

**Full Year  
Results  
2017**



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

# Introduction

**Matthew Williams**  
Chief Executive Officer

<b>Financial Performance</b>	<ul style="list-style-type: none"><li>▪ Sales of £211.8m, (1.5)% YoY</li><li>▪ Adj profit before tax £18.6m, (15.5)% YoY</li><li>▪ Dividend @ 3.4 pence, 2.25x FY cover</li></ul>
<b>Commercial</b>	<ul style="list-style-type: none"><li>▪ Commercial now a key part of Group strategy</li><li>▪ Parkside Ceramics acquired for £1.1m</li><li>▪ 2018 will be a year of learning and investment for future growth</li></ul>
<b>Core Business</b>	<ul style="list-style-type: none"><li>▪ Strategy of “Out-specialising the Specialists”</li><li>▪ Truly differentiated range – 87% exclusivity</li><li>▪ Opportunity to leverage range &amp; scale into commercial</li><li>▪ 21 net new stores this year, with further investments in customer service and digital offer</li><li>▪ Traders’ Champion – trade mix now 55%, outperforming the market</li></ul>

# Financial Performance

**Rob Parker**

Chief Financial Officer

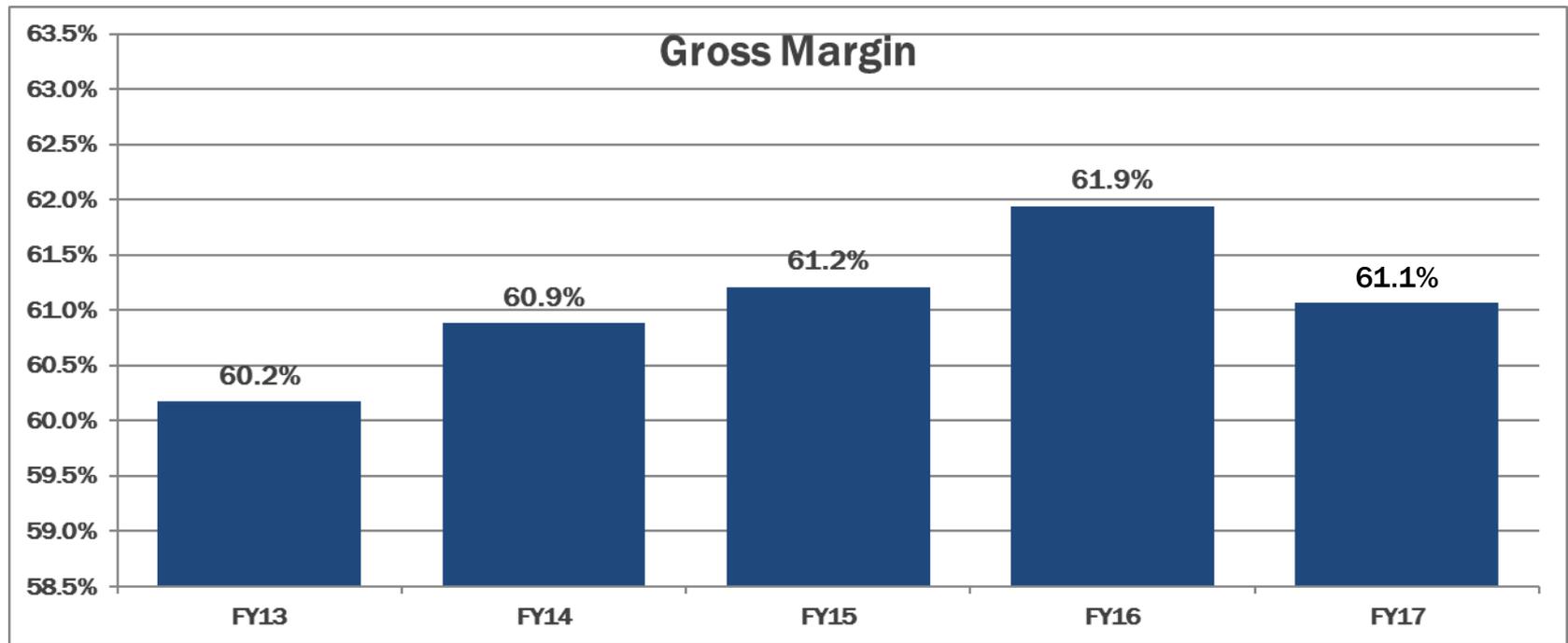
# Income Statement Highlights - Adjusted

