

Topps Tiles

Full Year Results 2016

Slumber™ wood effect tile



- **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">• Sales of £215m, +4.2% LFL• Adj profit before tax £22.0m, +10% on a 52 week basis• Full year dividend @ 3.5 pence, +16.7%; 2.5x cover
Range	<ul style="list-style-type: none">• True tile specialist - wood exit complete• Key focus on collaboration & design• Exclusives & own brand – 85% of tile sales
Convenience	<ul style="list-style-type: none">• Well invested estate of 352 stores, continued development• Target of 450 UK stores• Focus on closer trader engagement – 52% of sales
Inspiration	<ul style="list-style-type: none">• World class customer service• NPS - top five in UK retail
People	<ul style="list-style-type: none">• Fourth pillar of strategy• Colleague engagement critical to our success• Key focus on developing employer brand

Financial Performance

Rob Parker

Chief Financial Officer

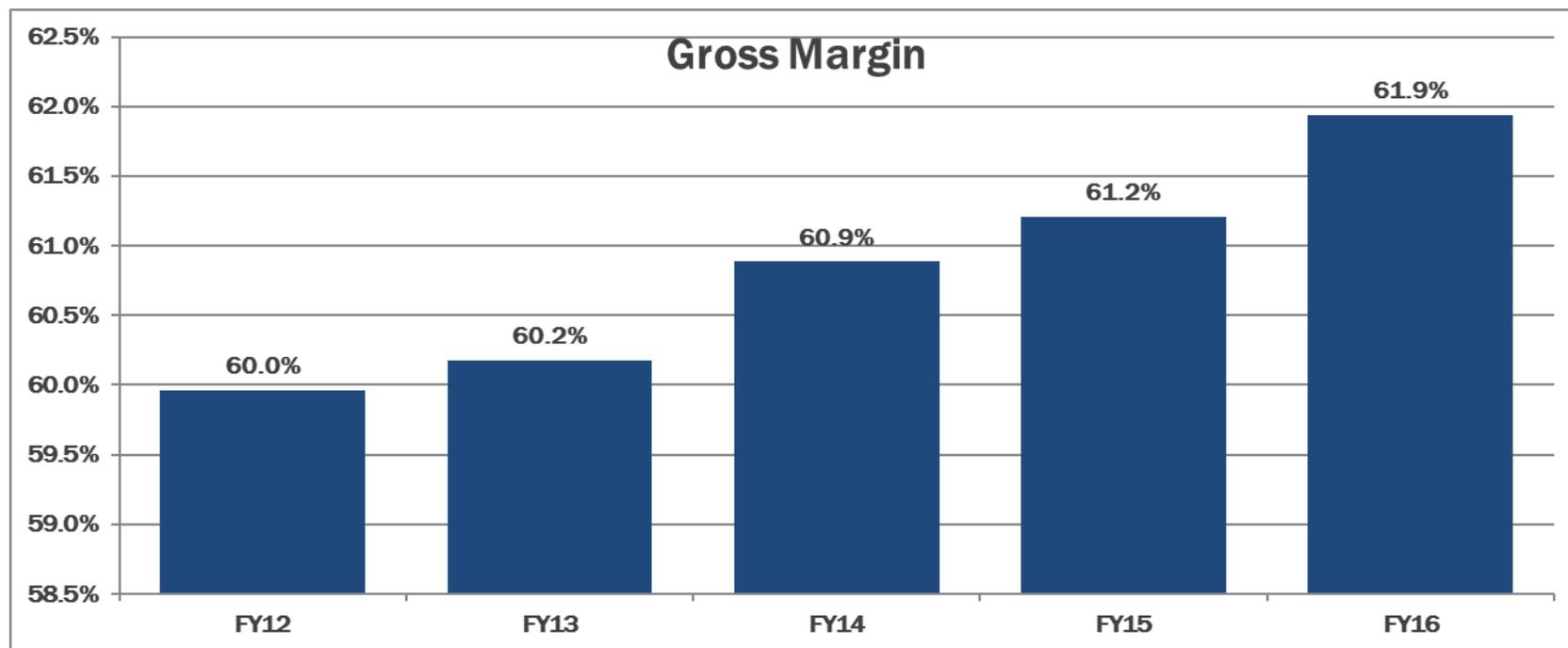
Income Statement Highlights - Adjusted

52 weeks ended 1 October 2016

Topps Tiles

	FY 16 52 weeks	FY 15 53 weeks	YoY
Sales - £m	215.0	212.2	+1.3%
Gross Profit - £m	133.2	129.9	+2.5%
Gross Margin %	61.9%	61.2%	+70bps
Adjusted Opex - £m	(110.1)	(108.4)	+1.6%
Adjusted Operating Profit - £m	23.1	21.5	+7.4%
Adjusted Interest - £m	(1.1)	(1.1)	n/a
Adjusted PBT - £m	22.0	20.4	+7.8%
Adjusted Net Margin %	10.2%	9.6%	+60bps
Adjusted EPS - pence	8.86	8.17	+8.4%

