Tarkett

Press release

Tarkett Group

Solid Q3 performance:
Increased profitability and strong deleveraging

2020 Third Quarter Results

- **Like-for-like revenues down -10.5% versus Q3 2019 (whereas Q2 organic change was down 20.3%) and net revenues down -14.4% versus Q3 2019**
- **Adjusted EBITDA up at €118 million in Q3 2020 versus €115 million in Q3 2019; margin at 15.2% of net revenues compared to 12.7% in Q3 2019, up 250 basis points**
- **Significant cost reduction of €34 million in Q3, including €16 million of structural savings**
- **Lower purchasing costs by €16 million in Q3, driven by oil price declines in Q2 2020**
- **Deleveraging thanks to strong free cash flow generation. Net financial debt, including leases recorded under IFRS 16, of €585 million or 2.2x LTM Adjusted EBITDA at the end of September**
- **Strong level of liquidity at the end of September (€1.1 billion)**
- **2020 Adjusted EBITDA margin expected broadly in line with last year's margin (2019: 9.4%) and financial leverage (financial debt to LTM Adj. EBITDA) below 3.0x at the end of December**

Paris, October 28, 2020: The Supervisory Board of Tarkett (Euronext Paris: FR0004188670 TKTT) met today and reviewed the Group's consolidated results for the third quarter 2020.

The Company uses alternative performance indicators (not defined by IFRS) described in detail in appendix 1 (page 6). Adjusted EBITDA, as reported, is presented below after IFRS 16 consideration:

€ million	Q3 2020	Q3 2019	Change
Net sales	**776.9**	**907.1**	**-14.4%**
of which organic growth			*-10.5%*
Adjusted EBITDA	**117.7**	**115.0**	**+2.4%**
% net sales	*15.2%*	*12.7%*	

Commenting on these results, **CEO Fabrice Barthélemy** said*: "Since the outbreak of the Covid-19 pandemic, we have been focused on protecting the health and safety of our employees and customers and preserving profitability and cash flows. In March, we accelerated cost reduction actions and identified additional opportunities for cost savings. We have successfully delivered so far and have demonstrated the resilience of our business model. In the third quarter, we increased our profitability compared to last year, while deleveraging and maintaining a strong level of liquidity. Amidst challenging market conditions, our teams are fully committed to seize new opportunities, gain market share and intensify our Change to Win strategic roadmap deployment."*

1. Q3 2020 highlights

As anticipated, demand remained below last year's level in Q3 2020. The resurgence of the pandemic and partial lockdowns continue to affect investment decisions and customer behaviors. Some key end-user markets are particularly impacted (Workplace, Sports, Hospitality), while Healthcare and Residential are more dynamic.

Specific safety and sanitary measures are still in place in all our production facilities and offices. During the quarter, all manufacturing sites were able to produce and deliver to customers seamlessly while adapting to the lower level of demand.

The Group successfully deployed Change to Win strategic actions to structurally reduce the cost base. In addition, short term measures have allowed to further flex costs, leading to a total cost reduction of €34m in the quarter. Additional actions have been identified and will be deployed in the coming quarters.

Thanks to a strong focus on customer receivables and inventory, working capital was reduced compared to end of June. Capex was contained and will be around €80 million in 2020. The Group generated a strong free cash flow in Q3, leading to significant deleveraging compared to the end of June. Net financial debt, including leases recorded under IFRS 16, amounted to €585 million at the end of September (€728 million at end June 2020), which represents a financial leverage of 2.2x LTM Adjusted EBITDA (2.8x at end of June).

Furthermore, the Group ended the quarter with a strong level of liquidity of €1.1 billion, out of which €825 million in undrawn committed credit lines and €258 million in cash.

2. Net sales by segment

€ million	Q3 2020	Q3 2019	% change	% organic change
EMEA	212.6	223.5	*-4.9%*	*-4.7%*
North America	184.4	230.1	*-19.9%*	*-15.0%*
CIS, APAC & LATAM	156.6	171.0	*-8.4%*	*+1.8%*
Sports	223.2	282.4	*-21.0%*	*-19.1%*
TOTAL	**776.9**	**907.1**	***-14.4%***	***-10.5%***

The EMEA segment reported net revenues of €212.6 million, down -4.9% compared to Q3 2019, mainly reflecting a revenue decline of -4.7% on a like-for-like basis. Residential activity recorded revenue growth in the quarter. In Commercial, resilient products have been progressively recovering. The demand for commercial carpet remained weak during the quarter due to its higher exposure to the Workplace segment, but sequentially improved compared to Q2 2020. Overall, the performance improved sequentially compared to Q2 2020 in all countries outside the Nordics, which had been highly resilient over the course of H1 2020. France and Germany were at the forefront of this improvement.

