Press release

Tarkett Group

Q1 2021 results: net revenues decrease in line with Group's expectations, purchasing cost inflation weighing on profitability

First Quarter 2021 Results

- **Net revenues down -8.5% with a like-for-like change of -3.8% versus Q1 2020, reflecting a slow recovery in commercial segments, partially offset by the continued rebound of residential;**
- **Adjusted EBITDA of €34.0 million or a 6.1 % margin, down versus last year as a result of lower revenues and higher purchasing costs at the end of the quarter;**
- **Supply shortages and additional raw material and freight price increases leading to higher purchasing costs in Q1;**
- **Purchasing costs inflation now estimated at €100 million for 2021 - Additional selling price increases being implemented in response with a target to offset around 50%;**
- **Strong achievements in cost flexing and structural savings (€24.1 million, o/w €14.7 million of structural cost savings); cost reduction on track to outreach €30 million in 2021;**
- **Solid financial structure with net debt post IFRS 16 at €536.8 million at the end of March, or 2.0x LTM Adjusted EBITDA;**
- **Given the acceleration of purchasing cost inflation and low visibility confirmed in workplace and hospitality, the timing of the 2022 profitability mid-term objective (Adjusted EBITDA margin above 12%) should be delayed by at least one year.**

Paris, April 23, 2021: The Supervisory Board of Tarkett (Euronext Paris: FR0004188670 TKTT) met on the 23[d] of April and reviewed the Group's consolidated results for the first quarter 2021.

The Company uses alternative performance indicators (not defined by IFRS) described in detail in appendix 1 (page 5):

€ million	Q1 2021	Q1 2020	Variation
Net sales	**558.8**	**610.7**	**-8.5%**
of which organic growth			*-3.8%*
Adjusted EBITDA	**34.0**	**42.4**	**-19.8%**
% net sales	*6.1%*	*6.9%*	

Commenting on these results, **CEO Fabrice Barthélemy** said*: "The start of the year is challenging but in line with our expectations, as some commercial segments are still penalized by the lack of visibility. We are also dealing with steep purchasing cost inflation combined with supply disruptions. Given this challenging environment, we are focused on increasing our selling prices and implementing our cost reduction plans. We also pursue the strategic initiatives of our Change to Win roadmap, making significant progress in our transformation journey. However, the pandemic impact on demand is generating some short term headwinds and we remain cautious on the pace of recovery."*

1. Net sales by segment

in euro millions	Q1 2021	Q1 2020	% change	Organic change
EMEA	220.5	227.7	*-3.2%*	*-4.0%*
North America	160.4	196.1	*-18.2%*	*-11.0%*
CIS, APAC & LATAM	112.5	109.7	*+2.6%*	*+13.2%*
Sports	65.4	77.1	*-15.3%*	*-9.1%*
TOTAL	**558.8**	**610.7**	***-8.5%***	***-3.8%***

The EMEA segment reported net revenues of €220.5 million, down -3.2% compared to Q1 2020, reflecting an organic decline of -4.0% and a favorable exchange rate fluctuations, mainly due to the Swedish krona. Demand remained below last year but improved slightly compared to Q4 2020. Commercial activities slightly improved driven by healthcare and education, while residential was holding well despite recent lockdowns due to sanitary situation. Workplace, however, remained particularly weak, resulting in a drop in commercial carpet volumes versus last year. Spain was also impacted by the lack of renovation projects in hospitality. Conversely, France and Italy achieved a significant rebound in Q1 2021. France was particularly strong and grew double digit thanks to dynamic demand in residential and some recovery in commercial apart from workplace. The success of rigid LVT continued during the quarter and Tarkett launched its new LVT 100 collection.

The North American segment remained depressed in Q1 2021, down -18.2% compared to Q1 2020 reflecting an organic decline of -11.0% and a negative forex impact mostly related to the depreciation of the dollar versus the euro compared to last year. Residential continued to grow double digit similarly to Q4 2020, as the Group further benefitted from positive trends in private housing construction and renovation. The overall business remained penalized by the lack of recovery in commercial activities. Low visibility still penalized workplace and hospitality. As a result, commercial carpet activity was still down during the quarter. Sales were better oriented in resilient but remained below last year, while rubber and accessories, used primarily in education and healthcare, improved at the end of the quarter.

