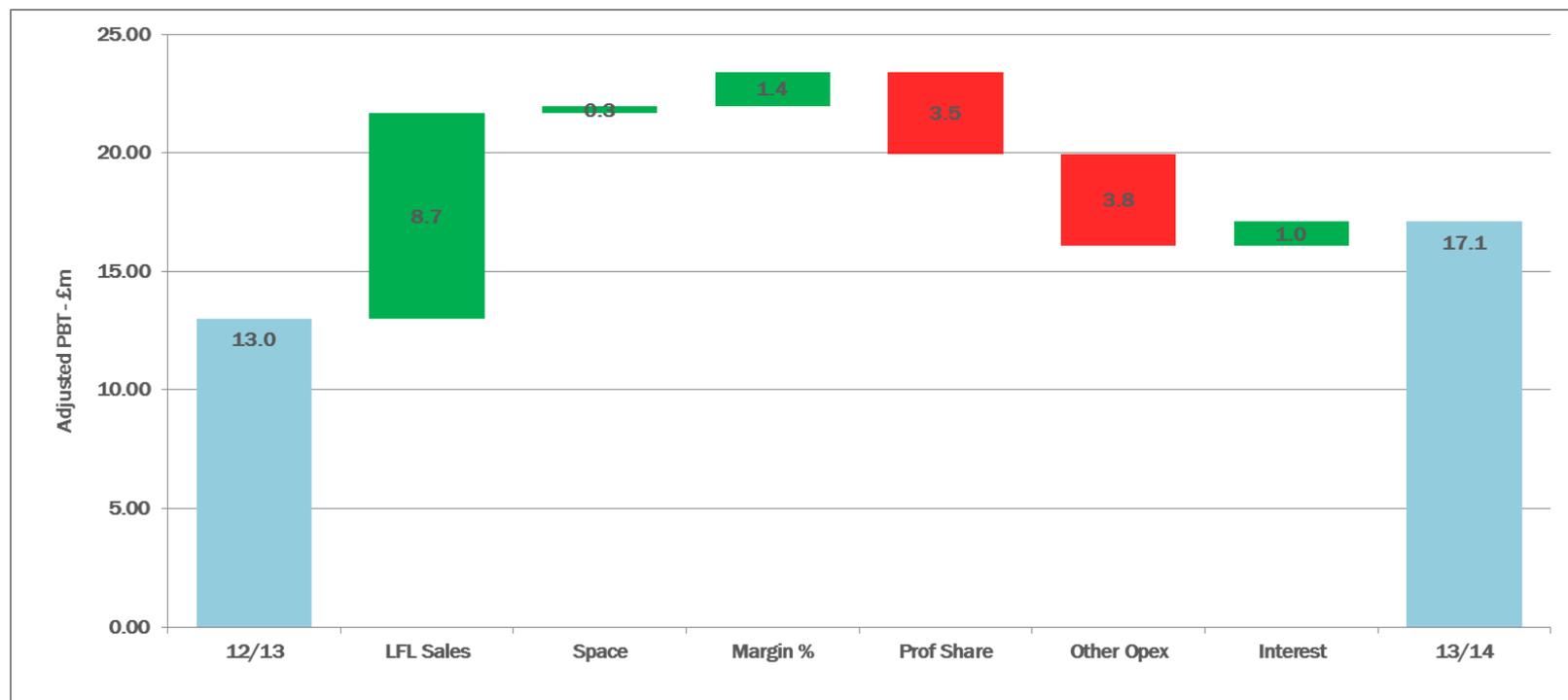
# 52 Week Rolling Average Sales



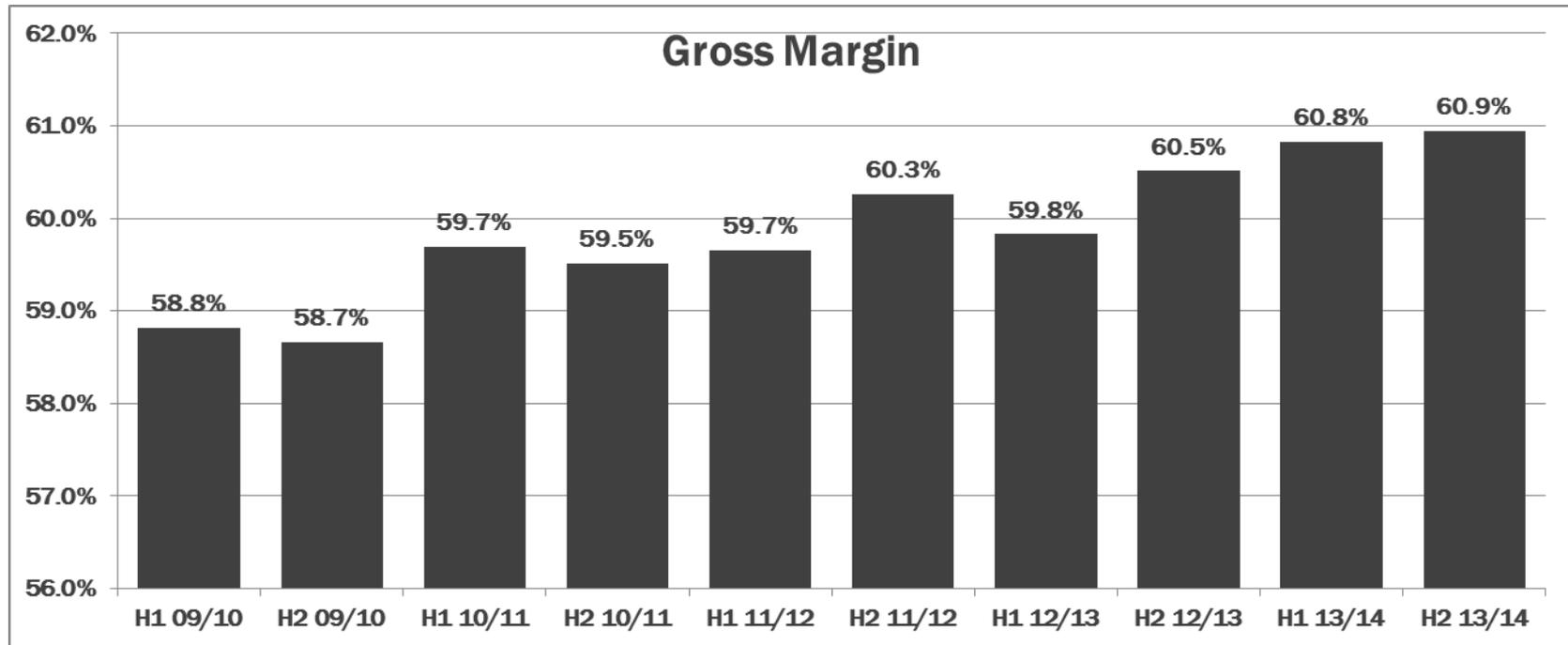
- Sensitivity to sales is 1% LFL = c.£0.6m net profit p.a.
- £500 per store per week = c.£2.5m net profit p.a.

# Adjusted Pre Tax Profit bridge

52 weeks ended 27 September 2014



- LFL is the key driver – £14.4m of additional sales and £8.7m of gross profit
- Space growth of 2.4% - avg of 329 stores vs 321
- Gross margin benefit of 70bps vs FY13
- Profit share includes incentives across the business, driven by strong performance
- Costs driven by a mixture of strategic initiatives, volumes, inflation and marketing



- Further progress in H2, FY growth of 70bps
- Business continues to target gross margin with a particular focus on:
  - Working with suppliers to control cost of goods
  - Maximising benefits from our own supply chain through direct sourcing
  - New product development including product innovation, own brands and exclusivity

# Cash Flow Highlights

52 weeks ended 27 September 2014

Summary Cashflow	FY 14		FY 13		YoY	
	£m	£m	£m	£m	£m	£m
Cashflows from operating activities (EBITDA)	24.4		19.8		4.6	
Change in working capital	0.5		8.3		(8.5)	
Interest	(1.6)		(3.1)		1.5	
Tax	(2.6)		(2.6)		0.1	
<b>Operations</b>		<b>20.8</b>		<b>22.4</b>		<b>(2.3)</b>
Capital Expenditure	(11.5)		(5.6)		(5.9)	
Proceeds from disposals	0.7		0.4		0.3	
<b>Investments</b>		<b>(10.7)</b>		<b>(5.2)</b>		<b>(5.5)</b>
Dividends	(3.2)		(2.4)		(0.8)	
Movement in loans	(5.0)		(5.0)		0.0	
Derivative Cancellation	0.0		(5.9)		5.9	
Other	(0.8)		0.1		(0.2)	
<b>Financing</b>		<b>(9.0)</b>		<b>(13.2)</b>		<b>4.9</b>
<b>Net movement in cash</b>		<b>1.1</b>		<b>4.0</b>		<b>2.9</b>

