Topps Tiles

Full Year Results 2020

Agenda

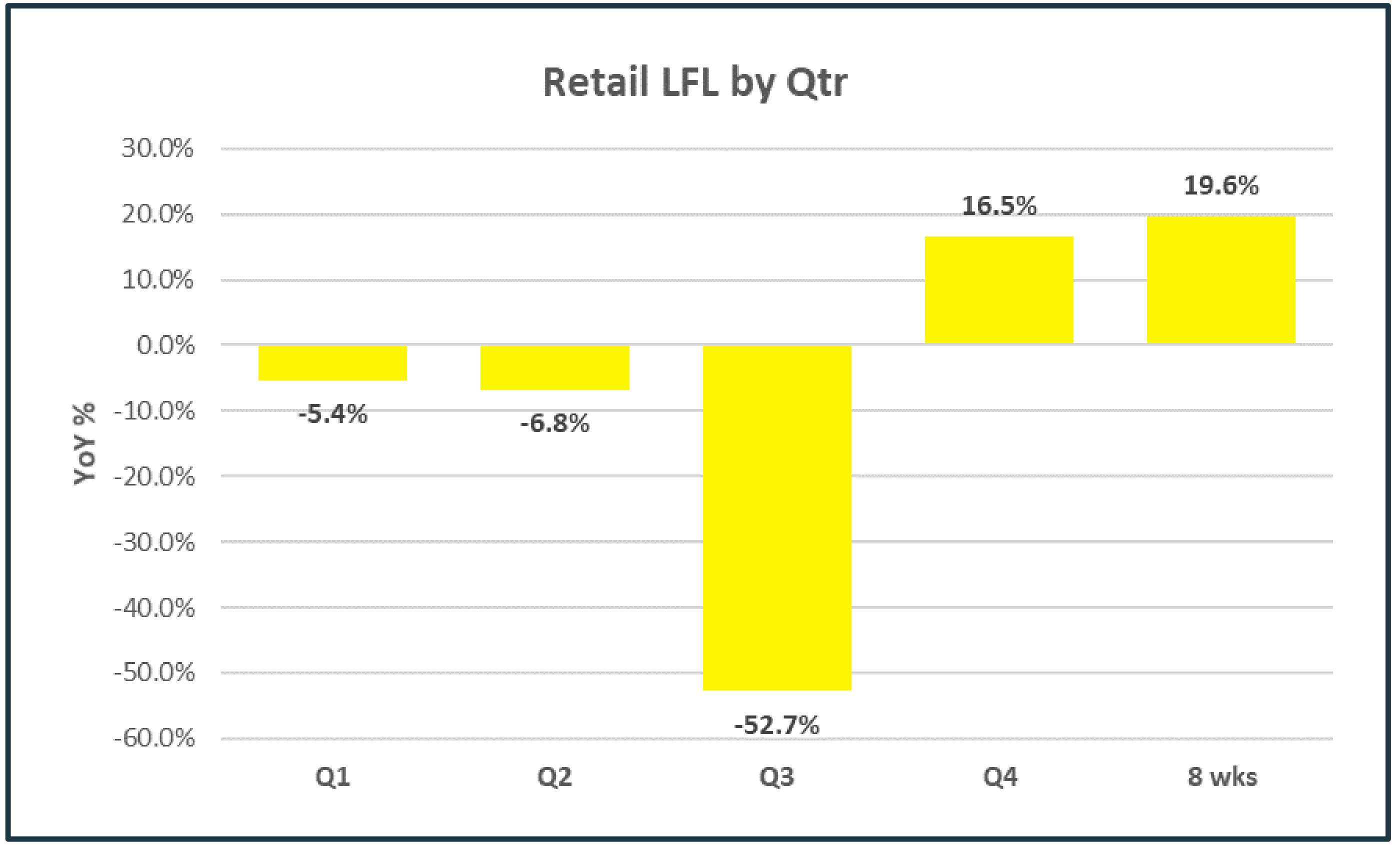
- FY20 Highlights & Strategy – Rob Parker
- Financial Performance – Stephen Hopson
- Operations & Outlook – Rob Parker

Topps Tiles

FY20 Highlights & Strategy

Rob Parker
Chief Executive Officer

FY20 in Summary



FY20 Performance Summary	
LFL sales	(12.5)%
Sales	£192.8m
Adj. Pre Tax Prof	£3.6m
Adj. EPS	1.57p
Stat Pre Tax Loss	£9.8m
Adj net cash	£26.0m

Customer satisfaction 89%

Web sales +45%

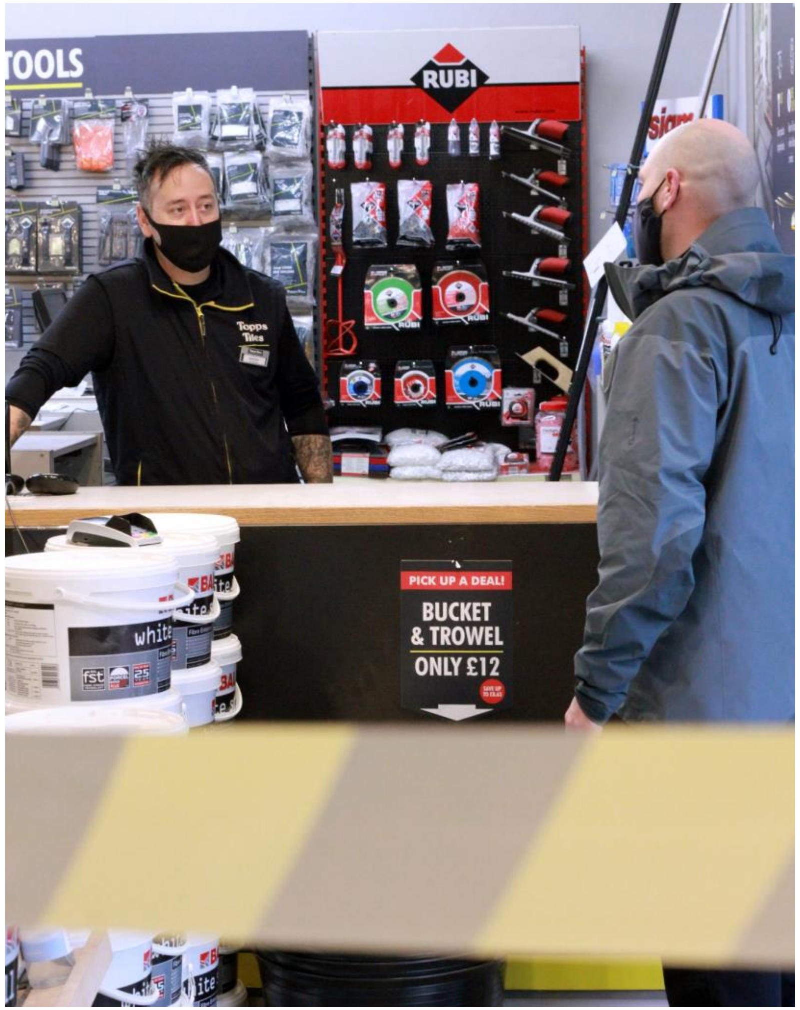
Commercial sales £7.5m, +53%

Net cash generation +£37.3m

A year of challenge and change for Topps – emerging stronger and refreshed

Covid-19 Impact

- Retail stores trading in line with Government guidance – over half of retail sales are to trade customers
- Retail trading from July very robust - benefitting from home improvement and DIY boom
- Very strong cash performance – improved by £37m to £26m net cash, available headroom of £75m
- No claims against Job Retention Scheme since early August
- Cost reduction exercise – c. £4m of annualised savings (split centre and stores) and capex reduction in year of 42%
- Supplier relations strong – key to working capital response during closure period and continued supply during period of supply chain pressure
- Online sales strong - up around 3x on pre-crisis levels during closure, +45% across the year
- Commercial market slower over H2 with hospitality and leisure heavily impacted



