



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

# **Financial Performance**

**Rob Parker**

Chief Financial Officer

# Income Statement Highlights - Adjusted

52 weeks ended 1 October 2016

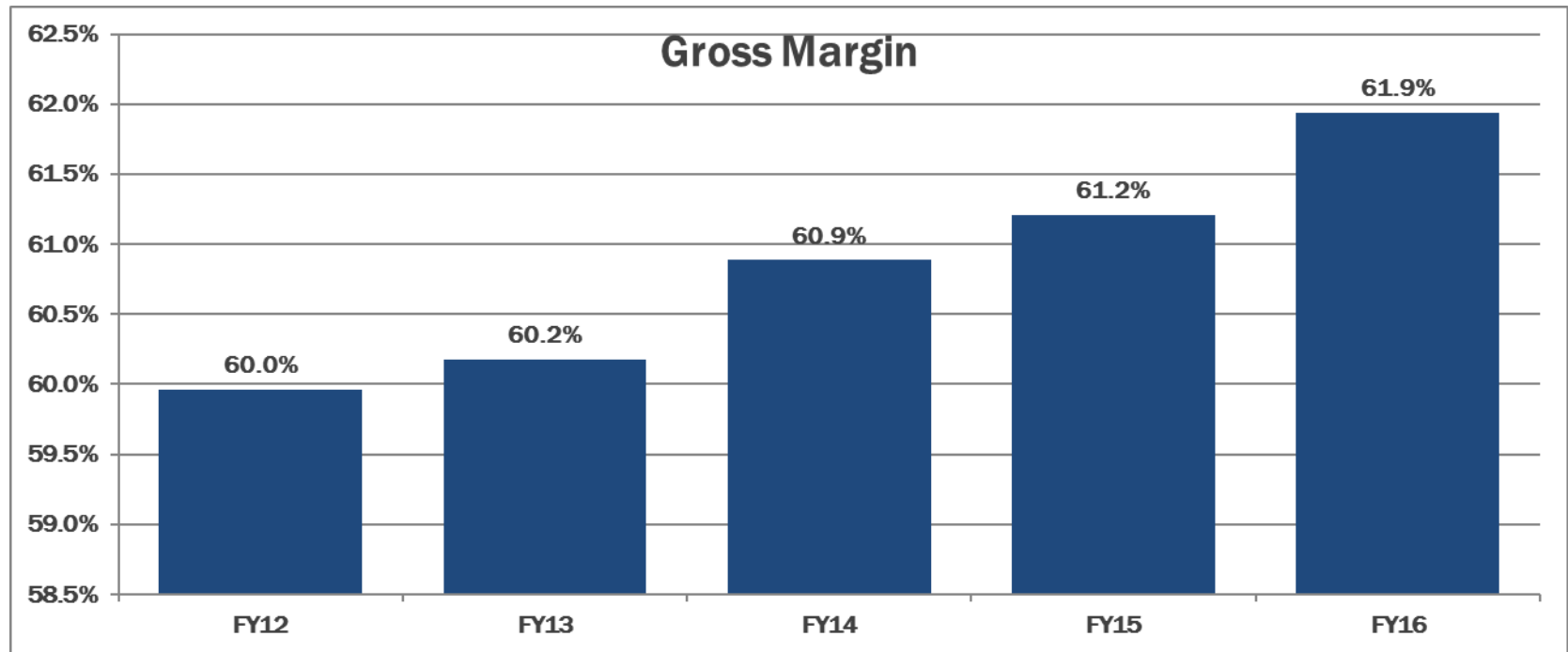
**Topps Tiles**

	<b>FY 16</b> 52 weeks	<b>FY 15</b> 53 weeks	<b>YoY</b>
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%