# Balance Sheet Highlights

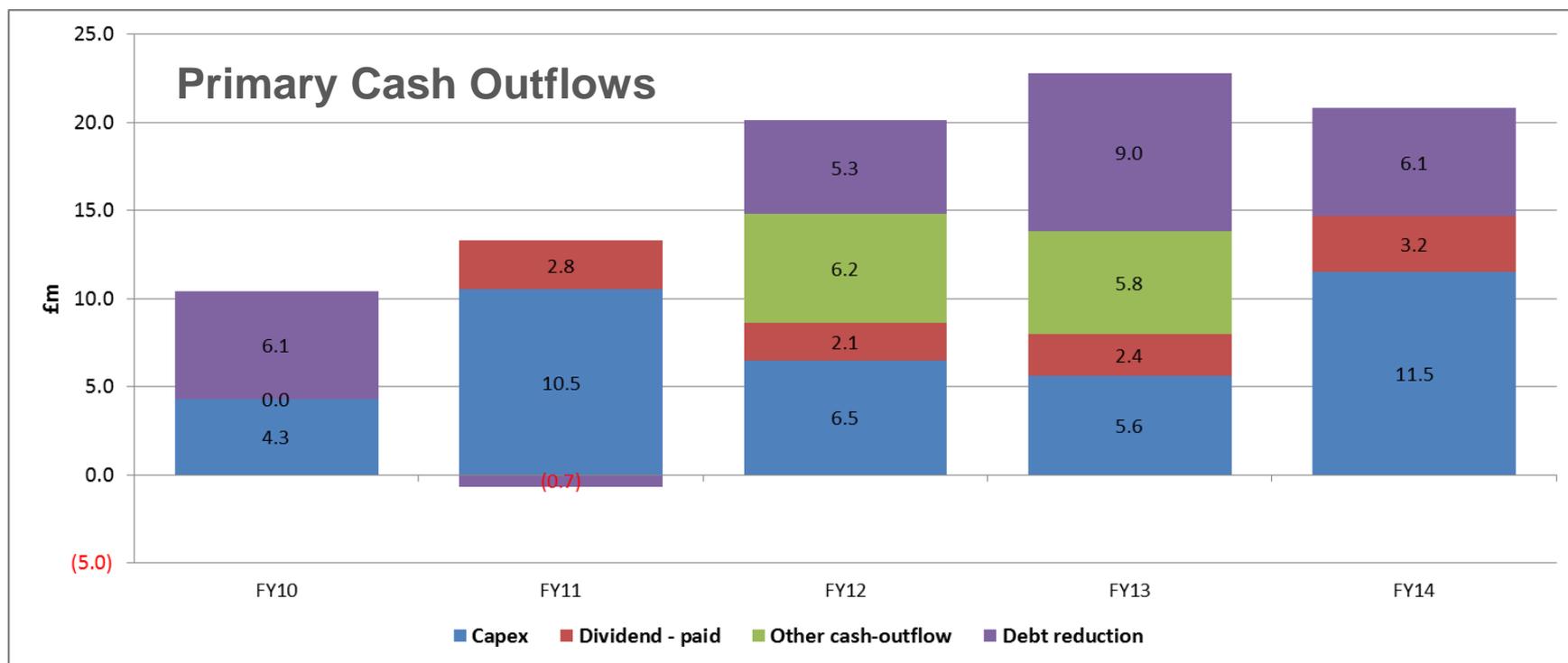
27 September 2014

	FY 2014	FY 2013	YoY
Stock	27.8	26.2	+6.1%
Stock Days	133	135	-1.5%
Net Assets/(Liabilities)	1.4	(10.2)	n/a
Cash	19.5	18.4	+6.0%
Borrowings	(50.0)	(55.0)	-9.1%
Net Cash/(Debt)	(30.5)	(36.6)	-16.7%

- Stock increased principally due to more stores and new ranges – small reduction in stock days
- Net debt reduced £6.1m (16.7%) year on year – strong cash generation
- Business has now returned to a net assets position following seven years of net liabilities

