



UK TILE MARKET REPORT

Final Version - November 2022

The Mount, 43 Stafford Road, Stone, Staffordshire,
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Definitions and Abbreviations:

UK floor and wall tiles – includes ceramic tiles, porcelain tiles, natural stone and glass and metal tiles

Wood floorcoverings – includes solid wood, engineered wood and laminates

Vinyl floorcoverings - based on PVC, with additives including pigments, chips and protective coatings

DIY – Do it yourself

GSI – Getting someone in

LVT – Luxury vinyl tile

MSP – Manufacturer’s selling price

POD - A prefabricated volumetric element, fully factory finished and internally complete with building services. Types of POD include bathrooms, shower rooms, office washrooms, plant rooms and kitchens.

RMI – Repair maintenance and improvement

List of references:

This report is predominantly based on secondary research. All data quoted and the main findings are based on the following list of references:

AMA Research Floor and Wall Tile Report 2022-2026

AMA Research Contract Flooring Report 2022-2026

ARCADIS - Market View Autumn 2022

Barbour ABI - Super Sector Regional Review May 2022

Contract Flooring Journal

Construction Europe - Outlook for UK Construction 2022

CPA Construction Industry Forecast Autumn 2022

Designing Buildings The Construction Wiki - UK construction

Department of Transport - UK Port Freight Statistics 2020

EY ITEM Club Forecast (October 2022)

Glenigan UK Construction Industry Forecast 2022-2023 (Autumn)

IBISWorld - Floor and Wall Covering in the UK 2010-2028

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KPMG - Global Economic Outlook 2022

Logistics UK Report Summary 2021

Mordor Intelligence - UK Floor Covering Market 2022-2027

MRA Research - The UK Wetwall Panel Market 2019

Mintel Ceramic Tiles 2021

OBR Autumn Forecast 2022

ONS - Office of National Statistics

PWC - UK Economic Outlook 2022

Statista - UK Floor and Wall Tile Market

Tile & Stone Journal

Topps Tiles Half Year Results 2022

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Introduction

This report analyses developments within the UK tile market, covering products manufactured from ceramics and porcelain, natural stone and other materials such as glass and metal. The market is reviewed within the context of the wider economic environment and the construction sector based on independent research sources and interviews with industry professionals.

Current trends within the UK floor and wall tiles market are reviewed along with an analysis of key issues affecting the industry.

1. UK Construction Overview

Construction is a very diverse industry that includes activities ranging from mining, quarrying and forestry to the construction of infrastructure and buildings, and the manufacture and supply of products, as well as maintenance, operation and disposal.

Construction output in the UK is more than £110 billion per annum and contributes 7% of GDP (ref. Government Construction Strategy). Approximately a quarter of Construction output is public sector and three-quarters is private sector.

There are three main sectors:

- Commercial and social (approximately 45%)
- Residential (approximately 40%)
- Infrastructure (approximately 15%)

Approximately 60% of construction output is new build, whilst 40% is refurbishment and maintenance.

The industry accounts for approximately 3 million jobs, 10% of total UK employment (ref Construction 2025) and includes both manufacturing and services. According to the Department for Business Innovation and Skills, the industry is made up as follows:

- Contracting: 2,030,000 jobs, 234,000 businesses
- Services: 580,000 jobs, 30,000 businesses

- Products: 310,000 jobs, 18,000 businesses

Construction is a high-cost, high-risk, long-term activity, and so its performance is a good indicator of the health of the wider economy.

1.1 UK Economic Outlook

On 17th November 2022 the UK Chancellor Jeremy Hunt highlighted “stability, growth and public services” as the three main priorities in his Autumn Statement 2022. The Chancellor announced that the UK economy is now in recession.

The Office for Budget Responsibility (OBR) has published its latest forecasts on the economic and fiscal outlook.

The OBR has revised down its UK GDP growth forecast for 2023 to -1.4%, from growth of 1.8% previously estimated in the Spring Statement in March. The forecast now includes a recession lasting just over a year from the third quarter of 2022 as high inflation, rising interest rates and the squeeze on household incomes weigh on demand. The government’s Energy Price Guarantee has limited the depth of the recession. As energy prices and inflation drop, and short-term interest rates fall back from their peaks, annual GDP growth is forecast to pick up to 1.3% in 2024. Growth is then forecast to accelerate to 2.6% and 2.7% in 2025 and 2026, respectively.

The OBR expects inflation to peak at a 40-year high of 11.1% in 2022 Q4. Tighter monetary and fiscal policy beyond the near-term then exerts some downward pressure on domestic prices from 2024, with inflation set to fall below zero for eight quarters from mid-2024, conditional on market expectations for a fall in gas prices and Bank Rate peaking at around 5% in the second half of 2023, and then reducing from 2024 Q1.

The OBR now expects business investment to be much weaker across 2022, 2023 and 2024 than forecast in March.

UK Economic Forecasts (OBR Autumn 22) - % change year on year	2022	2023	2024	2025	2026	2027
GDP	4.2%	-1.4%	1.3%	2.6%	2.7%	2.2%
Inflation	9.1%	7.4%	0.6%	-0.8%	0.2%	1.7%
Business Investment	4.9%	-2.1%	3.1%	8.2%	6.6%	4.8%

1.2 Construction Outlook

The construction is facing a challenging environment in the UK exacerbated by the war in Ukraine and the wider economic factors.

The post-pandemic recovery in project-starts has lost momentum during 2022. Material and labour supply issues have delayed work on-site, prompting contractors to reschedule their development programmes. Material costs and availability issues have also prompted some contractors and clients to reappraise the design and costing of planned projects. In addition, the poorer economic outlook also appears to have prompted some clients and developers to pause or scale back on planned investments.

According to the UK Construction Products Association, the construction output in 2022 is forecast to rise by 2.0% by the end of the year, but the output is anticipated to fall by 3.9% in 2023 as a looming UK economic recession, falling real household incomes and rising interest rates, adversely affect demand for sectors such as private housing new build and repair, maintenance and improvements. Growth of 1.5% is anticipated for 2024 with detailed sector forecasts as below:

Construction Industry Forecasts - Autumn 2022

	2020	2021	2022	2023	2024
% annual change	Actual	Actual	Estimate	Forecast	Projection
Housing					
Private	31,715	37,041	38,152	34,719	35,066
	-19.1%	16.8%	3.0%	-9.0%	1.0%
Public	4,707	4,997	4,897	4,603	4,695
	-32.8%	6.2%	-2.0%	-6.0%	2.0%
Total	36,422	42,038	43,049	39,322	39,761
	-21.2%	15.4%	2.4%	-8.7%	1.1%
Other New Work					
Public Non-Housing	9,563	9,573	9,411	9,513	9,709
	-8.3%	0.1%	-1.7%	1.1%	2.1%
Infrastructure	21,767	28,276	29,737	30,199	30,977
	-4.9%	29.9%	5.2%	1.6%	2.6%
Industrial	4,668	4,755	5,727	5,907	5,820
	-18.5%	1.9%	20.4%	3.1%	-1.5%
Commercial	23,519	22,115	22,109	20,976	21,276
	-22.2%	-6.0%	0.0%	-5.1%	1.4%
Total other new work	59,517	64,719	66,983	66,595	67,782
	-14.1%	8.7%	3.5%	-0.6%	1.8%
Total new work	95,939	106,757	110,033	105,917	107,543
	-16.9%	11.3%	3.1%	-3.7%	1.5%
Repair and Maintenance					
Private Housing RM&I	19,936	24,160	23,194	21,106	21,317
	-12.3%	21.2%	-4.0%	-9.0%	1.0%
Public Housing RM&I	6,731	7,112	7,325	7,542	7,844
	-17.5%	5.7%	3.0%	3.0%	4.0%
Private Other R&M	12,393	14,514	14,950	14,501	14,791
	-15.0%	17.1%	3.0%	-3.0%	2.0%
Public Other R&M	5,158	5,777	5,950	5,831	5,831
	-8.3%	12.0%	3.0%	-2.0%	0.0%
Infrastructure R&M	10,085	11,289	11,515	11,400	11,400
	1.4%	11.9%	2.0%	-1.0%	0.0%
Total R&M	54,303	62,852	62,933	60,380	61,183
	-11.1%	15.7%	0.1%	-4.1%	1.3%
TOTAL ALL WORK	150,242	169,609	172,966	166,298	168,726
	-14.9%	12.9%	2.0%	-3.9%	1.5%

Source: ONS, Construction Products Association

The government's Autumn Statement includes the following:

- New funding for a further £6.6bn for retrofitting buildings starting from 2025, aimed at reducing energy consumption from buildings and industry by 15% by 2030

- Launch of a new Energy Efficiency Taskforce
- A commitment to local infrastructure projects by matching Round One levels of funding in Round Two of the Levelling Up Fund
- A commitment to key national infrastructure projects including HS2 to Manchester, Northern Powerhouse Rail and East-West Rail as well as gigabit broadband rollout, and a feasibility study of A75 to go ahead with no cuts from capital budgets for the next two years
- Proceeding with a new nuclear power plant at Sizewell C, subject to final approvals
- The stamp duty cut announced in the previous ‘Mini-Budget’ won’t be indefinite and will end on 31 March 2025

Overall the following trends on project sectors are likely to be ahead:

- Private housing starts to weaken as low real earnings growth, higher taxes and mortgage rates cool down housing market activity
- Rise in office refurbishment work as premises are remodelled to accommodate a shift in post-pandemic working practices
- Weak consumer spending tempers recovery in Hotel & Leisure sector
- Online retailing is a catalyst for increased investment in logistics facilities
- Major projects boost civil engineering workload as the government prioritises infrastructure and energy investment
- Continued government support on public sector investment such as education, health, and community & amenity

1.3 Private Housing

Private housing starts have weakened in 2022 as activity in the wider housing market has cooled. A further reduction in project starts is forecast for 2023 as housebuilders respond to a weakening in market conditions.