52 weeks ended 30 September 2017

**Topps Tiles**

	FY 17	FY 16	YoY
Sales - £m	211.8	215.0	(1.5)%
Gross Profit - £m	129.4	133.2	(2.9)%
Gross Margin %	61.1%	61.9%	(80)bps
Adjusted Opex - £m	109.9	110.1	(0.2)%
Adjusted Operating Profit - £m	19.5	23.1	(15.6)%
Adjusted Interest - £m	0.9	1.1	(18.2)%
Adjusted PBT - £m	18.6	22.0	(15.5)%
Adjusted Net Margin %	8.8%	10.2%	(140)bps
Adjusted EPS - pence	7.63	8.86	(13.9)%

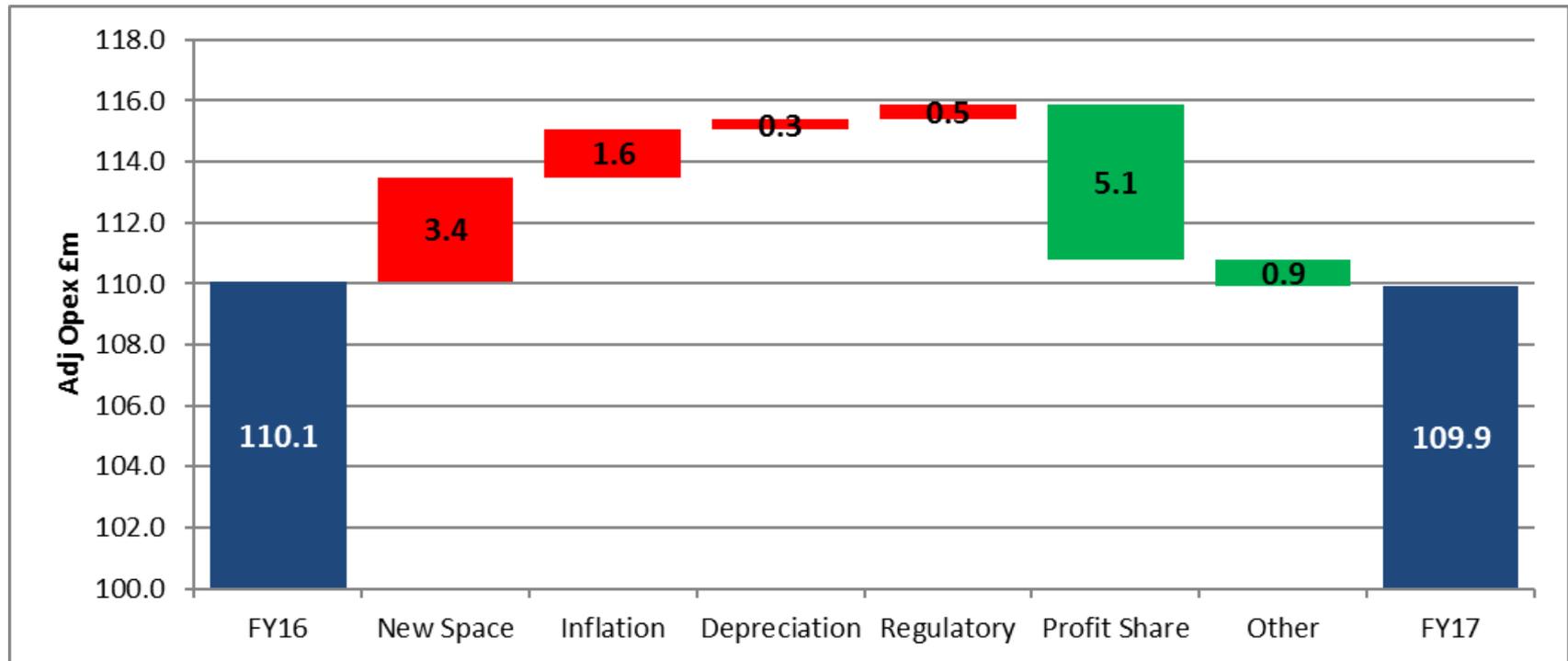
- Sales decline of 2.9% on a LFL basis (noting strong LFL performance in 2016)
- Gross margin decline of 80bps, after c.200bps of adverse FX impact
- Adjusted PBT of £18.6m, -15.5% YoY
- Full year dividend of 3.4 pence per share