# Capital Structure and Dividend

- Significant debt reduction since 2009 – down from £70m to £30m
- Investment into business has increased – likely to be maintained at similar levels
- Board now comfortable with level of debt meaning greater opportunity for increased returns for shareholders

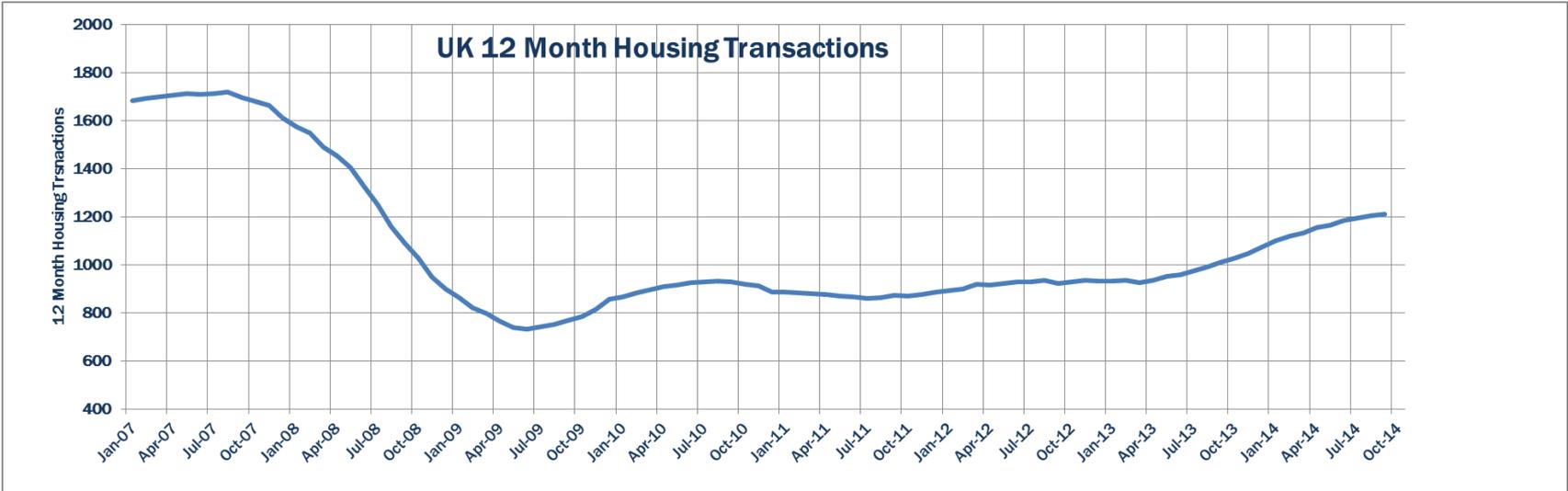
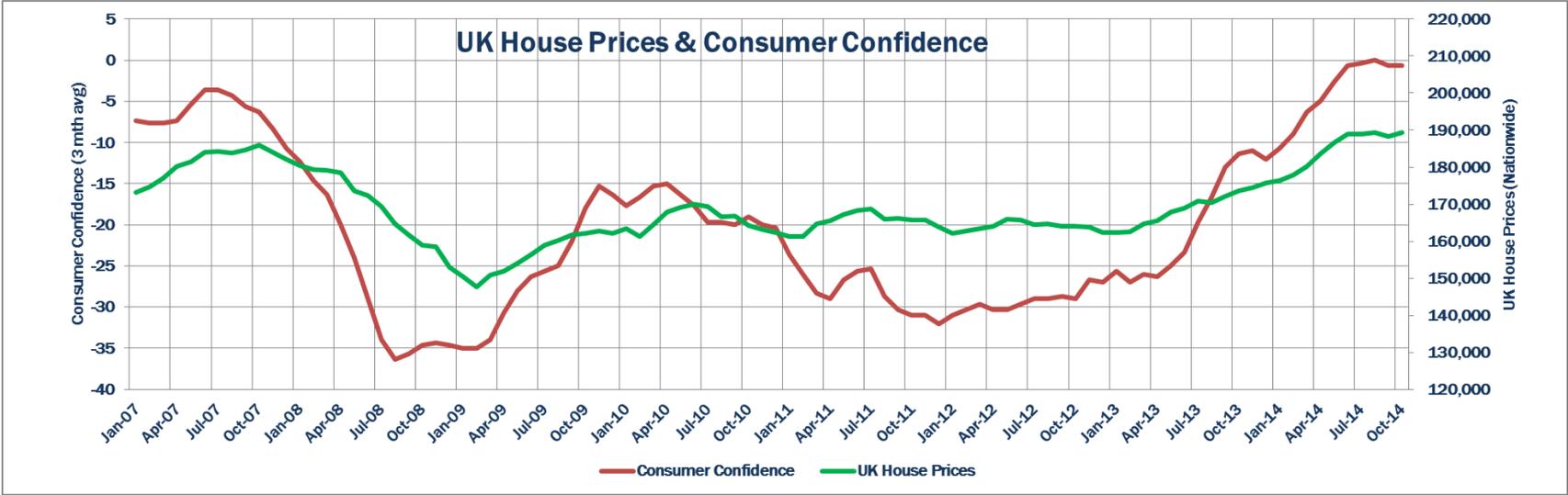