# Margin Performance

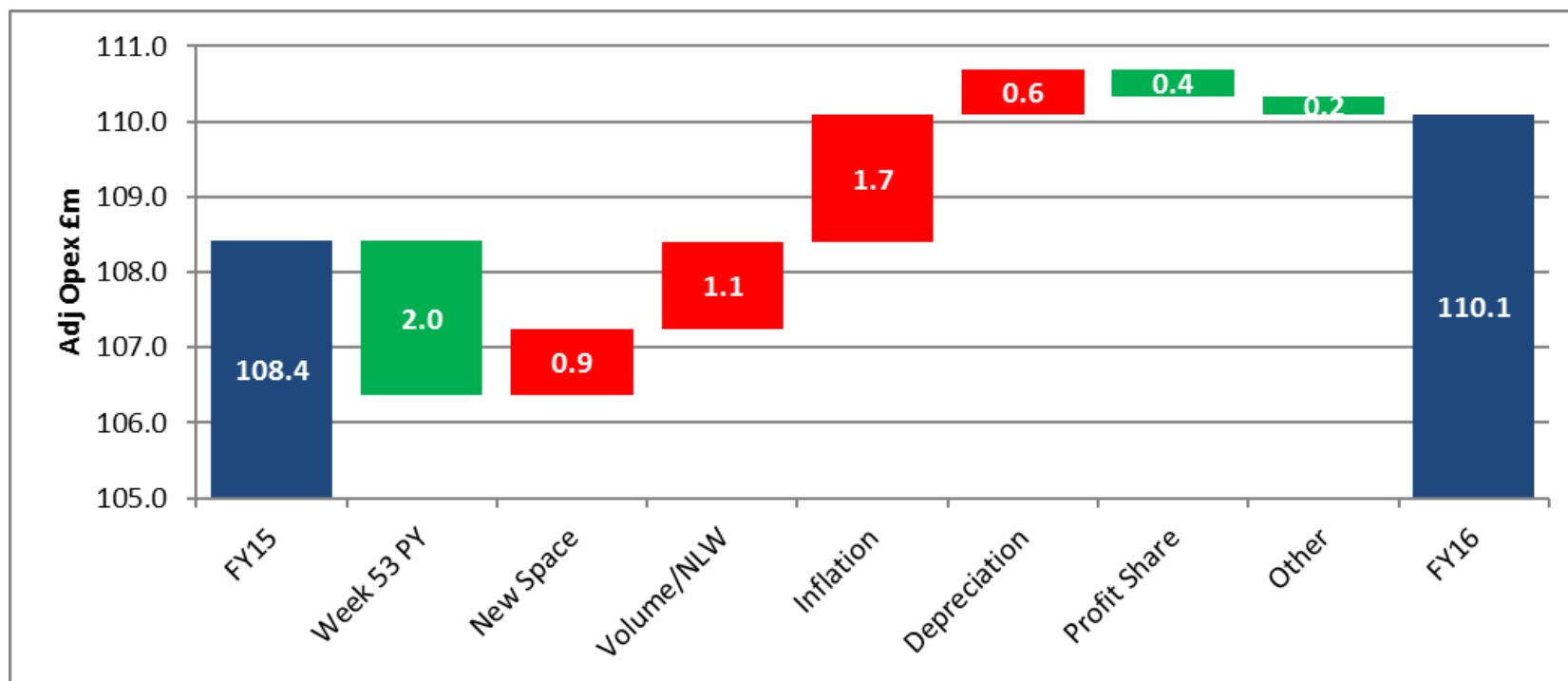


- Full year gross margin of 61.9%, +70bps vs FY15
- Includes dilution from growth of lower margin trade business - now c.52% of mix
- Underlying gains driven from supply chain, new product development and own brand/exclusivity
- Outlook 2017 – expected to be stable - significant FX pressures will be 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

