Tarkett

Press release

Tarkett Group

Third quarter 2019 results:

Organic growth of +2.6% despite challenging trading conditions
Cost savings program on track
Moderate adjusted EBITDA margin increase

Paris, October 23, 2019

Highlights

- **Net sales at €907.1 million in Q3 2019 (+8.0% versus Q3 2018)**
- **Positive organic growth(1) (+2.6%) in Q3 2019, driven by 10.5% organic growth in Sports and stable sales in EMEA and CIS, APAC & Latam**
- **Selling price increases offset purchasing costs and wage inflation**
- **Acceleration of cost savings: €12.1 million of net productivity gains and SG&A reduction**
- **Adjusted EBITDA(2) before IFRS 16 application at €107.5 million or 11.8% of revenues versus €97.7 million and 11.6% in Q3 2018**
- **Reported adjusted EBITDA(2) (after IFRS 16 application) at €115.0 million in Q3 2019**
- **A positive amount of €5.4 million related to litigation settlements in Sports included in adjusted EBITDA**
- **Dedicated action plan being rolled out to restore operating performance in North America**

Commenting on these results, **CEO Fabrice Barthélemy** said:

" In the third quarter, our business delivered positive organic growth and encouraging results. Our profitability improvement has been, however, impeded by the weakness of the North American performance. Therefore we are rolling out a specific action plan to regain momentum in North America. We are strengthening our offering through a set of new product introductions to improve alignment with customer requirements.

Through our Change to Win plan, we are targeting to be the leader in commercial flooring and selectively grow in residential. We also aim at improving profitability and we started seeing results of our cost actions in the quarter. We are also simplifying our operational processes and focusing our organization on the needs of our customers. We are now accelerating cost savings measures, particularly in North America, EMEA and at the corporate level. Our actions to reduce our leverage by the end of the year are on track. "

(1) Organic growth is the revenue growth on a like-for-like basis, i.e. at constant scope of consolidation and exchange rates, and therefore only reflects changes in volumes, prices and the product mix (note that in the CIS segment, price increases implemented to offset currency fluctuations are not included in organic growth). See the definition of alternative performance indicators at the end of this press release.

(2) Adjusted EBITDA: adjustments include expenses such as those relating to restructuring, acquisitions and share-based payments. See the definition of alternative performance indicators at the end of this press release.

Net sales by segment

€ million	Q3 2019	Q3 2018	% Change	o/w Organic growth[1]
EMEA	223.5	225.2	-0.8%	+0.1%
North America	230.1	206.0	+11.7%	-2.2%
CIS, APAC & Latin America	171.0	165.4	+3.4%	+0.2%
Sports	282.4	243.3	+16.1%	+10.5%
Total Group	**907.1**	**839.9**	**+8.0%**	**+2.6%**

[1] Organic growth is the revenue growth on a like-for-like basis, i.e. at constant scope of consolidation and exchange rates, and therefore only reflects changes in volumes, prices and the product mix (note that in the CIS segment, price increases implemented to offset currency fluctuations are not included in organic growth). See the definition of alternative performance indicators at the end of this press release.

Group net revenues amounted to €907.1 million in Q3 2019, or an increase of +8.0% year-over-year. This performance reflected positive organic growth (+2.6%), a positive scope effect (+2.0%) and a positive forex impact (+3.4%), mainly related to the appreciation of the dollar versus the euro.

Organic growth returned to positive territory in Q3 2019 with a 2.6% increase compared with Q3 2018 notwithstanding a high base of comparison (Q3 2018: +3.4% versus Q3 2017). The EMEA and CIS, APAC and Latin America segments both recorded flat organic growth over the quarter, while North America revenues were down 2.2% on a like-for-like basis. In Sports, year-over-year organic growth remained sustained at 10.5% in the highest quarter of the season.

The EMEA segment reported net revenues down 0.8% in Q3 2019. The slight increase in organic growth was offset by unfavorable exchange rate fluctuations, mainly with regards to the Swedish and Norwegian krona. Organic growth was up 0.1% as selling price increases offset lower volumes. It was affected by the ongoing exit of the Laminate production, as the Group decided to prioritize some markets ahead of the completion of the LaminatePark site closure. France stabilized, but Germany was significantly down year-over-year reflecting an overall slowdown in renovation and new construction projects. In the UK, uncertainties around the Brexit resulted in further revenue decline on a like-for-like basis. The level of activity was sustained in Southern Europe, and the Nordic region continued to grow during the quarter but at a slower pace. Tarkett recorded strong growth in Healthcare and Education thanks to its well-received commercial vinyl range renewed in April 2018.