**Notes:**

- FY10 excludes £16m of fundraising which was used for debt reduction (for comparison purposes)
- FY12 includes £5.4m of additional cash income generated from freehold disposals
- FY12 & FY13 included c.£12m for settlement of interest rate derivatives
- FY13 includes £8m of working capital inflow due to year end timing

# Strategy & Operations

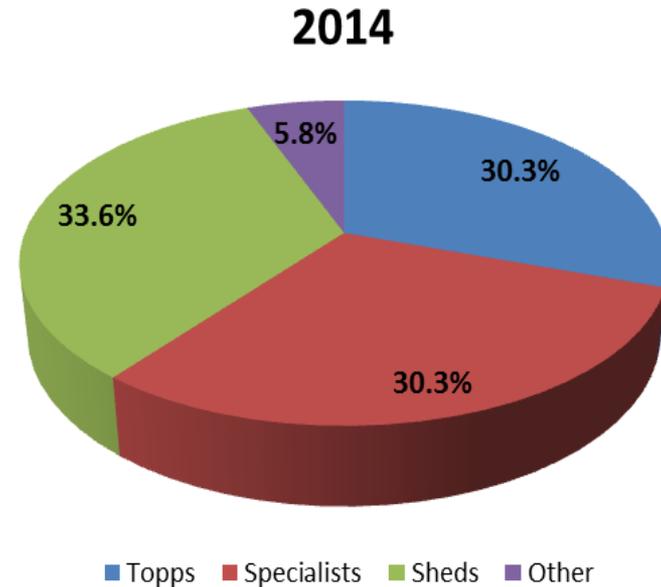
**Matthew Williams**  
Chief Executive Officer



Source – Consumer confidence = GFK, UK house price = Nationwide, Housing transactions = HMRC

# Strategic Progress to Date

- Primary goal remains to take profitable market share
- Targeting £1 in every £3 spent on tiles in the UK
- Continue to compete hard with the DIY sheds (price and service)
- Renewed focus on the independents by “out-specialising the specialists”



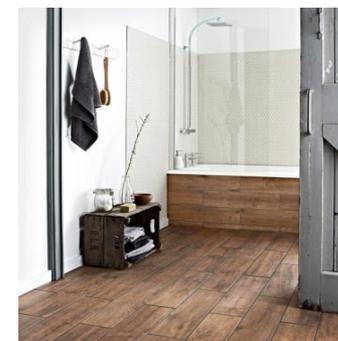
Source: MBD, Topps estimates

Specialists			
Topps Tiles	336 stores, <a href="http://toppstiles.co.uk">toppstiles.co.uk</a>	Tile depot	20 stores, <a href="http://thetiledepot.com">thetiledepot online</a>
Tile Giant	112 stores, <a href="http://tilegiant.co.uk">tilegiant.co.uk</a> , <a href="http://tileHQ.com">tileHQ</a>	Porcelenosa	22 stores, no ecommerce
Fired Earth	58 UK stores	Tile Choice	16 stores
CTD / Tilebase	54 stores UK clearance online, store sales	Mandarin stone	10 showrooms
Al Murad	52 owned, 10 franchisee	Wall & Floors	Mainly internet, Kettering & London showrooms