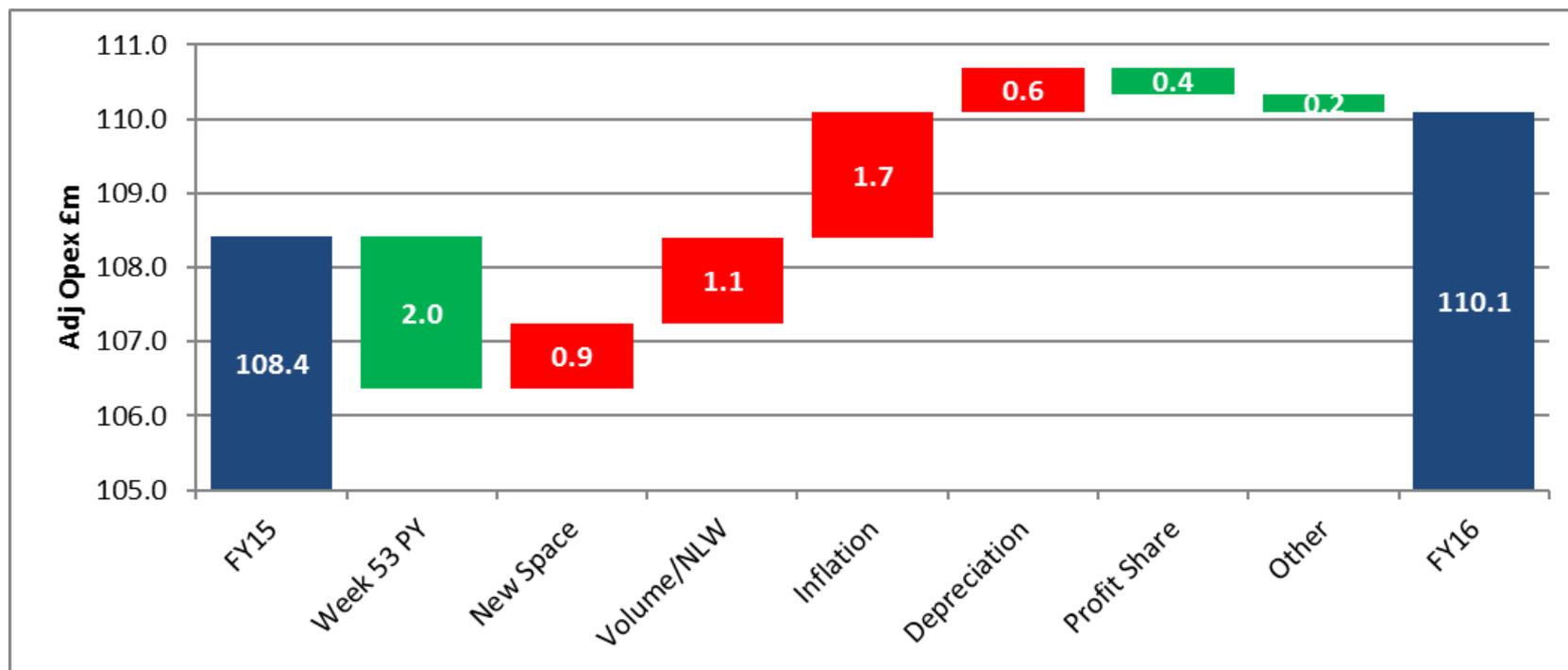
- Strong sales growth of +4.2% on a LFL basis
- Gross margin grown by 70bps
- Adjusted PBT of £22.0m, +7.8% (+10% on a comparable 52 week basis)
- Full year dividend of 3.5 pence per share, +16.7%



- Full year gross margin of 61.9%, +70bps vs FY15
- Includes dilution from growth of lower margin trade business - now c.52% of mix
- Underlying gains driven from supply chain, new product development and own brand/exclusivity
- Outlook 2017 – expected to be stable - significant FX pressures will be offset by supplier negotiations, continued gross margin management and mix benefits (including exit from low margin wood range)