The North American segment reported net revenues up 11.7%, reflecting a positive forex effect related to the appreciation of the dollar versus the euro (+6.0%) and Lexmark acquisition which was completed end of September 2018 (+7.9%). Market conditions remained soft, outside demand for LVT products which continued to grow generating some mix pressure. In this environment, organic growth was down 2.2% in Q3 2019 versus solid comps in Q3 2018 (+4.3%), reflecting a mix erosion and volume contraction. Selling price increases remained sustained. Residential remained under pressure amid a soft US housing market. At the end of September, we anticipated deliveries of commercial carpet in preparation for an implementation of SAP in our carpet tile business early October.

The **CIS, APAC and Latin America segment** recorded net sales up 3.4% compared to Q3 2018, resulting from slight organic growth of 0.2% and from a positive lag effect (net effect of currency and selling price adjustments at €4.5 million). Activity in the CIS is stable in a market environment that is still challenging. Latin America recorded a solid level of organic growth resulting from an improved level of activity and strong pricing power. APAC revenues were slightly up on a like-for-like basis.

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The Sports segment recorded an increase in net revenues of 16.1% in Q3 2019 thanks to a strong organic growth of 10.5%, a positive euro-dollar forex effect (+5.4%) and a slight scope effect (+0.2%). As in the previous quarter, the performance was driven by turf activities which strongly progressed year-over-year. The integration of Thermagreen, The Tennis & Track Company and Grassman was rapidly completed and generate the expected synergies.

Group Adjusted EBITDA

€ million	Q3 2019	Q3 2018	*Change*
Adjusted EBITDA before IFRS 16	**107.5**	**97.7**	**+10.0%**
% of sales before IFRS 16	*11.8%*	*11.6%*	*+22bps*
IFRS 16 impact	7.5	-	
Adjusted EBITDA reported	**115.0**	**97.7**	**+17.7%**
% of sales	*12.7%*	*11.6%*	*+105bps*

Reported adjusted EBITDA amounted to €115.0 million in Q3 2019 including €7.5 million of IFRS 16 impact. **Adjusted EBITDA before application of IFRS 16** reached €107.5 million (versus €97.7 million in Q3 2018).

The margin before IFRS 16 application moderately improved at 11.8% compared to 11.6% of revenues in Q3 2018 as the margin decline of the North American segment was offset by margin increase in EMEA and CIS, APAC and Latam. The Sports segment increased its margin thanks to litigation settlements (net positive effect of €5.4 million). This was largely driven by the outcome of a patent infringement claim initiated by Tarkett.

Volume and product mix effect remained negative at €11.9 million in Q3 2019, out of which a negative destocking impact of €3.6 million in the North American segment. The mix contraction was primarily driven by North America where the decrease in commercial carpet tile and growth in the highly competitive LVT category generated a negative effect and weighed on Group’s profitability.

Selling price increases generated a positive effect of €5.4 million, which offset most purchasing costs and wage inflation. Purchasing costs were up €2.0 million compared to last year as decrease in raw material prices were partially offset by an increase in energy and freight costs. Salary increases amounted to €3.8 million year-over-year.

Cost savings amounted to €12.1 million in Q3 2019. Net productivity gains from operations totaled €10.6 million in Q3 2019, a significant improvement compared to Q1 and Q2 2019. The transfers of the two Canadian sites announced in April have been completed on time. The Group started seeing the results of these cost actions in Q3. The exit of Laminate production in EMEA is well on track and the site shutdown in Germany will be completed in Q4. In the North American segment, productivity gains were however mitigated by the lower utilization of capacity. Tarkett took actions during the quarter to remediate the situation, including headcount reduction in the region. In addition, SG&A costs were reduced by €1.5 million during the quarter.

The variation of non recurring items compared to last year amounted to a positive amount of €3.3 million. This improvement was mainly related to settlements in the Sports segment. Their positive effect was, however, mitigated by provision reversals booked in Q3 2018 (healthcare benefit, management incentives) which created an unfavorable comparison basis.

Exchange rates (CIS countries excluded) recorded a positive effect amounting to €1.9 million. The appreciation of the dollar versus the euro was partially offset by the weaker Canadian dollar, Australian dollar and Norwegian krona. The net impact of currency and selling-price movements in the CIS countries had a further positive effect (lag effect of €3.0 million).

