

**Topps Tiles**

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**Half Year  
Results  
2017**



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

# Introduction

**Matthew Williams**  
Chief Executive Officer

Financial performance	<ul style="list-style-type: none"><li>▪ Sales of £106 .6m, (1.3)% YoY</li><li>▪ Adj profit before tax £10.1m, (1.9)% YoY</li><li>▪ Dividend @ 1.1 pence, +10%; 2.25x FY cover</li></ul>
 Range	<ul style="list-style-type: none"><li>▪ Further development of own brand and exclusive ranges</li><li>▪ Wood effect &amp; XL ranges performing well</li><li>▪ New ranges delivering 10.2% of sales</li></ul>
 Convenience	<ul style="list-style-type: none"><li>▪ Well invested estate of 359 stores, target of 450 UK stores</li><li>▪ 3 formats available – Boutique, Small, Core</li><li>▪ Focus on closer trader engagement – 53.6% of sales</li></ul>
 Inspiration	<ul style="list-style-type: none"><li>▪ Digital experience key area of focus</li><li>▪ World class customer service – 69% NPS (top 5 in UK retail)</li></ul>
 People	<ul style="list-style-type: none"><li>▪ Great service means colleague engagement is critical</li><li>▪ Key focus on developing employer brand</li><li>▪ New Learning Management system launched</li></ul>