The North American segment reported net revenues of €184.4 million, down -19.9% compared to last year, reflecting the -15.0% revenue decline on a like-for-like basis and the depreciation of the dollar versus the euro during the quarter. The level of activity sequentially improved compared to Q2 (-32.0% in Q2 2020). Commercial activities have been slowly recovering as they were penalized by uncertainties in the Workplace and Hospitality segments. Conversely, Residential improved due to favorable refurbishment and new home construction trends. Given the low level of demand, furlough was still in place at the beginning of the quarter.

Net revenues in **the CIS, APAC and Latin America segment** were €156.6 million, down -8.4% in Q3 2020, due to unfavorable exchange rate fluctuations driven by the Russian ruble and the Brazilian real. Organic growth was at +1.8% in Q3 reflecting volume increases in CIS countries, which benefited from dynamism in residential activity. This good performance was, however, partially offset by a negative lag effect (net effect of currency and selling price adjustments) during the quarter. The level of activity remained depressed in APAC during the quarter as some countries were affected by second waves of Covid-19. Australia was particularly penalized by a strict second lockdown. The Group was successful in growing organically in Latin America after a significant decline in Q2 2020, mainly due to price increases.

As anticipated, net revenues of the **Sports segment** were down -21.0% compared to last year in the quarter, driven by a lower activity (-19.1% on a like-for-like basis) and a negative forex impact related to the dollar depreciation versus the euro. The overall level and seasonality of the business have been affected by projects being delayed, postponed or cancelled. The activity in North America significantly decreased compared to last year, after demonstrating resilience in Q2 despite the shelter-in-place measures. The slowdown was mostly driven by the turf business, which had been particular buoyant over the past few years. In other regions, activity remained below last year's level but sequentially improved compared to Q2 2020 which had been particularly weak.

3. Adjusted EBITDA

Reported adjusted EBITDA amounted to €117.7 million in Q3 2020 compared to €115.0 million in Q3 2019. The adjusted EBITDA margin reached 15.2%, a step improvement compared to last year (Q3 2019: 12.7%). All Flooring segments recorded margin improvement during the quarter. Restated from a positive IP settlement which lifted the margin in Q3 2019, Sports also increased its profitability.

The significant slowdown of activity penalized EBITDA by -€34.5 million. It has been more than offset by the combination of a positive inflation balance and a strong level of cost reduction.

Selective increase in selling prices benefited the results by +€2.7 million compared to last year. Purchasing costs improved by +€15.5 million compared to Q3 2019, mainly reflecting low oil prices in Q2. Wage inflation amounted to -€3.8 million in Q3 2020, reflecting salary increases implemented late 2019 and early 2020.

In addition, Tarkett achieved significant cost reduction of €33.5 million in Q3 2020 compared to Q3 2019. The Group pursued its optimization program across its manufacturing sites with success, while substantially accelerating its SG&A cost savings plan. Net productivity gains and SG&A cost savings totaled €23.9 million, out of which €15.9 million was structural savings. Since the beginning of the year, the Group generated €34.7 million of structural savings and is on track with its annual target which has been enhanced on September 28th 2020 (above €45 million).

Tarkett also maintained some of its specific Covid-19 measures during the quarter, such as furlough in the US in early Q3. These measures yielded €9.6 million of savings.

Exchange rates (CIS countries excluded) had a negative effect amounting to -€5.1 million. This decrease reflected the depreciation of the dollar versus the euro and negative exchange rate fluctuations related to the Norwegian krona and the Brazilian real. The net impact of currency and selling price movements in the CIS countries also had a negative effect (lag effect of -€3.4 million) driven by the devaluation of the ruble.