At the time of this report, The Bank of England has progressively raised the bank base rate to 3% from 0.25% at the start of 2022 as the Bank seeks to curb inflation. Mortgage providers have already significantly raised their rates and are likely to become increasingly cautious of providing high loan to value (LTV) mortgages as rates rise further. This would particularly impact first time buyers, an important segment of the market for new house sales.

The ending of the government’s Help to Buy scheme has removed support for those looking to buy a new build property. Against a backdrop of weak household incomes, higher mortgage rates, and a slowdown in the wider housing market, a 9% fall is forecast for 2023 with a prospect of improving consumer confidence to support a 1% rise during 2024.

Private housing Repair, Maintenance & Improvement (RMI), the third largest construction sector, has been a key driver of activity over the last two years post the pandemic.

Private housing RMI is most exposed to changes in consumer confidence and real household disposable income, which may impact upon the ability and willingness of homeowners to undertake renovation work. Historically there is a strong link between property transactions and refurbishment activity within the first 6-9 months of purchasing a property. It is also the sector that is most exposed to material and product cost inflation and availability issues, as small contractors are less able to plan and purchase in advance for projects. The strength of activity currently in this sector suggests that activity will slow down as demand is likely to drop in line with the economy. Construction Products Association estimates that a drop of 4% by the end of 2022 in this sector, and a further 9% decrease in 2023 before returning to a 1.0% growth in 2024.

Private Housing Sector % change (CPA)	2022	2023	2024
New work	3.0%	-9.0%	1.0%
Repair maintenance & improvement	-4.0%	-9.0%	1.0%

1.4 Public Housing

Public sector investment is set to be an important driver for construction activity over the near term forecast. However, the last government’s Spending Review unveiled only modest growth in capital funding for some key central government departments over the next three years. Planned funding may also be vulnerable as the new administration looks to curb public sector expenditure and put the public finances on a more sustainable footing.

2021 saw a sharp 6.2% recovery in public housing starts as housing associations pressed on with schemes delayed during the pandemic. However the new work is estimated to slip back -2.0% in 2022 and -6.2% in 2023 respectively before a 2% growth in 2024.

Despite improved funding, increased construction costs appear to be constraining development activity. Approvals have similarly fallen back sharply over the last year. The declines may reflect the reappraisal by associations of projects’ viability following the sharp rise in construction costs last year, although planned investment may be vulnerable to cuts in the forthcoming Autumn Statement.

In the public housing repair and maintenance sector, consistent growth is estimated according to the Constructions Products Association, i.e. 3.0% for both 2022 and 2023, and 4.0% in 2024.

Public Housing Sector % change (CPA)	2022	2023	2024
New work	-2.0%	-6.2%	2.0%
Repair maintenance & improvement	3.0%	3.0%	4.0%

1.5 Other Influencing Factors

A number of other factors currently influence the construction projects in the UK. These can be considered for the development of products and key proposition messages.

- **The Building Safety Act**

The Building Safety Bill, which began its passage through Parliament in July 2021, became an Act of Parliament on 28 April 2022, signifying an important milestone in overhauling building safety regulations since the fire at Grenfell Tower. The Act will include some changes that apply to all new building work.

The new Building Safety Act will bring in a number of measures intended to make buildings and residents safer. They include the formation of a new Building Safety Regulator, whose role is to enforce a more stringent regulatory regime for buildings of 18 metres and over, as well as overseeing safety and standards in buildings of all heights.

In April, the government announced a deal with housing developers in which they committed a minimum of £2 billion for remedial works. Over 35 of the UK's biggest homebuilders have so far pledged to remediate all buildings 11 metres or taller that they have played a role in developing in the last 30 years.

Housebuilders will also pay up to £3 billion to an extended Building Safety Levy that will be chargeable on all new residential buildings in England. The money will ensure that leaseholders are spared remedial costs even when developers cannot be traced. The government has said it will block housebuilders from gaining planning permission or building control approval if they refuse to pay into the levy fund.

- **Energy & Sustainability Drivers**

The UK government announced a new 2022 Energy Strategy in April, which aims to accelerate the use of renewables such as new nuclear, hydrogen, and wind power to secure clean and affordable British energy for the long term.

The British energy security strategy has been long-anticipated, as Britain moves away from dependence on overseas sources, and towards energy independence. The 2022 energy

security strategy outlines a 10-point delivery plan, which spans across multiple renewable energy sectors – from offshore wind to green buildings.

With energy prices higher than ever, and the war in Ukraine causing turbulent energy security, the demand for clean and secure energy has never been more important. As the construction industry works towards more energy-efficient practices and a net zero future, it has already seen a rise in investments in renewable energy infrastructure, and sustainability is expected to be one of the key drivers of the market in the next few years. There is likely to be more focus on sustainable manufacturing techniques and more initiatives to reduce the environmental impact. Tiles manufactured using sustainable processes may benefit from this.

- **Green Buildings**

Responding to a consultation on the Future Homes Standard, the UK government has set out plans to radically improve the energy performance of new homes, with all homes to be highly energy efficient, with low carbon heating and be zero carbon ready by 2025.

These homes are expected to produce 75-80% lower carbon emissions compared to current levels. To ensure industry is ready to meet the new standards by 2025, new homes will be expected to produce 31% lower carbon emissions from 2021.

Existing homes will also be subject to higher standards – with a significant improvement on the standard for extensions, making homes warmer and reducing bills. The requirement for replacement, repairs and parts are to be more energy efficient.

Building professionals are increasingly conscious of using a number of assessment tools and standards available to help assess a building's environmental performance such as:

- BREEAM.
- Passivhaus.
- SAP - the government's Standard Assessment Procedure for energy rating of dwellings.
- Leadership in Energy and Environmental Design (LEED)

These assessment techniques are beginning to allow whole-life costing to form a fundamental part of the design process as it becomes possible to demonstrate that higher initial costs can sometimes result in lower long-term impacts and greater long-term benefits. Demonstration of actual performance in use may be necessary through requirements for an Energy Performance Certificates (EPCs) or Display Energy Certificates (DECs)

- **UKCA**

The construction sector is still awaiting clarification from the government on UKCA Marking (United Kingdom Conformity Assessed).

The government made an announcement on 14th November 2022 that the deadline for when businesses across the wider economy need to use the UKCA mark has been extended to 31st December 2024. However the announcement stated: “There will be different rules for medical devices, construction products, cableways, transportable pressure equipment, unmanned aircraft systems, rail products, and marine equipment. Government departments responsible for these sectors are making sector-specific arrangements....” Therefore, the general announcement does not apply to the construction sector.

The Construction Products Association has raised this with the government and are pushing for further clarity, from the relevant departments.

For manufacturers looking to place products in British and European markets, assessments must be completed respectively by an EU-notified body for the CE marking and UK-approved body for the UKCA marking. In other words, separate certificates for different markets.

The UK's Construction Products Regulations (CPR) also state that any construction product covered by a UK Designated Standard must be UKCA marked. The procedures that the manufacturer must follow (the Conformity Tasks) depend upon the type of product.

The tasks for Approved Bodies depend on the system of AVCP (Assessment and Verification of Constancy of Performance). System 4 products are the responsibility of the manufacturer, with no approved body involvement. Most tiles fall under AVCP4.

BEIS (Department for Business, Energy & Industrial Strategy) made an announcement back in June that changes are being made to the requirements of affixing the UKCA mark, to allow manufacturers with existing type tests from EU notified bodies under AVCP System 3, where the product was tested by the 31 December 2022, to affix the UKCA mark to their products, and to continue to supply them to the UK market without needing to be retested. There is now a question over the timing of the implementation as the relevant legislation has not been passed, which it would have to be, in order for this to come into operation on 1st January 2023.

2. UK Floor and Wall Tile Sector

The UK tile market analysis covers three main product categories:

- ceramic and porcelain tiles
- natural stone tiles
- others such as mosaics and glass tiles etc.

The pandemic had a serious impact on the total market for tiles resulting in a decline of 9% to a level of £463m in 2020, compared to £507m in 2019. However, as the economy opened up and firms adapted to a more digital approach in their sales efforts, the market returned to growth in 2021, reaching £500m, an increase of 8%.

It is anticipated that the tile market will reflect the same growth trends as the wider economic environments. AMA research has forecasted slow growth over the next two years. However this could be driven predominantly by cost of inflation rather than volume given the current economic and construction outlooks.

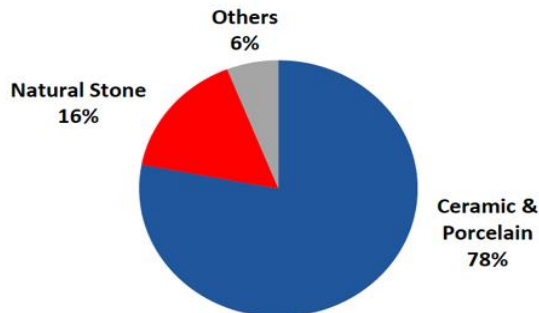
The UK Floor and Wall Tiles Market 2016 to 2021, by value £m (Manufacturer's Selling Price)



Source: AMA Research Ltd /Trade Estimates

Ceramic and porcelain tiles continue to dominate the product mix, currently accounting for 78% of the market, with natural stone tiles responsible for a further 16% share. The product breakdown has been fairly stable in recent years.

