



**Half Year
Results
2019**

- **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"> ▪ Like-for-like sales +0.2% ▪ Adj profit before tax £8.0m, +11.1% YoY ▪ Net debt reduced by £7.1m YoY, down to £18.0m ▪ Dividend maintained at 1.1 pence
Group	<ul style="list-style-type: none"> ▪ Core purpose of <i>inspiring customers through our love of tiles</i> ▪ Our specialism drives our competitive advantage – the best products combined with the very best customer service
Retail	<ul style="list-style-type: none"> ▪ Strategy of “Out Specialising the Specialists” ▪ Customers at centre of strategy – new feedback system launched – top 5 of UK retailers for customer satisfaction ▪ Customers utilise both stores and online in almost all cases ▪ Flexible store portfolio with average unexpired lease of 3 years
Commercial	<ul style="list-style-type: none"> ▪ Strategy to disrupt market and construct a new market leader ▪ Commercial sales grown by 3x yoy ▪ Strata Tiles acquired – adds scale and further specialist credentials

Financial Performance

Rob Parker

Chief Financial Officer

Income Statement Highlights – Adjusted measures

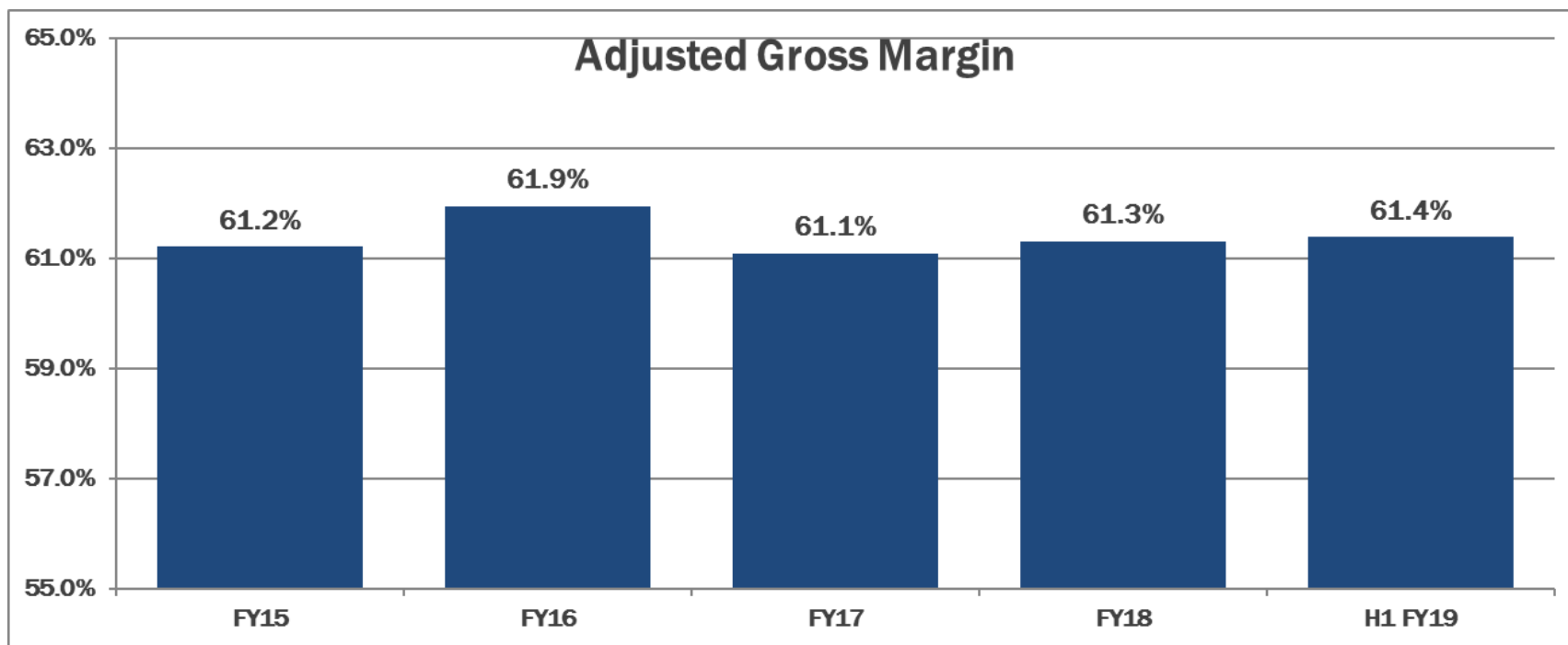
26 weeks ended 30 March 2019

Topps Tiles

	HY 19	HY 18	YoY
Sales - £m	109.0	109.6	(0.5)%
Gross Profit - £m	66.9	66.3	+0.9%
Gross Margin %	61.4%	60.5%	+90bps
Opex - £m	58.5	58.7	(0.3)%
Interest - £m	0.4	0.5	(20.0)%
PBT - £m	8.0	7.2	+11.1%
Net Margin %	7.3%	6.6%	+70bps
EPS - pence	3.15	3.01	+4.7%