Acquisitions improved Group EBITDA by €1.8 million and mostly reflected the acquisition of Lexmark in North America. Lexmark performance was below expectations in Q3 as revenues were impacted by several large project delays. We are now focusing on leveraging the complete product offering combining carpet and resilient, and particularly LVT and achieving expected sales synergies. While the order backlog for 2020 is well oriented, the drop in revenues affected Lexmark’s profitability in the quarter.

Dedicated Action Plan for North America

Several measures have been implemented since the beginning of the year to resume growth.
The segment is optimizing its alignment with market mix by reinforcing its product offering. New introductions are planned in Q4 in LVT and carpet tile in mid-price range.

Tarkett now relies on a streamlined sales structure providing a single point of contact for customers. We have started to see positive results through several significant RFPs for 2020, including several deals in Hospitality through solutions selling (carpet, LVT & accessories).

The North American industrial footprint reorganization launched in April has been completed on time and started delivering in Q3. While the segment is pursuing its actions to improve its industrial cost structure, it also accelerated during the quarter its cost savings initiatives to reduce SG&A and downsized its headcount during the quarter.

Outlook

The business environment is expected to remain soft in EMEA and North America for the flooring business, while Sports is expected to continue to significantly grow. The CIS regions are not expected to rebound in the short term. Overall trading conditions remain more challenging and uncertain than in 2018.

North American Q4 2019 organic growth should be affected by SAP implementation in commercial carpet in October and by lower revenues at Lexmark compared to last year. Tarkett has launched a dedicated action plan in North America to regain top line momentum, which is expected to deliver in 2020.

As part of its Change to Win plan, Tarkett implemented a set of cost initiatives to restore its profitability and is pursuing its continuous improvement program. Restructuring measures which started delivering in Q3 2019 will positively contribute to the adjusted EBITDA in Q4. Tarkett is on track to achieve its €30 million objective of cost savings for 2019. As the environment deteriorated compared to the beginning of the year, the Group is accelerating SG&A cost reduction initiatives.

Proactive selling price management is expected to fully offset purchasing cost inflation, which will be comprised between €15 million and €20 million for 2019.

Adjusted EBITDA before IFRS 16 application should be slightly up compared to last year on a full year basis, while margin is expected around last year level.

We continue to manage very tightly working capital and capital expenditures to further reduce the net debt level. The Group confirms its objective of net debt to adjusted EBITDA ratio at around 2.5x at end December 2019 (before IFRS 16 application).

An analysts' conference call will be held on Thursday 24 October, 2019 at 11:00 am CET and an audio webcast service (live and replay) along with the results presentation will be available on https://www.tarkett.com/en/content/financial-results.

Financial calendar

- February 13, 2020: Q4 and Full Year 2019 financial results – *press release after close of trading on the Paris market and conference call the following morning*

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About Tarkett

With a history stretching back 135 years, Tarkett is a worldwide leader in innovative flooring and sports surface solutions, with net sales of more than €2.8 billion in 2018. Offering a wide range of products including vinyl, linoleum, rubber, carpet, wood, laminate, artificial turf and athletics tracks, the Group serves customers in over 100 countries across the globe. Tarkett has 13,000 employees and 34 industrial sites, and sells 1.3 million square meters of flooring every day, for hospitals, schools, housing, hotels, offices, stores and sports fields. Committed to change the game with circular economy, the Group has implemented an eco-innovation strategy based on Cradle to Cradle® principles, with the ultimate goal of contributing to people's health and well-being, and preserving natural capital. Tarkett is listed on Euronext Paris (compartment A, ISIN: FR0004188670, ticker: TKTT) and is included in the following indices: SBF 120 and CAC Mid 60. www.tarkett.com.

Appendices

1/ Bridges

Net sales evolution by division in million euros in the third quarter

Q3 2018	839.9
+/- EMEA	+0.3
+/- North America	-4.6
+/- CIS, APAC & Latin America	+0.4
+/- Sports	+25.5
Q3 2019 Sales Like for Like[1]	**861.6**
+/- Perimeter	+16.7
+/- Currencies	+24.3
+/- Selling price lag effect in CIS	+4.5
Q3 2019	**907.1**

Net sales evolution by division in million euros in the first nine months

9M 2018	2,157.3
+/- EMEA	+10.1
+/- North America	-17.6
+/- CIS, APAC & Latin America	-7.8
+/- Sports	+53.4
9M 2019 Sales Like for Like[1]	**2,195.4**
+/- Perimeter	+59.3
+/- Currencies	+57.4
+/- Selling price lag effect in CIS	+7.3
9M 2019	**2,319.4**

[1] Like for Like: At same perimeter and exchange rates. (NB: In the CIS, price increases implemented to offset currency fluctuations are not included in the organic growth). Organic growth in the CIS therefore reflects volume and mix variances only. See the definition of alternative performance indicators at the end of this press release.