Business Strengths - The Leader In Tiles…

Topps Tiles

Group

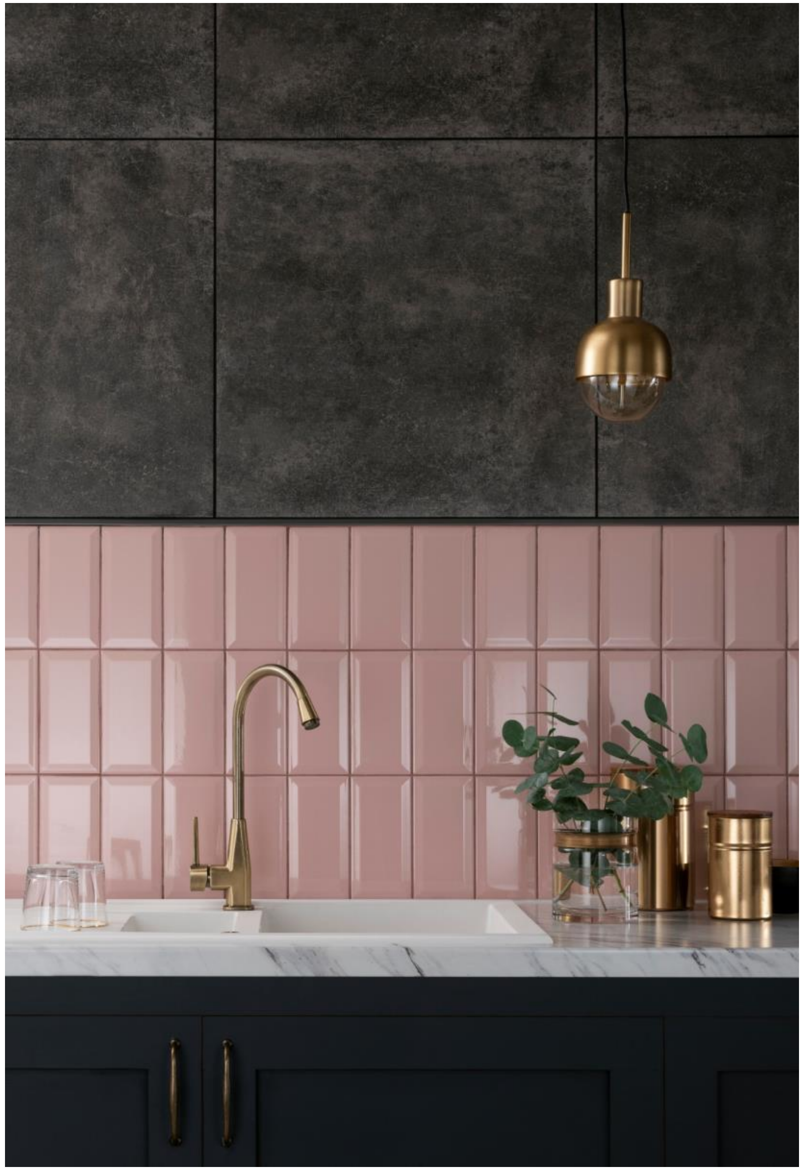
- Attractive market - stable, long term demand with minimal disruption from alternative technologies
- Market leading position with differentiation in product and customer service – difficult to replicate
- High gross margin, with strong cash conversion and low capital requirement

Retail

- Very high levels of customer satisfaction – 80+%
- Business serves a broadly even trade and retail customer mix
- True omni-channel retail business – critical for homeowners
- Locational convenience key for trade (300+ sites)
- Flexible property portfolio is strength and competitive advantage

Commercial

- Commercial tile market is attractive and represents significant expansion opportunity with ambition to be #1



Strategic Progress During The Year

Topps Tiles

Group

- New market share goal – 1 in 5 by 2025
- Strategic focus on broadening customer base – within Retail and beyond (Commercial)
- Leading product – 2nd 'Collection' launched – Matrix – genuine differential to market
- Leading People – world class customer service and top 10 employer status (Glassdoor)
- New CFO appointed in November 20
- Sustainability becoming a key part of agenda

Retail

- New strategy launched – Great Experience, Great Product, Great Value
- Stronger push into 'value' – 'Get The Look for Less', promo & essentials pricing
- New web site launched Oct '19 – omni-channel digital capability key to performance this year
- Continued refinement of the store estate – net 20 store closures
- Benefiting from CV19-driven home improvement and DIY boom

Commercial

- Ambition to be #1 remains – c. £25m of sales
- Group tile expertise, supplier relationships and scale are key sources of competitive advantage
- Strata business integrated into Parkside
- FY20 progress slower than expected due to CV19 and market remains challenging
- Impairment of £5.6m of goodwill, intangibles & PPE (non cash)

Our Ambition

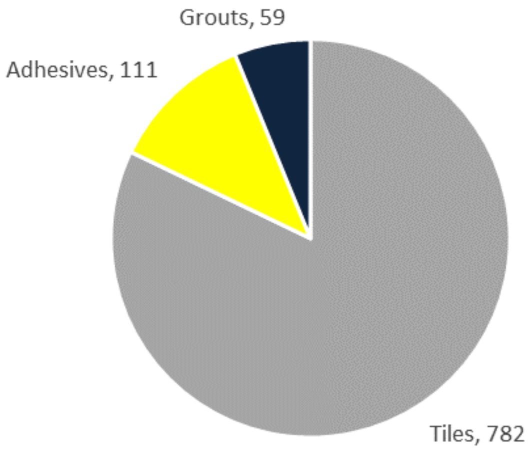
Where we are today

- Market leader with 17% of combined domestic and commercial tile market (including adhesives and grouts)
- Retail business the clear leader in the domestic tile market
- Commercial market entered in 2017 - doubled our addressable market whist maintaining specialism in tiles

What we want to achieve

- Goal to achieve £1 in every £5 spent on tiles, adhesives and grouts in the UK by 2025
- Achievable by outperforming market by c. 3.5% each year over next five years
- Delivery of goal creates material profit upside over medium term

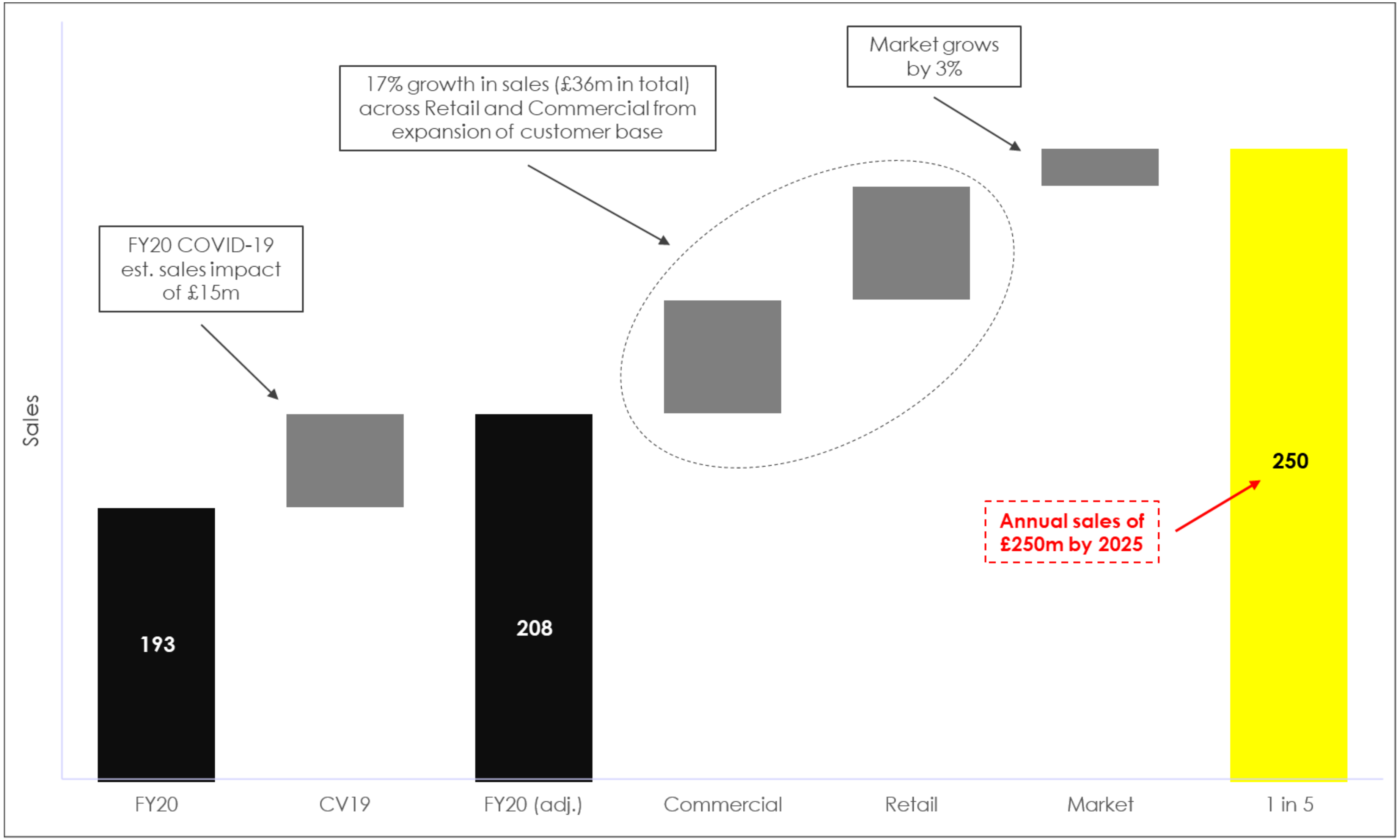
2019 market size at RSP : tiles, adhesives and grouts