- H1 gross margin of 61.2%, H2 of 61.0%
- Adverse impacts from FX of 200bps, trade mix dilution & trade loyalty launch a further 55bps
- Underlying gains of 175bps through mix (including exit of low margin real wood, sourcing gains, differentiated product offer)
- Outlook for 2018 – further underlying gains expected – estimate 50bps YoY

# Adjusted Operating Expenditure Bridge

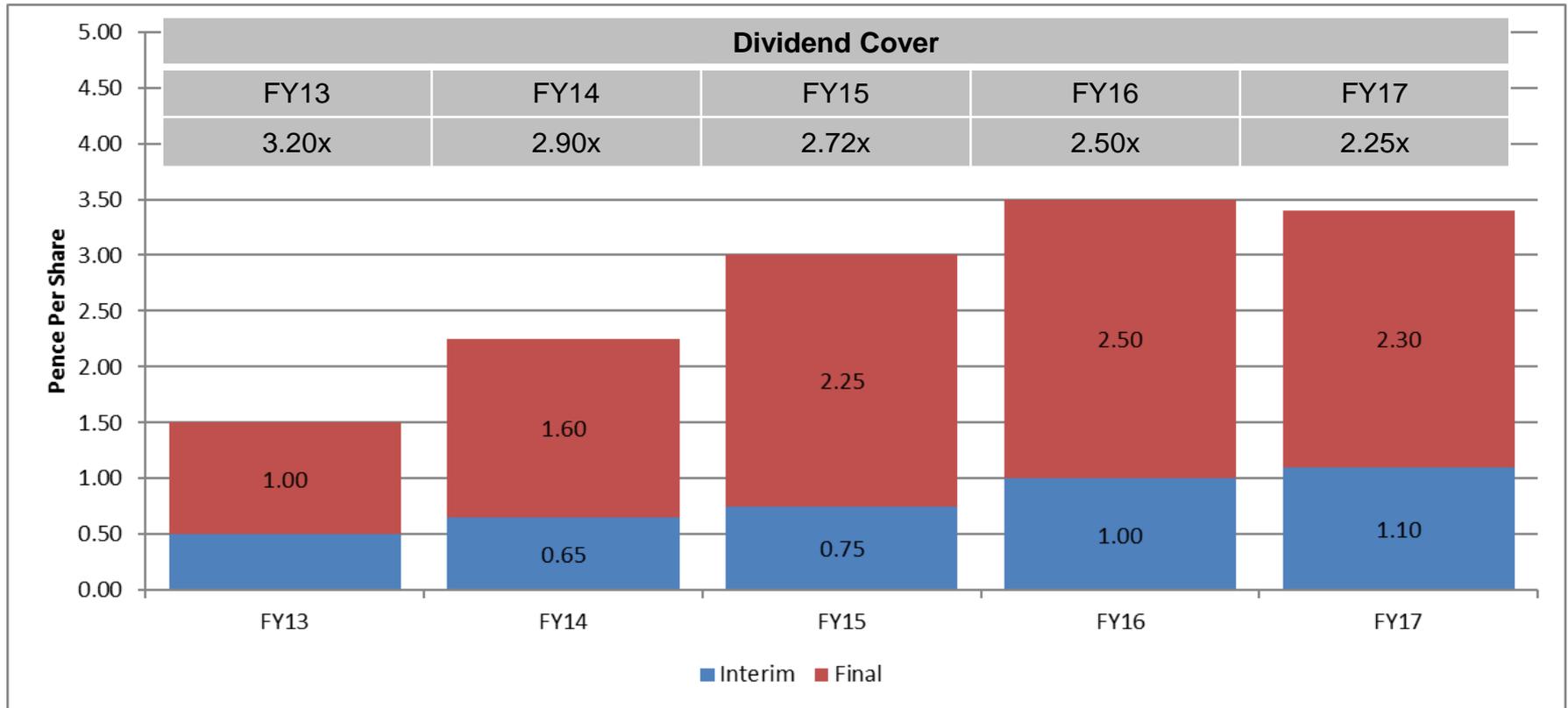
52 weeks ended 30 September 2017



- Adjusted opex declined by £0.2m
- New space reflects increase in average number of stores from 344 to 361 YoY
- Inflation of c.1.5% added £1.6m to the cost base
- Depreciation costs driven by higher levels of investment into stores
- Regulatory cost pressures of £0.5m – mainly living wage
- Profit share decreased by £5.1m reflecting weaker performance over the period
- Other savings of £0.9m – mainly store hours