UK Tile & Stone Market, by product type % of value £



Source: AMA

Market Overview:

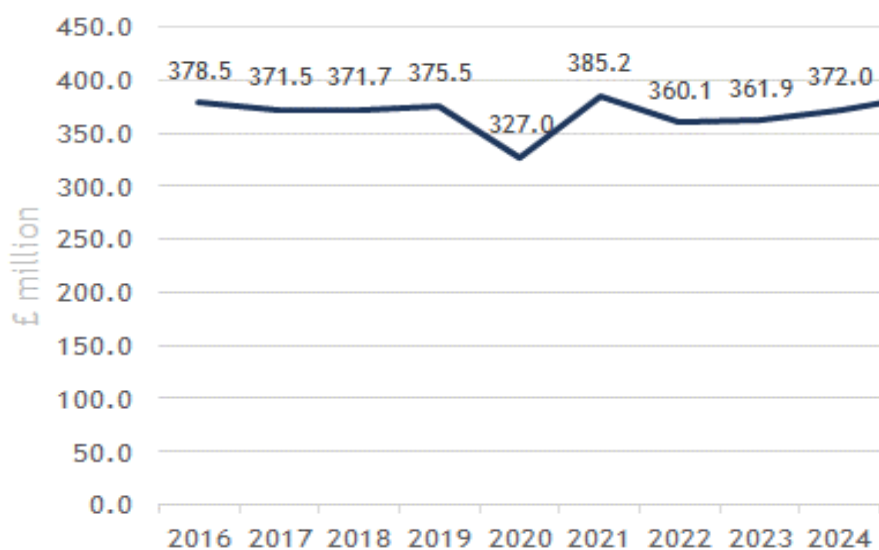
- March to June 2020 - Severe market and supply disruption. Imports fell by 31% in H1 2020, including a 52% decline in Q2. Consumer demand was impacted by temporary house moving ban, and wary of large-ticket home improvements with such economic uncertainty. New construction of both residential and commercial property also disrupted with temporary site closures.
- July 2020 to December 2021 - a major rebound in the market as government Covid-19 measures included a Stamp Duty holiday encouraging house moving and causing significant house price inflation. New housebuilding returns to concentrate on completing already started projects and commercial construction re-starts.
- 2022 to 2025 - In the Repair and Maintenance sector the previous surge in demand results in much lower demand in early stages of the period, slowly recovering to a return to growth. The commercial sector sees issues of overcapacity arise in offices and retail, while the logistic and warehousing sector experiences growth due to increased online sales activity.

2.1 Ceramic and Porcelain Tile Sector

Ceramic and porcelain tiles are used for floor and wallcovering applications in both the domestic and contract end-use sectors.

Innovations in the manufacturing of ceramic and porcelain tiles continue to be developed, with a focus on printing images, including high-definition images, onto the tiles. Inkjet HD technology is transforming the design and manufacture of tiles, although firings and energy efficiency also remain important. Eco-friendly products tend to focus on low embodied carbon and high recycled content.

The UK Ceramic & Porcelain Tile Market, by value £m (Manufacturer’s Selling Price)

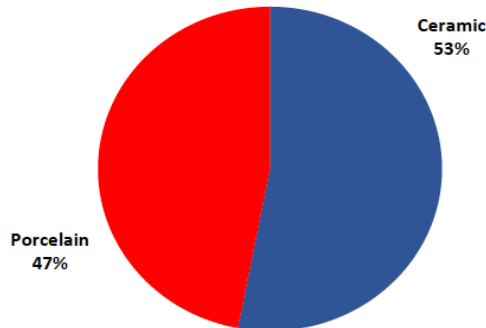


Source: Mintel

The porcelain sector continues to take market share from the ceramic sector, accounting for an estimated 53% of the market in 2021.

Despite the growth in porcelain, there is still a strong demand for ceramic tiling at the lower end of the market, particularly for white and other single colour tiles. For many consumers, ceramic tiling offers the most cost-effective solution; however, homeowners sometimes choose ceramic tiles for walls and porcelain tiles for floors. As a result, there are generally greater volumes of ceramic tiles sold, but at a lower cost.

UK Ceramic and Porcelain Tile Market 2021, % by value £



Source: AMA

Wall tiles continue to dominate the mix, with an estimated 64% share in 2021 and, while wall tiles have been losing share since 2000 from 79%, the application mix between floor and wall tiles has been fairly stable in recent years.

Competition with other wall coverings, such as upstands, splashbacks and painted walls, has tended to restrict the growth of the wall tiles market. The UK flooring market was traditionally dominated by carpets, however hard flooring has been gaining significant popularity over the last 20 years. Increasing interest in porcelain tiles, particularly those featuring wood and stone effects, has benefited the floor tiles market.

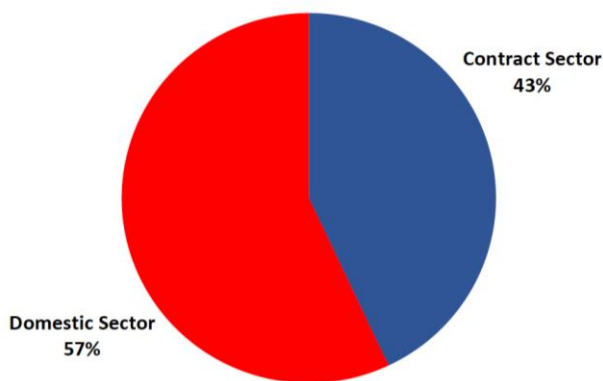
Growth within the ceramic and porcelain floor tile market is affected by factors including new housebuilding activity, levels of RMI and activity in the non-residential sectors. Competition with alternative flooring products, such as luxury vinyl tile (LVT) and laminate, also affects the structure of the market in terms of the product mix.

One significant growth area has been the use of porcelain tiles, particularly 20mm thickness, in indoor areas to create a continual indoor/outdoor flow. This trend, which includes al fresco dining and outdoor entertainment, is currently very popular and has resulted in greater demand for porcelain tiles in kitchens, porch areas, entrance foyers, patios and terraces.

2.2 End Use Sectors

The construction industry is a key driver of demand for the ceramic and porcelain tile market, both through new build and RMI, with the domestic sector currently accounting for around 57% of the total demand for ceramic and porcelain tiles and the contract sector the remaining 43%.

UK Ceramic and Porcelain tiles End Use Sectors 2021, % by value £



Source: AMA

Research suggests that the domestic sector increased its share to 57% in 2021 from 55% in 2020, benefiting from the trend towards ‘improve not move’, with consumers taking advantage of savings during the pandemic restrictions to improve their homes.

The contract sector benefits from new build and RMI (Repair, Maintenance & Improvement) in key sectors, such as offices, retail, education, entertainment and leisure, industrial and infrastructure. All these sectors provide various opportunities for tiling, primarily with washrooms, kitchen facilities, changing rooms, concourses and foyers.

Within the contract sector, safety standards are an increasingly important consideration. Manufacturers are using the PEI (Porcelain Enamel Institute) ratings to help define tile suitability for different traffic areas, and PTV (Pendulum Test Value) or RAMP value to indicate the slip potential of a tile. The PTV test is the test recognised by the Health & Safety Executive and therefore preferred.

2.3 Residential Development of Tile Use

In the UK, the use of floor and wall tiles has largely been restricted to kitchens, bathrooms and conservatories/glazed extensions in the domestic sector. However, the current range and popularity of natural effect tiles, and a greater demand for low maintenance products, means there is considerable potential in the medium term for the expansion of tiles into additional areas of the home, as well as in key commercial sectors, for example:

- Domestic hallways and communal entrances – floor tiles combined with underfloor heating systems; extension of tiling schemes up walls as either skirting or half wall installations.
- Entrances, foyers and reception areas in the commercial sector – particularly applicable to natural stones, such as slate and limestone, where floor tiles are complemented by either wall tiles or thin cladding in similar materials.
- Shower rooms and wet rooms – both in the residential and commercial sectors, utilising similar floor and wall tiles to create fully tiled or half/three quarter tiled rooms.
- Dining facilities – both residential and commercial, with the latter likely to select more bespoke design schemes.
- Bedrooms and other living areas – flooring, including stone flooring, is now seen more frequently in other living areas.
- Patios and other outdoor areas – most tile distributors now include in their ranges a 20mm external grade porcelain tile, which can be used both indoors and outdoors. The trend for seamless indoor/outdoor living is a key trend for porcelain tiles.
- Feature walls – this is a growing trend, particularly the use of mosaics and digitally printed tiles to create feature walls in rooms such as living/dining rooms, where more traditional wallcoverings tend to be used.
- Hot tubs – the growing popularity of hot tubs in recent years may stimulate demand for slip-resistant tiles and the continuation of the inside/outside trend for patio areas containing hot tubs.

Although the potential for the expansion of wall tiles into more areas of the home will largely depend on their acceptance by homeowners and UK specifiers, a number of recent trends indicate that there is scope for increased usage of tiles in living rooms, dining rooms and bedrooms. For instance, fabric effect tiles have been popular in recent years, which may suggest some homeowners are moving away from using carpet and wallpaper in certain rooms.

2.4 Non-Residential Development of Tile Use

The non-residential construction sector is a key end-user of both floor and wall tiles, with installations including:

- Entrance foyers and hallways
- Food preparation areas and commercial kitchens
- Washrooms and bathrooms
- Transport and shopping centres
- Changing rooms, swimming pools, gymnasias, health club and spa facilities

Infrastructure is the largest of the non-residential sectors in terms of output value and includes transport (roads and railways) as well as utilities (energy, water and sewerage). The transport sub-sector is particularly important for tiles as they are utilised in various applications, such as concourses, walkways and washrooms.

Local authorities and network providers in the transport sub-sector take the opportunity of less transit movement to progress projects on the road and rail networks. A large increase in new work in the electricity sub-sector constitutes the largest share of new work in the infrastructure sector.

The **commercial office sector** has experienced slow growth since 2018 as the pandemic and working from home impacted significantly on this sector. Installations, such as washrooms, kitchens, and retail areas, provide opportunities for new tiling, while areas such as concourses and foyers for office developments provide a particularly important end-use sector for natural stone and porcelain tiles. Growth in the **retail sector** has been slow in

recent years, with prospects in the medium term remaining uncertain as the growth of online trading makes investment in physical retail outlets less likely.

Educational facilities provide numerous areas for tile applications, such as washrooms, kitchen facilities, laboratories and clean rooms. However, the trend towards using carpet and vinyl flooring in recent years has reduced the demand for tiles. The Covid-19 pandemic brought challenges for the sector, this is likely to have a profound impact on the future direction of education capital spending into the medium term and beyond.