Market share	
Market @ RSP	£952m
Topps sales*	£165m
Share	17%

* Based on sales of coverings, adhesives and grouts

What It Might Be Worth



Adjusted net margin over last 5 years of between 7% and 10%

How We Will Do It

Group strategy - serving a broader customer base

ONE-IN-FIVE BY 2025

RETAIL
TOPPS TILES
Great Experience, Great Product and Great Value

COMMERCIAL
PARKSIDE & STRATA
Disrupt and Construct

LEADING PRODUCT

LEADING PEOPLE

Core purpose - to inspire customers through our love of tiles

Financial Performance

Stephen Hopson
Chief Financial Officer

Income Statement Highlights - adjusted measures

52 weeks ended 26 September 2020

Topps Tiles

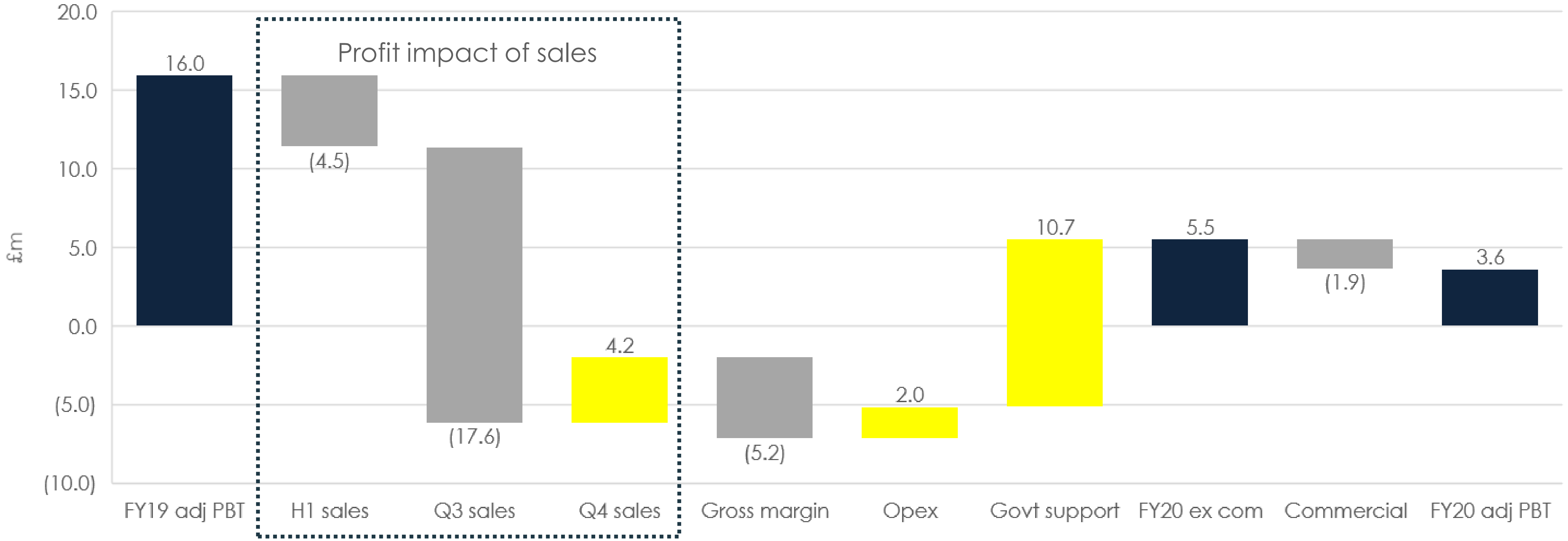
Note – FY19 as reported in the prior period and excludes Commercial	FY 20	FY 19	YoY
Sales - £m	192.8	214.3	(10.0)%
Gross Profit - £m	112.8	132.9	(15.1)%
Gross Margin %	58.5%	62.0%	(3.5)ppts
Opex - £m	108.4	116.1	+6.6%
Interest - £m	0.8	0.9	+11.1%
PBT - £m	3.6	16.0	(77.5)%
Net Margin %	1.9%	7.5%	(5.6)ppts
EPS - pence	1.57	6.61	(76.2)%

- Sales decrease of 12.5% on a LFL basis : Q1 (5.4)%, Q2 (6.8)%, Q3 (52.7)%, Q4 +16.5%. Commercial £7.5m vs £4.9m in PY, up 53% including benefit of acquiring Strata in FY19
- Gross margin decrease of 3.5 ppts. Commercial business results in 0.7 ppts dilution, Retail margin down 2.8 ppts
- Adjusted operating expenses reduce due to Government support through Covid related temporary store closures (total support of £10.7m); adjusted operating expenses also include £5.0m of opex for Commercial
- Adjusted PBT of £3.6m, includes £1.9m loss for Commercial (excluded in prior year)

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), and are pre-IFRS 16 adjustments. In FY 19, the results from the Commercial business were also excluded from adjusted measures.

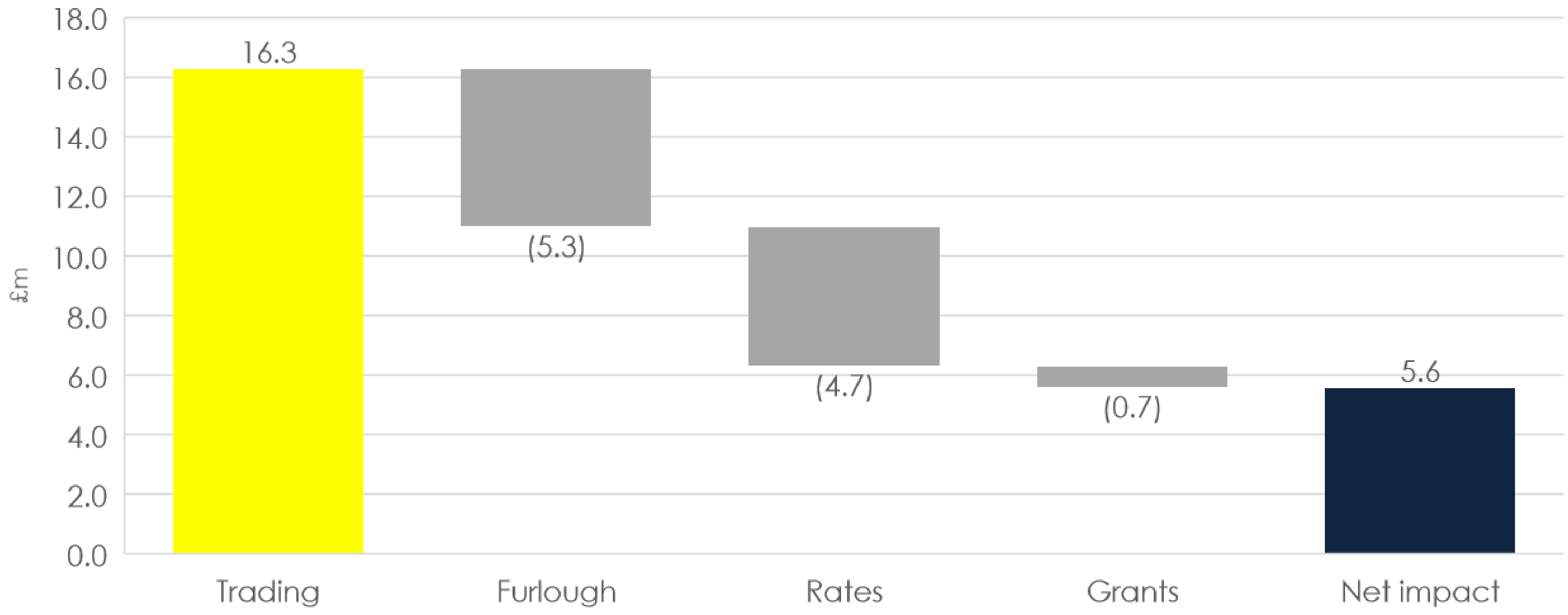
Adjusted Profit Before Tax Bridge

52 weeks ended 26 September 2020



- FY19 adjusted PBT excludes the Commercial business – results now included in adjusted PBT from FY20
- LFL retail sales down 6.1% in H1 in a challenging trading environment
- Q3 significantly impacted by Covid-19 with stores shut in April followed by a gradual safe re-opening
- Significant strength in Q4 with LFL sales up 16.5%
- Gross margin within Retail down 2.8 ppts : increased product/price competitiveness, delivery expense and inventory charges
- £2m reduction in opex ex government support, including £1.8m of annualised £4m of savings
- £10.7m of government support, primarily while stores closed in Q3