# Financial Performance

**Rob Parker**

Chief Financial Officer

# Income Statement Highlights - Adjusted

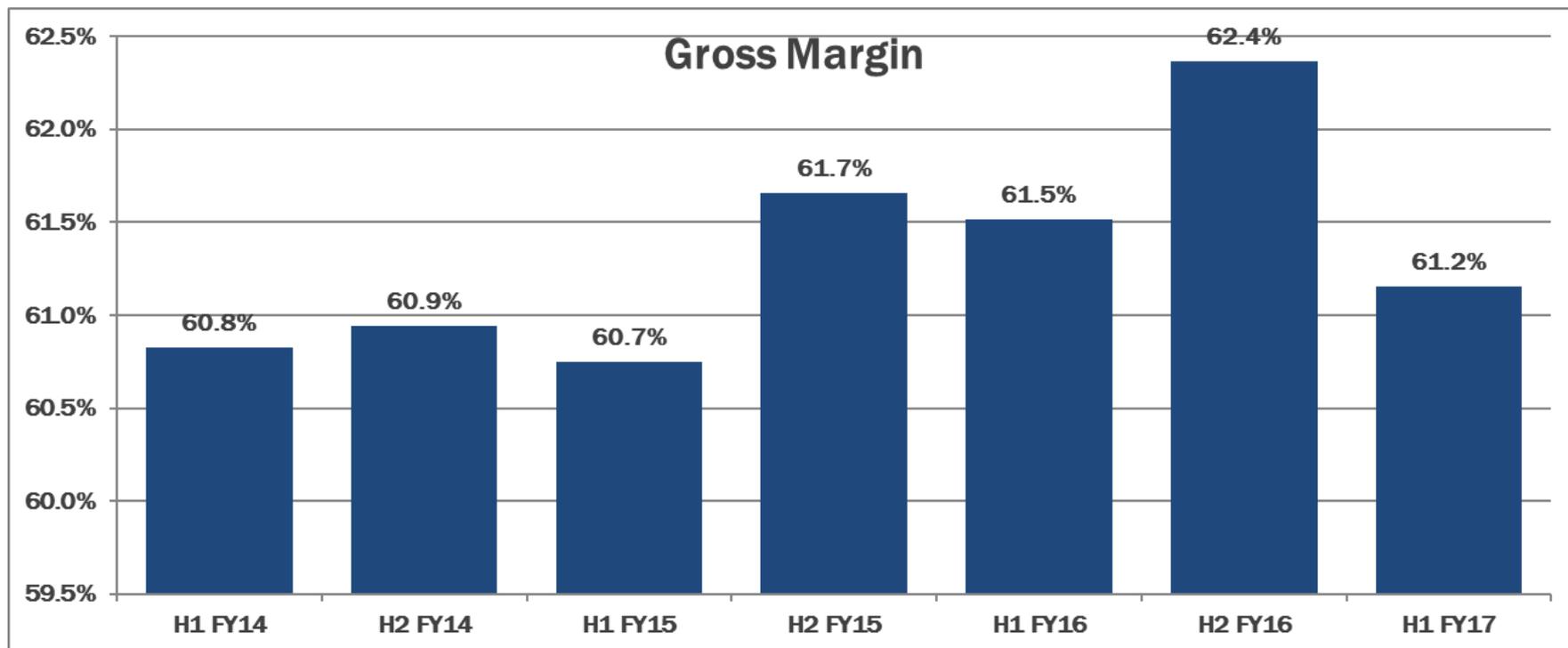
26 weeks ended 1 April 2017

**Topps Tiles**

	HY 17	HY 16	YoY
Sales - £m	106.6	108.0	(1.3)%
Gross Profit - £m	65.2	66.5	(2.0)%
Gross Margin %	61.2%	61.5%	(30)bps
Adjusted Opex - £m	54.6	55.6	(1.8)%
Adjusted Operating Profit - £m	10.6	10.9	(2.8)%
Adjusted Interest - £m	0.5	0.6	(16.7)%
Adjusted PBT - £m	10.1	10.3	(1.9)%
Adjusted Net Margin %	9.5%	9.6%	(10)bps
Adjusted EPS - pence	4.11	4.29	(4.2)%

- Sales decline of 1.9% on a LFL basis (noting strong LFL performance in 2016)