**Topps Tiles**



- 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

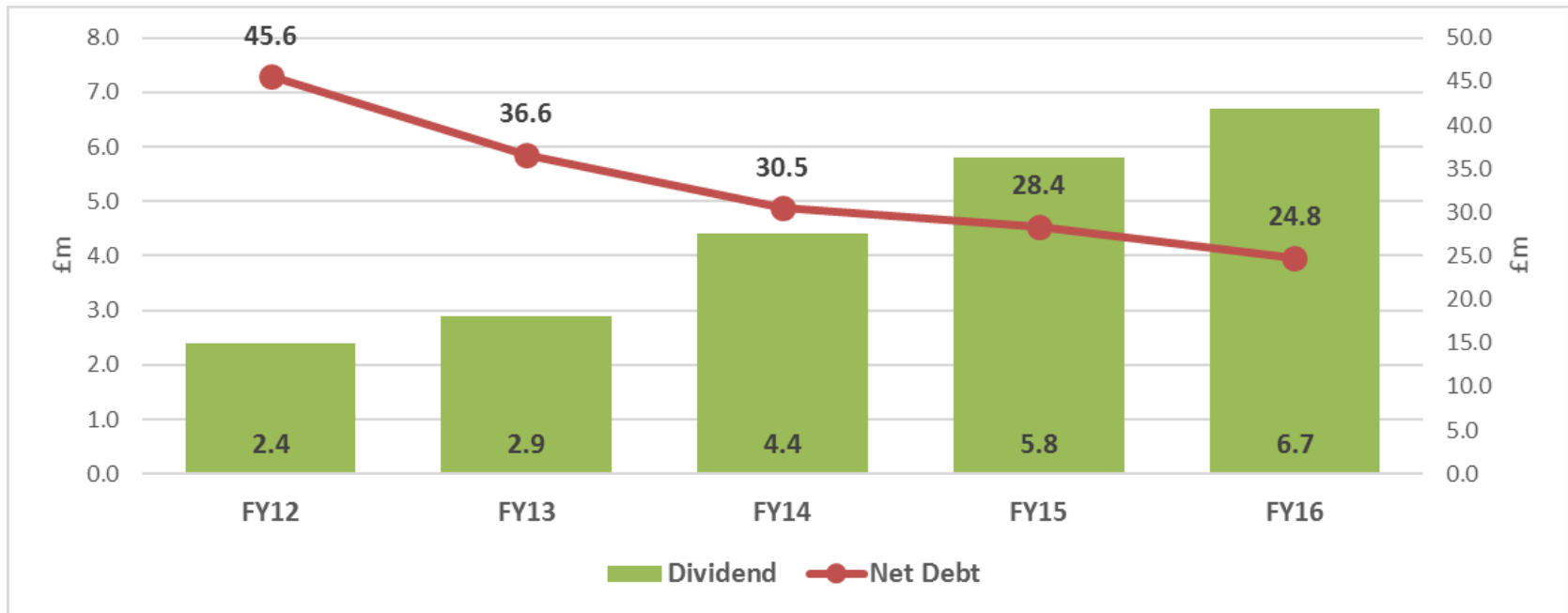
# Capital Structure & Returns

52 weeks ended 1 October 2016

**Topps Tiles**

## 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

**Topps Tiles**

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)	
<b>Operations</b>		<b>24.3</b>		<b>18.5</b>		<b>5.8</b>
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)	
<b>Investments</b>		<b>(14.9)</b>		<b>(11.9)</b>		<b>(3.0)</b>
Dividends	(6.3)		(4.5)		(1.8)	
Movement in loans	(10.0)		(5.0)		(5.0)	
Other	0.6		0.0		0.6	
<b>Financing</b>		<b>(15.7)</b>		<b>(9.5)</b>		<b>(6.2)</b>
<b>Net movement in cash</b>		<b>(6.3)</b>		<b>(3.0)</b>		<b>(3.3)</b>