Adjusted EBITDA evolution by nature in million euros in the third quarter

Q3 2018	97.7
+/- Volume / Mix, o/w -€3.6m of destocking in North America	-11.9
+/- Sales pricing	+5.4
+/- Raw Material & Freight	-2.0
+/- Salary increase	-3.8
+/- Productivity	+10.6
+/- SG&A	+1.5
+/- Non recurring (o/w Sports settlements +€5.4m)	+3.3
+/- Selling price lag effect in CIS	+3.0
+/- Currencies	+1.9
+/- Perimeter	+1.8
Q3 2019 excl. IFRS 16	**107.5**
+/- IFRS 16 impact	+7.5
Q3 2019 incl. IRFS 16	**115.0**

Adjusted EBITDA evolution by nature in million euros in the first nine months

9M 2018	213.7
+/- Volume / Mix	-31.5
+/- Sales pricing	+20.6
+/- Raw Material & Freight	-12.5
+/- Salary increase	-12.0
+/- Productivity	+19.6
+/- SG&A	+3.5
+/- Non recurring (incl. Q2 inventory write-off & Q3 Sports settlements)	-1.2
+/- Selling price lag effect in CIS	+5.7
+/- Currencies	+2.6
+/- Perimeter	+10.8
9M 2019 excl. IFRS 16	**219.3**
+/- IFRS 16 impact	+22.3
9M 2019 incl. IFRS 16	**241.6**

2/ Key figures

Net sales by segment

€ million	Q1 2019	Q1 2018	% Change	o/w Organic growth[1]
EMEA	239.0	228.3	+4.7%	+5.8%
North America	195.8	163.5	+19.7%	-0.6%
CIS, APAC & Latin America	112.5	116.3	-3.2%	-2.2%
Sports	77.2	59.8	+29.1%	+19.4%
Total Group	**624.5**	**567.9**	**+10.0%**	**+3.7%**

€ million	Q2 2019	Q2 2018	% Change	o/w Organic growth[1]
EMEA	231.5	236.0	-1.9%	-1.4%
North America	233.4	214.8	+8.7%	-5.6%
CIS, APAC & Latin America	143.1	145.4	-1.6%	-3.8%
Sports	179.8	153.2	+17.4%	+10.5%
Total Group	**787.8**	**749.4**	**+5.1%**	**-0.6%**

€ million	Q3 2019	Q3 2018	% Change	o/w Organic growth[1]
EMEA	223.5	225.2	-0.8%	+0.1%
North America	230.1	206.0	+11.7%	-2.2%
CIS, APAC & Latin America	171.0	165.4	+3.4%	+0.2%
Sports	282.4	243.3	+16.1%	+10.5%
Total Group	**907.1**	**839.9**	**+8.0%**	**+2.6%**

€ million	9M 2019	9M 2018	% Change	o/w Organic growth[1]
EMEA	694.0	689.6	+0.6%	+1.5%
North America	659.3	584.4	+12.8%	-3.0%
CIS, APAC & Latin America	426.7	427.1	-0.1%	-1.8%
Sports	539.4	456.3	+18.2%	+11.7%
Total Group	**2,319.4**	**2,157.3**	**+7.5%**	**+1.8%**

[1] Organic growth: at constant scope of consolidation and exchange rates only reflects changes in volumes and the product mix (note that in the CIS segment, price increases implemented to offset currency fluctuations are not included in organic growth,). See the definition of alternative performance indicators at the end of this press release.

Adjusted EBITDA

€ million	Q1 2019	Q1 2018	*Change*
Adjusted EBITDA before IFRS 16	35.8	29.8	*+20.1%*
% of sales before IFRS 16	*5.7%*	*5.2%*	*+50 bps*
IFRS 16 impact	7.3	-	
Reported Adjusted EBITDA	**43.1**	**29.8**	***+44.6%***
% of sales	*6.9%*	*5.2%*	*+170 bps*

€ million	Q2 2019	Q2 2018	Change
Adjusted EBITDA before IFRS 16	76.1	86.3	*-11.8%*
% of sales before IFRS 16	*9.7%*	*11.5%*	*-190 bps*
IFRS 16 impact	7.5	-	
Reported Adjusted EBITDA	**83.6**	**86.3**	***-3.2%***
% of sales	*10.6%*	*11.5%*	*-90 bps*