Adjusted Operating Expenditure Bridge

52 weeks ended 1 October 2016



- Adjusted opex increased by **£1.7m**, **£3.7m** excluding impact of extra week in prior year
- New space reflects increase in average number of stores from 341 to 344 yoy
- Volume relates to additional store hours and National Living Wage impact (£0.2m)
- Inflation of c.1.6%
- Depreciation costs driven by higher levels of investment into stores
- Profit share decreased slightly reflecting weaker performance over Qtr 4

Incremental Operating Margin

£m	FY 2015	Incremental	FY 2016	YoY
Sales	208.2	6.8	215.0	3.3%
Gross Profit	127.5	5.7	133.2	4.5%
Gross Margin	61.2%		61.9%	+70bps
Adj Operating Profit	21.1	2.0	23.1	9.5%
Operating Margin	10.1%	29.6%	10.7%	+60bps
Adj PBT	20.0	2.0	22.0	10.0%
Net margin	9.6%	29.8%	10.2%	+60bps

2015 has been restated on a 52 week basis to simplify comparison

- Operating margin and net margin has improved by 60bps yoy
- Key driver was growth in gross margin, combined with sustained sales growth and modest cost growth of +3.5% yoy
- Target of 25% incremental operating margin remains, 30% delivered for the year

Balance Sheet Highlights

1 October 2016

Topps Tiles

£m	FY 2016	FY 2015	YoY
Inventory	25.7	27.4	-6.2%
Stock Days	115	124	-7.3%
Net Assets	17.5	10.8	+62.0%
Cash	10.2	16.6	-38.6%
Borrowings	35.0	45.0	-22.2%
Net Debt	24.8	28.4	-12.7%

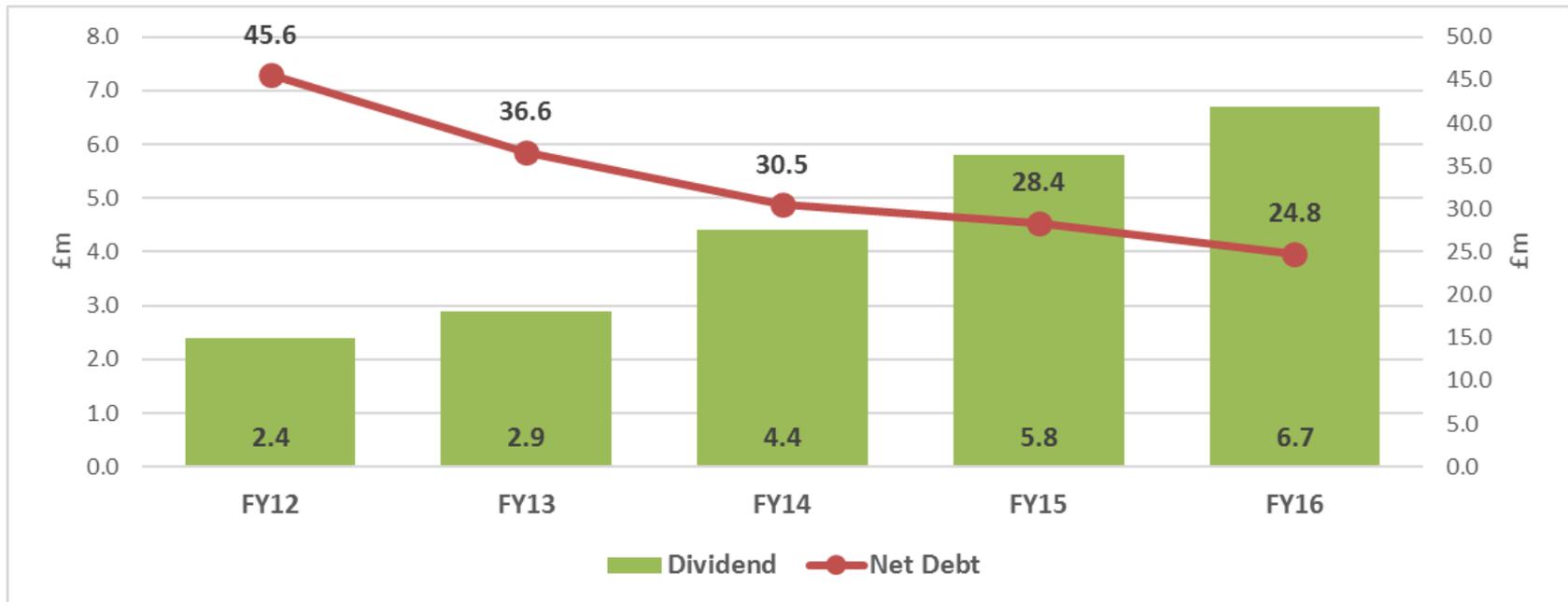
- Inventory down on prior year due to focus on working capital and range consolidation
- Net assets position continues to strengthen
- Cash balance down by £6.4m, but offset by £10m reduction in drawn facilities
- Net debt position reduced by £3.6m reflecting underlying cashflow generation