Net revenues in **the CIS, APAC and Latin America segment** were up +2.6% compared to Q1 2020, reflecting an organic growth of +13.2% and unfavorable forex impacts, mostly driven by the Russian ruble and the Brazilian real. In CIS countries, the volume effect was largely positive thanks to buoyant residential activity. However, product mix was impacted by the increased share of entry and mid-range products compared to last year. The lag effect on sales and Adjusted EBTIDA (net effect of currency and selling price adjustments) was negative during the quarter as the extent of the ruble depreciation was not fully covered by selling price increases. Revenues also continued to grow in Latin America thanks to strong organic growth in Brazil reflecting sustained selling price increases. Revenues also progressed in APAC driven by the rebound in Australia and a solid level of activity in the rest of Asia.

Net revenues of the **Sports segment** were down -15.3% compared to last year, driven by an organic decline of -9.1% and a negative forex impact related to the dollar depreciation versus the euro. In 2020, the Covid-19 pandemic affected the sports business in North America later than flooring activities, as some projects started to be delayed and cancelled in H2 2020. As a result of this late impact, the pipeline of ongoing projects for Q1 2021 was low, particularly in turf activities in North America.

2. Adjusted EBITDA

The Adjusted EBITDA amounted to €34.0 million in Q1 2021, or a margin of 6.1% compared to 6.9% in Q1 2020. While the Group remained focused on flexing costs given the revenue decrease, the increase in raw material prices and freight costs affected the profitability. Purchasing cost inflation first impacted North America and is now also impacting CIS countries and EMEA.

The volume and mix effect amounted to -€20 million, mostly driven by lower volumes in North America and EMEA. Selling prices increased by +€3.3 million. This partially offset purchasing cost inflation, which represented a negative impact of -€5.6 million in Q1. Raw material prices and freight costs continued to increase in Q1 2021. Shortages in the supply chain also contributed to the inflationary environment and could generate production disruptions in Q2. As a result, Tarkett is implementing additional selling price increases in Q2. Salary increases amounted to -€2.6 million year-over-year, reflecting the contained wage increases of 2020.

Tarkett continued the roll-out of its actions to improve the cost structure, resulting in structural savings of €14.7 million. In addition to these actions, Tarkett flexed its costs by €9.4 million to adapt to the demand level. Overall cost reduction amounted to €24.1 million in Q1 2020, out of which €9.9 million of net productivity gains from operations and €14.2 million of SG&A costs savings.

Exchange rates (CIS countries excluded) were flat year-over-year, while the lag effect (net impact of currency and selling-price movements in the CIS countries) was negative of -€3.0 million).

A bridge analysis of Q1 2021 Adjusted EBITDA compared to Q1 2020 Adjusted EBITDA is available at the end of this document (appendix 2).

3. Cash flow and financial situation

The Group plans to pursue the tight management of its working capital over 2021. Working capital increase in Q1 has been more limited than normal, as seasonal inventory build-up has been controlled and sometimes limited by supply disruptions. Factoring programs amounted to €124.3 million at the end of March, or a decrease of €9.6 million compared to the end of December. Capex are below last year in Q1 and are expected above last year for the full year at around €90 million (€76 million in 2020).

At the end of March 2021, net indebtedness post IFRS 16 amounted to €536.8 million or 2.0x LTM Adjusted EBITDA (compared to € 473.8 million and 1.7x at the end of December 2020; €763.8 million and 2.7x at the end of March 2020). The seasonal increase was below historic levels, reflecting subdued activity in Q1.

4. 2021 Outlook & Mid-term objectives

As anticipated volume recovery has not yet started in commercial as the lack of visibility is still penalizing some end-user segments (Workplace, Hospitality and Sports). Nevertheless, the Group anticipates significant growth in Q2 2021 from the lows reached in Q2 2020. For the rest of the year, Tarkett remains cautious and forecasts a muted recovery of commercial activities and further growth in residential. The public investment plans in various key regions, particularly the stimulus plan in North America, may stimulate the commercial recovery in the latter part of the year, but there are no signs of acceleration as of today.

In this context, Tarkett is pursuing its Change to Win strategic roadmap to foster sustainable growth and gain market shares with the objective to grow above GDP growth in key regions in 2021 and 2022. This includes leveraging its strong expertise in Healthcare and Education, developing innovative and environmentally-friendly solutions for customers, reinforcing its presence and usage of digital tools and platforms and fostering innovation. The Group will also continue optimizing its cost base. Tarkett expects its structural cost savings to outreach €30 million per year in 2021.

Prices of oil derivative materials and freight costs have rapidly increased in the past months. Additional oil price increases combined with production disruption at major suppliers in Q1 are driving up Tarkett expectations in terms of inflation, which was initially anticipated at €50 million in February as indicated in full year 2020 earnings release. Furthermore, prices of other raw materials such as wood also increased in Q1. The Group now estimates a negative gross impact from purchasing cost of around €100 million in 2021 (o/w €5.6 million in Q1). Tarkett is implementing additional selling price increases across its regions with the objective to offset around 50% of this inflation in 2021.

