

Full Year Results 2018



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

Overview

Matthew Williams
Chief Executive Officer

Financial Performance	<ul style="list-style-type: none">▪ Flat like-for-like sales▪ Adj profit before tax £16.0m, (14.0)% YoY▪ Strong free cash flow generation of £17.9m, +£13.7m YoY▪ Dividend maintained and net debt reduced
Group	<ul style="list-style-type: none">▪ Core purpose of <i>inspiring customers through our love of tiles</i>▪ Specialism drives competitive advantage▪ Focus on world class customer service means people are key
Retail	<ul style="list-style-type: none">▪ Strategy of “Out-specialising the Specialists”▪ Digitally led multi-channel business▪ Proactive management of flexible property portfolio
Commercial	<ul style="list-style-type: none">▪ Entry into commercial has doubled our addressable market▪ Strategy to disrupt market and construct a new market leader▪ Key client wins and recruitment success validate strategy

Financial Performance

Rob Parker

Chief Financial Officer

Income Statement Highlights – Adjusted measures

52 weeks ended 29 September 2018

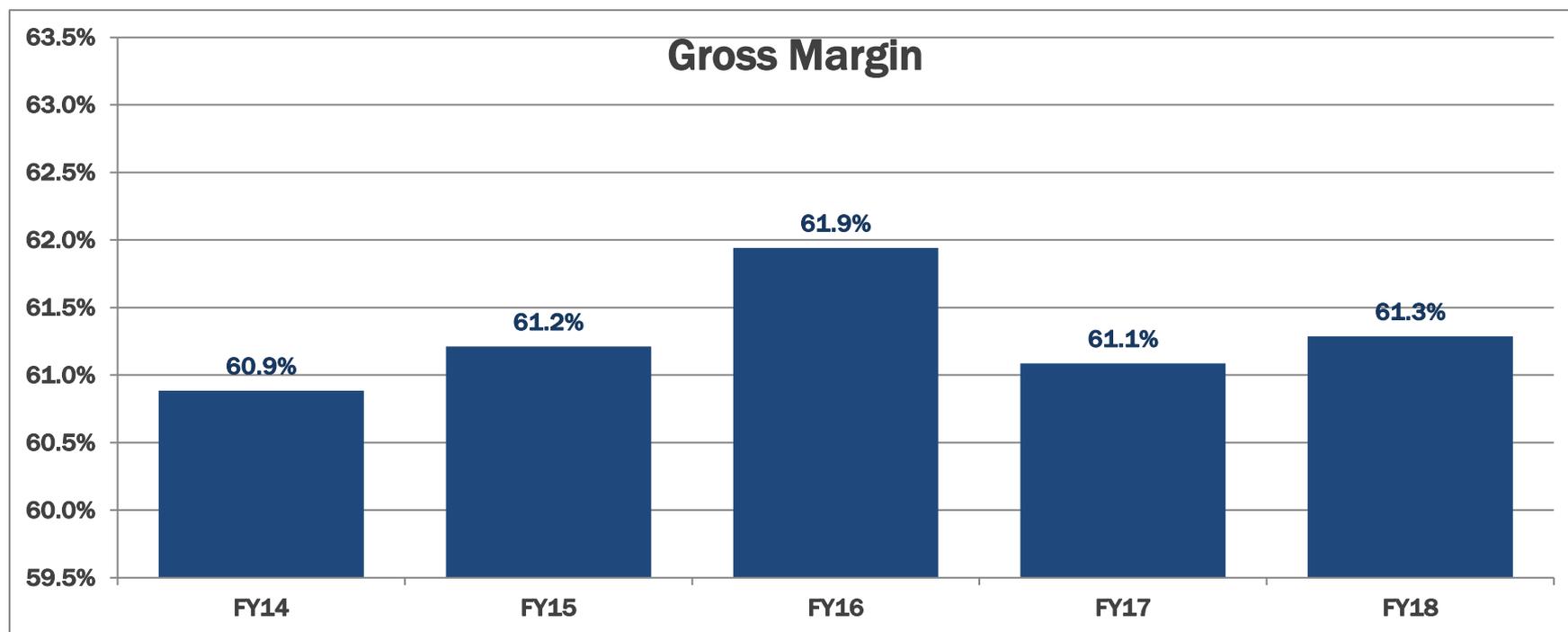
Topps Tiles

	FY 18	FY 17	YoY
Sales - £m	214.8	211.7	+1.5%
Gross Profit - £m	131.6	129.3	+1.8%
Gross Margin %	61.3%	61.1%	+20bps
Opex - £m	114.6	109.9	+4.3%
Interest - £m	1.0	0.9	+11.1%
PBT - £m	16.0	18.6	(14.0)%
Net Margin %	7.5%	8.8%	(130)bps
EPS - pence	6.64	7.63	(13.0)%