€ million	Q3 2019	Q3 2018	*Change*
Adjusted EBITDA before IFRS 16	**107.5**	**97.7**	**+10.0%**
% of sales before IFRS 16	*11.8%*	*11.6%*	*+22bps*
IFRS 16 impact	7.5	-	
Reported Adjusted EBITDA	**115.0**	**97.7**	**+17.7%**
% of sales	*12.7%*	*11.6%*	*+105bps*

€ million	9M 2019	9M 2018	*Change*
Adjusted EBITDA before IFRS 16	**219.3**	**213.7**	**+2.6%**
% of sales before IFRS 16	*9.5%*	*9.9%*	*-45bps*
IFRS 16 impact	22.3	-	
Reported Adjusted EBITDA	**241.6**	**213.7**	**+13.1%**
% of sales	*10.4%*	*9.9%*	*+51bps*

3/ Definition of alternative performance indicators (not defined by IFRS)

The Tarkett Group uses the following non-IFRS financial indicators:
- Organic growth
- Adjusted EBITDA
- Free Cash Flow

These indicators are calculated as described below.
- **Organic growth:**
    - Organic growth measures the change in net sales as compared with the same period in the previous year, at constant scope of consolidation and exchange rates.
    - The exchange rate effect is calculated by applying the previous year's exchange rates to sales for the current year and calculating the difference as compared with sales for the current year. It also includes the impact of price adjustments in CIS countries intended to offset movements in local currencies against the euro.
    - The scope effect reflects:
        - current-year sales for entities not included in the scope of consolidation in the same period in the previous year, up to the anniversary date of their consolidation;
        - the reduction in sales relating to discontinued operations that are not included in the scope of consolidation for the current year but were included in sales for the same period in the previous year, up to the anniversary date of their disposal.

    - Year-on-year net sales trends can be analyzed as follows:

€ million	**2019**	**2018**	% change	*o/w exchange rate effect*	*o/w scope effect*	o/w organic growth
Total Group – Q1	624.5	567.9	+10.0%	+2.4%	+3.8%	+3.7%
Total Group – Q2	787.8	749.4	+5.1%	+3.0%	+2.8%	-0.6%
Total Group – H1	1,412.3	1,317.3	+7.2%	+2.7%	+3.2%	+1.3%
Total Group – Q3	**907.1**	**839.9**	**+8.0%**	**+3.4%**	**+2.0%**	**+2.6%**
Total Group – 9M	**2,319.4**	**2,157.3**	**+7.5%**	**+3.0%**	**+2.7%**	**+1.8%**

- **Adjusted EBITDA**:
    - Adjusted EBITDA is calculated by deducting the following income and expenses from result from operations before depreciation and amortization:
        - restructuring costs intended to increase the Group's future profitability;
        - capital gains and losses recognized on significant asset disposals;
        - provisions and provision reversals for loss in value;
        - costs arising on corporate and legal restructuring;
        - share-based payment expenses;
        - other one-off items considered non-recurring owing to their nature.
    - Note 3.1 to the consolidated financial statements includes a table that reconciles operating income with adjusted EBITDA, as well as the effect of adjustments by type.

4/ Impact of IFRS 16 "Leases" in 2019

IFRS 16 "Leases" standard is applicable since January 1, 2019. This new accounting standard requires lessees to recognize, for all leases that it covers, all lease payments yet to be paid in the form of a right of use under non-current assets on the balance sheet, with a balancing entry under debt on the liabilities side.

Based on existing lease contracts, applying IFRS 16 increases non-current assets and net debt at 2019 year end by an amount of around €90 million.

In the income statement, there is a decrease in lease expenses recorded under EBITDA, and an increase in depreciation of non-current assets and interest expense. The full-year improvement in EBITDA is expected to be around €29 million in 2019, increasing EBITDA margin by around 100 basis points.

The effect of these changes on the net debt/adjusted EBITDA ratio is limited to around 0.1x: based on 2018 results, the ratio would have increased from 2.8x to 2.9x. The documentation of Tarkett's financing agreements, however, provides that the effect of changes in accounting standards is neutralized. As a result, the application of IFRS 16 has no consequences for the Group's financing.

The impact on net profit attributable to owners of the Company is limited.

€ million	Estimated 2019 IFRS 16 impact on Adj. EBITDA by segment
EMEA	9
North America	8
CIS, APAC & Latin America	6
Sports	3
Central	3
Group's estimated IFRS 16 impact for 2019	**29**