The ten-year Transformative School Rebuilding Programme, announced in June 2020, is looking to spend its first phase £1bn budget across 50 schools, a mix of primary, secondary, sixth form and special schools mainly in the Midlands and North.

The **entertainment and leisure sector** comprises many sub-sectors, both public and private, although the private sector is the dominant one, with a share of around 90%. Hotels and spas are a key end-use sector for wall and floor tiles, driving a demand for natural stone and mosaics in particular, while sports centres also provide opportunities for slip resistant tiles in changing rooms and swimming pools. There is great diversity of organisations involved in this sector and some sub-sectors have not performed as well as others, with the **food service sector** facing more difficult conditions and some national restaurant chains reducing expansion plans or closing down outlets, thereby reducing opportunities for tiles in commercial kitchens.

The **health sector** provides opportunities for tiles due to the need for antimicrobial and antibacterial protection in clinical and other medical areas; however, resin and vinyl floors and waterproof wall panels are often viewed as more practical solutions, as they often reduce the use of grouting. The ageing population in the UK means that the **social and residential care sector** is likely to provide additional opportunities for tiled areas in the future.

Industrial factories and warehouses provide opportunities for clean rooms, changing rooms and kitchen facilities, with the **food processing and pharmaceuticals sectors**

providing significant areas of demand for wall and floor tiles. Warehouses are also a strong growth area, benefiting mainly from the growth of online sales at the expense of retail premises in town centres and retail parks.

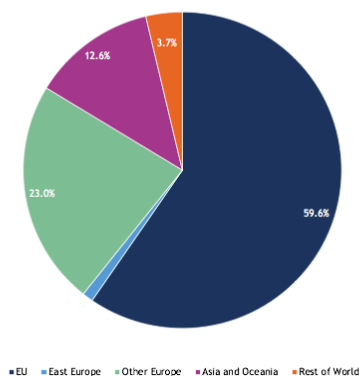
2.5 Manufacturing and Supply

The supply structure of the UK tiles market is highly fragmented and complex, with manufacturers, importers and distributors involved at different stages of the market. In addition, multiple international ceramics groups are active in the UK, supplying tiles, but also incorporating other products in their ranges, including baths, sanitaryware and tableware.

UK-based manufacturers are disadvantaged compared to other European countries by lower local demand for tiles, with a traditional emphasis on wall tiles more than floor tiles. UK-produced tiles previously accounted for roughly 20% of the UK market, but when British Ceramic Tiles went into administration in 2019, Johnson Tiles became the sole volume producer remaining in the UK, accounting for roughly 10% of the market when including exports.

Imports account for some 90% in this market. EU is a major source of ceramic tiles to the UK. Traditional suppliers such as Spain and Italy are being challenged by growth in supply from further East, especially Turkey and India.

UK Tile Imports 2021, % by value £



Source: HMRC & AMA

Imports of ceramic tiles reached £294m in 2020 and £297m in the first 9 months of 2021. The three main regions for imports are EU (58%), Western Europe excluding EU (24%) and Asia (13%). The share held by the EU has been falling steadily for several years, having been 72% back in 2017.

UK International Trade in Ceramic Tiles by Value (£m)

Year	Imports (£m)	Exports (£m)	Trade Balance (£m)
2015	229	19	- 210
2016	259	19	- 240
2017	282	19	- 263
2018	276	20	- 256
2019	305	15	- 290
2020	294	17	- 277
2021 Jan-Sep	297	17	- 280

Source: OTS (Overseas Trade Statistics)

Spain and Italy are the main sources of imports from the EU, with imports from Spain reaching £98.2m in 2020, accounting for 33% of total imports, while imports from Italy totalled £46.1m in the same year accounting for 16%.

There are a number of non-UK based manufacturers with a presence in the UK market, often in association with leading distributors. These companies include Trend, Pavigres Ceramics, Elios Ceramica, Peronda Ceramicas, Ceramika Paradyz, Yurtbay Seramik, Apavisa and Aparici. Some have their own showrooms, such as Grespania (Birmingham) and Marazzi Group (Clerkenwell).

Global supply chains remain very challenged. Key constraints are shortage of HGV drivers in the UK, global gas prices and the supply of clay being impacted by the war in the Ukraine. Some European factories have reduced manufacture due to challenging economics.

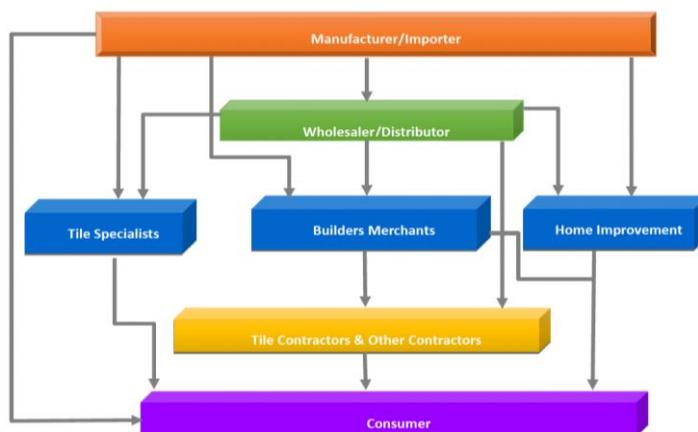
3. UK Tile Distribution

The UK tile market is characterised by significant levels of import penetration and, therefore, the role of intermediaries, such as agents, importers and distributors, is more important than for some other sectors of the home decoration market.

There are two distribution structures for the UK floor and wall tiles market:

- In the contract sector, distribution is generally direct from manufacturers or distributors.
- In the domestic sector, the distribution structure is more complex. Independents & multiple tile specialists, home improvement multiples and builders' merchants remain the dominant channels in the sector.

Distribution channels in the domestic tile market



Source: AMA

The cross-over between the domestic and contract sector continues with many distributors setting up showrooms focusing on retail as well as trade customers. The trend drifting towards GSI (getting someone in) as opposed to DIY (do it yourself) is increasing; so distributors are expanding their offerings to trade customers in recent years. Some distributors also appear to be venturing further into the commercial market through the acquisition of more commercially focused companies. This is perhaps a reflection of the tough trading conditions that have faced the domestic retail sector in recent years, and an indication that the commercial tile sector may see significant gains over the next few years.

Distributors, tile Specialists and independents accounted for circa 60% of the market prior to Covid. These channels are benefiting from the growth in GSI (getting someone in) vs DIY (do it yourself).

There is increased blurring of lines between retail, multiples and distribution as multiples target the trade sector. Some consolidation has occurred and is expected to continue. This includes between resilient and tiling channels.

Online sales has experienced booming, with click and collect sometimes the only avenue during lock down. Multiples and larger distributors are stronger in the digital channel.

- **Leading Specialist Tile Distributors**

The UK tile sector is served by a professional, well-resourced and experienced set of distributors. Some of them are multi-depot national operations serving the whole country, and others are regional players working within a destined geographical area.

Leading tile distributors within the UK market include:

Ceramic Tile Distributors (CTD), based in Newcastle upon Tyne and recently purchased by Aurelius from Saint-Gobain Building Distribution Ltd. Aurelius describe CTD as “a UK-based specialist supplier of high-quality ceramic tiles operating across 89 branches and 4 trading distribution hubs. The company predominantly sells tiles, tile adhesives, grout as well as associated tools and consumables for the preparation, laying, cutting and drilling of tiles. CTD’s leading B2B market position is supported by strong brand awareness of its Gemini product line and strong trading performance. In 2021, CTD generated revenues of approximately EUR 120 million.”

Bassetts, part of **Saint-Gobain**, is one of Northern Ireland’s leading bathroom, heating and tile merchants, trading from 14 showrooms and offering a range of ceramic and porcelain

tiles for wall and floor applications, as well as tiling accessories, bathroom, plumbing and heating products.

Nicholls & Clarke Group Ltd, with these divisions, N&C Nicobond, N&C Tiles & Bathrooms, N&C Moderna.

Walls and Floors Ltd, acquired by **Tile Mountain**, is based in Kettering, where they operate their head office and main showroom.

Solus Ceramics Ltd is based in Birmingham, with a showroom in London and is a leading distributor and supplier of commercial tiles, offering a wide range of porcelain, ceramic, terrazzo, stone and mosaic products.

Domus Tiles Ltd was acquired by Europe's largest specialist floorcoverings distributor, **Headlam**, in December 2017. Domus supplies tile products for commercial and residential projects from its head office in West Molesey, Surrey and also operates 3 showrooms across London, an outlet store in West Molesey and more recently opened a showroom in Birmingham.

Ceramica Impex Ltd is an independent distributor, based in Leeds and importing ceramic and natural stone tiles from sources including Turkey and Italy.

Distribution Supplies Ltd is a specialist importer and distributor of tiles from manufacturers worldwide, with its Peterborough warehouse stocking a wide range of ceramic and porcelain floor and wall tiles, as well as mosaic tiles.

Minoli & Company Ltd is an independent business, supplying wall, floor and mosaic tiles from its headquarters and distribution centre in Oxford and showroom in London.

Boyden & Co Ltd is part of **Boyden Investments Ltd** and is based in Croydon. The company offers a wide range of floor and wall tiles through 4 showrooms, supplying customers in London and the South East.

Craven Dunnill & Co Ltd is an importer and distributor of ceramic, porcelain and natural stone tiles and mosaics.

East Midlands Ceramics Ltd, trading as **EMC Tiles**, has its headquarters and showroom in Nottingham, with additional showrooms in Leicester, Derby and Loughborough.

Hampshire Tile Warehouse Ltd, a group of companies, is based in Hampshire and specialises in supplying ceramic and porcelain tiles, underfloor heating, wet room products and external paving.

House of Mosaics focused on the distribution of mosaic tiles when founded, yet more recently has broadened their product offer to larger format porcelain tiles. Known as trend-setters, they have been very successful in gaining share within the retail multiple market.