- Gross margin decline of 30bps, includes 20bps one off impact of loyalty scheme launch
- Adjusted PBT of £10.1m, -1.9% YoY
- Interim dividend of 1.1 pence per share, +10.0%

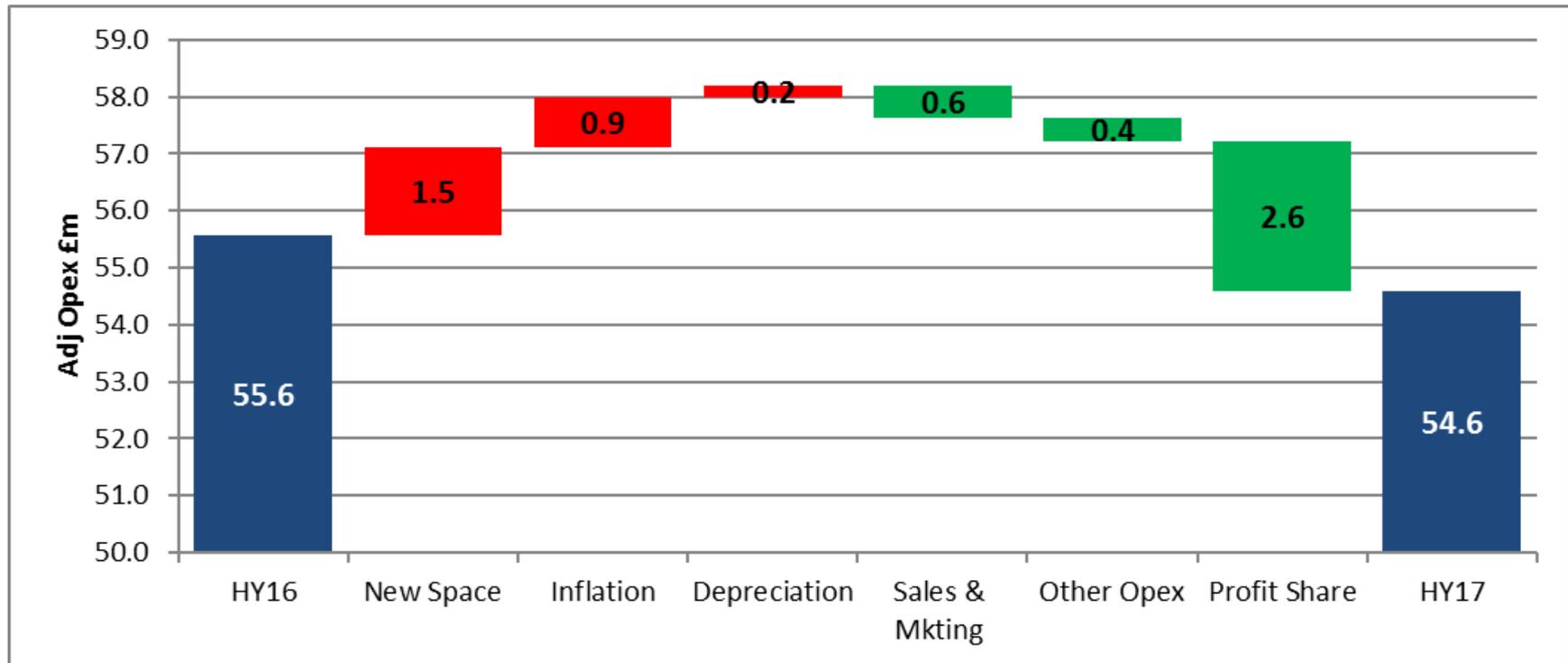
# Margin Performance



- Half year gross margin of 61.2%, (30)bps vs HY16
- Trade loyalty additional costs equivalent of 20bps – one off in H1
- More challenging environment but business very focussed on working through FX implications and making good progress
- Outlook 2017 – H2 gross margin expected to be in line with H1 underlying performance