- Sales increase of 0.2% on a LFL basis, later Easter and adverse weather in prior year contributing +0.8%
- Gross margin increase of 90bps, primarily as a result of continued benefits of scale and sourcing
- Strong cost control – small decrease YoY
- Adjusted PBT of £8.0m, +11.1% YoY

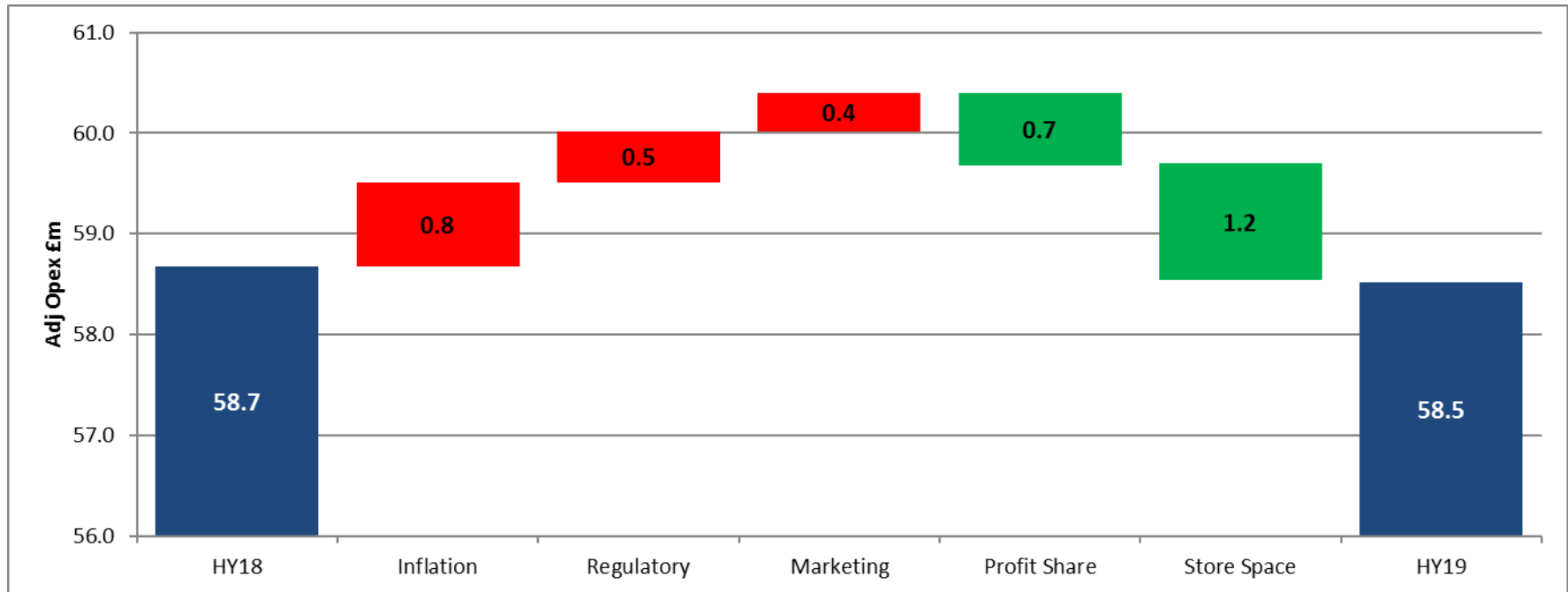
Note - Adjusted measures exclude several items which are either one off in nature or fluctuate significantly from year to year (such as some property related items).