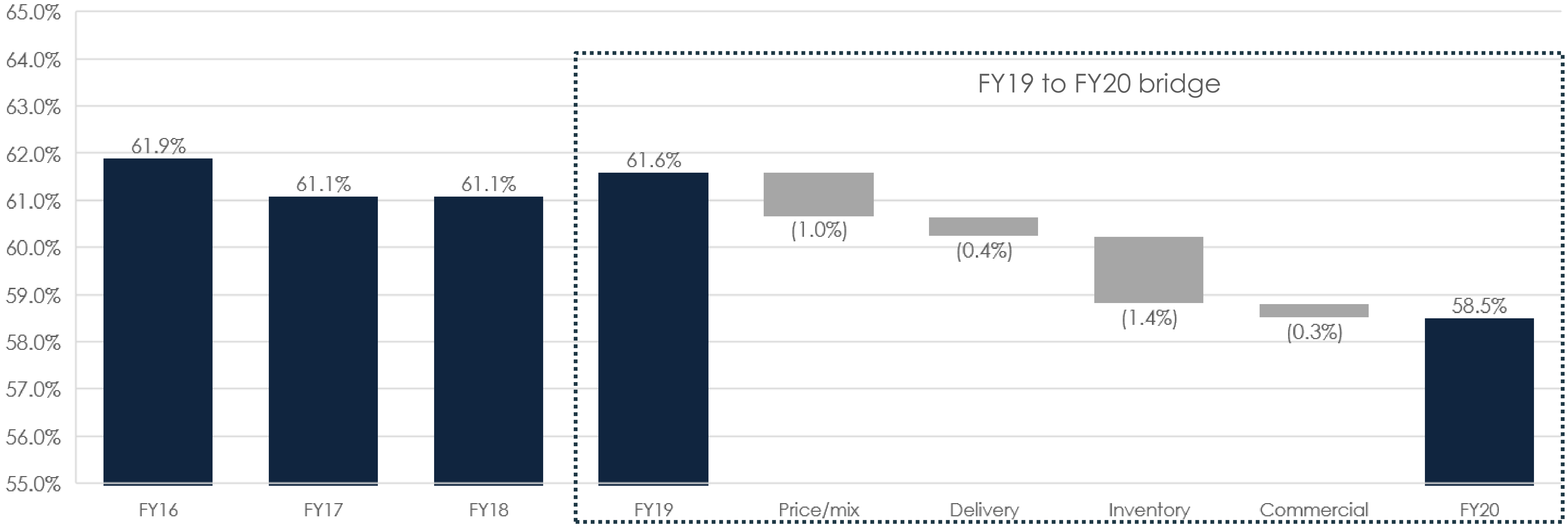
Covid-19 : Profit Impact



- Stores closure from 23 March – major impact on Q3 sales and margins
- Government support of £10.7m in FY20 from furlough, business rates and grants
- Net profit impact of £5.6m – contributing to statutory loss

Gross Margin Performance

52 weeks ended 26 September 2020

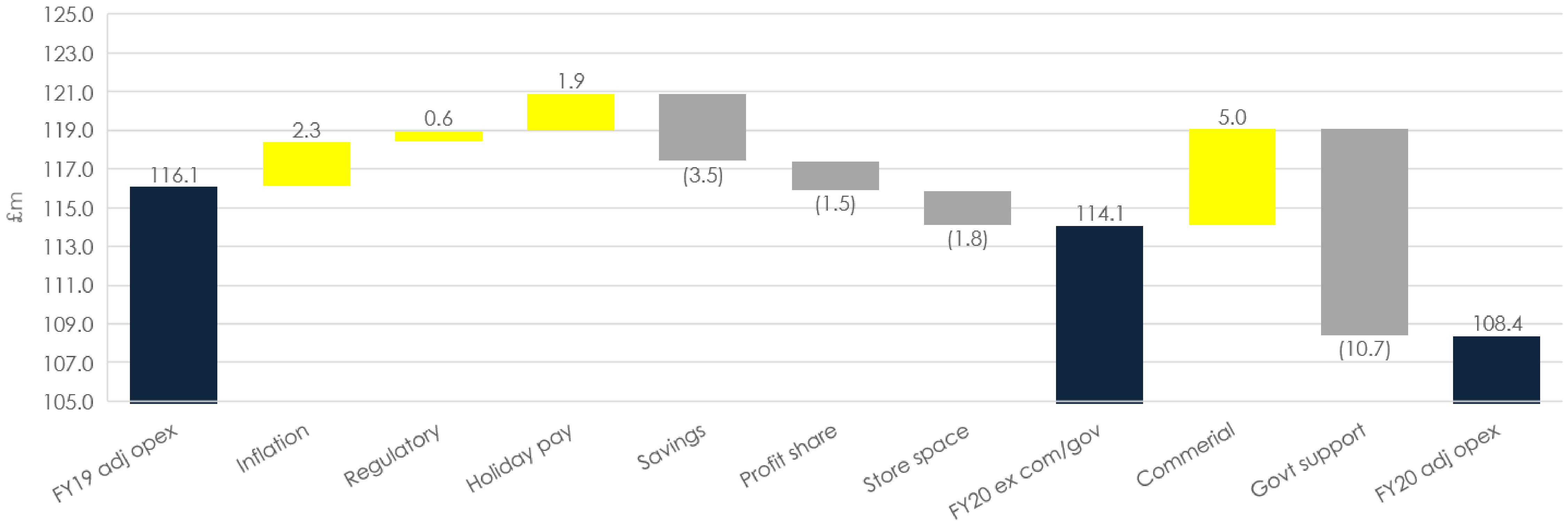


- This slides shows Group margin, including Commercial from FY17
- Retail margin (ie excluding Commercial) moved from 62.0% to 59.2%, down 2.8 ppts
- Key factors driving retail margin were increased pricing competitiveness and product mix changes, web sales delivered direct, especially during lock down, higher inventory write off and obsolescence provision
- 30 bps incremental dilution from higher FY20 Commercial sales mix (sales increased from £4.9m to £7.5m)

Note - Gross margin in FY18, FY19 and FY20 includes dilution from the Commercial business

Adjusted Operating Expenditure Bridge

52 weeks ended 26 September 2020



- Inflation of c. 2.0%
- Regulatory cost of £0.6m from national living wage and pension changes
- Increased holiday pay accrual as a result of carry forward of holiday into new financial year (Covid-19)
- Other savings in employment costs, property costs, marketing and supply chain, including £1.7m specific to lock down
- Employee profit share decrease by £1.5m, due to challenging trading in the current year
- Average of 357 stores vs 366 in the prior year generating £1.8m reduction in costs
- £5.0m additional cost due to inclusion of Commercial business in adjusted measures in current period
- Government Support for Covid-19 temporary store closures (furlough £5.3m, rates holiday £4.7m, grants £0.7m)