- **Sales maintained yoy on a LFL basis**
- **Gross margin increase of 20bps, primarily as a result of sourcing gains**
- **Opex increase of £4.7m, new stores and inflation are key drivers**
- **Adjusted PBT of £16.0m, -14.0% YoY**

Note - Adjusted measures exclude several items which are either one off in nature or fluctuate significantly from year to year (such as some property related items).

Adjusted Margin Performance

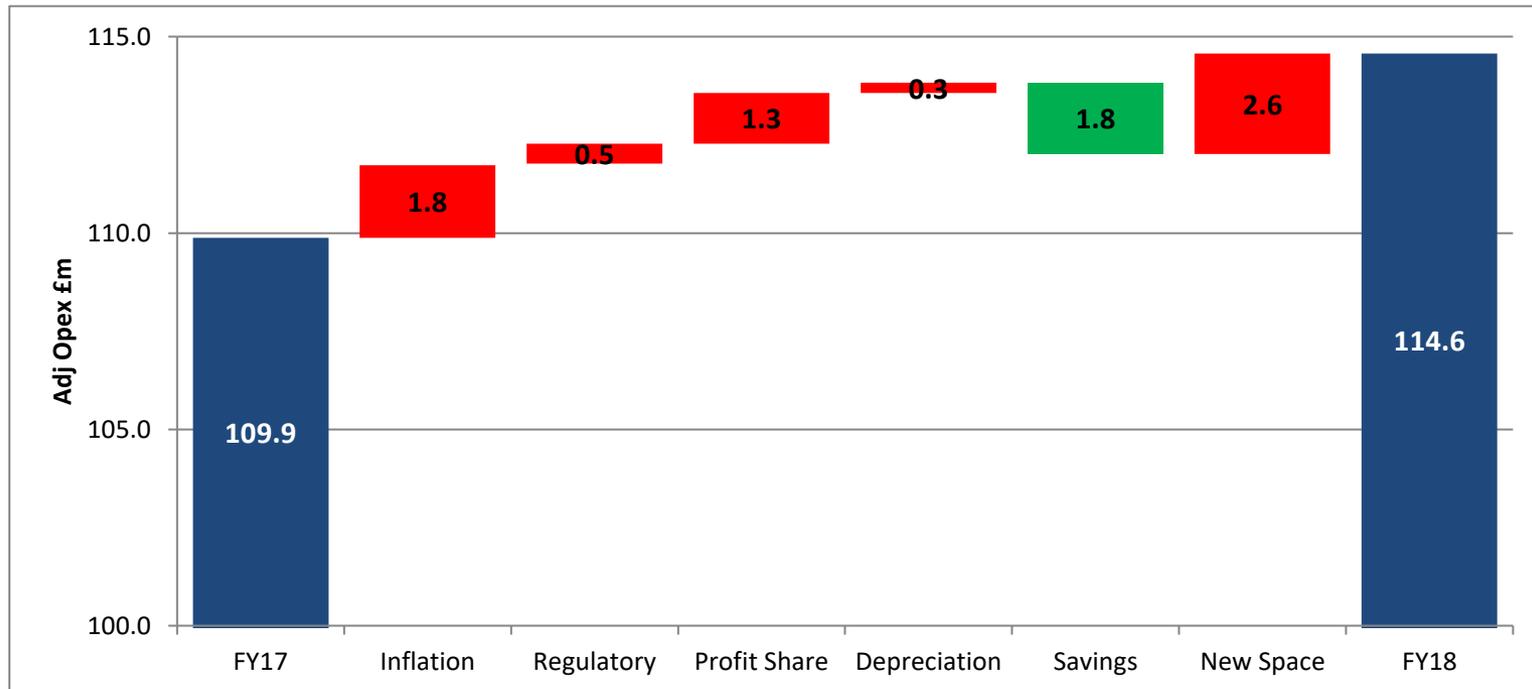


- Adjusted FY gross margin of 61.3%, +20bps yoy
- Gains from sourcing and differentiated product offer
- FX impacts across the year are minimal
- Gross margin stability over 5 year period