Capital Structure & Returns

52 weeks ended 1 October 2016

Gearing (net debt : EBITDA)

FY12	FY13	FY14	FY15	FY16
2.2	1.8	1.3	1.1	0.9



- Gearing has fallen as EBITDA has increased and net debt has reduced
- Dividend cover is also reducing which is driving a higher payout
- DPS increased by 50% in FY14, 33% in FY15 and 16.7% in FY16
- FY16 cover of c.2.5x on an adjusted basis – FY17 target of 2.25x, FY18 2.0x

Cash Flow Highlights

52 weeks ended 1 October 2016

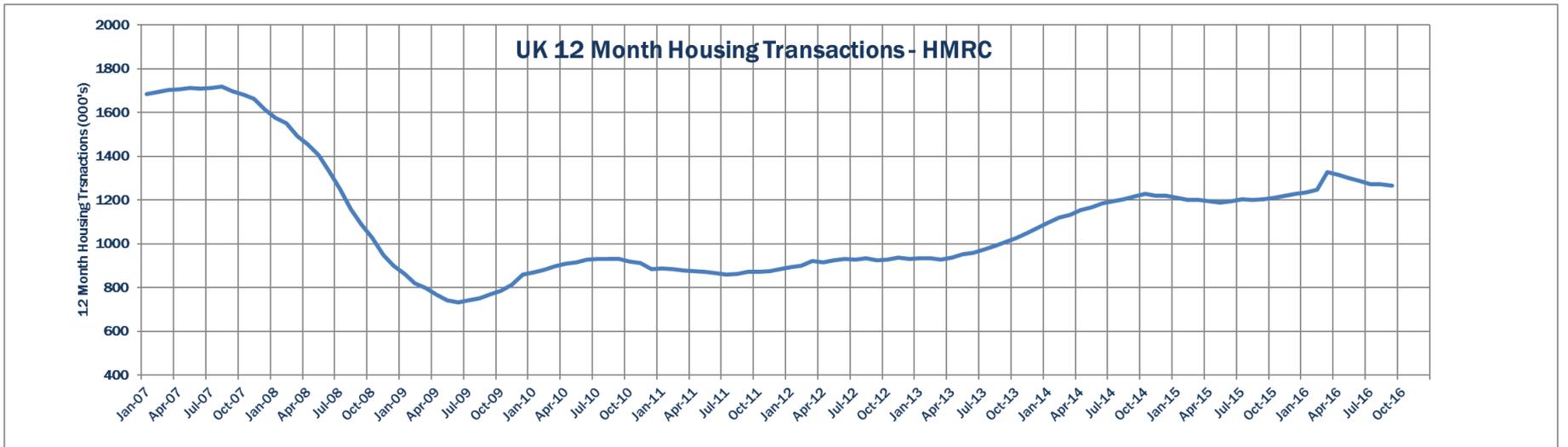
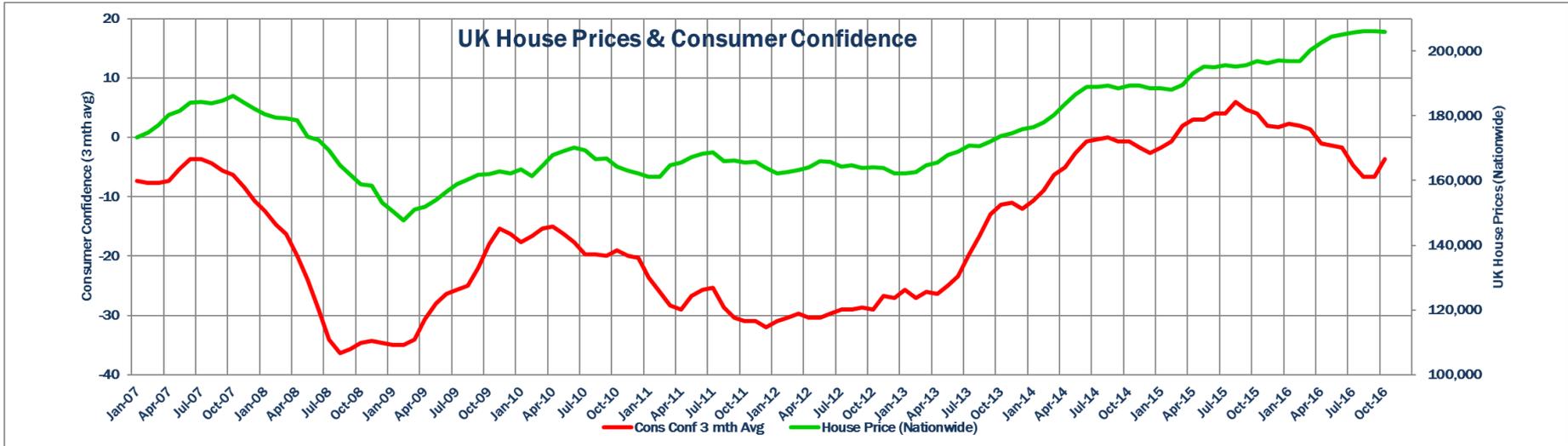
Summary Cashflow	FY 16		FY 15		YoY	
	£m	£m	£m	£m	£m	£m
Cashflows from operating activities (EBITDA)	28.8		26.0		2.8	
Change in working capital	1.2		(1.7)		2.9	
Interest	(1.1)		(1.9)		0.8	
Tax	(4.6)		(3.9)		(0.7)	
Operations		24.3		18.5		5.8
Capital Expenditure	(10.5)		(12.1)		1.6	
Proceeds from disposals	0.0		0.5		(0.5)	
Purchase of own shares	(4.4)		(0.4)		(4.0)	
Investments		(14.9)		(11.9)		(3.0)
Dividends	(6.3)		(4.5)		(1.8)	
Movement in loans	(10.0)		(5.0)		(5.0)	
Other	0.6		0.0		0.6	
Financing		(15.7)		(9.5)		(6.2)
Net movement in cash		(6.3)		(3.0)		(3.3)