Statutory Income Statement

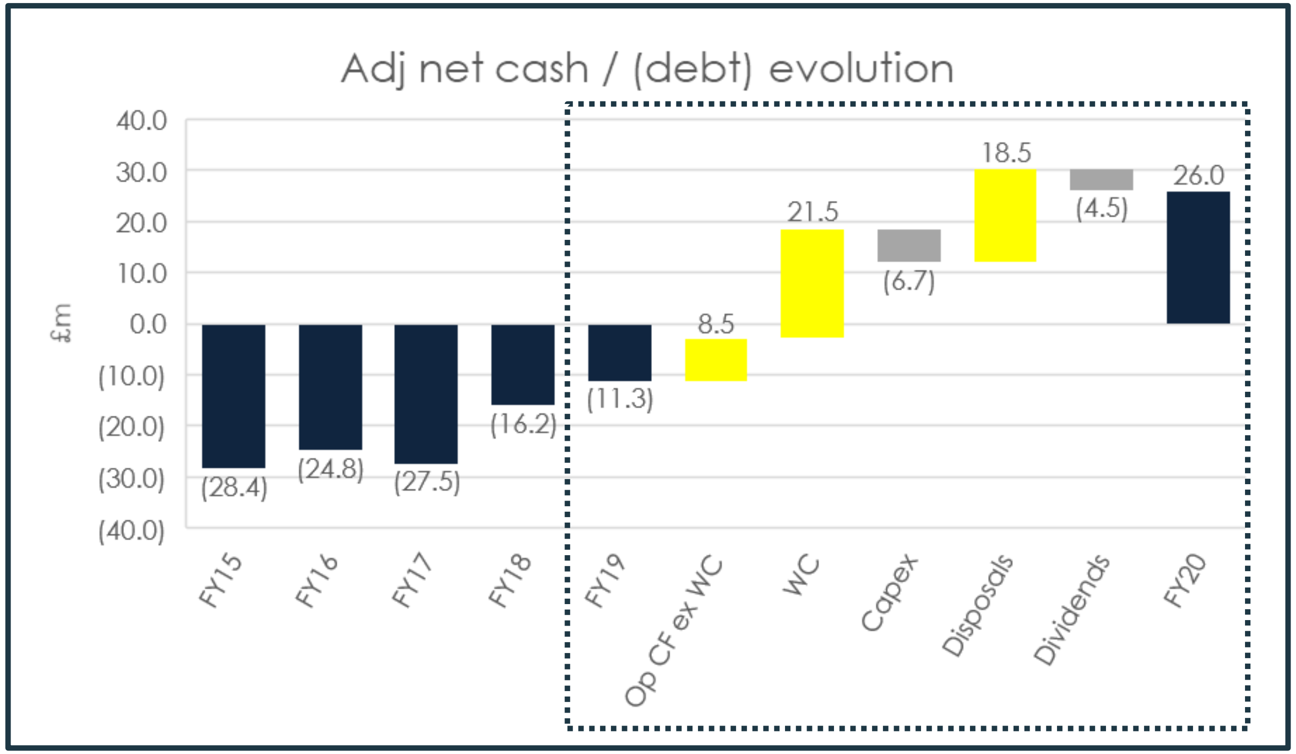
52 weeks ended 26 September 2020

	FY 20	FY 19	YoY
Adjusted Profit before tax (£m)	**3.6**	**16.0**	**(12.4)**
Adjusting items (£m):			
Property	(0.1)	(2.9)	2.8
Commercial trading & acq costs	n/a	(2.7)	n/a
Other	(0.5)	2.1	(2.6)
Profit before tax after 'normal' adjusting items	**3.0**	**12.5**	**(9.5)**
Accounting items (£m):			
Commercial impairment	(5.6)		
IFRS 16	(7.2)		
Profit before tax (£m)	**(9.8)**	**12.5**	**(22.3)**

- Adjusting items in FY20 consist of:
  - Property related items included pre-IFRS16 gain on sale and leaseback of Grove Park (£4m), vacant property costs and impairment of property assets
  - Commercial losses treated as an adjusting item until FY19 – underlying from FY20 (£1.9m loss)
  - Other in FY20 includes costs relating to business restructure, FY19 included a refund of historic import duty
- In FY20, two significant non-cash adjustments relating to accounting adjustments:
  - Non-cash impairment of Commercial business goodwill, intangible assets and PPE based on prudent view of commercial market following Covid-19
  - IFRS16 impact, of which (£7.6m) one off and £0.4m business as usual

Adjusted Net Cash and Liquidity (Pre-IFRS 16)

26 September 2020



Credit facilities

Facility	Limit	Expiry
Revolving Credit Facility	£39m	July 2022
Credit facilities through CLBILS	£10m	June 2021
Headroom to facilities at year end of £75m		

- Balance sheet transformed in FY20, first adj net cash position in many years
- Sale and leaseback of head office and warehouse for £17.9m net of costs in June 2020
- Strong WC management throughout crisis and higher creditors at year end
- VAT deferral (£6m) and some creditor upside will reverse – also timing impact of FY21 53 week year (£7m)
- Dividend paused, in line with guidance at Interims, Board keen to reinstate policy as soon as is appropriate - expected in FY21 subject to positive adjusted EPS

Note – Adjusted net cash / debt excludes lease liabilities under IFRS 16

Forward Guidance

Income Statement

- Gross margin – c 59%-60% – dilutive impact as commercial grows and continued investment in value
- Adjusted opex – c £115m - £116m (including Commercial, pre-IFRS16)
- Interest (pre IFRS 16) – non-utilisation charge on £39m RCF of c £0.5m
- Net business as usual IFRS 16 impact immaterial however c £3m switch between opex and interest

Cash flow

- Capex – £5m - £6m including core investment plans and continued investment in LED lighting
- Working capital outflows due to VAT repayment (£6m), 53rd week (£7m) and normalisation of Q4 creditors (estimate £4m - £6m)

General

- Store optimisation programme to continue
- Board keen to reinstate dividend policy as soon as possible subject to delivering positive adjusted EPS

Operations & Outlook

Rob Parker
Chief Executive Officer

Group Strategy

Topps Tiles

Group strategy - serving a broader customer base

ONE-IN-FIVE BY 2025

RETAIL
TOPPS TILES
Great Experience, Great Product and Great Value

COMMERCIAL
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Disrupt and Construct

LEADING PRODUCT

LEADING PEOPLE

Core purpose - to inspire customers through our love of tiles

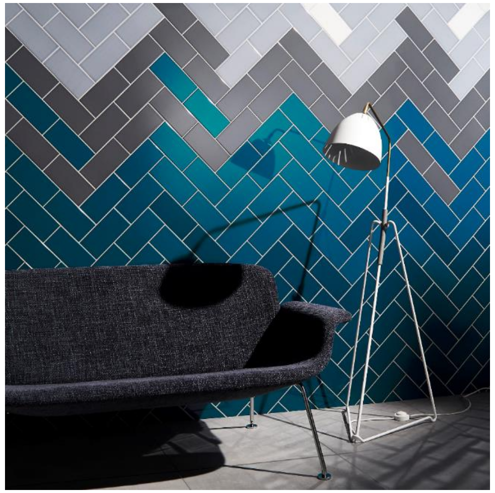
Leading Product

Topps Tiles

- A key source of competitive advantage – we are experts in ranging, sourcing and procurement of tiles
- Global sourcing base – innovation, quality and exclusivity
- Strength of supply chain – strategic partners account for 80% of retail purchases
- 87% of our retail tile range own brand or exclusive
- 32 new ranges launched this year with 35% of these design-led by us in collaboration with partners
- A further 11 ranges launched to support our 'Get the Look for Less' initiative
- Tile technology creating new growth opportunities – 20mm porcelain now an alternative to traditional paving and tiles replacing shower trays (Aquabase)
- Commercial business – access to 8,000 products through global relations with 2/3 of purchases through strategic suppliers
- Technical authority increasingly important and especially in Commercial market – in-house capability

Hero Range – Matrix® Collection

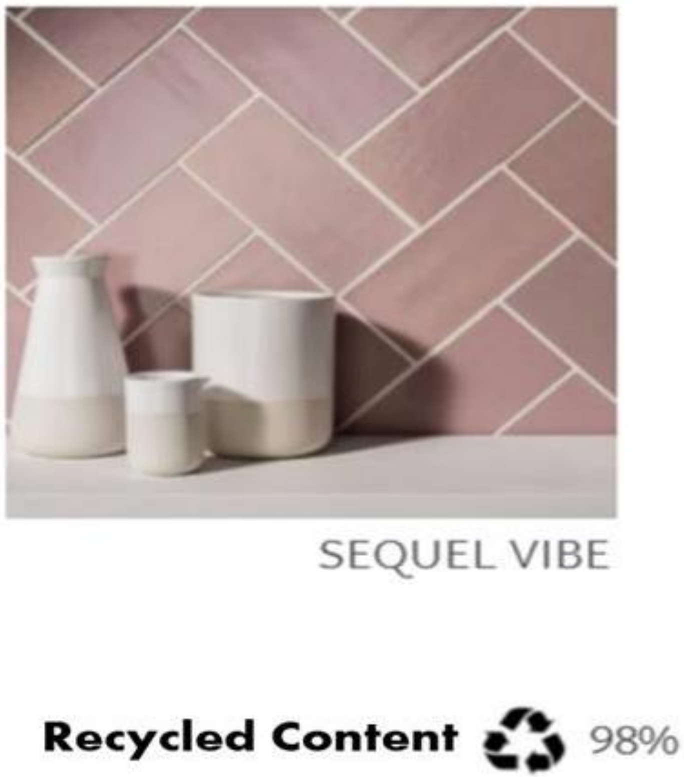
- Small format coloured ceramic wall tiles accompanied by perfectly matching trims and grouts
- 23 colours available in two sizes and two finishes
- Colours developed in collaboration with a leading colourist and built on customer insight
- Broad appeal to both Retail and Commercial channels
- Co-ordinate or mix and match colours to create striking design statements
- Launched Autumn 20



Leading People

- High levels of engagement are key to delivering world class customer service
- Voted top 10 UK employer (Glassdoor Dec 2019)
- Named a top 5 retailer for our handling of CV19 crisis by Retail Week and Glassdoor
- Strong wellbeing agenda – push into mental health awareness this year with 'Time to Talk' initiative and programme to training mental health first aiders
- Internal progression key – 35% of vacancies filled internally
- Colleague turnover of 28.8% (PY 36.8%)
- Apprenticeship schemes allow us to deploy apprentice levy into people development across the business (levels 3 to 6)