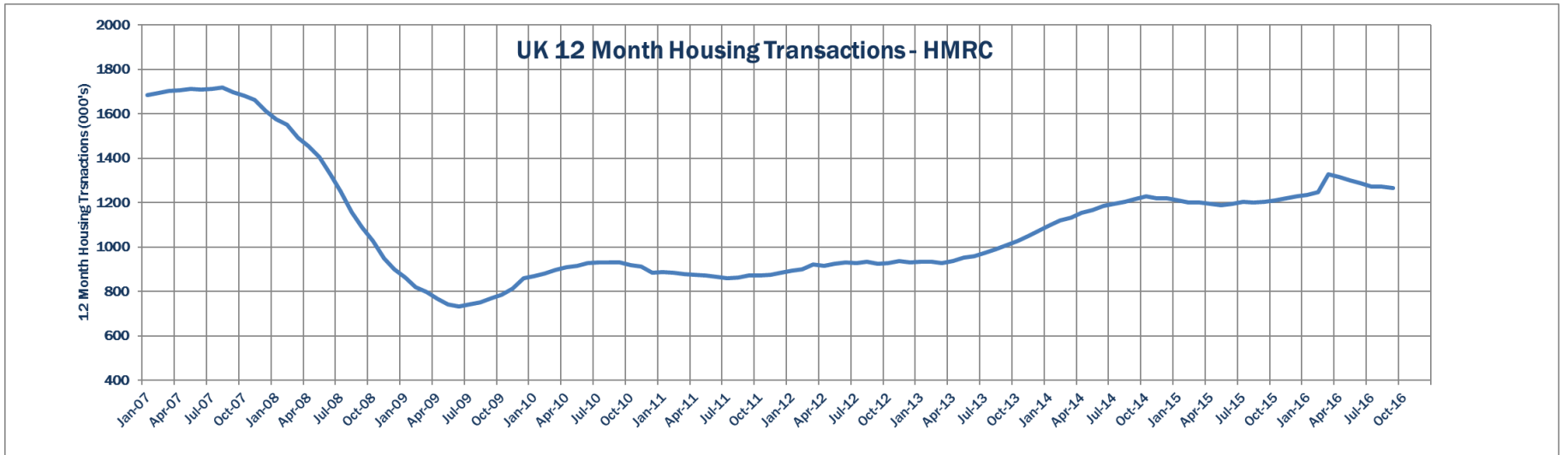
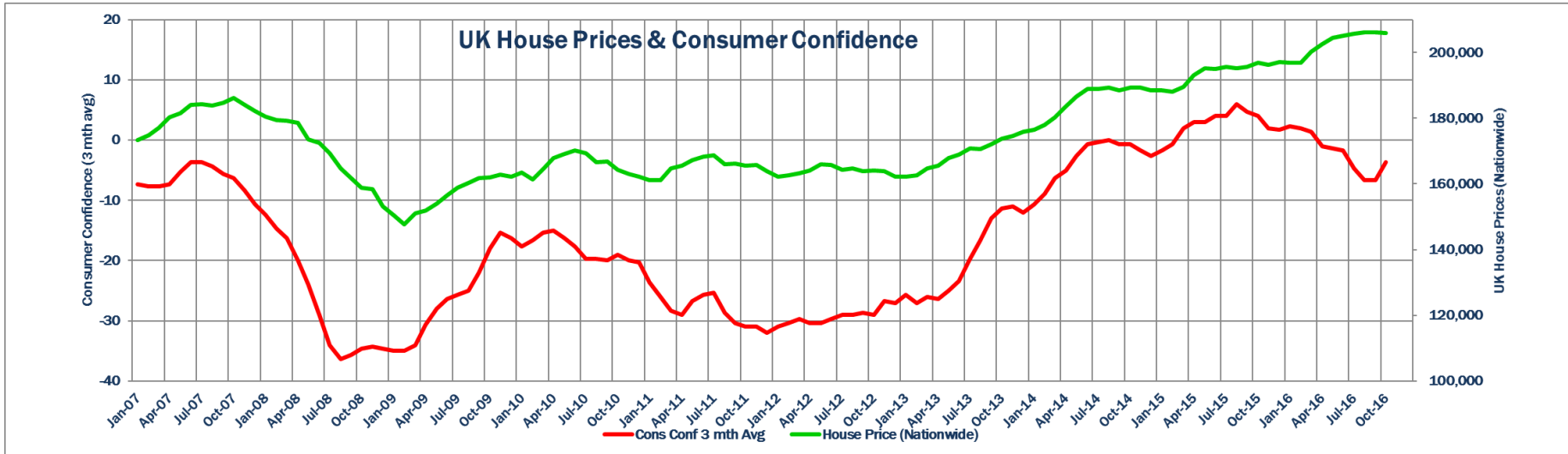
## Notes