Waxman Ceramics Ltd is part of the **Waxman Group** and specialises in the distribution of ceramic and porcelain tiles, as well as mosaics and larger format floor and wall tiles.

RJ Stokes & Co Ltd is based in Sheffield and operates showrooms in Sheffield and Oldham.

Stone and Ceramic Warehouse has a head office and showroom in Chiswick and offers natural stone, porcelain, ceramic, mosaics and decorative products, while its sister company, **Walton Ceramics**, also offers a range of floor and wall tiles, with a showroom in Chelsea. Both companies are under the same ownership, **Graingers and Son (Newport) Ltd**.

Tiles (UK) Ltd is based in Manchester and is an independent distributor of ceramic tiles, operating from showrooms, located in Manchester, Leeds, Warrington and Nottingham.

Verona, founded as The Mosaic Tile Company in 2001, based in Leeds has a 270,000 square foot distribution centre in Doncaster and has grown to be one of the largest national distributors.

Other distributors operating generally on a regional basis include: Ceramique Internationale Ltd, Bellegrave Ceramics plc & Studio Ceramics Ltd.

- **Retail Multiples**

The retail sector continues to face challenging conditions, with many consumers preferring to look for professional assistance. Some tile multiples are expanding into the commercial tile market, such as **Topps Tiles**, serving trade fixers as well as the public. Some retailers have also extended their product ranges, to include alternative floor and wall covering products such as wood and vinyl flooring.

Leading tile retail multiples within the UK market include:

Topps Tiles plc is the UK's largest retail tile specialist operating from over 310 outlets nationwide and is aiming for a 20% share of the domestic sector by 2025. The company has recently expanded into the commercial sector of the UK market, with the acquisition of **Parkside Ceramics** in 2017 and **Strata Tiles** in 2019 and sales in this sector reached £8.6m in the last year.

Tile Giant Ltd was the retail tile division of **Travis Perkins**, before it sold the company to **Coverings Ltd**. Owned by one of the owners of Verona, the company supplies a range of floor and wall tiles, tiling accessories and underfloor heating through a portfolio of over 80 outlets.

Al-Murad D.I.Y. Ltd is an independent ceramic tiles and natural stone importer and retailer, based in Leeds and trading from over 40 outlets in the UK, as well as through family-owned franchises.

Tile Choice Ltd is based in Wolverhampton and operates 17 outlets throughout the Midlands region, including an outlet at **Carvers** builders' merchants.

Fired Earth Ltd was part of **AGA Rangemaster Group**, but was then sold and entered a CVA, before being acquired by **Lousada Holdings Ltd**. The company had been trading from over 25 showrooms.

Tileflair Ltd is based in Bristol and operates through 11 outlets in Southern England. It is part of The Association of British Ceramic Distributors (ABCD). The group is made up of 8 members with a combined total of 35 branches spanning the length and breadth of the UK.

BC Ceramics Ltd is based in St Albans and trades from five showrooms in the South East and Midlands. The company has expanded in recent years, following the acquisition of outlets from Capitol Tiles.

- **Home Improvement Multiples**

The home improvement multiples primarily serve DIY enthusiasts. With the increase in competition from other outlets, the home improvement multiples have suffered a loss of market share (now accounting for 13%) in recent years in certain product areas including floor and wall tiles. However, major companies in this sector, such as **B&Q** and **Wickes**, are increasingly targeting tradesmen, offering trade formats online and instore.

This channel is dominated by 3 companies:

B&Q Ltd is a subsidiary of **Kingfisher plc** (who also owns Screwfix), and is the UK's largest home improvement retailer, with around 300 stores selling a wide range of products. B&Q has also launched a new online home improvement marketplace, with 100,000 more home improvement products available to buy at diy.com from third-party sellers. Trade points are available in store for easy trade transactions.

Wickes Building Supplies Ltd was previously part of **Travis Perkins plc**, but was demerged by the parent company to form an independent company under the **Wickes Group**

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plc name in April 2021. Wickes now has around 230 stores nationwide, supported by its website and TradePro mobile app for trade members.

HHGL Ltd was originally known as **Homebase Ltd** and had been part of the **Home Retail Group** from 2006, until it was sold to Australian-owned **Wesfarmers**, owner of outdoor living and DIY retailer **Bunnings** in February 2016. After Wesfarmers purchased Homebase and subsequently re-branded the stores to their low-cost **Bunnings Warehouse** model, the company suffered heavy losses. As a result, Wesfarmers sold Homebase to the current owners in May 2018, who are now focusing on gardening, decorating and home furnishing, as well as kitchens and bathrooms, having acquired bathroom specialist, **Bathstore**, from the Administrators.

- **Builders Merchants**

Builders merchants currently account for an estimated 6% share of the market. They are predominantly used by builders, plumbers and tile fixers etc. The merchant channel is dominated by a small number of large organisations, operating on a national level. The leading merchants are **Travis Perkins, Saint Gobain (Jewson), Wolseley UK, Grafton and Screwfix**, accounting for a combined share of around 75% of this channel's market size.

- **Online**

Specialist online retailers, although being a relatively small segment of the market, are becoming an increasingly important supply route for tiles. Companies who focus on this sector include:

Tile Mountain, incorporated in 2012, was originally an online ceramic tile specialist, with its head office and showroom in Stoke-on-Trent. However, the company has acquired Capitol Tile Group, Tons of Tiles and Walls and Floors (Kettering) in recent years and has also opened other showrooms in Stockton-on-Tees, Stockport, Nottingham, Birmingham and Liverpool. More recently they have launched **Bathroom Mountain** and **Flooring Mountain**.

Victorian Plumbing Ltd is an online bathroom specialist, based in Merseyside, with a showroom in Formby, near Liverpool.

Direct Tile Warehouse is the trading name of Ceramiks Ltd and is based in Swansea, operating a showroom there and another in Cardiff.

Tiles-Direct.com, offer a comprehensive range of floor and wall tiles, including ceramic, porcelain, natural stone and mosaic tiles, as well as tile accessories.

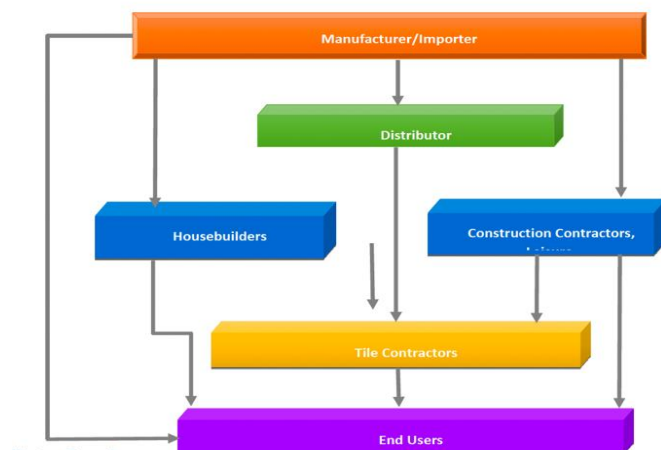
Total Tiles, named in The Sunday Times Virgin Atlantic Fast Track 100 list in 2020 is an online retailer based in Ipswich. It was acquired in 2021 by CMO Group.

• **Contract Sector Distribution**

Distribution of tiles in the contract sector tends to be either direct supply to end-users or via major distributors, with the method of delivery influenced by the size of the project:

- Larger projects – tiles typically supplied by direct route or via distributors or builders’ merchants.
- Small projects - tend to have a wider distribution structure, such as through distributors, retail specialists, builders merchants, home improvement multiples.

Main contract distribution channels for the UK tile market



Source: AMA

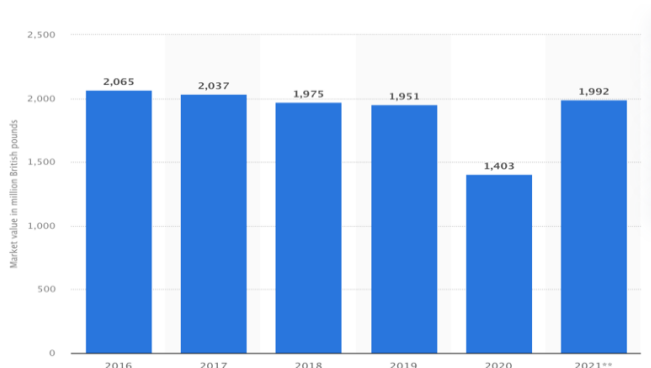
The housebuilding sector is a key end use sector for both floor and wall tiles, with contracts tending to be established with major tile manufacturers and/or importers, but typically supplied through distributors. Many manufacturers supply exclusive ranges for the new housebuilding sector, with larger housebuilders also likely to have differing ranges for individual house types.

4. Competitive Materials

Despite other opportunities, the tiles market is still likely to receive strong competition from other surfacing materials, such as waterproof panels (including thin porcelain panels), floorcoverings, such as LVT and laminate, together with the use of prefabricated bathrooms/wet room pods (prefabricated volumetric units) used in the contract sector. Some pods are imported fully manufactured from abroad.

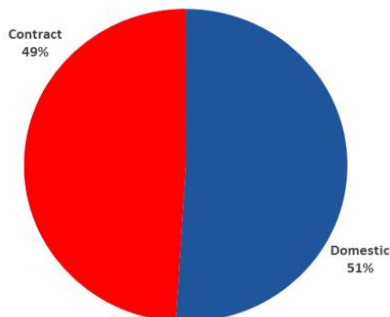
The UK domestic and commercial flooring markets are valued at approximately £2 billion, with contract flooring accounting for 49% share. Overall the UK flooring market is estimated at 320 million m².