Notes

- Closure of legacy tax enquiries – c.£2.9m paid early in FY17 financial year
- Capex outlook remains at £10m-£12m (subject to any freehold acquisition)
- Purchase of own shares is to fund colleague share based reward schemes

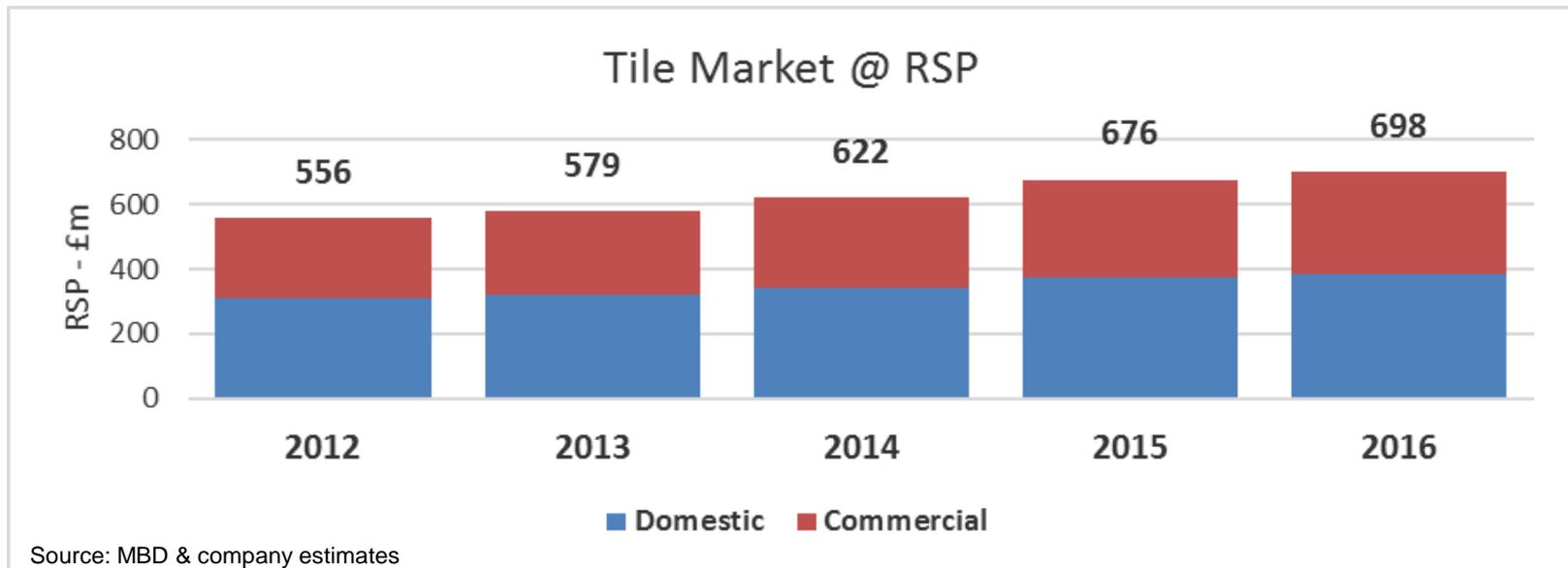
Strategy & Operations

Matthew Williams
Chief Executive Officer

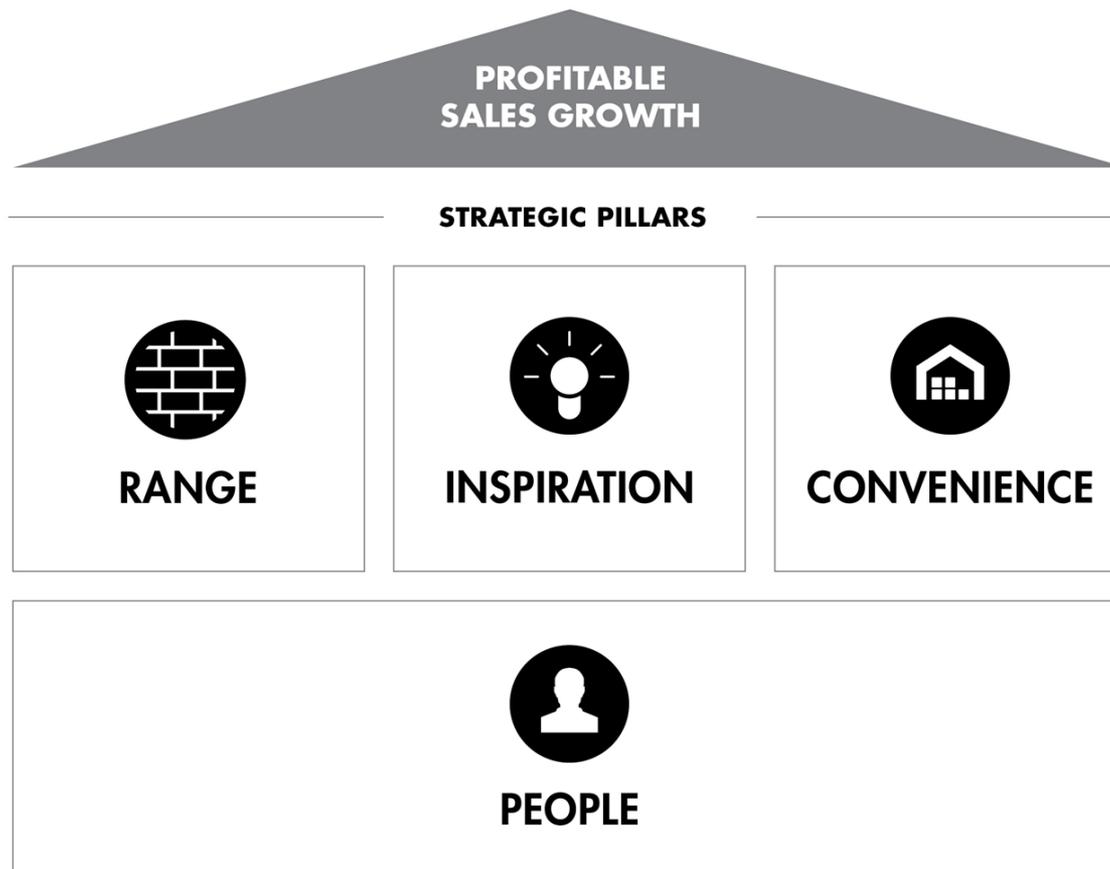


The UK tile market is split into two end-use segments:

- Domestic/RMI – principally refurbishment of residential properties (c.55%)
- Commercial/new build – infrastructure projects, small business and new build domestic properties (c.45%)
- Topps estimate share of overall market at c.18% - mainly domestic
- 2016 estimate is based on projected volume growth of 1.8% (source MBD) – likely to have softened over H2 based on RMI data
- Longer term drivers of growth – new build market and greater usage of tiles



Strategy “Out Specialising the Specialists”



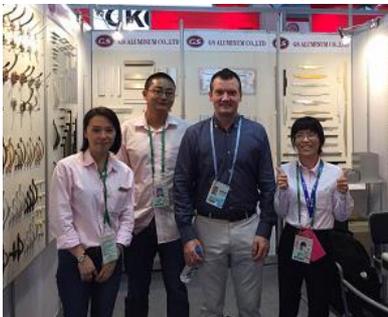
- Proven strategy of ‘Out Specialising the Specialists’ continues to deliver against goal of “profitable sales growth”
- We continue to see significant potential in the strategy to drive future earnings growth and access small business segment of the commercial market through existing channels