# Adjusted Operating Expenditure Bridge

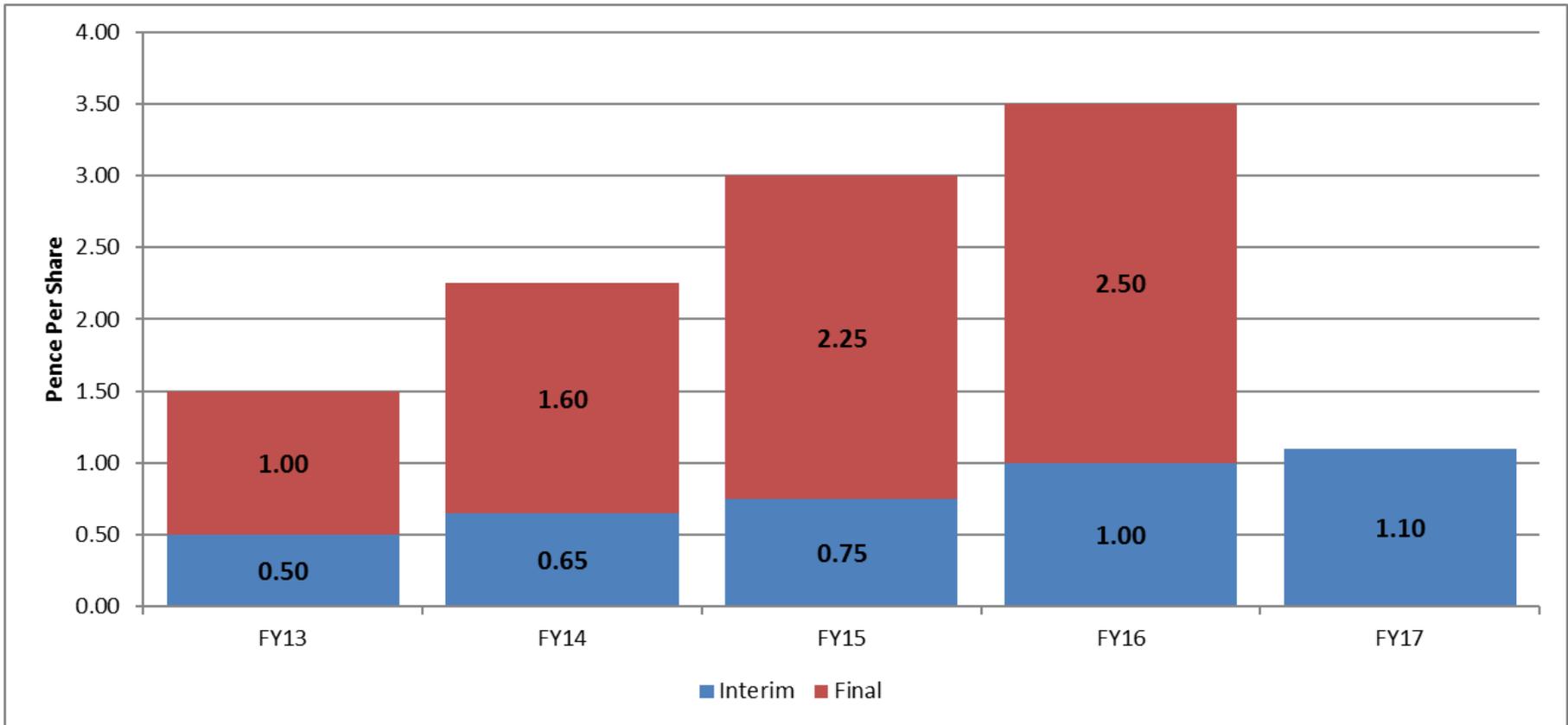
26 weeks ended 1 April 2017



- Adjusted opex declined by **£1.0m**
- New space reflects increase in average number of stores from 342 to 355 yoy
- Inflation of c.1.6% added **£0.9m** to the cost base
- Depreciation costs driven by higher levels of investment into stores
- Sales & marketing costs reduced by **£0.6m**, a further **£0.4m** of savings across the remainder of the business
- Profit share decreased reflecting weaker performance over the period

# Dividend

26 weeks ended 1 April 2017



- 3 year DPS CAGR of 32% (FY13 to FY16)
- Interim dividend increased by 10%, supported by cover of 2.25x
- Management targeting cover of 2x, expect to achieve this by FY18