**Target £1 in every £3 of domestic tile spend**

- Unrivalled authority in product range across tiles and associated products
- New Product Development a key sales driver
  - Recently launched products account for over 20% of sales
- Closer collaboration / enhanced relationships with key suppliers:
  - Faster and more frequent launches
  - More than one new range launched a week
  - Exclusivity / own brand launches across tiles and essentials
- Best quality products with claims supported by independent testing house
- Innovation in manufacture / design



***Product quality and breadth of range are critical to customers' choice of tile retailer***

# Range Authority

- Metro – quality and exclusivity
  - First Introduced 05’ – now 9 lines
  - White more commoditised
  - Unique 22 point test = best in market
  - Delivers our customers quality & VFM
  - Exclusive supply = margin longevity



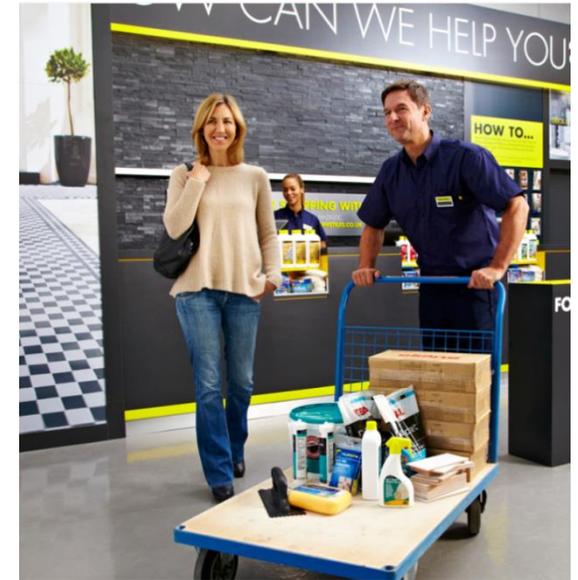
# Range Authority

- Henley™ – product innovation
  - Topps concept & design – latest tech
  - First to market – hard to replicate
  - Niche high end inspiration leads to...
  - On-trend VFM solution for our customer
  - Price optimisation early in life cycle