Note - Adjusted gross margin excludes impact of Parkside business

Adjusted Operating Expenditure Bridge

52 weeks ended 29 September 2018



- Adjusted opex increased by £4.7m
- Inflation of c.2% = £1.8m;
- Regulatory costs impacts +£0.5m, including National Living Wage
- Employee profit share +£1.3m, due to reversal of bonus provisions in prior year
- Depreciation +£0.3m, due to higher levels of investment in recent years
- Savings £1.8m, primarily from store labour simplification initiatives
- Average of 372 stores vs 361 in the prior year = £2.6m of costs

Balance Sheet Highlights

29 September 2018

Topps Tiles

	FY 2018	FY 2017	YoY
Freehold Property - £m	14.2	16.5	(2.3)
Fixed Assets - £m	36.8	39.4	(2.6)
Inventory - £m	30.2	29.5	+0.7
Debtors & Creditors - £m	(38.3)	(34.5)	+3.8
Borrowings - £m	30.0	35.0	(5.0)
Cash - £m	13.8	7.5	+6.3
Net Debt - £m	16.2	27.5	(11.3)
Net Assets - £m	26.7	23.6	+3.1

- The Group holds 6 freehold properties with a book value of £14.2m
- Fixed assets reduction due to lower capital expenditure and fewer stores at year end
- Inventory increase is driven by extended levels of overseas sourcing and a longer supply chain as a result, the majority of which is offset by increased creditor terms
- Inventory days at 130 days (FY17 132), with creditor days at 90 (FY17 81)
- Net debt position reduced by £11.3m reflecting strong cash generation

Cash Flow Highlights

52 weeks ended 29 September 2018

	FY 18		FY 17		YoY	
	£m	£m	£m	£m	£m	£m
Cash flows from operating activities (EBITDA)	+23.0		+24.7		(1.7)	
Change in working capital	+2.5		(2.5)		+5.0	
Interest	(1.1)		(2.0)		+0.9	
Tax	(2.5)		(5.0)		+2.5	
Operations		+21.9		+15.2		+6.7
Capital expenditure	(5.0)		(10.2)		+5.2	
Net proceeds from property activity / other	+1.0		(0.8)		+1.8	
Investments		(4.0)		(11.0)		+7.0
Free Cashflow		+17.9		+4.2		+13.7
Dividends	(6.6)		(6.9)		+0.3	
Reduction/(increase) in net debt		+11.3		(2.7)		+14.0

- Free cash flow generation of £17.9m (+£13.7m YoY) and £11.3m reduction in net debt
- Key drivers were improved working capital, reduced tax and more targeted investments

Business remains strongly cash generative with a focus on reducing net debt or investing in growth

- **Gross margin – small increase expected yoy (assuming stable FX)**
- **Adjusted opex – expected to be between £116m and £117m**
- **Parkside – estimate c.£1m trading loss as we invest to drive longer term growth**
- **Capex – estimate c.£7m to include new stores, all store improvement programme and central facility investments**
- **Working capital – c.£3-4m year on year reduction – mainly due to year end timing**
- **Interim dividend to be based on one third of prior year**