# Dividend

52 weeks ended 30 September 2017



- Full year dividend of 3.4 pence – in line with consensus
- £6.5m of funds remitted to shareholders
- 2.25x covered for FY17 with intention to reduce to target 2x cover for FY18

# Balance Sheet Highlights

30 September 2017

**Topps Tiles**

	FY 2017	FY 2016	YoY
Inventory - £m	29.5	25.7	+14.8%
Stock Days	132	115	+14.8%
Freehold Property - £m	16.5	16.2	+1.9%
Net Assets - £m	23.4	17.5	+33.7%
Cash - £m	7.5	10.2	-2.7m
Borrowings - £m	35.0	35.0	-
Net Debt - £m	27.5	24.8	+2.7m

- Inventory increased on prior year due to FX, additional stores, additional stocks of key selling ranges and Parkside acquisition
- The Group holds 9 freehold properties at a book value of £16.5m
- Net assets position continues to strengthen +£5.9m YoY
- Net debt position increased by £2.7m reflecting impact of increased inventory and commercial acquisition

# Cash Flow Highlights

52 weeks ended 30 September 2017

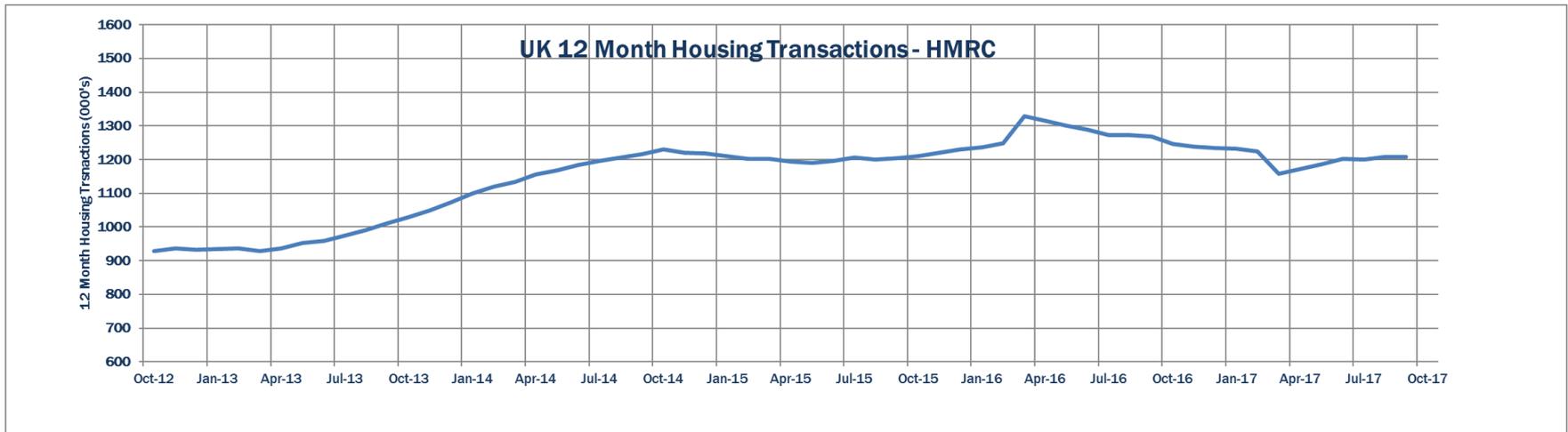
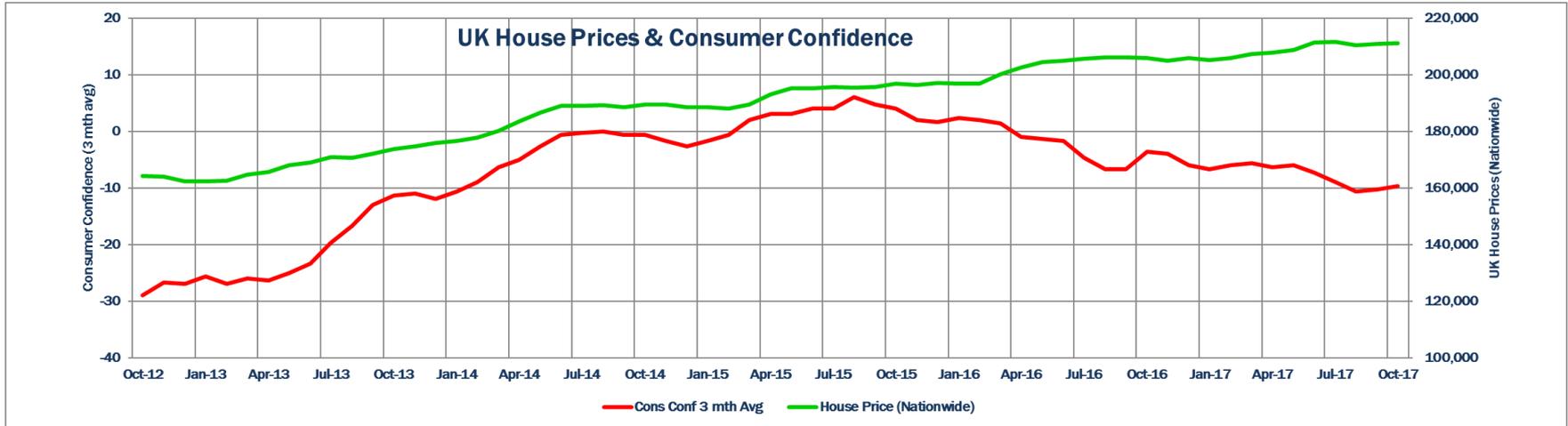
Summary Cashflow	FY 17		FY 16		YoY	
	£m	£m	£m	£m	£m	£m
Cashflows from operating activities (EBITDA)	+24.7		+28.8		(4.1)	
Change in working capital	(2.5)		+1.2		(3.7)	
Interest	(2.0)		(1.0)		(1.0)	
Tax	(5.0)		(4.6)		(0.4)	
<b>Operations</b>		<b>+15.2</b>		<b>+24.2</b>		<b>(9.1)</b>
Capital Expenditure	(10.2)		(10.6)		+0.4	
Purchase of own shares	0.0		(4.4)		+4.4	
<b>Other</b>	<b>(0.8)</b>		<b>+0.1</b>		<b>(0.9)</b>	
<b>Investments</b>		<b>(11.0)</b>		<b>(14.9)</b>		<b>+3.9</b>
Dividends	(6.9)		(6.3)		(0.6)	
Movement in loans	0.0		(10.0)		+10.0	
Other	0.0		+0.6		(0.6)	
<b>Financing</b>		<b>(6.9)</b>		<b>(15.7)</b>		<b>+8.8</b>
<b>Net movement in cash</b>		<b>(2.7)</b>		<b>(6.3)</b>		<b>+3.6</b>