UK Flooring Market £ - 2016 to 2021



Source: Statista

UK Floorcoverings Market Sector Mix 2021, % by value £

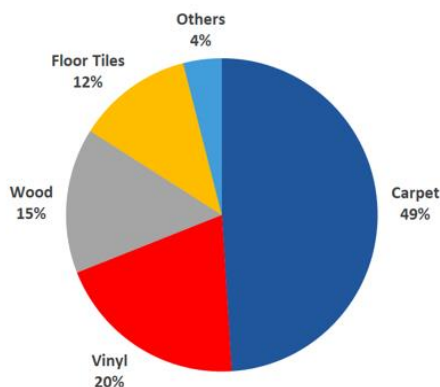


Source: AMA

Compared with other hard floor finishes, the cost and time of tile installation are becoming more of an issue and less competitive. Tiling could start becoming a premium priced consideration versus other floor finishes. Today most traditional tile-only outlets also stock hardwood, LVT and waterproof panels.

There has been some change in the product mix in the contract flooring sector in the last 2-3 years, although carpet still retains the largest share at around 49%, followed by vinyl with 20%, wood at 15% and floor tiles at 12%. Carpet has lost share marginally to both vinyl and wood in that time. Floor tiles have benefited from a recent trend for larger format decorative tiles, particularly in volume terms. However, their lower value relative to carpet and vinyl products has not led to any significant gain in market share. ‘Others’ include niche products such as linoleum, rubber and cork.

UK Contract Floorcoverings Market Product Mix 2022, % by value £



Source: AMA

- **Vinyl floor coverings**

In the UK, the vinyl floor covering market, including sheets and tiles, is one of the fast-growing markets. Technological improvements drove the rapid adoption of vinyl floors, replacing linoleum as the predominant resilient floor covering in residential and commercial applications. Vinyl floor coverings are marketed and positioned as modern materials, and became an appropriate choice for the emerging technologically sophisticated modern buildings.

Vinyl enjoyed good growth from 2017-19, reaching £199m by 2019 before an 8% decline in 2020. The sector was quick to recover, helped by the specification of vinyl flooring in temporary health facilities and achieved 8% growth in 2021 to reach a level of £195m, just 2% below its pre-pandemic size.

Key factors underpinning the market performance of vinyl flooring include:

- Speed of installation and bringing the room into service
- The versatile design of vinyl tile products, replicate of wood and stone effects, has increased the potential for vinyl outside the more traditional end-use sectors
- Contract vinyl has been at the forefront of product innovation
- Manufacturers continue to improve sustainability criteria by recycling and reprocessing
- Potential for inclusive design in compliance with Legislations such as the Equality Act 2010 and Building Regulations Part M
- The ease with which bespoke and complex designs can be created
- The trend towards value added vinyl products such as anti-static and antibacterial coatings
- The trend for using combinations of flooring materials
- Growth in popularity of loose lay LVT products has stimulated demand, particularly in the retail sector due to warmth under feet compared to tiles

The commercial application segment accounts for the largest share of the vinyl floor market currently at approximately 50% in revenue and is expected to continue to grow. Commercial construction segments such as hotels and shopping centres are expected to be the key users as they offer cost-effectiveness along with superior aesthetics.

Technological improvements such as reduced curing times and loose lay tiles are also likely to underpin future growth in contract vinyl applications. The improved environmental and sustainability profile of vinyl should continue to raise the profile of vinyl flooring in the future.

Luxury vinyl tile is expected to remain the most popular category of vinyl flooring solutions and the segment is likely to carry on growing. The LVT segment has also caught the attention of consumers in the past few years owing to the availability of the product in numerous designs and textures. The introduction of digital printing technology to the flooring industry, which enables easy texture printing on these tiles, is likely to support the market growth over the next 5 years. LVT currently accounts for approximately 25% of the commercial flooring sector and 35% of the domestic flooring sector in revenue, according to estimates from source at the UK's Tile & Stone Journal.

- **Wood flooring**

The different methods of manufacture result in various wooden products such as Solid Wood, Engineered Wood and Laminates.

Wood flooring made significant gains in its share of the floorcoverings market from the late 1990s, stabilising at 16-17% since 2008, according to AMA Research. Growth was mainly due to the introduction of laminates into the UK market and their increasing popularity in the domestic sector, partly due to their ease of installation.

Previous growth in this sector was underpinned by:

- Strong performance in education, hospitality and leisure developments
- High demand for value added, non-standard products: acoustic, safety, anti-bacterial and matt flooring
- Increasing importance of sustainability
- Innovations in design and finish

This segment has also been affected by intense competition from competing floorcoverings. LVT and floor tiles in particular have benefited from printing, design and production innovations providing increasingly realistic wood effect designs. On the other hand, wood is benefiting from the trend for mixing floorcovering types, used as a key element in healthcare applications to provide a more welcoming environment.

Key contract end-use sectors for wood floorcoverings include leisure and entertainment, commercial offices, retail, education and healthcare. Specialist sports flooring is an important niche sector, supplied by a small number of companies.

Fluctuating prices of raw materials coupled with stringent regulations and the increasing cost of wooden floorings act as restraints for the wooden flooring industry growth.

Engineered wood demand is expected to remain high. Engineered wood products are widely used by designers, architects, builders and building officials who are aware of energy-efficient farming practices that conserve energy, speed-up construction, cut labour costs, and reduce waste. One of the advantages of engineered wood products is that it can be designed as per the demand and custom specifications of the end-user. Easy maintenance and uniqueness of colourful design are among other features, pushing the growth of the segment. Solid wood and engineered wood account for about 8% of the contract flooring sector in revenue.

Rising investments in the real estate development, growth in renovation activities, and rapid urbanisation are documented as the major driving factors to the **laminated** flooring market. The cost-effective and low maintenance flooring solution enjoys increasing usage in commercial, as well as residential sectors. Growing urbanisation and industrialisation will further boost various opportunities that will lead to the growth of the laminated flooring market. The rising population and improving standards of living have led to a rise in the demand for modern housing, which has also significantly contributed to the growth of the market. Laminated flooring currently is estimated at 4% share of the commercial flooring market and 14% of the domestic flooring market in revenue.

- **Waterproof wall panels**

Prior to 2016, the market for waterproof so called ‘wet wall’ panels was relatively small. The main uses were in the commercial washrooms, social housing and leisure refurbishment segments, including prisons, care homes and hotels on a budget.

In the past few years, waterproof panels have also become more popular. The market for waterproof panels, including splashbacks, was estimated worth around £60-70m according to MRA Research.

Key factors contributing to the recent growth have been:

- A general trend towards wet rooms
- Cost effectiveness and speed of installation and use in service
- Increasing use of offsite manufacture in some fast-growing sectors.
- A focus in the commercial and social housing sectors on cost savings and quick and easy installation.
- Digital printing technology has developed, enabling a wider range of designs and colours on different materials, including textured products, and ‘photo wall’ options where consumers can upload their own photo to be printed onto the wall.
- A focus on the design aspects of the product, in particular in the upmarket kitchen splashbacks sector, where acrylic or metal panels have grown strongly. More products are also able to replicate the look of tiles or glass more closely.
- Product development and wider promotion of quality features such as hygiene (no grout or gaps between tiles where bacteria can grow) and durability, in other than its traditional applications.
- Increasing awareness of the product and its benefits compared to tiles, in the DIY sector, such as low cost, speed of installation and easy aftercare.
- More DIY stores and merchants ‘stocking’ the product (usually in sample/brochure format - it needs to be ordered depending on size).

Shower panels are a popular choice in all the key construction sectors for modular and offsite manufacture/volumetric pods. These are:

- Student accommodation – a market that is growing strongly
- New housing – in particular affordable homes
- Hotels – in particular budget hotels
- Care homes
- Social housing/ high-rise

While demand has grown in all end-use sectors, waterproof wall panels have now also become more popular as a substitute for tiles in the home, and the residential refurbishment/DIY sector in the past few years.

5. Opportunities

Growth opportunities in the ceramic tile market can be approached by product type, application/sector, and region.

- **Product Trends**

The product mix in the tile sector is dominated by ceramic and porcelain tiles, with large format porcelain tiles in particular stimulating greater demand. Some niche products, such as glass and metal tiles, are gaining popularity from consumer interest in the creative use for mosaics and feature walls but still remain a very small sector of the market.

The move away from tiling in kitchen areas has meant the market is becoming more dependent on the bathroom sector, although continued interest in en-suites, wet rooms, fully tiled bathrooms and conservatories has sustained demand for tiles.

There appears to be more demand for tiles in other areas of the home, such as living rooms and hallways, perhaps due to the popularity of underfloor heating.

Natural stone faces increasing pressure from stone-effect porcelain. However, natural stone tiles still account for around one fifth value share of the market and remain a desirable and aspirational product.

There has recently been large growth in demand for the use of exterior 20mm porcelain tiles to create a seamless indoor and outdoor flow. Some retailers report up to 30-50% of sales increase in April and May in 2022. This is a new market replacing paving stones and mainly fitted by landscapers.

There is growing awareness of porcelain facades as non-combustible cladding materials for buildings post Grenfell and in line with the new Building Safety Bill.

Floor and wall tiles are facing increasing competition from other surface materials such as laminate and LVT, and plastic/glass kitchen splashbacks and waterproof panels in the wall sector.

With regard to design trends, at the lower end of the market white and single colour tiles remain a core product for the industry, while in the mid to upper sectors natural effect tiles are continuing to gain in popularity.

Neutral colours have continued to dominate overall décor trends in recent years, with grey, white and black retaining their popularity, however, bolder, optimistic colours are forecast to become more popular in the future. Texture has also remained an important feature, with concrete-effect tiles, in particular, proving to be popular, while overall the use of extra-large porcelain tiles is expected to continue gathering momentum, with consumers preferring a more seamless, minimalist look in their homes.

With the continuing trend towards larger formats, it is worth noting that the ceiling height in the UK averages 2.4 metres, lower than many other European countries. Large format tile panels can present logistical and practical issues onsite such as manoeuvring and handling.

Adequate training should be provided with new products as the UK tile industry experiences the lack of skilled workforce as a result of Brexit and lack of specialist training at colleges and training centres. The market sees more multi-trade installers rather than specialist tilers. There is also an ongoing aging workforce issue as faced by the whole construction sector.