Strategy & Operations

Matthew Williams
Chief Executive Officer

Profitable Sales Growth

RETAIL 

OUTSPECIALISING THE SPECIALISTS

COMMERCIAL 

DISRUPT AND CONSTRUCT

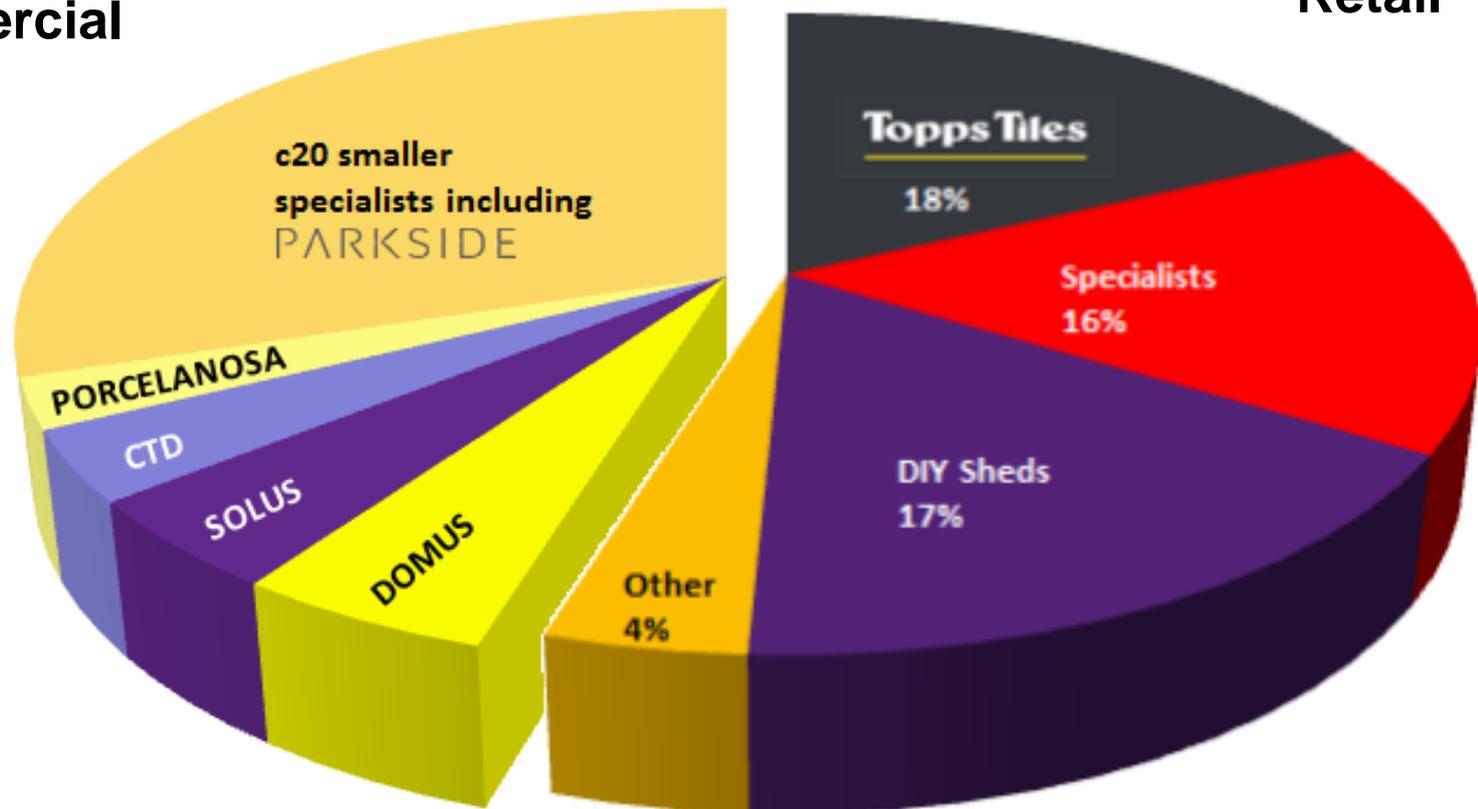
LEADING RANGE 

GREAT PEOPLE, GREAT COMPANY 

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

Commercial

Retail



Entry into commercial has nearly doubled our addressable market

LEADING RANGE





Leading Range

- Specialism in tiles is our key source of competitive advantage in both retail and commercial markets
- Specialism includes in-house design, technical and sourcing expertise
 - 90% of our tile range is own brand or exclusive, sourced from over 20 countries
 - Photography forms an important element of our intellectual property and design assets
- Buying scale supports industry leading margins & NPD





AQUABASE™

- Unique porcelain shower tile/ tray solution
- Exclusive vendor partnership
- Completes “the look” for customers
- Commercial and domestic applications



FOUNDRY™

TILE TRIMS

- Lux detailing a key interior trend
- Development led by Topps Group
- 8 finishing processes and looks
- Highlights world leadership in category
- Commercial and domestic applications



GREAT PEOPLE,
GREAT COMPANY





Great People, Great Company

Topps Tiles

- Group support functions include HR, logistics, finance, property, IT and legal
- Group capability being leveraged into new areas of growth
- Specialist service provided to customers means highly skilled and engaged colleagues are critical to success
- L&D key area of focus – delivered through “theHub”
- Simplification programme aims to improve experience for both colleagues or customers