Sustainability

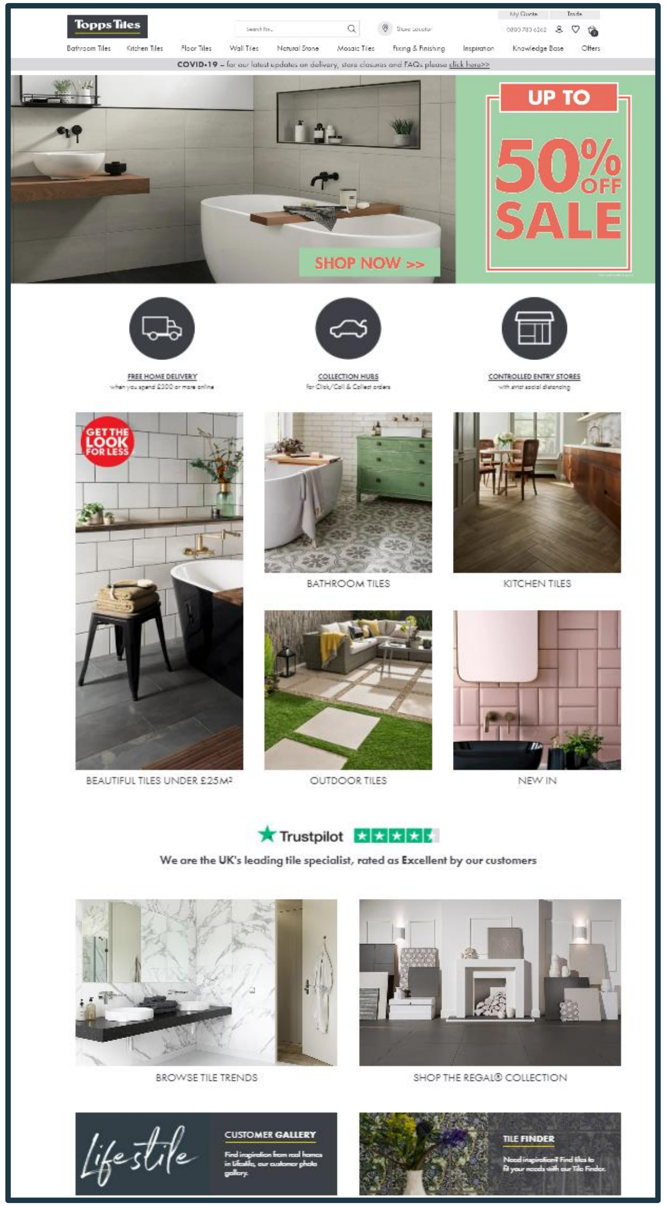


- ‘Sustainability Council’ created to drive focus
- University of East Anglia engaged to research business environmental impact. Focus on production, customer messaging and operations.
- Summary of key business activities:
  - Product – new range launched with 98% recycled content
  - Transport – now insourced giving us greater control
  - Supply chain – suppliers sign up to a Responsible Sourcing Code – focus on behaviour and ethics
  - Recycling – 84% of tile waste is recycled, tile brochure now digital only
  - Stores – LED lighting being rolled out to all stores

Retail


Topps Tiles
CUSTOMER ENTRANCE
toppstiles.co.uk
up to 1/3 off
UP TO 3 YEARS
0%
INTEREST FREE CREDIT
up to 1/3 off

Great Experience - Digital



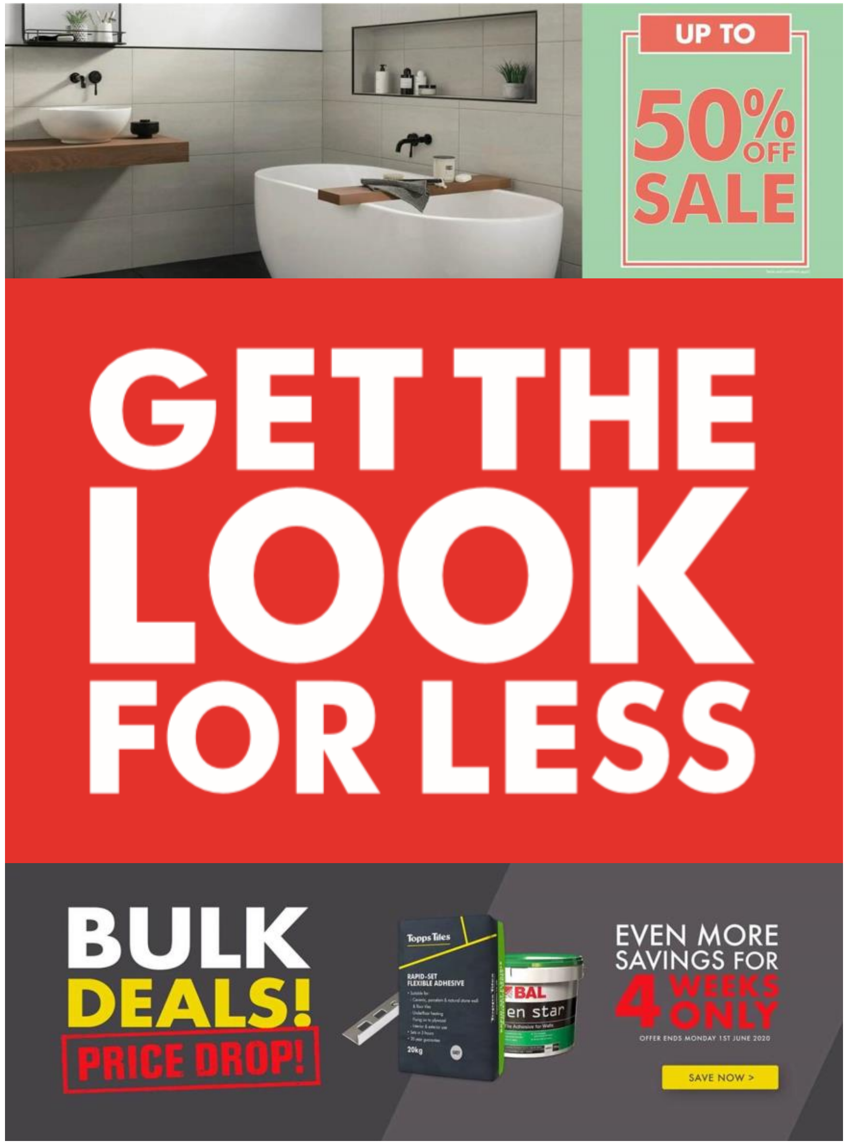
- Brand new trade and retail websites launched in October 2019 built on Magento – the world's leading retail ecommerce platform
- New website fully integrated with our internal systems ensuring genuine omni-channel capabilities for the customer and colleagues
- Online revenue trebled during lockdown and remains in strong year on year growth
- Sample service remains key for engagement and lead generation - free cut sample service launched (available online and in store)
- Social media vital to brand appraisal - especially visual platforms like Pinterest and Instagram
- Digital trade activity in strong growth
- Web traffic numbers in significant growth year on year

Great Experience – Stores

- In store experience is crucial – world class shopping experience supported by 88.5% overall satisfaction rating (5* reviews)
- Two distinct but related customer groups served through common space – fitters and homeowners
- Fitters account for 55% of sales, 97,000 registered traders - relationships, loyalty scheme and locational convenience are key
- Omni-channel model key to homeowner – service, inspiration and convenience crucial
- Fitters often provide recommendation to homeowner – hence serving both customers a major strength
- Portfolio of 342 stores provides competitive advantage
- Opportunity to enhance financial returns through modest closure programme – net 20 closures delivered in FY20
- Flexibility in portfolio is a strength - average unexpired lease term of 3.4 years

Great Value

- ‘Value’ opportunity - coverings and essentials
- ‘Get The Look For Less’ rebranded and relaunched – encompasses our lower priced ranges – easy navigation for colleagues and customers
- 16 new products added across 11 ranges – enhancing our competitive position and widening our appeal to a broader range of customers
- ‘Essential’ accessory items reviewed and prices reduced – 60 lines reduced by an average of 20%
- Trade pricing reviewed through ‘bulk deals’ – further discounts for volume – 5+ items
- Strong promo message crucial to value perception – half price/50% off



Commercial

PARKSIDE
ARCHITECTURAL TILES

strata
tiles

Commercial Strategic Rationale

- Strategy of ‘disrupt and construct’ with an ambition to lead the market – est. £25m of sales
- Commercial market is approximately the same size as domestic - entry doubles our addressable market whilst maintaining our specialism in tiles
- Group tile expertise, supplier relationships and scale are key sources of competitive advantage
- Commercial operation started in August 2017 with acquisition of Parkside – specialism in casual dining and hospitality
- Strata acquired April 2019 – specialism in retail and transport hubs
- Participation provides insights into tile trends and new technology through close relationships with designers and architects
- #1 ambition remains - Commercial is a key part of growth strategy and market share goal