- Tax and interest includes impact of closure of legacy HMRC enquiries of £2.9m
- Purchase of own shares in FY16 was to fund colleague share based reward schemes

- **Gross margin – underlying gains expected – estimate 50bps (assuming stable FX)**
- **Adjusted opex – expected to be between £116m and £117m (including new store costs)**
- **New stores – estimate between 5 and 10 net new openings**
- **Commercial – estimate c.£1m investment into costs to drive longer term growth**
- **Capex – estimate c.£8m to include new stores, all store improvement programme and central facility investments**
- **Working capital - £4m reduction targeted across inventory, creditors and debtors**

# **Strategy & Operations**

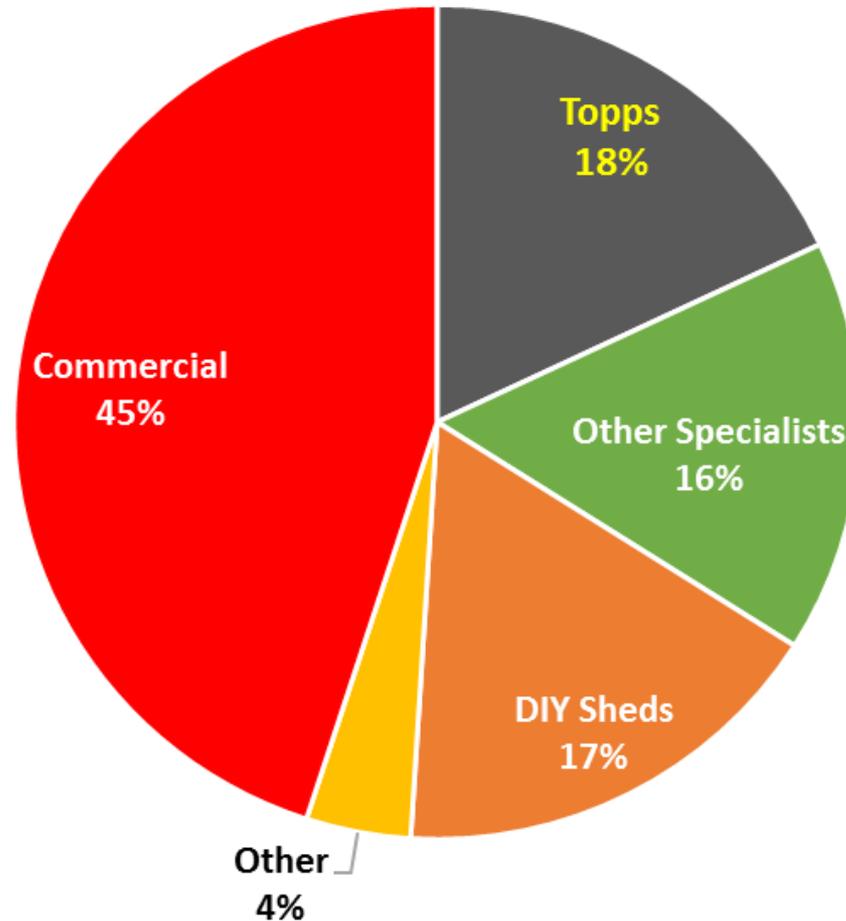
**Matthew Williams**  
Chief Executive Officer



**Macro environment remains challenging but stable**

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

**Commercial -**  
principally catering  
for architects and  
designers (c.45%)



**Domestic –**  
refurbishment of  
residential properties  
(c.55%)



- Highly fragmented market
- Key learnings:
  - Aspects of market linked to architects and designers are financially attractive
  - Opportunity to leverage range & scale advantage into commercial
  - Product availability is a strength
  - Topps is an attractive employer for commercial sales teams
- Opportunity for M&A strategy, disruptive organic growth, or hybrid





- Completed acquisition of Parkside in September 2017 for consideration of £1.1m
- Reputable small tile company focused on commercial market and providing an excellent base for growth
- 2018 Parkside plan
  - Capture learnings
  - Invest in capability - back end, sampling and cutting
  - Invest in building sales teams and architectural showrooms
- 2 years of investment planned – estimated £1m of trading losses in FY18