Range – Design Collaboration



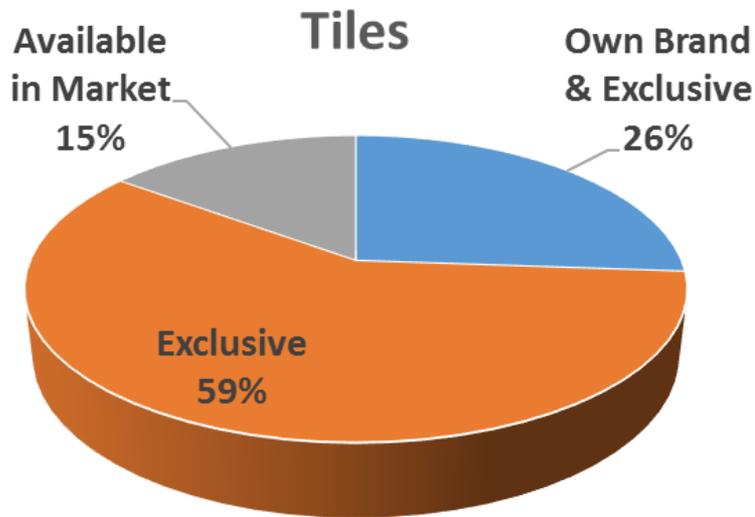
- True specialist – 100% of range dedicated to tiles and associated products
- Wood effect complete - wood effect tile range in strong growth and now c.50 products
- Buyers work with the leading manufacturers to develop tile designs which are specifically focused on UK market tastes
- Technology is key enabler of accessibility in areas like ink jet printing and glazing
- New ranges have driven excellent PR coverage in the key home improvement magazines

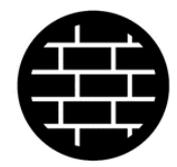




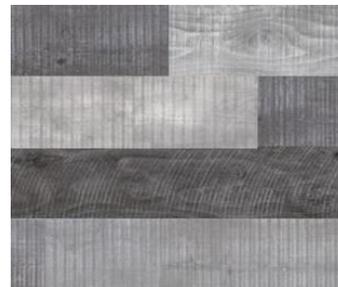
Range – Only @ Topps

- Protecting the value we create in the buying/design process is critical
- Keys to sustainable advantage are ensuring exclusivity with suppliers, trade marking brand names and using the Topps Tiles brand to stamp and package products
- 85% of tiles are own brand or exclusive to Topps





- Slumber™ launched in autumn 2016
- Latest addition to our growing wood effect tile range
- Designed by Topps and developed in collaboration with one of Europe's leading manufacturers
- With more than 20 different variations in two colourways, Slumber replicates the look and feel of individual planks of sawn wood, with each tile “plank” featuring a different texture and stained-effect colour
- This a porcelain tile and therefore incredibly durable and maintenance free
- £70 / m² 122 x 20 mm long plank format





- Opportunity for up to 450 UK stores
- 351 stores trading at period end - growth target of net 15 per annum
- 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 with possible opportunity for bigger investment in FY18
- Target of 2-3 year cash payback on all investment
- Look & feel of stores driving brand re-appraisal





- Continued focus on the trade channel, exploits ‘do it for me’ trend - trade now 52% of mix
- The day to day relationship with store team remains key foundation
- Inspiring Trade through new “Rewards+” loyalty programme – includes digital points and full integration with CRM system
- Rewards+ includes best in class points value (4% of sales) and 30 “treat” products available under trade up scheme extension
- 28,000 traders signed up, c.75% of trade sales linked to loyalty

Topps Tiles 13 JAN - 22 FEB 2016
Trader.
EXCLUSIVE DEALS FOR THE TRADE PROFESSIONAL

Hardiebacker Board 6mm and 12mm

Stronger on market, holds up to 100kg/m² vs 32kg/m² for plasterboard
Easy to cut and install
Mould and water resistant
Suitable for walls and floors

HEADLINE DEAL 3 FOR 2
Some great rewards with this purchase too!