- **Project Sectors**

The UK project sectors also feature a varied set of criteria for strategic targeting. The largest numbers in the residential sector may usually come from private developments, housing associations, and apartment blocks, but retirement homes, hostels, halls of residence, and barracks all factor into the numbers for this huge sector.

Within the commercial and retail sector, offices and retail are forecast to perform less positively, with deferred investments affecting office developments. However the pandemic radically changed working trends and has prompted a sharp rise in hybrid working. Firms are remodelling premises to provide more modern and collaborative workspaces. The changes in floorspace requirements are also generating refurbishment opportunities as premises are sub-let. Increasing online purchases are forcing the closure of many retail outlets in town centres and retail parks. However, this has led to a boom in the warehouse sub-sector. Budget supermarket activity remains a bright spot within the sector.

Other key end-use sectors, such as hotel and leisure, suffer damages due to the sharp rise in energy, material and labour costs together with falling real household incomes. This will affect revenues and profitability within the hospitality industry, prompting businesses to delay planned capital expenditure.

In the infrastructure sector, overall sector activity remains firm as several major projects, including HS2, support industry workload. The HS2 project should provide opportunities for both floor and wall tiles, as station facilities are completed. The government has voiced its intention to press on with infrastructure investment as a key part of its UK growth Strategy. Energy projects will also play a vital role in sector activity. Hopefully the forthcoming Autumn Statement will reiterate the government's commitment in this sector.

The Spending Review in October 2021 included a substantial increase in the Department of Education's annual capital budget for 2022/23, before falling back for 2024/25. This is expected to lift sector activity from 2023. However, this forecast was prepared ahead of the Chancellor's Autumn statement on 17 November 2022, which may include a revision to public sector capital funding and present a downside risk to the forecast. The government has committed to rebuilding 500 schools over the next decade, but progress has been slow. The first 100 schools, as part of this programme were announced in 2021, with a further 61 schools announced in July 2022. However, investment in additional capacity to accommodate this rise has been slow. School project-starts picked up in 2021 but stalled during the first nine months of 2022, as reported by Glenigan.

With the effects of COVID-19 across the world, there has been a large focus on the healthcare sector in the past two years. Project-starts have remained high during 2021 and 2022. Government schemes to build or refurbish a number of hospitals before 2030 will have a major impact on the opportunities available in the sector. However, the Chancellor's Autumn statement on 17 November 2022 may include a revision to NHS capital funding.

Glenigan has also reported increasing construction activity in the military sector as well as prison improvement programmes and predicted that work is likely to increase.

- **Exhibitions**

There are a number of exhibitions for showcasing ceramic tile products and technologies:

- Clerkenwell Design Week – One of the UK's leading independent design festival, annually attracts the international design community to the three days of exciting events
- The Tiling Show – Annual event organised by The Tile Association; free to attend
- Design London (formerly 100% Design) - The main event of the London Design Festival, usually held annually in September. The exhibition brings together an array of established and emerging design brands from all over the world, covering sectors of consumer goods, home decoration, architecture and furnishings etc.
- Surface Design Show – Exhibiting materials for use in architecture and interiors over a three-day event in London
- Grand Designs - Grand Designs Live brings the UK self-build and renovation consumer enthusiasts to Birmingham and London each year, encompassing 4 project zones: Grand Build, Grand Kitchens & Bathrooms, Grand Interiors, and Grand Gardens.
- UK Construction Week - The UK's largest built environment event. Exhibitors meet and work with major projects, house builders, developers and local authorities.

- The Flooring Show – The leading event dedicated to the flooring industry. Thousands of retailers, contractors, distributors, fitters, designers and developers attend every year.
- Homebuilding & Renovating - Exhibition for self-builders, renovators and leading brands
- Ideal Home - An annual event in London to showcase everything associated with an "ideal home", from the latest inventions for the modern house to the latest housing designs
- KBB – The UK's leading kitchen, bedroom and bathroom show
- Spatex – The show for swimming pools, hot tubs, spas, steam rooms, saunas & much more, for both domestic & commercial sectors
- Architect@Work - Exclusive trade event for architects and interior designers
- London Build - The UK's leading construction show to meet and work with networking opportunities with leading architects, developers, housebuilders, contractors, government and more.
- The Landscaping Show - The trade event for landscape designers, architects, architectural technologists, contractors, facilities managers and interior designers.
- Hotel Interiors Experience (HIX) - Europe's only hotel design show, bringing the hotel interiors community together over a two-day event.

6. Logistics Challenges

The disruption to global supply chains, which began with Brexit and the COVID-19 pandemic and had a significant knock-on effect on businesses around the globe, looks set to continue throughout 2022, according to the annual Logistics Report from business group Logistics UK. Global and local factors have caused issues for all elements of the supply chain, with issues such as disruption to the supply of shipping containers and a shortage of HGV drivers all having an impact on the way that goods are moved around the world.

Energy prices have soared since Russia's invasion of Ukraine, increasing costs for every mode of transport, with rising prices and emergency surcharges. The UK logistics industry has been facing significant challenges. Diesel prices rose significantly since the war in Ukraine, while freight rates have also increased as demand returns following the pandemic, accompanied by wage inflation. With average fuel prices reaching the highest level on record, and rising inflation, there has been an unsustainable burden on logistics businesses which operate traditionally on very narrow margins of around 1%.

The government's decision to cut fuel duty in the March 2022 Spring Statement by 5p/L will result in an average saving of over £2,000 per year per 44-tonne truck; however, with other operational costs rising sharply due to rising inflation, and the cost at the pumps still rising, this cost saving could be lost to operators in the short to medium term.

In addition, following an acute shortage of skilled drivers, increased test availability for vocational drivers is beginning to relieve the worst of the problem and ensure that a lack of drivers is no barrier to business growth and recovery. The data shows that the number of people undertaking practical HGV tests has grown by 53.5% in Q4 2021 compared to Q4 2019. The industry is committed to providing more access to training and testing for all those keen to join the profession and to retain existing staff.

- **Tile Distribution Logistics**

Tile distribution faces a very challenging environment in the UK. Brexit has added fresh layers of complexity and bureaucracy to the import of ceramic tiles. Covid has made the

situation worse by adding further challenges - such as packaging hygiene, staff shortages, unplanned delays and different country-by-country restrictions. The war in Ukraine has added spiralling fuel costs to the mix.

The main logistic issues faced by the tile industry include:

- China imports - The container prices increased from £2k pre-Covid to £14k post-Covid. The UK government has imposed an anti-dumping duty on ceramic tiles from China too. This can make the cost of goods in the container of less value than the cost to ship. Regional lockdowns continue in China, which leads to shortages. As ports such as Shanghai reopened an influx in demand for container space was seen.
- Fuel surcharge - The current economic climate has witnessed volatile changes to fuel prices. Shipping companies started adjusting their fuel surcharge regularly based on the average of the previous month's costs. The majority of rate schedules are currently set on a base cost of pence per litre + VAT + a fuel surcharge typically between 15-25% in the UK. Major account customers would normally negotiate individual surcharges.
- Demurrage cost - International freight and delays go hand in hand. The current situation is that delays are far more regular. Available haulage bookings can operate on a few weeks' lead times and customers have to pay storage charges and demurrage fees. The result is an increase in costs, estimated at up to £300 per container.
- In addition, costs increased due to need for customs clearances adding an average of £100 to a movement for both the export and import customs entry and related processes into and out of Europe.
- Tiles from Italy and Spain are faced with uncertainties leaving European ports and often diverted before entering the UK due to logistic issues. Once arrived in the UK they can wait to be docked and offloaded. For example, lead times from Spain were typically 2-3 weeks before Covid and are now averaging 4-6 weeks, whilst incurring additional costs.
- European manufacturers are extending lead times on smaller quantity product lines to achieve production efficiencies. Smaller retailers may begin to form buying groups to

try to pool demand and push for quicker lead times then break the bulk once tiles are delivered in the UK.

- As part of the 2021 UK budget, it was announced that eight new free ports would be created. They are East Midlands Airport, Felixstowe and Harwich, Humber region, Liverpool City Region, Plymouth, Solent, Thames and Teesside.
- Custom changes have triggered various implications for both British and European haulage companies, with new administration hurdles and mandatory border checks, which have previously resulted in delays at ports on the UK/EU border.
- HGV driver shortage - The UK was short by about 100,000 HGV drivers willing to operate the necessary haulage trucks that transport goods across the country, according to a BBC report in October 2021. The shortage remains ‘chronic’, but the initiatives introduced by government and industry are starting to yield results - The reduction in numbers of HGV drivers in employment slowed in the first quarter of 2022, compared with the second half of 2021.
- 2022 has faced ongoing problems including strikes at ports.

- Ports

Ports are essential to the UK economy, with around 95% of all import and export tonnage being transported by sea. Research studies have found that the transport cost, port charges, port efficiency, geographic location, infrastructure, inland and maritime transit time and frequency of maritime services as some of the main criteria for shippers’ and freight-forwarders’ port choice decisions.

Five major ports in the United Kingdom are:

1. Port of Felixstowe

This port is located in Suffolk and it’s also the busiest port dealing with 48% of the country’s container trade. It happens to be the Europe’s eighth busiest port handling container traffic of 3.8 million TEUs (twenty-foot equivalent units). The port lies in the South East coast of the UK giving it access to the major ports within and around Continental Europe’s North West Coast.

The Port of Felixstowe is the United Kingdom's first purposely built container handling port providing service to the world's largest container ships. It comfortably accommodates mega vessels because of its water depth especially in the 8th and 9th berths which are dedicated to massive container ships. The port also has three rail lines which facilitate intermodal rail freight making it the biggest facility of such in the UK. Enhancements to the rail connections into the port are set to allow 47 freight trains to run through the port daily.

2. Port of Southampton

The Port of Southampton is a popular passenger port but it also handles a massive amount of cargo. Located on the south coast of the country it's very centrally placed within the region with direct links to both the rail and road systems. This means transportation of passengers coming through the port is efficient as is moving cargo to and from the port.