RETAIL 

Topps Tiles

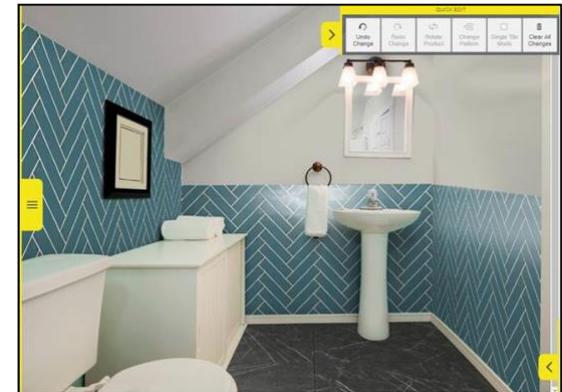
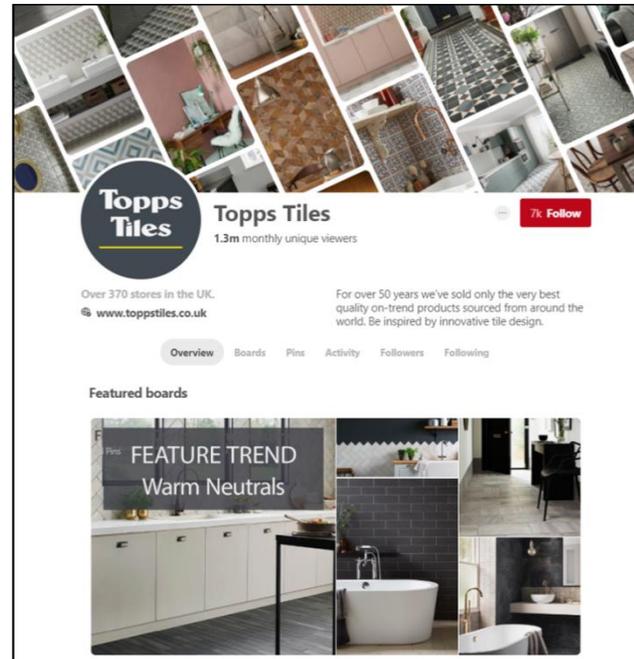
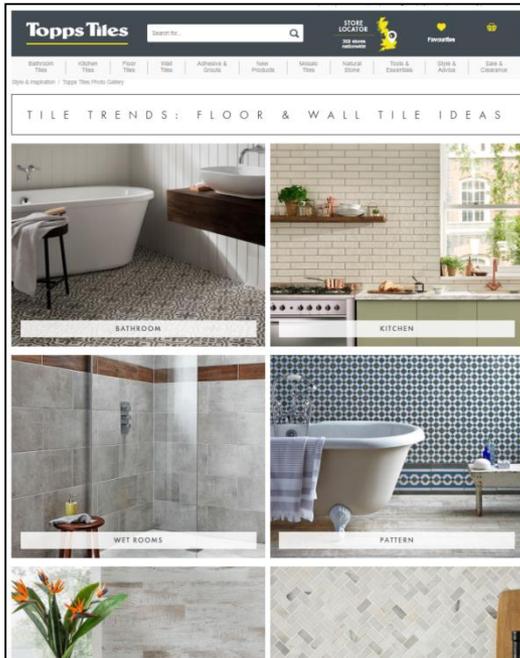
“Out Specialising the Specialists”



Inspirational Digital Experience



- Almost all customers will experience some aspect of digital and often our website will be first point of contact
- Focus on being a digitally led multi-channel retailer
- Retail website voted top 25 in UK retail (InternetRetailing)
- Increased investment into digital marketing and social media





- Obsessive focus on customer service – new “voice of the customer” satisfaction survey programme
- Proactive store estate management:
 - Programme of All Store Improvements – 150+ stores with the latest merchandising treatments
 - Targeted new store openings
 - Flexibility in the estate is a further strength and enables us to respond to changing customer behaviour