- 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**

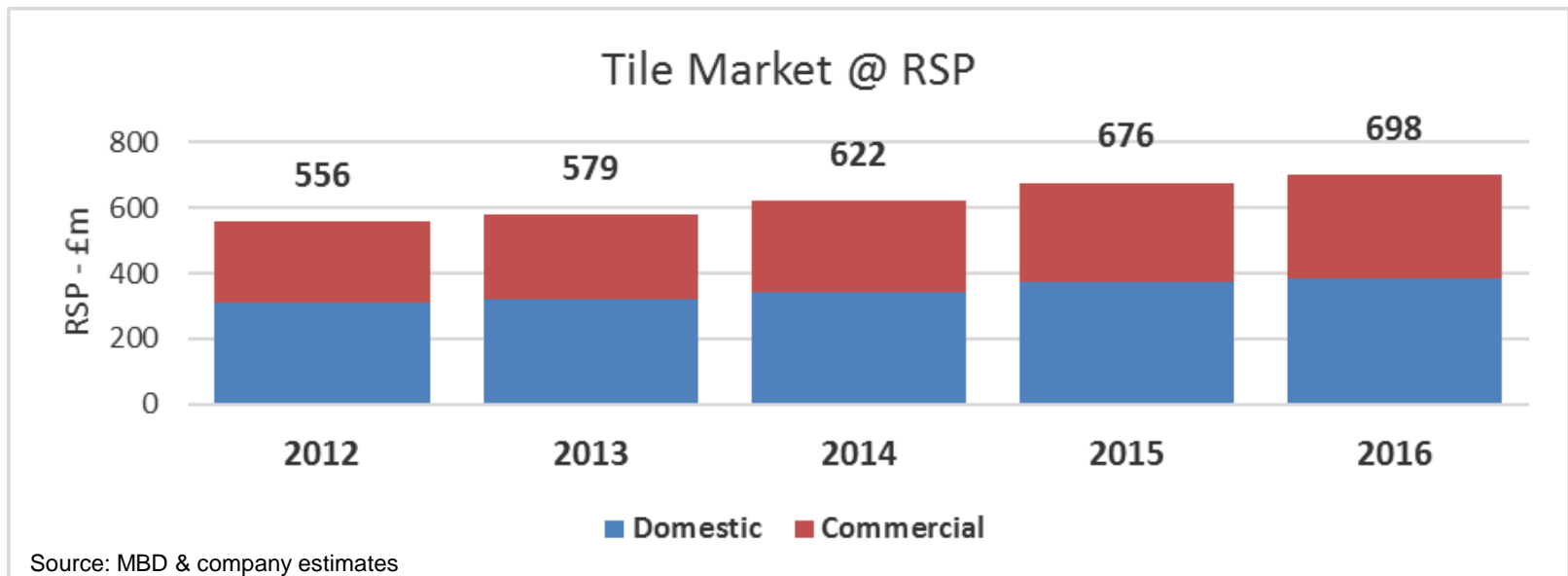
**Matthew Williams**

Chief Executive Officer



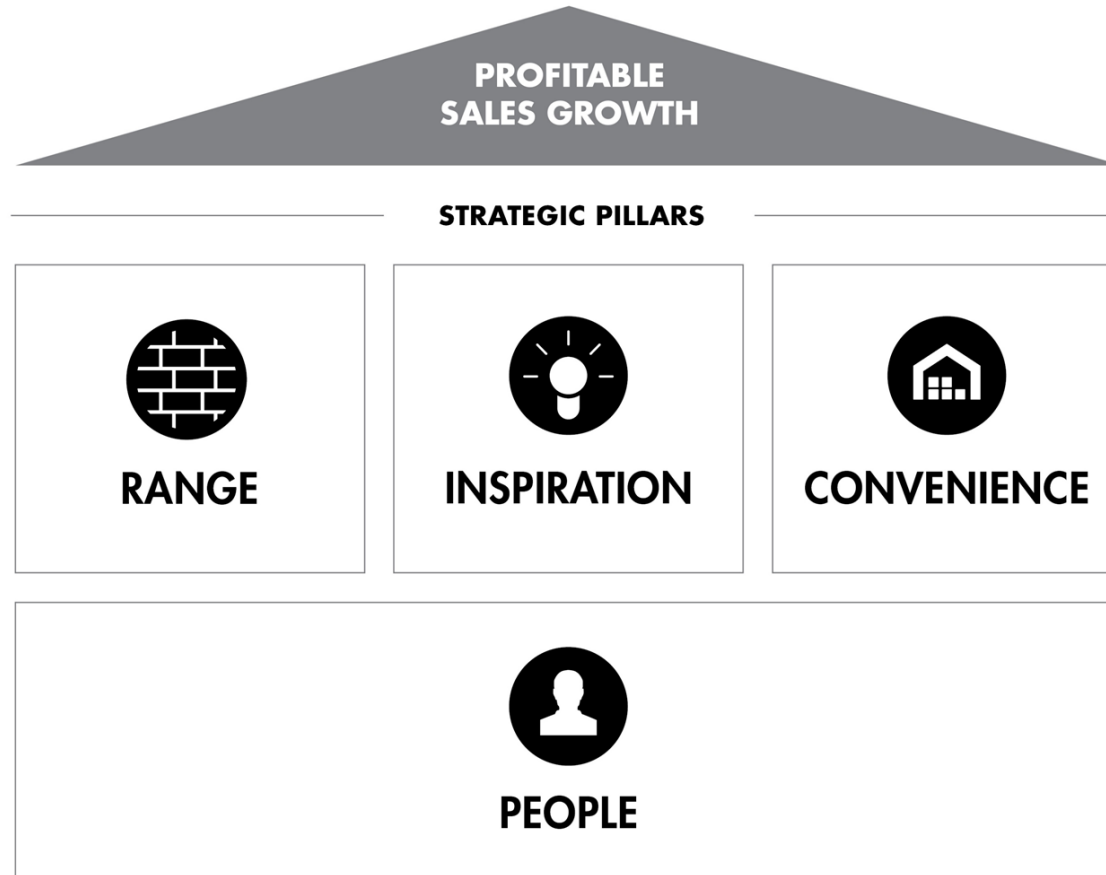
The UK tile market is split into two end-use segments:

- 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

**Topps Tiles**

- 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



ELLE  
DECORATION

Ideal Home

Style<sup>atHome</sup>

COUNTRY LIVING  
MAGAZINE

woman&home

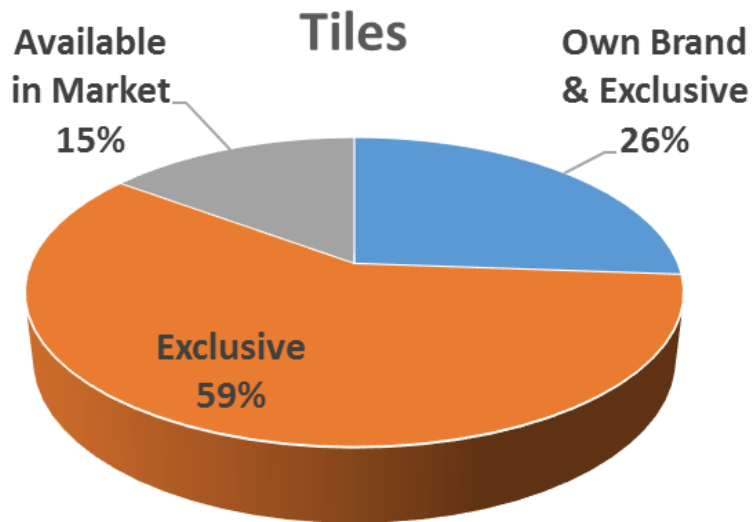
25 BEAUTIFUL  
HOMES



# Range – Only @ Topps

**Topps Tiles**

- 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





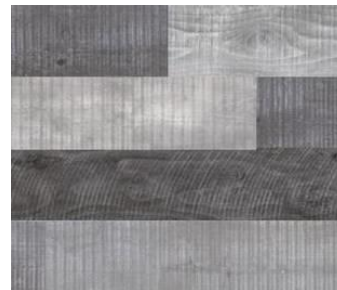


# Range – Slumber™

**Topps Tiles**



- 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 / m<sup>2</sup> 122 x 20 mm long plank format



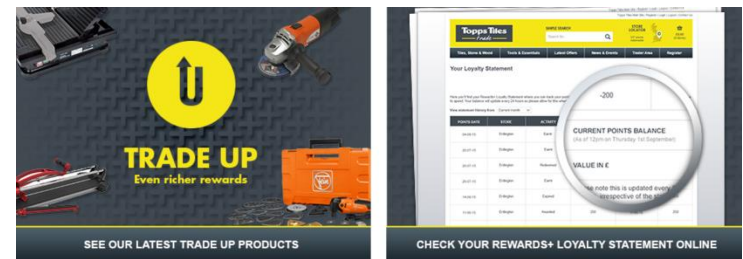


- Opportunity for up to 450 UK stores
- 351 stores trading at period end - growth target of net 15 per annum
- Continued development of core format informs investment in existing store estate
  - Estimated 10 full refits in FY17
  - Continued focus on programme of all store improvements with possible 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







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](http://www.jobs.toppstiles.co.uk)



**From the top to the bottom, the family feel here is absolutely inherent.**

James, Area Business Manager



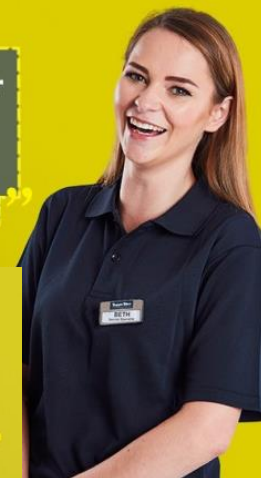
**If you put in the hard work and deliver results, you're definitely recognised and rewarded.**

Connor, Sales Assistant



**I'm proud to work for one of the biggest tile specialists in the world.**

Chris, Store Manager



**I feel great when I know a customer has gone away really happy.**

Beth, Service Specialist



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

Geeta, Stock Replenisher

- **Current trading – 8 weeks to 26 November 2016**
  - Like-for-like revenue growth +0.8%
- **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

**Topps Tiles**

	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)