- Adjusted H1 gross margin of 61.4%, +90bps yoy
- Gains from continued benefits of scale and sourcing
- Expectation that current trend will continue into H2
- Gross margin stability over 5 year period

Adjusted Operating Expenditure Bridge

26 weeks ended 30 March 2019



- Strong cost control with adjusted opex reducing by £0.2m
- Inflation of c.1% = £0.8m and regulatory costs impact of £0.5m (including National Living Wage)
- Marketing costs +£0.4m, due to the Q1 TV advertising campaign
- Employee profit share decrease by £0.7m, due to challenging trading in the current year being compared to relatively high levels of payments in the prior year
- Average of 362 stores vs 372 in the prior year generating £1.2m reduction in costs

Balance Sheet Highlights

30 March 2019

Topps Tiles

	HY 2019	HY 2018	YoY	FY 2018
Freehold Property - £m	14.1	15.5	(1.4)	14.2
Fixed Assets - £m	36.0	38.1	(2.1)	36.8
Inventory - £m	33.2	31.2	+2.0	30.2
Debtors & Creditors - £m	(39.2)	(35.3)	(3.9)	(38.5)
Borrowings - £m	30.0	35.0	(5.0)	30.0
Cash - £m	12.0	9.9	+2.1	13.8
Net Debt - £m	18.0	25.1	(7.1)	16.2
Net Assets - £m	26.3	24.3	+2.0	26.7

- The Group holds 6 freehold properties with a book value of £14.1m
- Fixed assets reduction largely due to fewer stores vs year end
- Inventory increase is driven by increase in key selling lines in the event of supply chain disruption immediately post the UK leaving the EU – to unwind in H2
- Inventory days at 154 days (2018: 135), with creditor days at 91 (2018: 82)
- Net debt position reduced by £7.1m reflecting strong cash generation

Cash Flow Highlights

26 weeks ended 30 March 2019

	HY 19		HY 18		YoY	
	£m	£m	£m	£m	£m	£m
Cash flows from operating activities (EBITDA)	+10.2		+10.2		-	
Change in working capital	(1.7)		(0.7)		(1.0)	
Interest	(0.4)		(0.4)		-	
Tax	(1.8)		(1.3)		(0.5)	
Operations		+6.3		+7.8		(1.5)
Capital expenditure	(3.6)		(2.0)		(1.6)	
Proceeds from disposals	-		+1.0		(1.0)	
Investments		(3.6)		(1.0)		(2.6)
Free Cashflow		+2.7		+6.8		(4.1)
Dividends	(4.5)		(4.4)		(0.1)	
Reduction/(increase) in net debt		(1.8)		+2.4		(4.2)

- Free cash flow generation of £2.7m and a £1.8m increase in net debt over first half but a £7.1m reduction in net debt YoY
- Key drivers were decrease in working capital outflow due to additional inventory ahead of Brexit, higher tax payments, and an increase in capital expenditure.

- Gross margin – small increase expected yoy (assuming stable FX in H2)
– 61.5% to 62.0% range
- Adjusted opex – expected to be between £116m and £117m
- Parkside – estimate c.£1.5m trading loss as we invest to drive longer term profitable growth
- Capex – estimate c.£7m to include new stores, all store improvement programme and central facility investments
- Year end stores expected to be around 365
- Dividend to be based on approximately two times cover
- Net debt – expected to be c.£12m to £14m (including Strata impact)

Strategy & Operations

Matthew Williams

Chief Executive Officer

Group

- Leading Product**
- Leading People**

Retail – Topps Tiles

Commercial – Parkside & Strata

Leading Product

- A complete focus on our specialism of tiles and closely associated products provides significant competitive advantage
- Iterative cycle of NPD - approx one new range launched every week
- Increasing level of in-house developments and collaborations
- Building of IP and creative assets relevant to broader customer base – 90% exclusive (including own brand)
- Buying scale leveraged – 70% of Parkside purchases through Group tier 1 suppliers



- New market opportunity offering alternative to paving – c.£60m market
- Increased performance (20mm thickness) – offers wide range of fix options
- Exclusive range developed with Topps Group – incremental to Spaces™
- Launched Easter 2019



Leading People

Leading People

- Service through people sits alongside Product as our two key competitive advantages
- High customer service culture throughout the organisation - all colleagues focus on serving customers or helping those that do
- Industry leading customer service levels in Retail (customer satisfaction score of 86%) are a key competitive advantage
- Colleague capability and engagement are key – L&D focus drives both

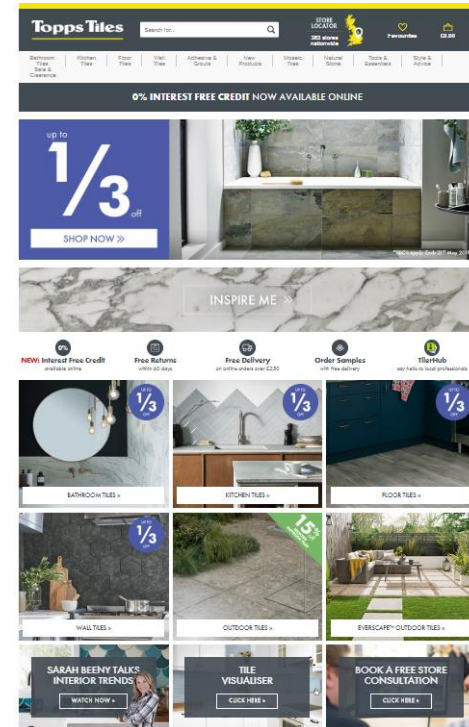


Retail Topps Tiles

Inspirational Digital Experience

Topps Tiles

- Consumer behaviour changing – typical journey will now use both online and stores
- Digital experience remains at the heart of the retail strategy
- Social media increasingly important part of customer journey – research phase and sharing of completed projects – 1.2m monthly views on Pinterest
- Working with multiple influencers with a combined reach of 3.3m people
- Design advice area brings digital experience into stores