# Balance Sheet Highlights

1 April 2017

**Topps Tiles**

	HY 2017	HY 2016	YoY
Inventory - £m	26.9	27.2	(1.1)%
Stock Days	121	121	0.0%
Freehold Property - £m	15.9	16.3	(2.5)%
Net Assets - £m	20.4	13.2	+54.5%
Cash - £m	13.4	11.6	+15.5%
Borrowings - £m	40.0	40.0	0.0%
Net Debt - £m	26.6	28.4	(1.8)

- Inventory down on prior year due to H2 focus on working capital and range consolidation
- The Group holds 9 freehold properties at a book value of £15.9m
- Net assets position continues to strengthen +£7.2m yoy
- Cash balance £1.8m higher YoY
- Net debt position reduced by £1.8m reflecting underlying cashflow generation

# Cash Flow Highlights

26 weeks ended 1 April 2017

Summary Cashflow	HY 17		HY 16		YoY	
	£m	£m	£m	£m	£m	£m
Cashflows from operating activities (EBITDA)	+13.7		+13.8		(0.1)	
Change in working capital	(2.0)		(0.4)		(1.6)	
Interest	(1.6)		(0.4)		(1.2)	
Tax	(2.9)		(1.9)		(1.0)	
<b>Operations</b>		<b>+7.1</b>		<b>+11.0</b>		<b>(3.9)</b>
Capital Expenditure	(4.1)		(4.7)		+0.6	
Purchase of own shares	0.0		(2.0)		+2.0	
<b>Investments</b>		<b>(4.1)</b>		<b>(6.7)</b>		<b>+2.6</b>
Dividends	(4.8)		(4.4)		(0.4)	
Movement in loans	+5.0		(5.0)		10.0	
<b>Financing</b>		<b>+0.2</b>		<b>(9.4)</b>		<b>+9.6</b>
<b>Net movement in cash</b>		<b>+3.2</b>		<b>(5.0)</b>		<b>+8.2</b>

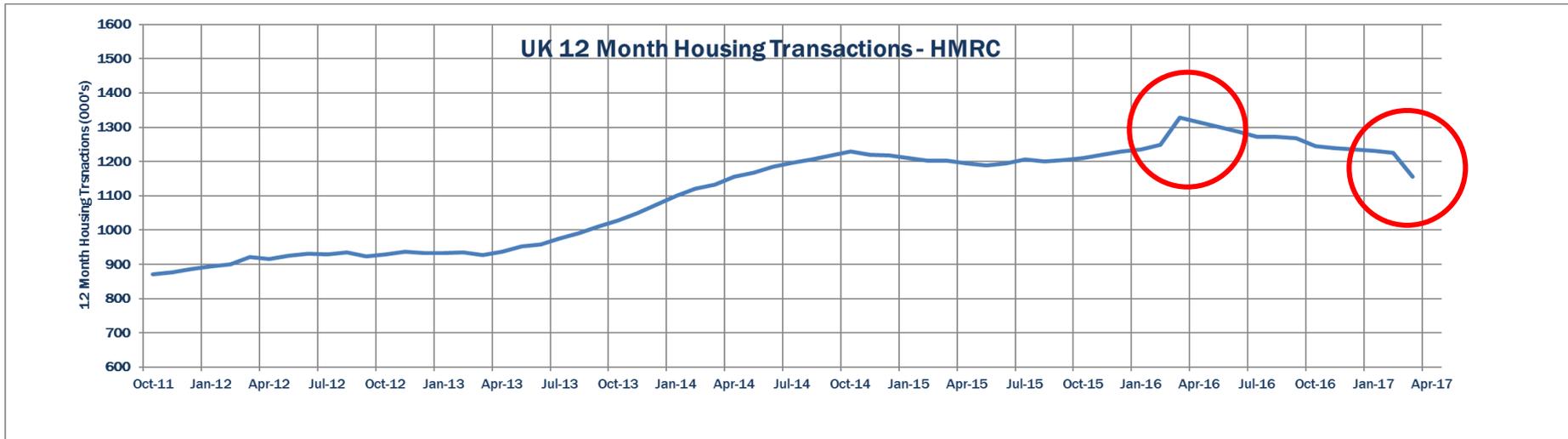
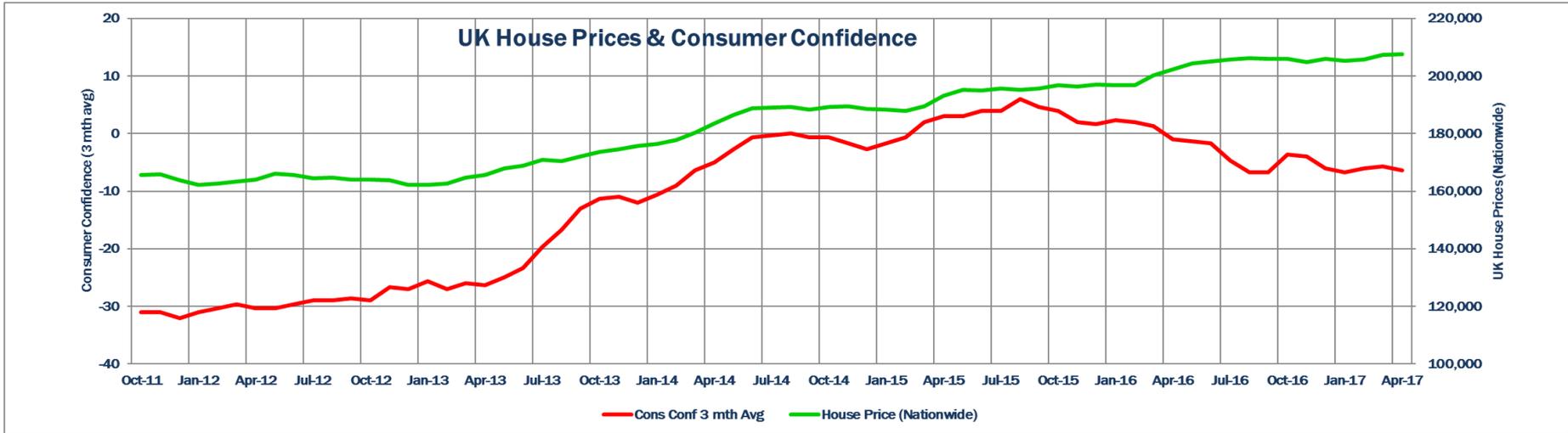
## Notes