Performance and Strategic Progress

- Sales of £7.5m, +53% YoY (including benefit from acquiring Strata in PY)
- Progress over H1 was strong – growth of 246% YoY
- CV19 disruption in H2 significant – sales down 18%
- Trading loss of £1.9m, FY21 a further trading loss expected as the construction sector recovers post CV19
- Strata sales support integrated into Parkside central team – separate brand and sales team remains
- Team of 25 industry specialist salespeople
- Digital interaction critical to success – architects and designers access services digitally and more home working
- Commercial market has many varied sectors - flexibility to focus on more attractive sectors during current period is a strength

Working with well known brands

Harrods
Nationwide Building Society
Cameron
Prezzo
Royal Horticultural Society
Soho House
Radisson
Mountanvil
Hilton Hotels & Resorts
Quinn Estates
Hyatt
Notcutts Garden Inspiration Since 1897
Vintage Inns
New Look
Burger King
Legal & General
Starbucks Coffee
Holiday Inn
Wilson Building Contractors
David Lloyd Clubs
Fred. Olsen Cruise Lines
Berkeley Group
Sit & Sip
Mercure Hotels
Veritas
Amazon
Hard Rock Cafe
Accor Hotels
1799 Greene King
Novotel Hotels & Resorts
KFC
Tottenham Hotspur
ibis Hotels
Vashi Your Diamond Expert
All Bar One
TC Homes
Psycle
Spar
Mollie's
Pizza Express
Erris Homes Ltd.
Honda
next
Harbour Club
M&S
Innkeeper's Lodge
The Swan Hotel
Nando's

Summary and Outlook

- **Summary**
  - New market share goal – ‘1 in 5 by 2025’
  - Focus on serving a broader customer base – currently through enhancing value credentials in Retail and growth of Commercial business
  - Balance sheet transformed - £26m net cash position at year end

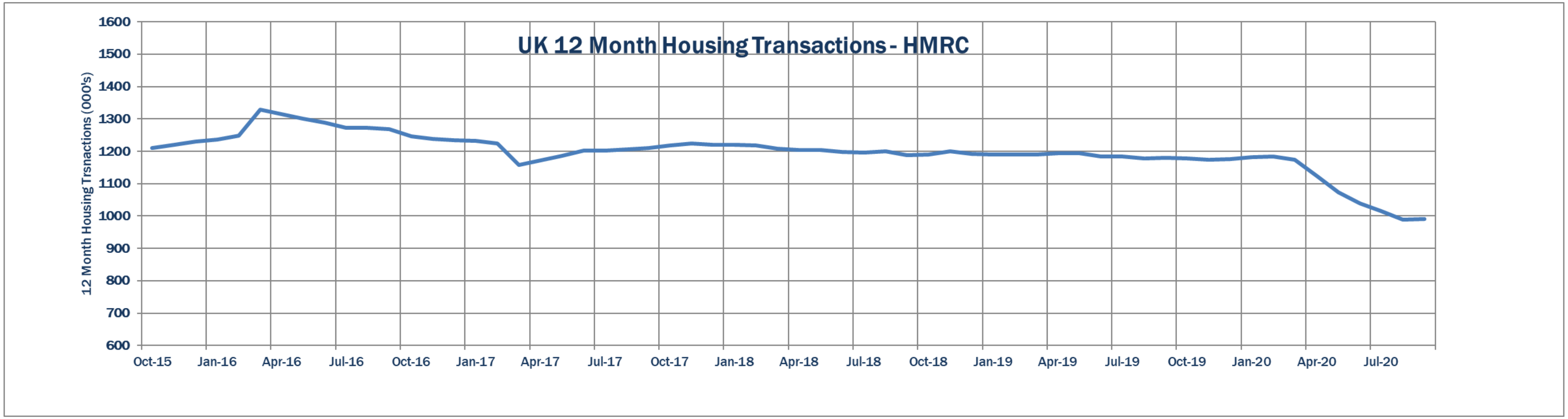
- **Current trading and Outlook**
  - New financial year has begun strongly – Retail LFL sales up 19.6% in first eight weeks
  - Omni-channel offer, specialist credentials and strong financial base = competitive advantage
  - Well-positioned for growth as the UK economy recovers
  - Board keen to return to dividend policy, subject to delivering positive adjusted EPS

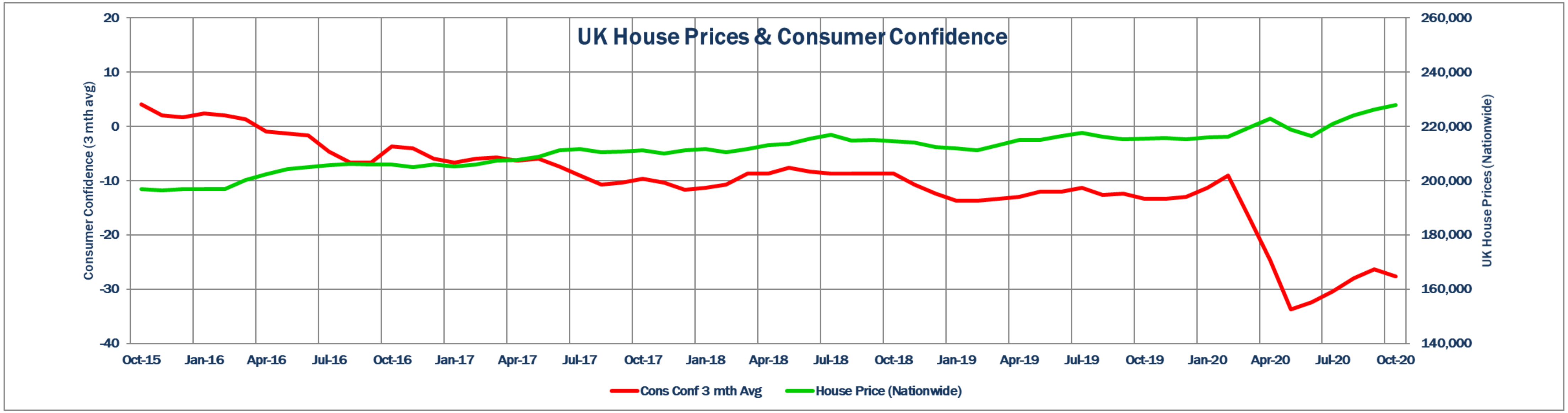
A year of challenge and change with the business emerging stronger and refreshed