The port handles vehicle cargo traffic running up to 820,000 cars annually. It's equipped to handle the storage of these vehicles with 80 hectares of the facility dedicated to vehicle storage and five multi storey car parks dedicated as car parks. The port is home to the second largest container terminal in the UK handling over 1.5 million TEUs annually. It clears 23 containers a day to be dispatched to and from primary cargo-generating regions like the Midlands, Scotland, East Coast and North West of the country.

3. Port of London

Partly on the River Thames and the North Sea this port is the gateway to the UK's financial capital. At some point this was the largest port in the world but now it holds the position of being the second largest port in the UK. In 2020, London handled the most tonnage - 47.4 million tonnes. BY 2035 the port expects a flow of cargo from its river lane routes to grow to up to 80 million tons.

The port of London lays claim to some of the best rail, road and sea links to the rest of the UK. All the cargo facilities found within this port are privately owned and also privately operated. They handle every type of cargo imaginable from containers to hazardous cargoes and food, people and machinery.

4. Port of Immingham

The common name for this port is Immingham Docks and it's one of the major ports on the East coast. It held the number one spot as the largest port overall in the UK back in 2012. It remains the port with the largest tonnage capacity in the UK handling 55 million tonnes of the country's cargo annually. This port plays a crucial role in facilitating the supply chain in the UK that guarantees the country sustainable electricity generation. This is because the port connects the Humber which is largely considered the energy estuary of the UK to the rest of the country.

5. Port of Liverpool

This port is the most centrally placed port in all of the UK. That gives it diversity in handling various types of cargo ranging from agribulks, containers, automotives, dry bulk, forest products, energy products, metals, Ro-Ro (Roll-on Roll-off), liquid bulks and project cargo.

The port has a massive \$400 million shipping terminal which welcomes mega vessels to the port.

- Road and Sea Freight

Road and sea freight are traditionally the reliable and affordable freight solutions for transporting ceramic goods and stone within Europe.

Road freight is a flexible and economical choice for pallet collection and delivery.

- Daily dispatch without waiting for scheduled departures
- Easy to change routes in the case of delays and disruptions
- Part and full load including cheaper groupage services available
- 5–7 days Spain to UK door to door under normal circumstances

Short sea shipping can help independent freight forwarders to counter the challenges in road freight, such as road congestion, and driver shortage in areas where it's possible.

- More economical than road freight when it involves a large volume of the shipment.
- Scheduled departures, i.e. weekly
- Typical average transit time Spain - UK between 8-12 days door to door
- Containers sizes of 20ft, 40ft and 45ft with payloads of up to 26,000kg

With the right combination, independent freight forwarders can provide reliable door-to-door logistical services to tackle issues such as port congestion, or driver shortage.

7. E-Commerce

Growth in the online market has continued, with some specialist online tile retailers acquiring large UK distributors recently. The influence of online retailers in the supply structure is likely to increase, as they can offer significant price reductions and offer a vast range of products.

Within the retail environment digital sales continue to increase as consumers become more accustomed to doing everything online. The majority of consumers research products online before making a purchase, and the widespread use of smart phones makes price comparison whilst in store very easy. 'Click and collect' sales are increasing significantly, driven by more recent developments such as one hour click & collect services.

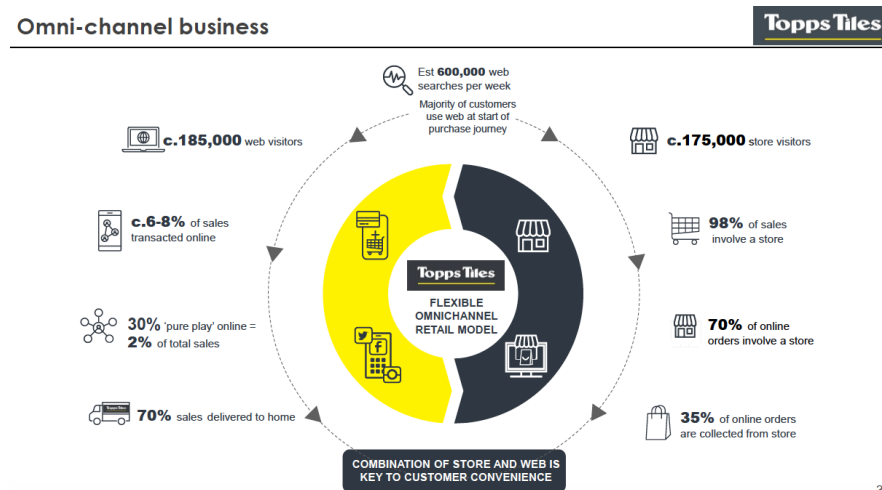
'Pure-play' online only distributors can offer a vast array of products and reach a wider number of prospective customers than branches and shops. However, some 'pure-play' online retailers, such as Tile Mountain when it was formed, appear to be growing significantly with the acquisition of some leading UK distributors of tiles and the opening of physical branches. It is likely that e-retailers such as these will continue to gain market share with increased influence in the distribution sector.

Most channels, including distributors, home improvement multiples and retail multiples, also operate through an 'omni-channel' approach. With the continued growth of digital sales, many of these channels are in the process of upgrading their processes to offer a more seamless experience for consumers between physical stores, online and phone sales. It is also likely that e-commerce platforms will be updated to include new mobile sites, new checkouts, and improved site searches etc.

The impact of digital retailing and marketing was accelerated by the unusual conditions created by COVID-19. There is no doubting the growing importance of digital media as a complementary activity to the tile retailer's national store portfolio.

The largest ceramic tile retailer, **Topps Tiles**, indicates that ‘almost all’ of its retail customers use the website at some stage of the purchasing process. It identifies that this ranges from researching products through to utilising the payment facility. Clearly it also involves price comparisons too and this importance encouraged the company to launch a new website in October 2019.

Yet Topps Tiles also identifies that 90% of its customers visit a store. Clearly the perception of ‘feeling’ the tile, seeing the quality and examining the colour and thickness remains highly influential. Digital presence is not solely defined by ecommerce and website activity. Topps Tiles also spans its social media activities across Instagram, Pinterest and Facebook to increase market influence.



Source: Topps Tiles

Topps Tiles also revealed the launch of Tile Warehouse in May 2022, a new online-only business offering competitive prices to “value conscious” homeowners.

Tile Mountain, formed in 2013, targeted an online approach to the market, with the company suggesting it could develop a 30-40 location store network to support this online offer. At the outset the company believed that physical stores would be required over the next 10-15 years to support the online activity. While Tile Mountain was originally an

ecommerce operation, the company has now extended its portfolio of showrooms to locations in Stoke-on-Trent, Stockport and Birmingham.

While sample tiles can be distributed to potential customers, this can prove an expensive distribution method depending on the number of different options that each consumer chooses to examine. One of the features of the ceramic tile sector is that the supply sources are highly varied, and the import statistics indicate an increasing diversity of sources being used as each retailer seeks to find a distinctive and unique product range to offer customers. This, in turn, leads to a huge fragmentation of products available, giving the consumer a huge choice of products, colours and design effects. That fragmentation can make the choice more difficult for the customer.

Clearly one effective way to market such varied products is to utilise digital media. Moreover, the customer can be offered images of the tiles in-situ and so gain an insight into the potential impact their choice may have on the space they are looking at. Digital presentations have a strong potential, and retailers are all looking to utilise these facilities, but clearly the statistics surrounding digital activity identified by Topps Tiles suggest that this is a complementary activity to its store portfolio.

8. Qualitative Research Summary

For the purpose of this research, in-depth interviews have been conducted with key industry professionals in order to collect qualitative information and explore further insight.

Overall 15 senior level personnel were interviewed representing different business categories within the industry, such as tile manufacturers, tile distributors, retail multiples, internet traders, tile agents and freight companies. Interviewees were asked to comment on the tile market/trends and business operation as well as their brand awareness of 'Tile of Spain'. The key findings are summarised as below:

- Sales have been continually strong, although they are expected to slow down in Q4 this year in line with the economic outlook and due to volatility with energy and haulage costs. Moving forward a weaker performance is predicted in the industry.
- 20mm porcelain has been gaining vast popularity with landscapers and is likely to hold out its growth in 2023. Price gap is closing between Indian stone and porcelain.
- Recent growth is reported in 25x25cm Victorian style, botanical ranges and 60x120cm wallpaper design. Marble is still on trend with Terrazzo breaking into fashion.
- Online activity has increased as a result of the Covid pandemic and the trend continues but stores still see the most transactions taking place.
- Significant cost inflation due to energy surcharges continues, however there has been inconsistency between Spain and Italy. Spain is losing its traditional price competitiveness against the latter. Fuel surcharges in Europe have put India back on the cards for UK importers – After significant increases, the container price has come down to approximately £4-5k.
- Distributors and retailers are stocking waterproof panels and other hard floorcoverings such as LVT. Due to lower material costs and easy installation, these alternative materials are in a good position to gain market share in both domestic and specification sectors such as social housing. Tiles can potentially become a premium

choice due to higher material and installation costs (more than doubled when combined).

- Shipping lines have improved but longer lead times such as 4-5 weeks are still the norm. Less diversion issues are present but delays are mainly caused by extended off-loading time due to staff shortage.
- Both sea and road freights are used by importers. Ports are selected mainly subject to destination cities.

On 'Tile of Spain' brand awareness & perception -

- Few of the interviewees were aware of the name 'Tile of Spain'. Those who are do not associate it with any brand values.
- The general view was that consumers were not aware of the brand and would not pay much attention to the brand.
- Professional buyers have connections with tile manufacturers and agents and are less convinced of the need to purchase via a central point.
- Spain and Italy have traditionally been the preferred suppliers into the UK. Italian tiles are perceived to be stronger in design and quality. 'Ceramics of Italy' had better recognition through links with Cersaie.

Based on the above findings, a multi-channel brand building communication package will be proposed for review and further discussion.

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