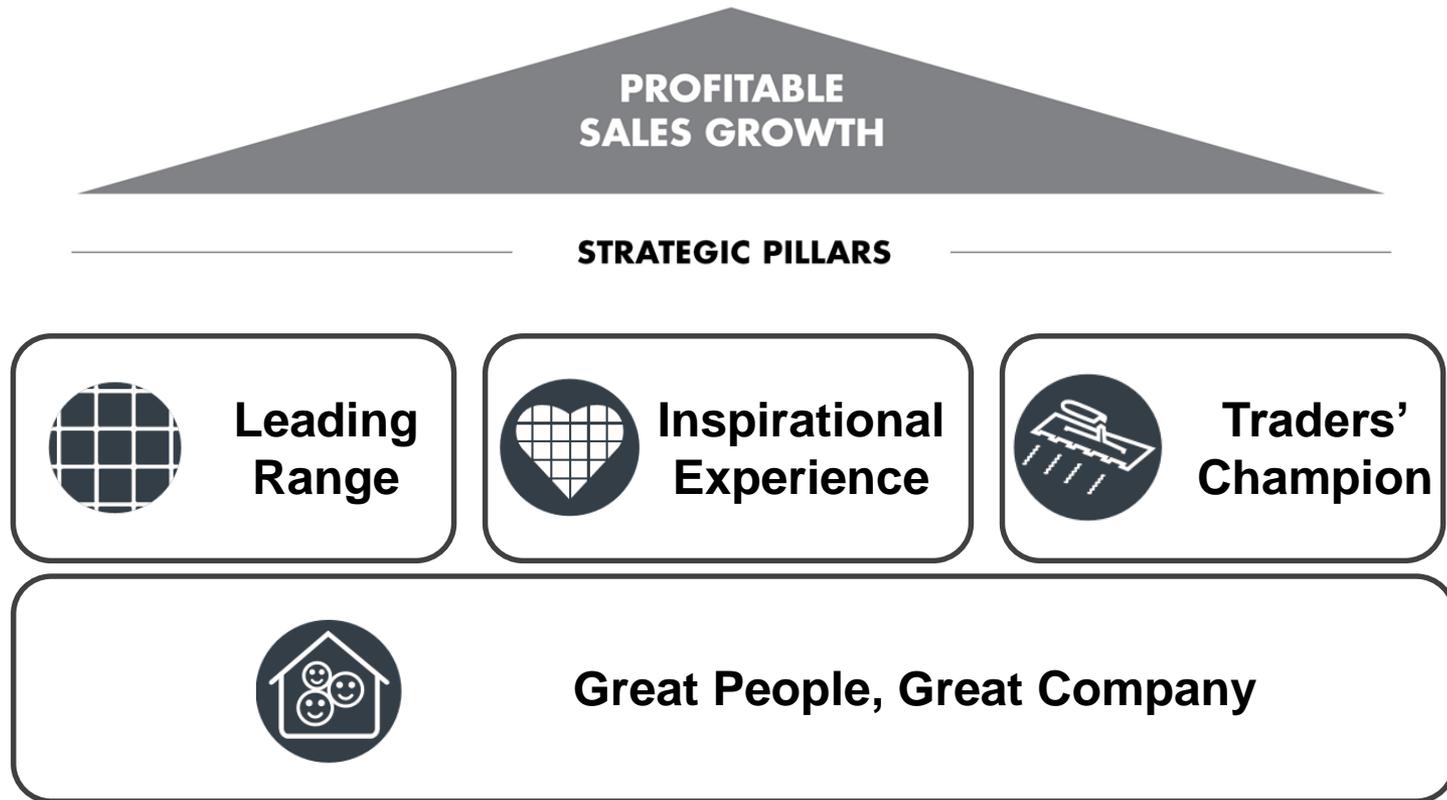
## Recent Clients



# PARKSIDE



# Strategy “Out-specialising the Specialists”

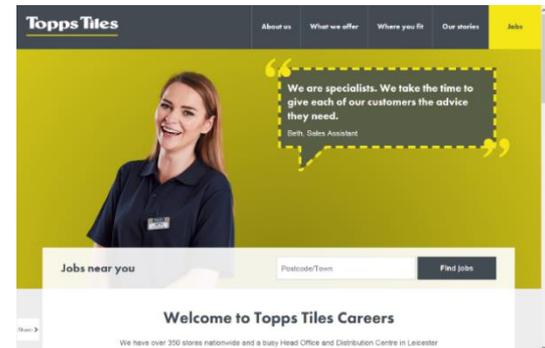




# Great People, Great Company



- Strategy built on recruiting, developing, engaging and retaining talent
- Family feel coupled with ambition and recognition of colleagues' contribution to the delivery of great results
- Newly launched employer brand – increase in quality of applications and reduction in time to hire
- New Learning Management System (“LMS”) 
- Best Companies “One to watch” status, with ambitions to become a Top 100 UK medium-sized employer
- Programme of simplification delivering improved colleague experience





# Leading Range – Design & Exclusivity



- Increasingly differentiated, exclusive ranges account for 87% of tile sales
- Focus on product collections – Regal® range now has more than 50 products including accessories to provide complete finish, packaging supports Commercial ambition
- Collaborations with leading manufacturers and key influencers of tile design including glaze and machinery producers around the world
- New products supporting growth in National PR coverage +32% YoY, titles including Living etc., ELLE Decoration and Ideal Home



ELLE  
DECORATION



Livingetc



Ideal Home 20



# Hero Range – Kinect™



- Kinect™ launched in September - a new and unique concept in tiles and grout
- Cross-hatch pattern can create multiple designs from different laying patterns
- Range developed in-house collaborating with core supply partners in both tiles and grouts
- Intellectual Property owned by Topps Tiles
- Opportunity in commercial applications



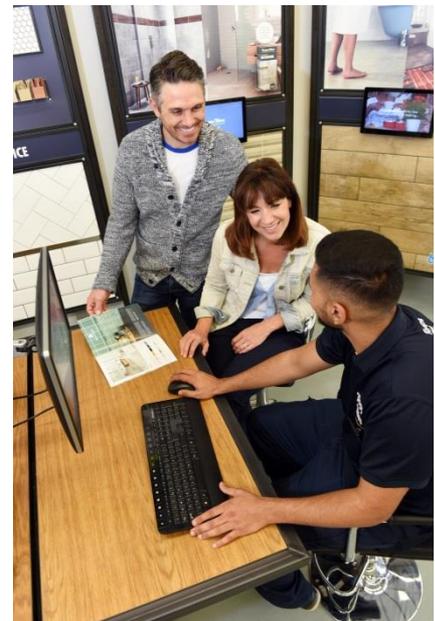
- £64.15 / m<sup>2</sup> 450 x 450 mm
- Use on both wall and floor