- Tax and interest includes impact of closure of legacy HMRC enquiries of £2.9m
- Capex outlook remains at £9m-£10m (includes one freehold acquisition at c.£1m in H2)
- Purchase of own shares in FY16 was to fund colleague share based reward schemes

# **Strategy & Operations**

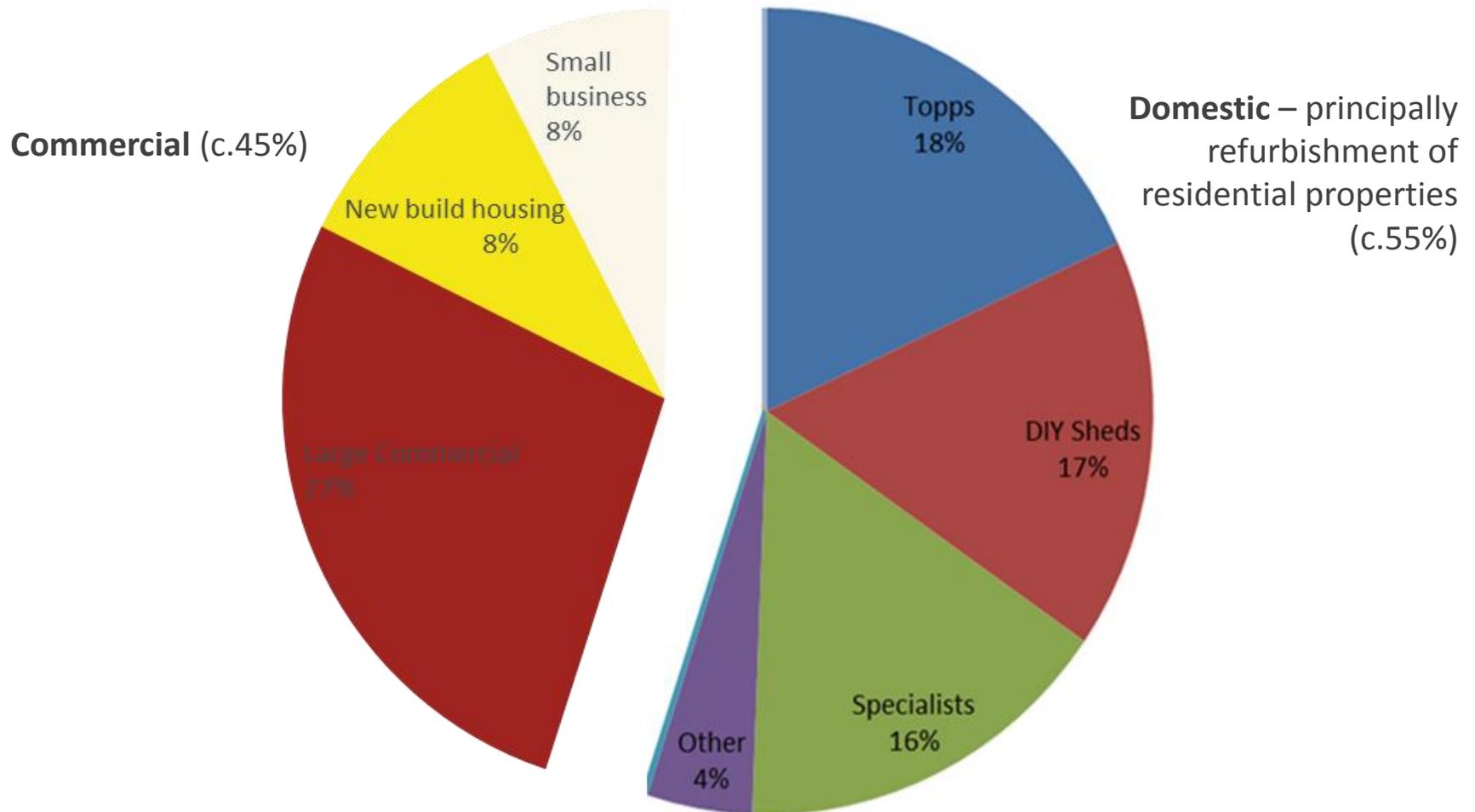
**Matthew Williams**  
Chief Executive Officer