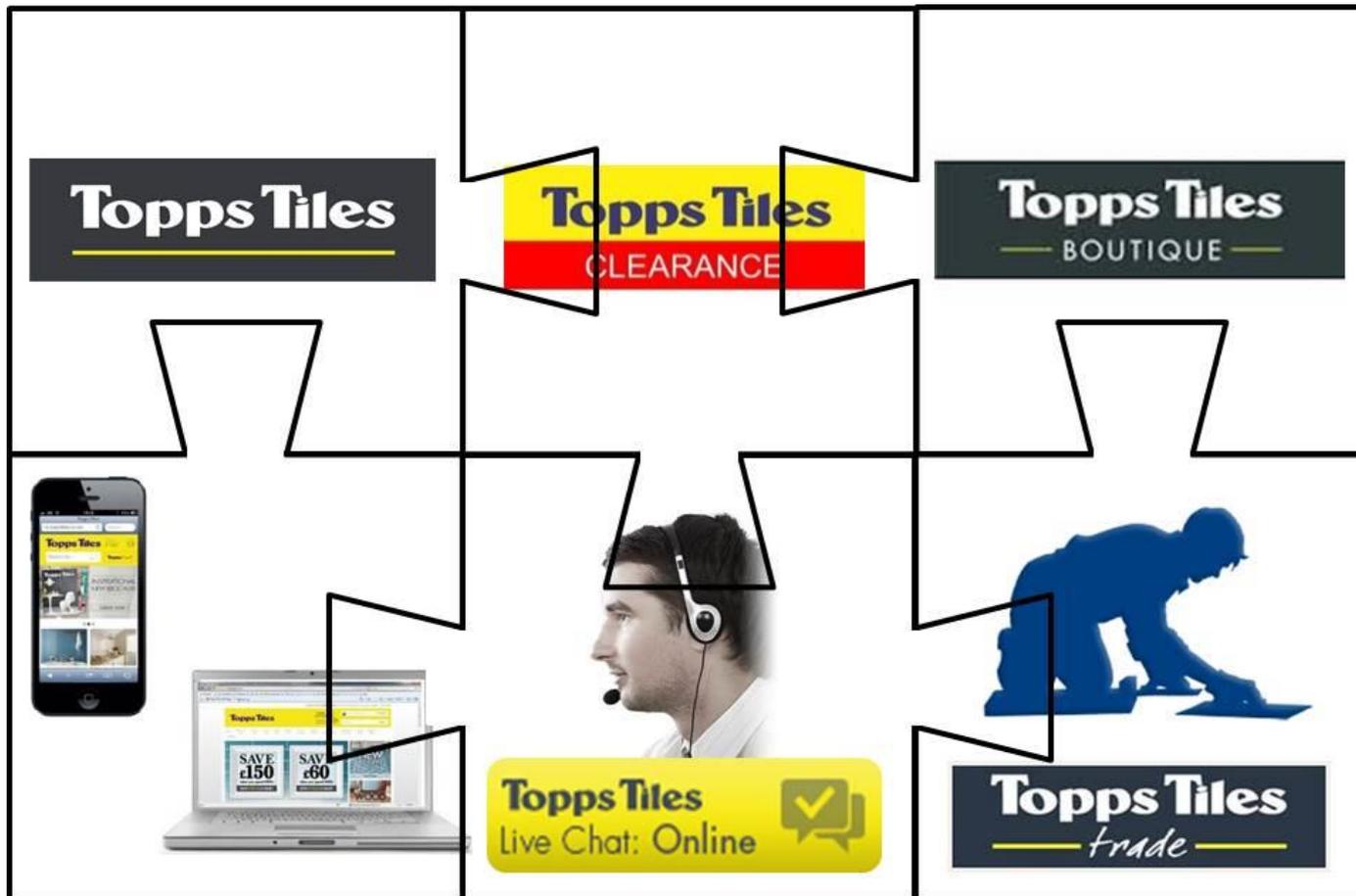


# Inspirational Shopping Experience

- Service ethic is engrained in our culture:
  - Customers need
  - Growing ambition in projects
  - Great service drives great sales performance
- Inspirational in-store environment critical to customer experience
  - Ambitious programme of all store improvements
  - Stores well invested and sector leading standards
  - Boutique learning applied to stores



Convenience is a vital element of consideration to shop with us. The seamless integration of all channels to market is an important source of competitive advantage, especially over the other specialists.



# Boutique Trial Update

- 5 store trial has been very encouraging
- Ahead of plan to achieve same ROI as core estate
- Halo effect in neighbouring stores suggesting successful brand re-appraisal
- Extending trial by c. 12 stores in FY15 including testing a 2<sup>nd</sup> geographic centre
- Learning from Boutique being implemented into core store estate



Islington



Walton-on-Thames



Clapham

# Marketing - Brand Re-appraisal

- Driving new customer consideration with multiple initiatives to extend the appeal of the Topps brand
- Re-branding / new exterior treatments for all stores in 2015
- Targeted advertising to encourage more consumers to re-appraise the Topps offer
- Phil Spencer of “Location, Location, Location” hired as brand ambassador
- PR / online



- **Great year - 10, 30, 50**
  - 10% sales growth
  - 30% profit growth
  - 50% dividend growth
- **Future cash flow generation to be used to fund investment in business and returns for shareholders**
- **Clear objective – take profitable market share and more specifically £1 in every £3 spent – up 1.5% to 30.3%**
- **Effective strategy of “Out-specialising the specialists”**
- **Current trading remains strong at +6.7% LFL in first eight weeks of FY15**

# Appendix

# Income Statement Highlights - Statutory

52 weeks ended 27 September 2014

	FY 14	FY 13	YoY
Adjusted PBT - £m	17.1	13.0	+31.5
Adjustments - £m	(0.5)	(2.6)	-80.8%
MTM - £m	0.1	0.2	-50.0%
PBT - £m	16.7	10.6	+57.5%
Net Margin %	8.5%	6.0%	+2.5%
Tax %	25.0%	13.8%	-11.2%
PAT - £m	12.5	9.1	37.4%
EPS – pence	6.49	4.76	36.3%
Final dividend - pence	1.60	1.0	+60.0%
Full Year dividend - pence	2.25	1.5	+50.0%

- Adjusting items includes impairment of PPE, movement in dilapidations provision, business restructuring costs & reduction in onerous liabilities
- MTM now only reflects movement in FX rates (interest rate derivatives all closed out)
- PBT of £16.7m, 57.5% increase
- Final dividend proposed of 1.60 pence, 60% increase, bringing full year to 2.25 pence, 50% increase