# Inspirational Experience – Stores & Service



- Opportunity for up to 450 UK stores
- 21 net new stores opened this year, 372 stores trading at period end, targeting 5-10 net new stores in FY18
- Programme to bring key aspects of latest store treatment to all stores over the next two years - c.£4.5m
- Product knowledge and customer service training key for all colleagues – 1,500 training days delivered this year
- World class customer service and NPS score – in UK top 5 retailers





- Supporting world class customer service through an inspirational digital experience:
  - Fully responsive website launched driving increased conversion
  - Increased investment in digital marketing
  - Social media key area of focus – Instagram, Pinterest, Houzz
  - Visualiser remains key – further developments in year, record traffic
  - Rewards+ trade loyalty scheme – making the digital experience relevant and inspirational for our trade customers



Visualiser online



Visualiser in-store

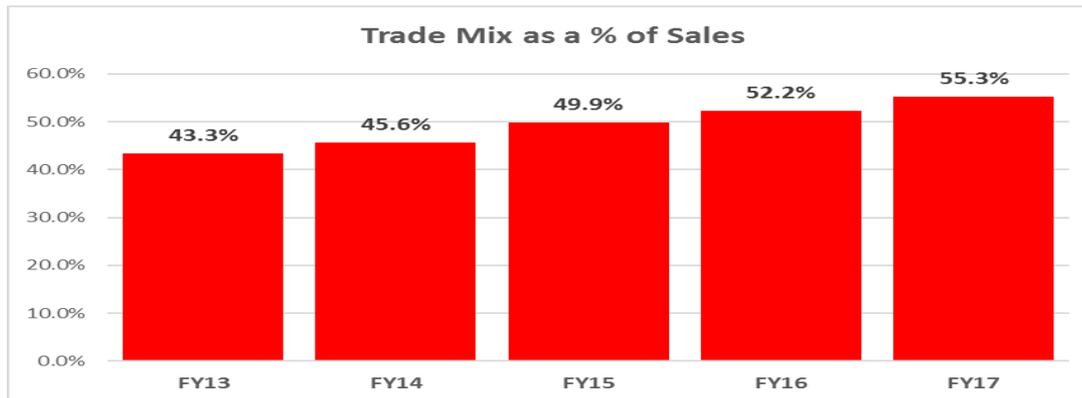


Social media Instagram feed



# Traders' Champion

- Key source of market out-performance....
- Continued focus on trade channel, building on the 'do it for me' trend - trade channel now 55% of overall sales mix
- Focus on relationship with store, competitive pricing, market leading deals and exclusive quality products for trade customers
- Market leading Rewards+ trade loyalty programme now has over 55,000+ traders collecting points, up 35% YoY



- **Current trading**
  - Like-for-like revenue increased by 3.2% over 8 weeks to 25 November 2017
  
- **Sources of future growth**
  - Longer term market indicators remain positive
  - Core business market outperformance through “Out-specialising the Specialists”
  - Growth target of up to 450 stores in the UK, 5-10 planned for FY18
  - Commercial opportunity

# Appendix

# Income Statement Highlights - Statutory

52 weeks ended 30 September 2017

	FY 17	FY 16	YoY
Adjusted PBT - £m	18.6	22.0	(15.5)%
Adjustments - £m	(1.6)	(2.0)	(0.4)m
PBT - £m	17.0	20.0	(15.0)%
Net Margin %	8.0%	9.3%	(130) bps
Tax %	21.0%	22.3%	(130) bps
PAT - £m	13.4	15.5	(13.5)%
EPS - pence	6.98	8.05	(13.3)%
Final dividend - pence	2.30	2.50	(8.0)%
Full year dividend - pence	3.40	3.50	(2.9)%

- Adjusting items includes impairment of plant, property & equipment of £1.2m, vacant property costs of £0.4m, costs relating to acquisition activity of £0.2m, and a £0.2m gain on the disposal of a long leasehold property.
- Statutory PBT of £17.0m, 15.0% decrease.