# Market Backdrop



Weaker macro environment has created more challenging market conditions

UK tile market estimated at c.£700m @RSP\*



## Small Business – 8%



Material opportunity through existing channels

## New Build – 8%

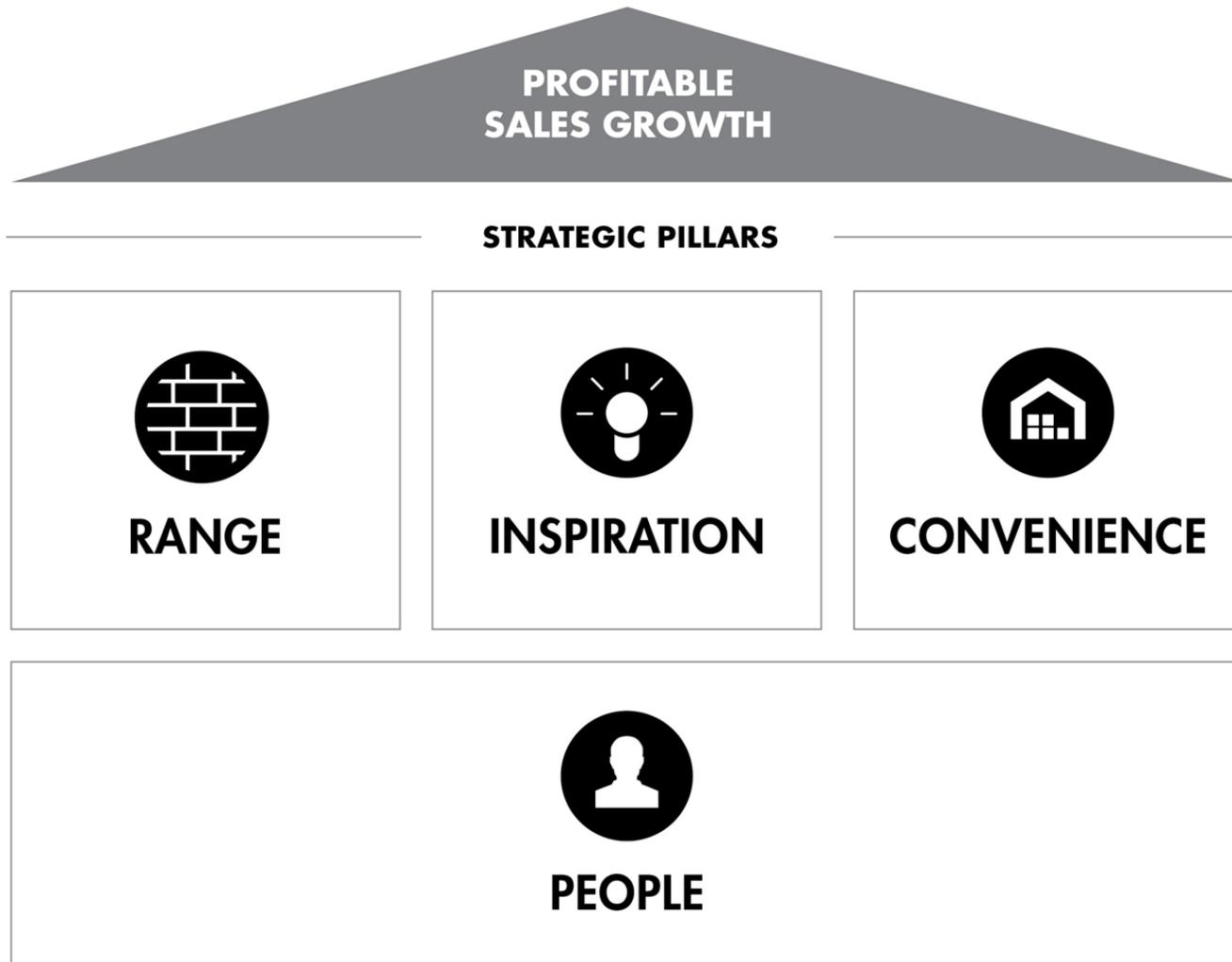


Attractive - likely to be M&A based

## Large Commercial – 27%



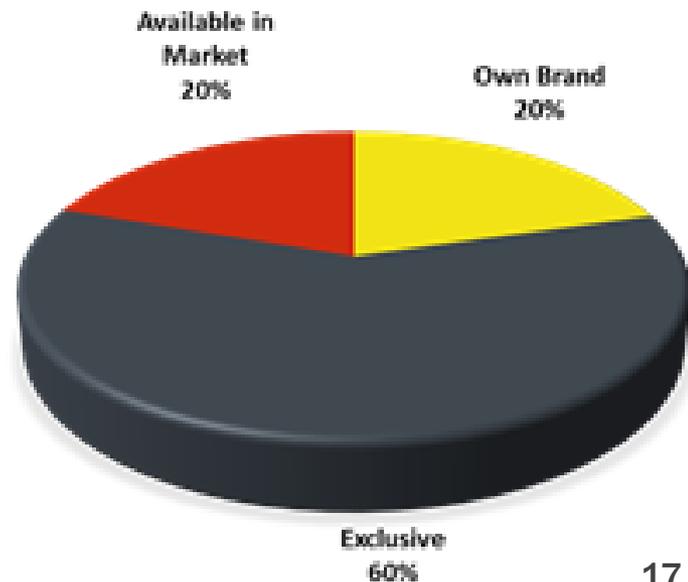
# Strategy “Out Specialising the Specialists”





# Range – Design Collaboration & Exclusivity

- True tile specialist with wood effect now complete - wood effect tile range (50 products) in strong growth
- Buyers work collaboratively with the leading manufacturers to develop tiles which are specifically focused on UK market design trends – 10% of tile sales are from ranges launched <12 months
- New ranges, supported by excellent Topps created room set photography and story telling have driven excellent PR coverage in the key home improvement magazines
- 80% of tile ranges are own brand or exclusive – key source of differentiation





# Hero Range – Fabrix™

- Growing popularity of textures in interior design including fabric effects.
- Fabrix™ brings this trend exclusively to the Topps Tiles range in a high quality, contemporary porcelain tile collection with a ‘material like’ matt surface finish.



60cm x 60cm  
£69.94 /m<sup>2</sup>



- This range also lends itself well to commercial applications such as bars and restaurants.
- Strong imagery is also supported by video for use online and in-store which brings to life the deep texture on the surface of the tile.



# Convenience - Stores



- Opportunity for up to 450 UK stores
- 359 stores trading at period end - growth target of net 15 per annum – ahead this year
- Range of 3 formats subject to availability of space
- Continued development of core format informs investment in existing store estate
  - Estimated 10 full refits in FY17
  - Continued focus on programme of all store improvements
- Target of 2-3 year cash payback on all investment



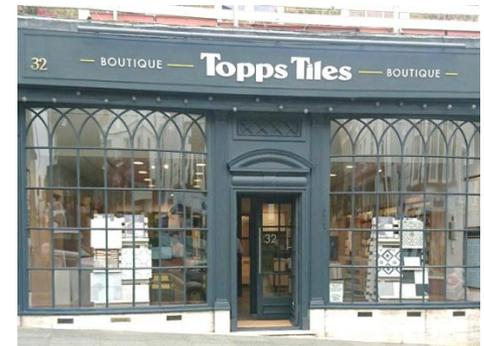
Core (3,500+ sq ft)



Small (2,000-3,500 sq ft)



Boutique (<2,000 sq ft)





- Continued focus on trade channel, building on the ‘do it for me’ trend - trade channel now 53.6% of overall sales mix.
- Focus on price leadership and VFM for trade customers.
- Market leading Rewards+ trade loyalty programme now has 50,000+ traders who have registered.
- Trade CRM is a key aspect of the loyalty programme.
- New enhancements to the scheme enable traders to earn points on van lease and insurance with our partners.