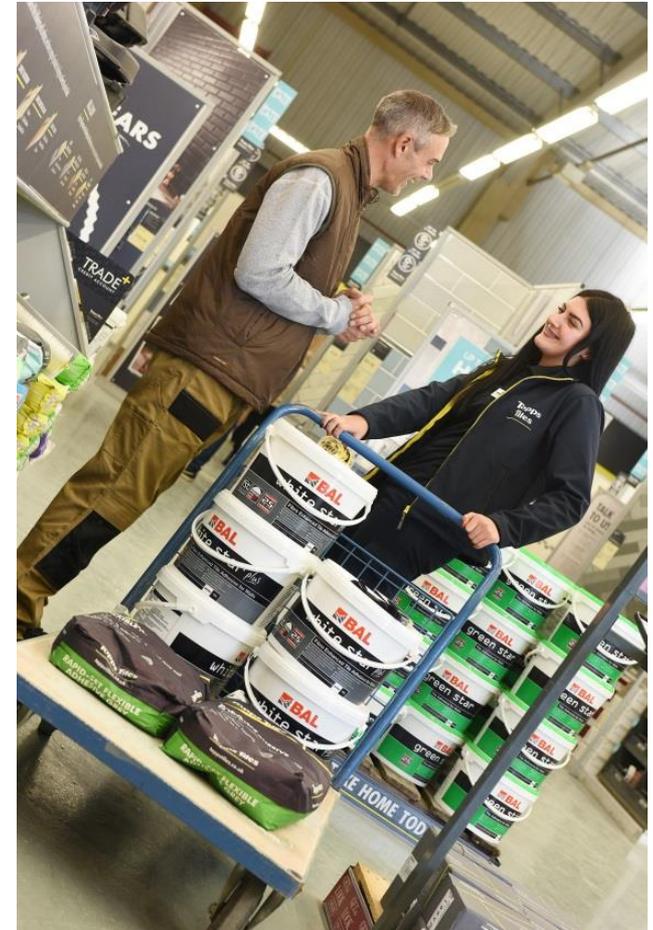




Outstanding Trader Experience

Topps Tiles

- Homeowners are increasingly ambitious and adventurous – driving need for professional fitting
- Relationships with traders is vital – key focus for store teams
- Trade loyalty scheme refined during the year - 85,000 active members, up c.50% YoY



COMMERCIAL



PARKSIDE

“Disrupt & Construct”



Strategic Progress

- Strategy is to disrupt the commercial tile market and construct a new market leader over the medium term
- Commercial customer response to Group's tile specialism has been very positive
- Sales team recruited with over 275 years of combined experience
- Commercial showrooms opened in Chelsea and Leicester during the year, with a plan to open two more in the year ahead
- Sales of £2.1m and £1.1m of trading losses, as expected
- FY19 expect strong sales growth and a similar loss, as we continue to invest