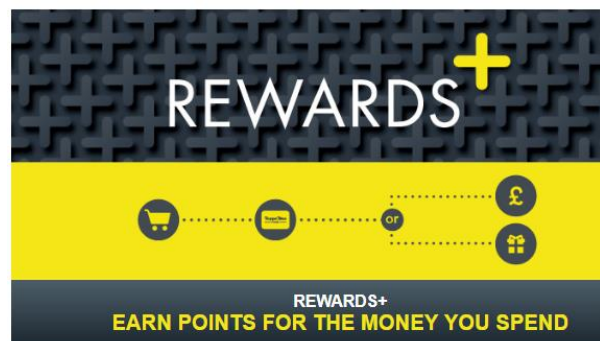


- 361 stores very much valued by our customers – key driver of convenience and inspiration
 - Tile Talk - industry first 'voice of customer' measurement program launched with 26,000 responses in H1 providing excellent insight into the role of the store
 - 70% of customers who transact online use stores for collections and returns
 - Well invested store estate - all store improvement program now with over 200 stores completed
 - Portfolio is key to customer convenience but flexibility also important to respond to changing customer behaviour – avg unexpired lease term of 3 years



Outstanding Trader Experience

- Store relationship with traders remains key to loyalty
- In addition we have launched key initiatives that have seen participation in our Reward+ loyalty scheme grow over 40% YoY to 99,000 active members
- This provides opportunity to invest in CRM to drive sales
- Continued strengthening of our trade range by introducing new brands and extending existing ranges



Commercial Parkside & Strata

- Good progress made over H1 – commercial represents an excellent opportunity for profitable growth of the Group
- Strategy is to ‘disrupt’ the commercial tile market and ‘construct’ a market leadership position over the medium term
- Commercial sales over H1 have trebled YoY to c.£1.3m
- Flagship design studio now open in Clerkenwell
- H1 £1.0m of trading losses and FY expected to be £1.5m as investment in commercial continues
- Strata Tiles Ltd acquired in April 2019 – provides further commercial market penetration