Hardiebacker Board - 6mm 2000x1000mm 013424	Hardiebacker Board - 12mm 2000x1000mm 013425
2 PRICES ON OFF £11.99	2 PRICES ON OFF £23.98
£23.98	£47.96
Hardiebacker Board - 6mm 1000x1000mm 013423	Hardiebacker Board - 12mm 1000x1000mm 013426
2 PRICES ON OFF £13.59	2 PRICES ON OFF £27.18
£27.18	£54.36

Don't forget! Always request trade account for additional board points

Hardiebacker Plaster - 15mm 011910 £5.64

Topps Tiles Trade

REWARDS+

Topps Tiles Trade

TRADE UP
Even richer rewards

SEE OUR LATEST TRADE UP PRODUCTS

Topps Tiles

Your Loyalty Statement

CURRENT POINTS BALANCE
200

VALUE IN £

CHECK YOUR REWARDS+ LOYALTY STATEMENT ONLINE

SHOP
In store or online

EARN
200 points for a £50 spend

REDEEM
1 point = 1p

TRADE UP
Even richer rewards

Make sure you are registered for trade membership. You are then eligible to join Rewards+ at the till in store. After joining, present your loyalty card in store or login online every time you shop.

Earn 200 points for every £50 spent in a transaction e.g. £50 = 200 points, £100 = 400 points etc.

After 24 hours you can redeem your points against any products available in Topps Tiles stores by presenting your loyalty card at the till. Points expire after 6 months.

Trade Up by redeeming your points against a range of products. The price of these products in points will always be cheaper than the equivalent price in cash. You must redeem the exact amount of quoted points to qualify for the reduced points price.



Tile specialism helps us to deliver world-class customer service – we are THE experts in tiles - NPS score of 69% - ranks us within top 5 of UK retailers

Absolutely TOPP marks for the staff which could teach many places these days a thing or two about customer service! Thank you.
Glastonbury

Service is fantastic! Great product knowledge, couldn't fault them at all!!!
Gateshead

Friendly, helpful and very well informed. Highly recommended.
Southport

All the staff work wonderfully together and you don't have to be in store long to realise this team love their jobs.
Barnsley

It's lovely looking around getting inspired. All staff friendly and really helpful. They listen we have a laugh and they always have given me good advice.
Thank you.
Poole

We were made to feel valued and we were able to get lots of advise without feeling like we were asking silly questions, Something as a trade customer you do not always feel that you can do.
Fenton



- Exceptional customer service is about having exceptional colleagues throughout our business.
- “People” now included explicitly as a fourth pillar in “Out Specialising the Specialists”, includes four specific areas of focus:

Resourcing

**Leadership
&
Culture**

**Performance
&
Reward**

Development



Employer brand is a key area of focus.

Research has identified 5 key messages:

- We're really good at what we do
- Our service gives our customers confidence
- We're growing
- We have a family feel
- We recognise and reward results

Available at www.jobs.toppstiles.co.uk

I feel great when I know a customer has gone away really happy.
Beth, Service Specialist



If you put in the hard work and deliver results, you're definitely recognised and rewarded.
Connor, Sales Assistant

Every single person, no matter their role, contributes to the company's goals.
Geeta, Stock Replenisher



From the top to the bottom, the family feel here is absolutely inherent.
James, Area Business Manager

I'm proud to work for one of the biggest tile specialists in the world.
Chris, Store Manager



- **Current trading – 8 weeks to 26 November 2016**
 - Like-for-like revenue decline -0.3%
- **Financial Outlook**
 - Gross margin outlook stable for FY17
 - Continuation of dividend policy, towards target of 2x
- **Sources of future growth**
 - Longer term market indicators remain positive
 - LFL growth driven by strategy of “Out-specialising the specialists”
 - Further growth in portfolio – net 15 p.a., potential for c.450 UK stores
 - Well invested business and strong management team

Appendix

Income Statement Highlights - Statutory

52 weeks ended 1 October 2016

	FY 16	FY 15	YoY
Adjusted PBT - £m	22.0	20.4	+7.8%
Adjustments - £m	(2.0)	(3.4)	(41.2)%
MTM (FX) - £m	Nil	0.1	n/a
PBT - £m	20.0	17.0	+17.6%
Net Margin %	9.3%	8.0%	+130 bps
Tax %	22.3%	23.2%	(0.9)%
PAT - £m	15.5	13.1	+18.3%
EPS – pence	8.05	6.75	+19.3%
Final dividend - pence	2.50	2.25	+11.1%
Full Year dividend - pence	3.50	3.00	+16.7%

- Adjusting items includes one off costs relating to restructuring costs relating to prior year business simplification, vacant property costs, impairment of plant, property & equipment, and stock write off relating to wood category exit
- Statutory PBT of £20.0m, +17.6% increase (+19.8% on a comparable 52 week basis)