Q&A

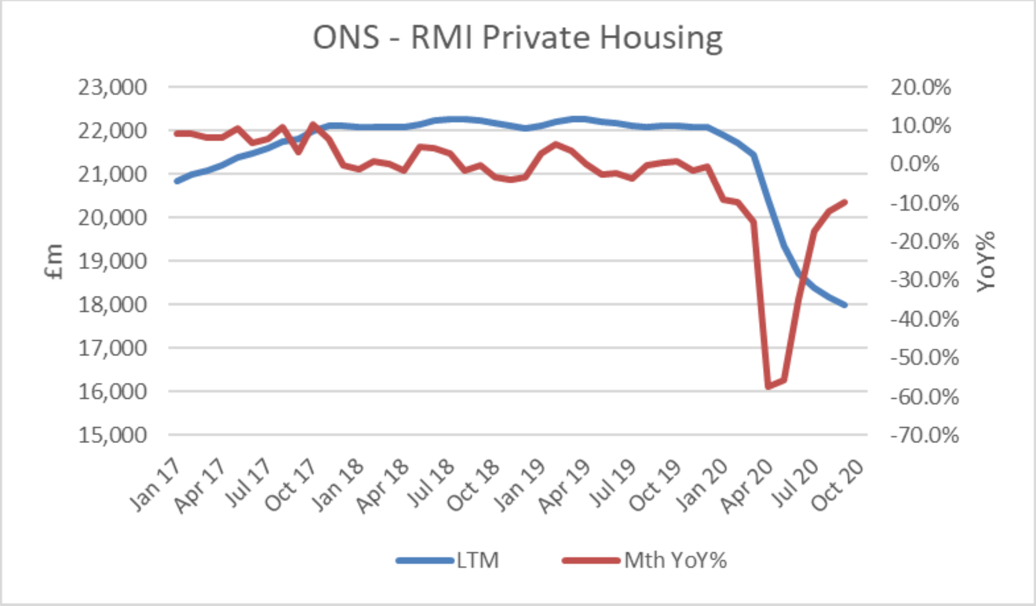
Appendix

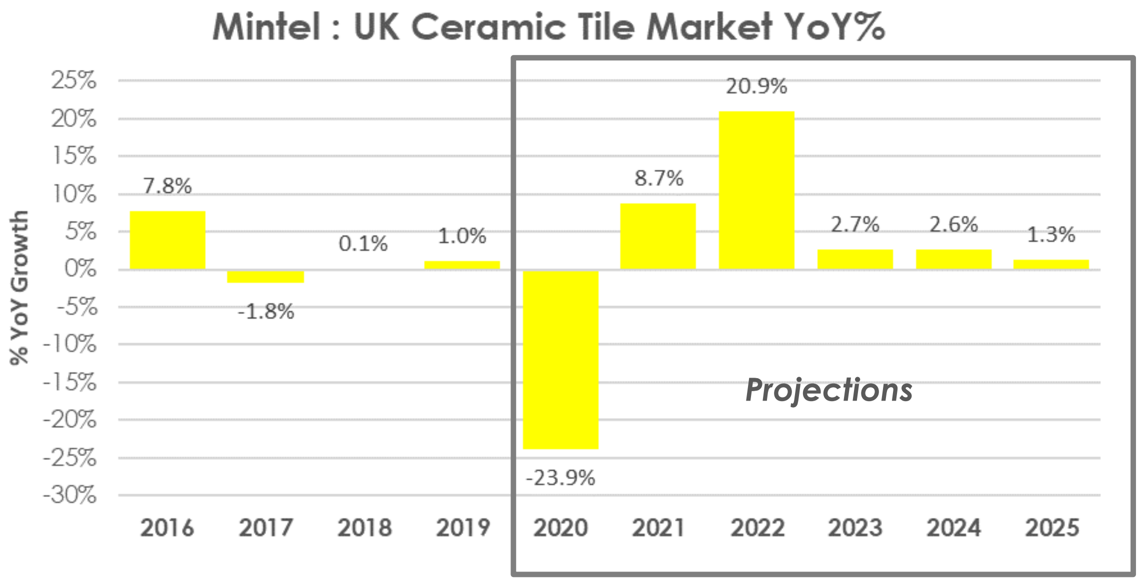
Consumer Confidence, House Price & Transactions

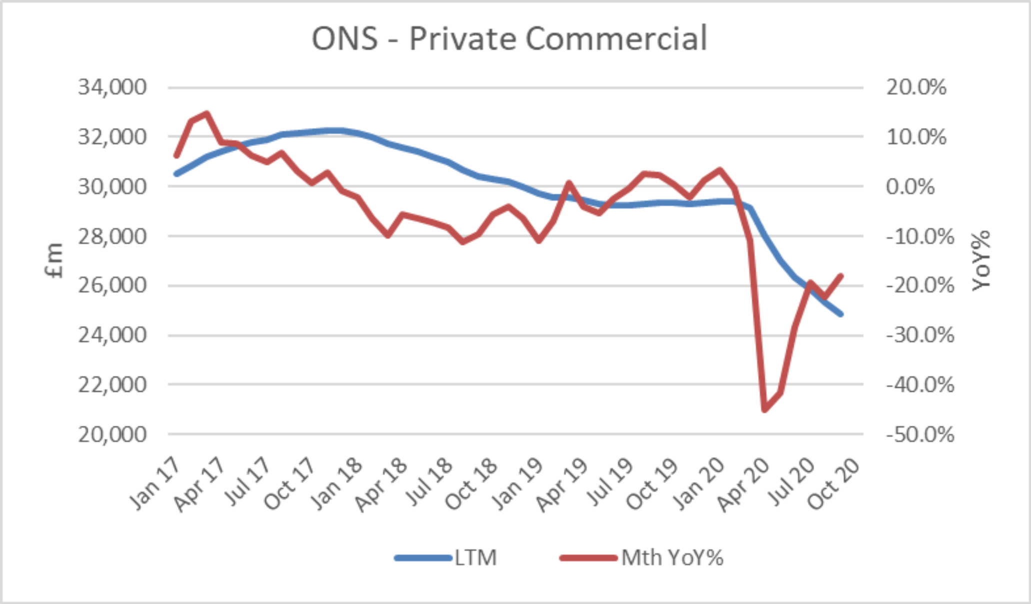




Market Analysis - ONS Construction Data, Mintel Analysis & Topps estimates







Insights

- Private RMI declined by 49.4% over Q3 and declined by 13.0% over Q4. Decline of 18.6% over 12 months to September.
- Private commercial declined by 38.4% over Q3 and declined by 19.9% over Q4. Decline of 15.4% over 12 months to September.
- UK tile market projected to decline by 24% in 2020 and recover to 2019 level by 2022.

Cash Flow Highlights (Pre-IFRS 16)

52 weeks ended 26 September 2020

Topps Tiles

	FY 20 (pre-IFRS 16)		FY 19		YoY	
	£m	£m	£m	£m	£m	£m
Cash flows generated by operations before WC	10.4		21.6		(11.2)	
Change in working capital	21.5		4.6		16.9	
Interest	(0.9)		(0.9)		-	
Tax	(1.0)		(3.4)		2.4	
Operations		**30.0**		**21.9**		**8.1**
Capital expenditure	(6.7)		(7.8)		1.1	
Sale proceeds & other investments	18.5		(2.6)		21.1	
Investments		**11.8**		**(10.4)**		**22.2**
Free cash flow		**41.8**		**11.5**		**30.3**
Dividends	(4.5)		(6.6)		+2.1	
Reduction/(increase) in net cash		**37.3**		**4.9**		**32.4**

- Free cash flow was a £41.8m inflow on a pre-IFRS 16 basis
- Key drivers for the £37.3m improvement in net cash were:
  - £18.5m disposals including sale and leaseback of warehouse & head office freeholds
  - Working capital movements incl c. £8m working capital impact of stronger trading in Q4, £6m deferred VAT payments, lower stock, hol pay accrual
  - Reduced capital expenditure, lower tax and dividend payments

IFRS 16 'Leases'

Topps Tiles

- Adopted by the Group as at 29 September 2019 using the 'modified retrospective approach'
  - Comparatives not restated
  - Cumulative impact of new standard recognised in retained earnings
- No economic impact and does not impact the cash flows of the Group
- One off impact of (£7.6m) on sale and leaseback accounting and impairment of closure programme stores
- BAU impact of £0.4m however c £3m movement between operating costs and finance costs vs IAS17

Impact on profit

	52 weeks ended 26 September 2020		
	Presented under IAS 17 £m	**Impact of IFRS 16 £m**	**Presented under IFRS 16 £m**
Group revenue	192.8	-	192.8
Cost of sales	(80.0)	-	(80.0)
Gross profit	112.8	-	112.8
Operating costs	(114.6)	(4.2)	(118.8)
Group operating loss	**(1.8)**	**(4.2)**	**(6.0)**
Net finance costs	(0.8)	(3.0)	(3.8)
Loss before taxation	**(2.6)**	**(7.2)**	**(9.8)**

Impact on cash flow

	52 weeks ended 26 September 2020		
	Presented under IAS 17 £m	**Impact of IFRS 16 £m**	**Presented under IFRS 16 £m**
Net cash from operating activities	30.0	21.0	51.0
Net cash from investing activities	11.8	0.4	12.2
Net cash used in financing activities	(29.5)	(21.4)	(50.9)
Cash flow	**12.3**	**-**	**12.3**

Balance Sheet Highlights (Statutory – post IFRS 16)

26 September 2020

	FY 2020	FY 2019	YoY	FY 2020 (pre-IFRS 16)
Goodwill/Intangibles - £m	0.9	5.8	(4.9)	0.9
Freehold Property - £m*	3.1	13.8	(10.7)	3.1
Fixed Assets - £m	25.8	34.4	(8.6)	26.1
Right-of-use & Sub Let Assets - £m	109.9	-	+109.9	-
Inventory - £m	29.3	30.9	(1.6)	29.3
Trade & other receivables/payables - £m	(54.9)	(35.2)	(19.7)	(55.2)
Borrowings - £m	(5.0)	(30.0)	+25.0	(5.0)
Lease liabilities - £m	(124.2)	-	(124.2)	-
Cash - £m	31.0	18.7	+12.3	31.0
Net Cash / Debt - £m (pre-IFRS 16)	26.0	(11.3)	+37.3	26.0
Net Assets - £m	14.1	30.2	(16.1)	23.9

- Goodwill and intangibles reduction relates to impairment of commercial assets recognising prudent market view
- The Group holds five freehold properties with a book value of £3.1m, having sold the Grove Park Warehouse and Head Office site on a sale and leaseback deal during the year (gross sale price £18.1m)
- Fixed assets reduction relates to assets connected to the warehouse and head office sale as well as 20 fewer stores vs year end and impairment due to closures
- Right-of-use assets of £106.3m, Sub Lease asset £3.6m, Deferred Tax asset £1.4m, brought on balance sheet due IFRS 16
- Inventory decrease in YoY with focus on stock reduction in Q3 to protect liquidity. Inventory days at 134 days (2019: 134)
- Lease liabilities of £124.2m brought on balance sheet from the implementation of IFRS 16
- Net debt position turned into a £26m net cash position - an improvement of £37.3m YoY

* Note: Freehold property includes two properties categorised as 'Assets classified as held for sale' at the year end