Clerkenwell launch



Radisson Blu Stansted

strata
tiles

PARKSIDE

ARCHITECTURAL TILES

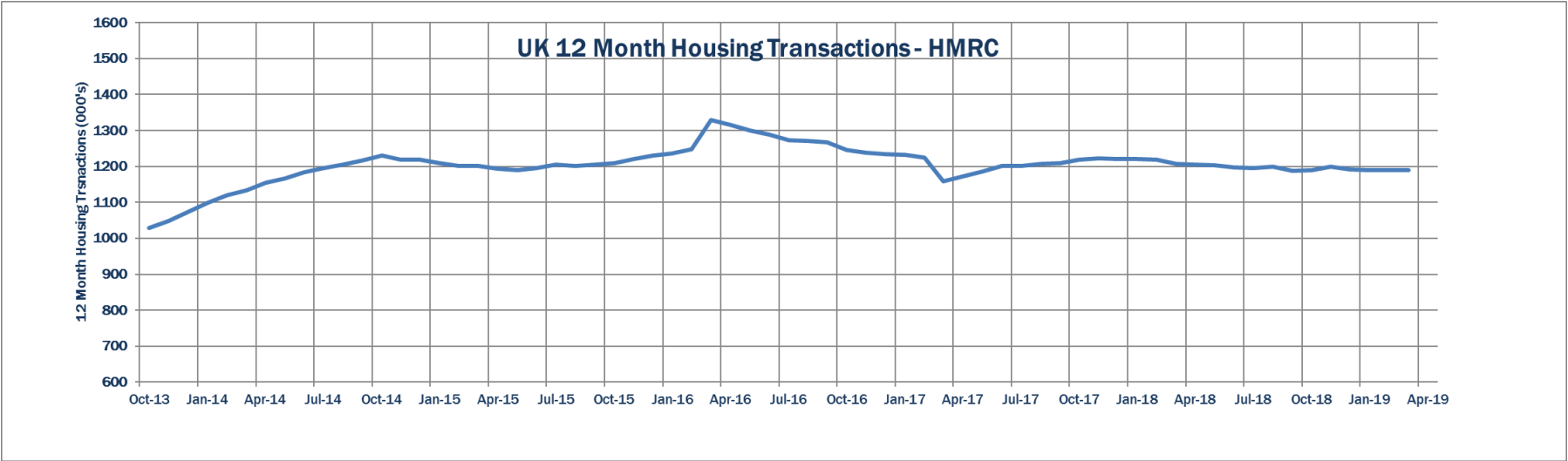
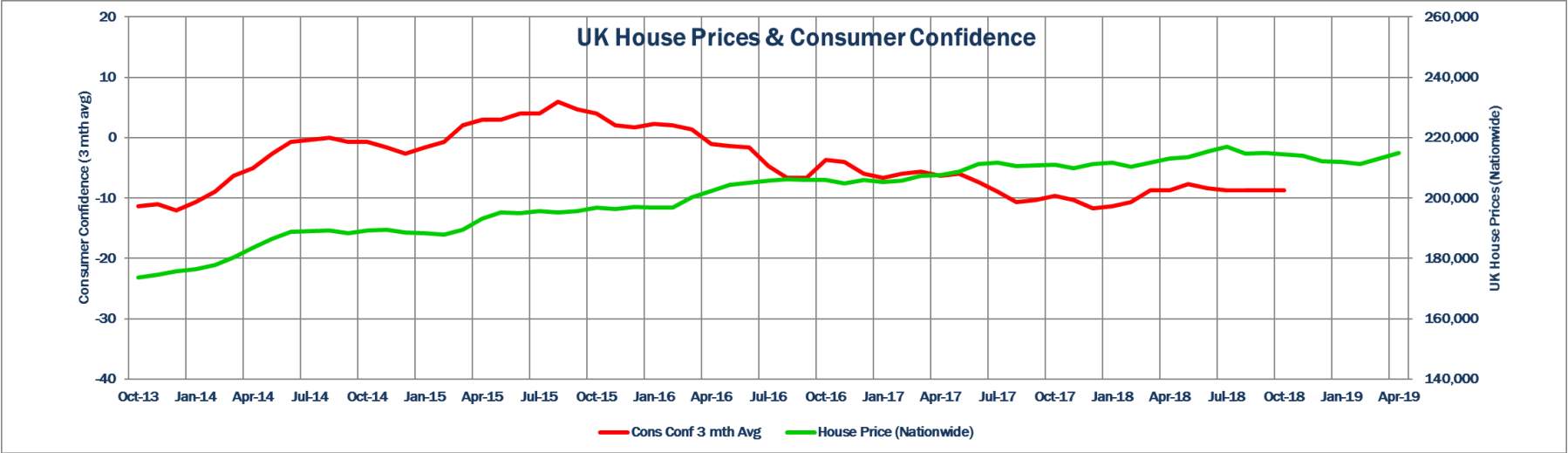
- Acquired in April 2019 – provides both scale and further specialist credentials
- Sales of £4.8m and profit of £0.7m
- Initial consideration of £3.3m plus further buyout to a max of £2m
- Brand will be run alongside Parkside, under common management structure
- Good complementary fit with Parkside; limited client overlap
- Benefits expected from exploiting group sourcing scale and specialism in tiles



- **Current trading & Outlook**
 - Like-for-like revenue increase of 1.2% over 7 weeks to 18 May 2019 (FY18 : -0.2%)

- **Sources of future growth**
 - Leveraging of our buying scale and specialist advantage
 - Continued Retail market outperformance through strategy of “Out-specialising the Specialists”
 - Commercial opportunity – approximately doubling of our addressable market while staying within our specialism

Appendix



Macro environment remains challenging but stable

Income Statement Highlights - Statutory

26 weeks ended 30 March 2019

Topps Tiles

	HY 19	HY 18	YoY
Adjusted PBT - £m	8.0	7.2	+11.1%
Adjustments - £m	(2.8)	(0.8)	(2.0)m
PBT - £m	5.2	6.4	(18.8)%
Net Margin %	4.7%	5.8%	(110)bps
Tax %	23.6%	19.1%	+450bps
PAT - £m	3.9	5.2	(25.0)%
EPS – pence	2.03	2.67	(24.0)%
Dividend - pence	1.10	1.10	0.0%

- Adjusting items include non-recurring property provision movements of £1.7m, vacant property costs of £0.1m, and the Parkside trading loss for the period of £1.0m.
- Statutory PBT of £5.2m, 18.8% decrease.