Given this inflationary context and the slow recovery of some commercial segments (workplace and hospitality), Tarkett confirms that the 2022 Adjusted EBITDA margin objective of at least 12% will be achieved later than initially anticipated, which was stated as likely in its 2020 earnings release. The Group now anticipates it will be delayed by at least one year, at the soonest in 2023.

In this volatile environment, Tarkett plans to remain selective in its capital spending and continues to tightly monitor working capital. Notwithstanding higher working capital requirements, the Group anticipates to generate positive free cash flow in 2021. Tarkett significantly reduced its net financial debt in 2020 and is already operating within its targeted financial leverage for the end of the year (net debt to Adjusted EBITDA after IFRS 16 application between 1.6x and 2.6x at each year-end).

*The analysts' conference will be held on **Monday April 26, 2021 at 9:30 am CET** and an audio webcast service (live and playback) along with the results presentation will be available on:*
https://www.tarkett.com/en/content/financial-results

This press release may contain forward-looking statements. Such forward-looking statements do not constitute forecasts regarding results or any other performance indicator, but rather trends or targets. These statements are by their nature subject to risks and uncertainties as described in the Company's annual report registered in France with the French Autorité des Marchés financiers available on its website (www.tarkett.com). These statements do not reflect the future performance of the Company, which may differ significantly. The Company does not undertake to provide updates of these statements

Financial calendar

- April 30, 2021: Annual General Meeting
- July 29, 2021: H1 2021 financial results - *press release after close of trading on the Paris market and conference call the following morning*
- October 28, 2021: Q3 2021 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 of 140 years, Tarkett is a worldwide leader in innovative flooring and sports surface solutions, with net sales of € 2.6 billion in 2020. 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 more than 12,000 employees and 33 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 and to reducing its carbon footprint, the Group has implemented an eco-innovation strategy based on Cradle to Cradle® principles, fully aligned with its Tarkett Human-Conscious Design™ approach. Tarkett is listed on Euronext Paris (compartment B, ISIN: FR0004188670, ticker: TKTT). www.tarkett.com

Appendices

1/ Reconciliation table for alternative performance indicators (not defined by IFRS)

- 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. In Q1 2021, a -€8.9 million negative adjustment in selling prices was excluded from organic growth and included in currency effects.
- Scope effects reflect:
  - 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.

€ million	Net Sales 2021	Net Sales 2020	% Change	o/w exchange rate effect	o/w scope effect	o/w organic change
Total Group – Q1	558.8	610.7	-8.5%	-4.7%	-	-3.8%

- Adjusted EBITDA is the operating income before depreciation, amortization and the following adjustments: restructuring costs, gains or losses on disposals of significant assets, provisions and reversals of provisions for impairment, costs related to business combinations and legal reorganizations, expenses related to share-based payments and other one-off expenses considered non-recurring by their nature.

€ million	Adjusted EBITDA 2021	Adjusted EBITDA 2020	% margin 2021	% margin 2020
Total Group – Q1	34.0	42.4	6.1%	6.9%

€ million	Of which adjustments						
	Q1 2021	Restructuring	Gains / losses on assets sales / impairment	Business combination	Share-based payments	Other	Q1 2021 adjusted
Result from operating activities (EBIT)	**(4.2)**	**1.5**	**(2.0)**	**0.0**	**0.6**	**0.7**	**(3.4)**
Depreciation and amortization	37.2	-	-	-	-	-	37.2
Others	0.2	-	-	-	-	-	0.2
EBITDA	**33.2**	**1.5**	**(1.9)**	**0.0**	**0.6**	**0.7**	**34.0**

2/ Bridges (€ million)

Net sales by division

Q1 2020	610.7
+/- EMEA	(9.2)
+/- North America	(21.6)
+/- CIS, APAC & LATAM	14.5
+/- Sports	(7.0)
Q1 2021 LfL	**587.3**
+/- Currencies	(19.6)
+/- Selling price lag effect in CIS	(8.9)
Q1 2021	**558.8**

Adjusted EBITDA by nature

Q1 2020	42.4
+/- Volume / Mix	(20.0)
+/- Sales Pricing	3.3
+/- Raw Material & Freight	(5.6)
+/- Salary Increase	(2.6)
+/- Productivity	9.9
+/- SG&A	14.2
+/- One-offs & Others	(4.8)
+/- Selling price lag effect in CIS	(3.0)
+/- Currencies	0.1
Q1 2021	**34.0**