Client Case Study

Topps Tiles

**CLIENT WIN
DEMONSTRATION OF GROUP
SCALE AND ADVANTAGE**

**DEVELOPED BESPOKE
SAMPLES WITHIN 48 HOURS,
SPECIFIED UNIQUE TILE
WITHIN 3 WEEKS**

25,000 m2+ TILE PROJECT

**MOU
NTA
NVIL**

PROPERTY DEVELOPER



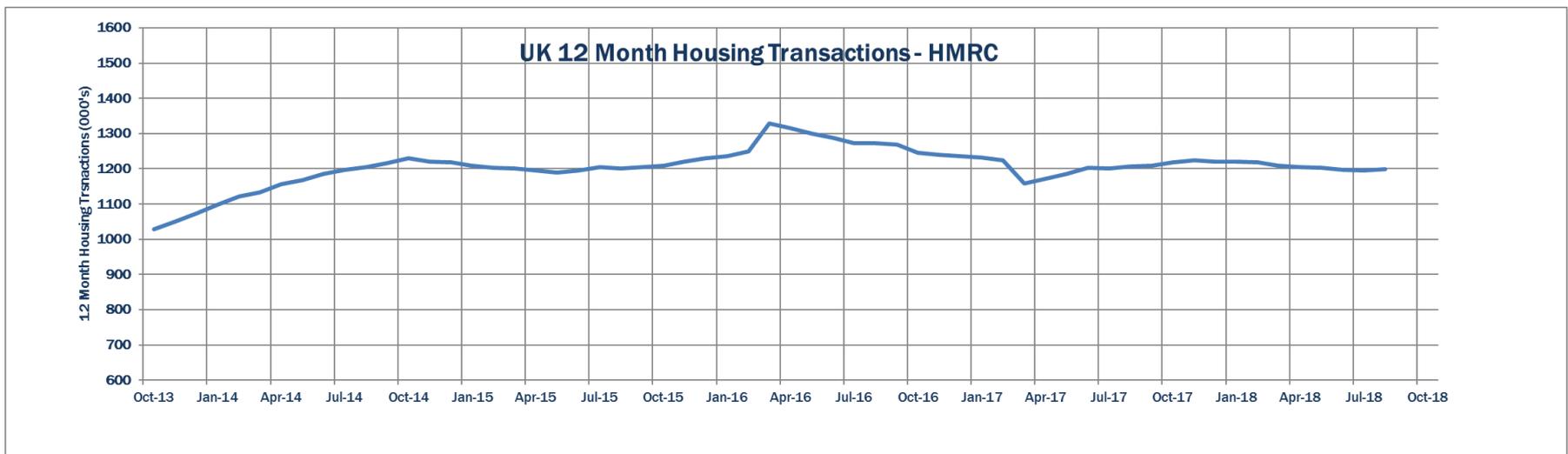
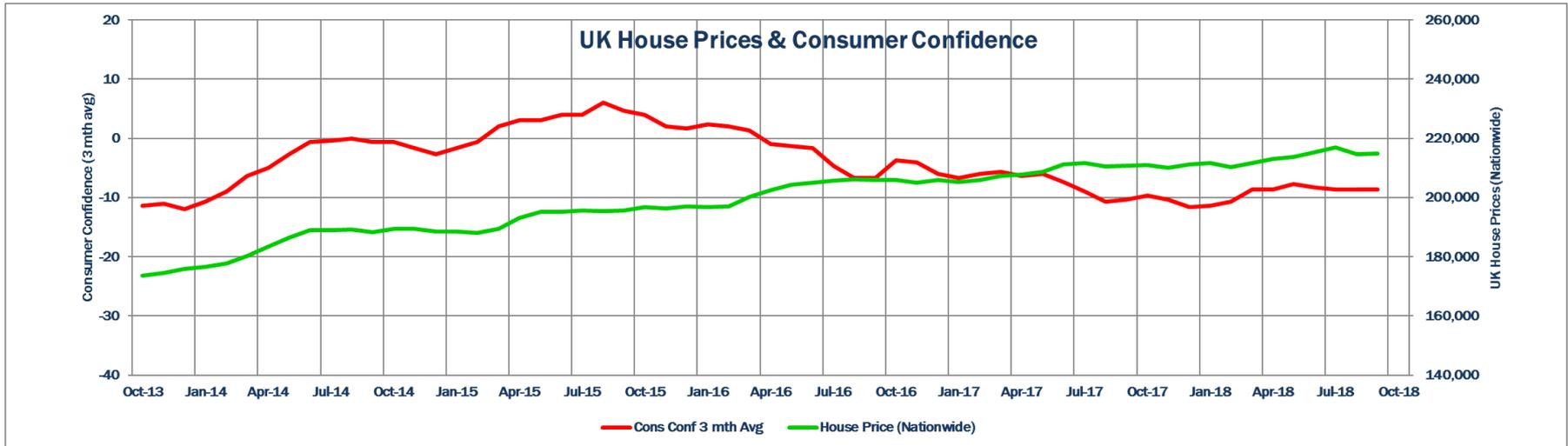
- **Current trading & Outlook**

- Like-for-like revenue decline of -1.9% over 8 weeks to 24 November 2018 (FY17: +3.2%)

- **Sources of future growth**

- Retail market outperformance through strategy of “Out-specialising the Specialists”
- Commercial opportunity – good foundations for significant growth in FY19 and beyond
- M&A could provide opportunity to accelerate growth
- Trend for increased use of tiles looks set to continue

Appendix



Macro environment remains challenging but stable

Income Statement Highlights - Statutory

52 weeks ended 29 September 2018

	FY 18	FY 17	YoY
Adjusted PBT - £m	16.0	18.6	(14.0)%
Adjustments - £m	(3.3)	(1.6)	(1.7)
PBT - £m	12.7	17.0	(25.3)%
Net Margin %	5.9%	8.0%	(210)Bps
Tax %	23.9%	21.0%	+290Bps
PAT - £m	9.7	13.4	(27.6)%
EPS - pence	5.00	6.98	(28.4)%
Dividend - pence	3.40	3.40	0.0%

- Adjusting items include onerous lease impairments of £2.2m, vacant property costs of £0.2m, £0.7m gain on the disposal of freehold properties, historic adjustments to refunds provision of £0.5m, and the Parkside trading loss for the period of £1.1m.
- Statutory PBT of £12.7m, 25.3% decrease.