4. Cost reduction breakdown Q3 and 9M 2020

Q3 2020

€ million	Productivity gains and SG&A	*o/w structural actions*	Covid-19 specific measures	*o/w governmental support*	Total cost reduction
Gross profit	**11.9**	*11.9*	**2.4**	*2.7*	**14.3**
SG&A	**12.0**	*4.0*	**7.1**	*0.9*	**19.1**
Total Q3	**23.9**	*15.9*	**9.6**	*3.6*	**33.5**

9M 2020

€ million	Productivity gains and SG&A	*o/w structural actions*	Covid-19 specific measures	*o/w governmental support*	Total cost reduction
Gross profit	**21.7**	*21.7*	**12.2**	*8.7*	**33.9**
SG&A	**24.1**	*13.0*	**26.2**	*5.5*	**50.3**
Total 9M	**45.8**	*34.7*	**38.4**	*14.2*	**84.2**

5. FY 2020 Outlook

Significant uncertainties remain on demand level as the pandemic is still active, with new lockdowns enacted across key regions. Tarkett therefore remains cautious on year end activity. As a result, Tarkett anticipates revenue decline in H2 2020 broadly in line with H1 2020 (organic change: -12.6% in H1 2020). North America is expected to sequentially improve in Q4 2020 compared to Q3 2020, notably due to the favorable comparison basis (Q4 2019 organic change: -18.9% in North America).

Thanks to ongoing achievements in cost reduction, Tarkett targets an Adjusted EBITDA margin for 2020 broadly in line with last year's level (2019 margin: 9.4% of net revenues) and a financial leverage below 3.0x. The leverage objective (net financial debt to Adjusted EBITDA between 1.6x and 2.6x at year end) has been suspended on April 8th 2020 due to the context.

6. Confirmed mid-term objectives

The longer-term impact of the Covid-19 pandemic on demand has yet to be seen. Some end-user segments, such as Workplace and Sports, are expected to remain penalized at least in the first part of 2021. However, 2020 performance is demonstrating the resilience of Tarkett business model even in a depressed environment.

The Group will continue to strengthen its cost actions and maintain selectivity in its investments. Tarkett will also pursue its Change to Win strategic initiatives to foster sustainable growth and gain market share. This includes leveraging its strong expertise in Healthcare and Education, developing innovative and environmentally-friendly solutions for customers, accelerating the deployment of an ambitious circular economy program.

The Group stated upon its interim release that its mid-term objectives are still valid. Organic growth is targeted above GDP growth in key regions in 2021 and 2022. Furthermore, Tarkett aims to reach an Adjusted EBITDA margin of at least 12% by 2022. Lastly, the Group targets a financial leverage comprised between 1.6x and 2.6x at each year end of 2021 and 2022.

*The analysts' conference will be held on **Thursday October 29, 2020 at 11:00 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

Financial calendar

- February 18, 2021: Q4 and Full Year 2020 financial results – *press release after close of trading on the Paris stock exchange and conference call the following morning*
- April 28, 2021: Q1 2021 financial results - *press release after close of trading on the Paris stock exchange and conference call the following morning*
- July 29, 2021: Q2 and H1 2021 financial results – *press release after close of trading on the Paris stock exchange and conference call the following morning*
- October 28, 2021: Q3 2021 financial results - *press release after close of trading on the Paris stock exchange 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 €3 billion in 2019. 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 12,500 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, 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 wellbeing, and preserving natural capital. Tarkett is listed on Euronext Paris (compartment B, ISIN: FR0004188670, ticker: TKTT) and is included in the following indices: SBF 120 and CAC Mid 60. www.tarkett.com.

Appendices

1/ Alternative performance indicators definitions

- **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 Q3 2020, a -€13.1 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.

Net Sales In € million	2020	2019	Change	o/w exchange rate effect	o/w scope effect	o/w organic change
Total Group – Q1	610.7	624.5	-2.2%	+0.7%	-	-2.9%
Total Group – Q2	626.3	787.8	-20.5%	-0.2%	-	-20.3%
Total Group – H1	**1,237.0**	**1,412.3**	**-12.4%**	**+0.2%**		**-12.6%**
Total Group – Q3	776.9	907.1	-14.4%	-3.8%	-	-10.5%
Total Group – 9M	**2,013.8**	**2,319.4**	**-13.2%**	**-1.4%**	**-**	**-11.8%**

- **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.