**vanarama**  
EARN REWARDS+ POINTS  
When you lease a van or take out van insurance!  
T&C's apply

**EXCLUSIVE TO REWARDS+ TRADERS!**

**VAN INSURANCE & LEASING**

**Simply Business**  
EARN REWARDS+ POINTS  
When you take out a policy!  
T&C's apply

**EXCLUSIVE TO REWARDS+ TRADERS!**

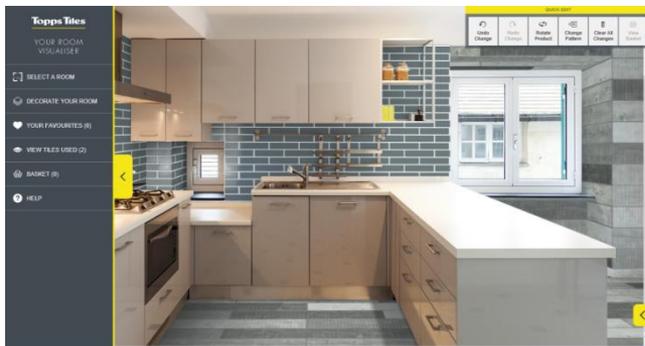
**TAKE OUT TRADER INSURANCES**

**REWARDS+**

**Topps Tiles Trade**



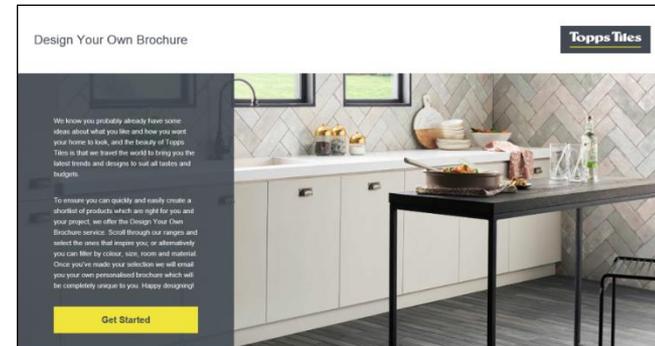
- Supporting world class customer service through an inspirational digital experience:
  - Digital brochures – creation of a bespoke brochure which is then emailed to customer – often after a store visit
  - Market leading visualiser tool – enabling customers to view chosen tiles in a variety of room settings – available online and in-store via tablets
  - Mobile optimisation – allowing customer to access the online experience at their convenience
  - Integration of Rewards+ trade loyalty scheme – ensuring the digital experience is relevant and inspirational for our trade customers



Visualiser online



Visualiser in-store



Digital Personalised Brochure



# People



- Exceptional customer service is about having exceptional colleagues throughout our business...

- Newly launched employer brand:
  - Focussed on 5 key messages
  - Reward strategy of “market meeting” basic pay and “market beating” variable pay
  - Applications for roles are up 40% year to date



- New Learning Management System (“The Hub”):
  - Colleague peer to peer recognition
  - Social networking type forums
  - Gamification of learning
  - Multi platform access



- Focus on colleague engagement – Best Companies “One to watch” status, with ambitions to become a Top 100 UK medium sized employer

# Outlook

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- **Current trading – 7 weeks to 20 May 2017**
  - Like-for-like revenue decreased by 5.8% (adjusted by 1% for impact of one less trading day from later Easter)
  
- **Financial Outlook**
  - FY17 profit likely to be towards lower end of market range
  - Continuation of dividend policy, towards target of 2x
  
- **Sources of future growth**
  - Longer term market indicators remain positive
  - Strategy of “Out Specialising the Specialists”
  - Continued investment in future growth
    - Target of c.450 UK stores
    - Evaluating a number of small M&A opportunities in commercial tile market

# Appendix

# Income Statement Highlights - Statutory

26 weeks ended 1 April 2017

**Topps Tiles**

	HY 17	HY 16	YoY
Adjusted PBT - £m	10.1	10.3	(1.9)%
Adjustments - £m	(0.6)	(0.2)	(200)%
PBT - £m	9.5	10.1	(5.9)%
Net Margin %	9.5%	9.6%	(10) bps
Tax %	21.9%	20.3%	(1.6)%
PAT - £m	7.4	8.0	(7.5)%
EPS - pence	3.86	4.17	(7.4)%
Interim dividend - pence	1.10	1.00	+10.0%

- Adjusting items includes one off costs relating to restructuring costs relating to prior year business simplification of £0.2m and loss on disposal of plant, property & equipment of £0.4m. Prior year included gain of £0.2m relating to marked to market FX gains.
- Statutory PBT of £9.5m, 5.9% decrease.