Adjusted EBITDA in € million	2020	% margin 2020	2019	% margin 2019
Total Group – Q1	42.4	6.9%	43.1	6.9%
Total Group – Q2	64.0	10.2%	83.6	10.6%
Total Group – H1	**106.3**	**8.6%**	**126.7**	**9.0%**
Total Group – Q3	117.7	15.2%	115.0	12.7%
Total Group – 9M	**224.0**	**11.1%**	**241.6**	**10.4%**

Given the exceptional situation following the Covid-19 pandemic, the Group publishes its net financial debt and the financial leverage ratio at the end of September 2020:

- **Net financial debt** is defined as the sum of interest bearing loans and borrowings minus cash and cash equivalents. Interest bearing loans and borrowings refer to any obligation for the repayment of funds received or raised that are subject to repayment terms and interest charges. They also include leases recorded under IFRS 16 since the application of the new accounting norm.

- **Financial leverage** is the ratio financial net debt including leases recorded under IFRS 16 to LTM (Last Twelve Months) Adjusted EBITDA. As per our credit documentation, the financial leverage retained for the covenant is calculated before IFRS16 application. At the end of September, the financial leverage as per our credit documentation was at 2.1x Adjusted EBITDA. The covenant attached to our bank loans is tested at the end of each semester. It has to be below 3.5x at end of June and below 3.0x at end December. Tarkett obtained from its banking partners a covenant holiday for 2020. The Schuldschein private placements are also subject to a leverage covenant. It is only tested once a year and has to be below 3.0x at the end of December.

€ million		Dec. 19	June 20	Sept. 20
Reported Net Financial Debt	**A**	**637**	**728**	**585**
out of which Lease Liabilities		*89*	*97*	*93*
Net Financial Debt pre-IFRS 16	**B**	**547**	**631**	**492**
LTM reported Adjusted EBITDA	C	280	260	262
Lease charge		*(31)*	*(31)*	*(31)*
LTM Adjusted EBITDA pre-IFRS16	D	250	229	231
Reported leverage(1)	**A/C**	**2.3x**	**2.8x**	**2.2x**
Leverage as per covenants(2)	**B/D**	**2.2x**	**2.8x**	**2.1x**
IFRS16 impact on leverage		0.1x	0.0x	0.1x

(1) Reference for Mid-term objective: Leverage comprised between 1.6x and 2.6x at year-end

(2) Credit documentation is based on pre-IFRS 16 accounting standards - Covenant is 3.5x end of June, 3.0x end of December

2/ Bridges (€ million)

Net sales bridge by segment

Q3 2019	907.1
+/- EMEA	(10.6)
+/- North America	(34.5)
+/- CIS, APAC & LATAM	3.0
+/- Sports	(53.5)
Q3 2020 LfL	**811.5**
+/- Currencies	(21.5)
+/- Selling price lag effect in CIS	(13.1)
Q3 2020	**776.9**

Adjusted EBITDA bridge

Q3 2019	115.0
+/- Volume / Mix	(34.5)
+/- Sales Pricing	2.7
+/- Raw Material & Freight	15.5
+/- Salary Increase	(3.8)
+/- Productivity	11.9
+/- SG&A	12.0
+/- Covid-19 measures	9.6
+/- One-offs & Others	(2.2)
+/- Selling price lag effect in CIS	(3.4)
+/- Currencies	(5.1)
Q3 2020	**117.7**

9M 2019	2,319.4
+/- EMEA	(71.4)
+/- North America	(114.3)
+/- CIS, APAC & LATAM	(21.7)
+/- Sports	(66.3)
9M 2020 LfL	**2,045.7**
+/- Currencies	(14.9)
+/- Selling price lag effect in CIS	(17.0)
9M 2020	**2,013.8**

9M 2019	241.6
+/- Volume / Mix	(112.3)
+/- Sales Pricing	4.0
+/- Raw Material & Freight	24.0
+/- Salary Increase	(11.7)
+/- Productivity	21.7
+/- SG&A	24.1
+/- Covid-19 measures	38.4
+/- One-offs & Others	5.2
+/- Selling price lag effect in CIS	(4.0)
+/- Currencies	(7.1)
9M 2020	**224.0**