Tarkett

Press release

Tarkett Group

Resilient Adjusted EBITDA in Q1 2020 in spite of slightly lower revenues

Strong focus on costs reduction and cash preservation in the wake of the Covid-19 crisis

First Quarter 2020 Results

- **Net revenues down -2.2% with a like-for-like change of -2.9% versus Q1 2019**
- **Q1 2020 activity impacted by lockdown measures at the end of the quarter, particularly in Europe; demand impacted in all key regions since early April**
- **Adjusted EBITDA of €42.4 million or a 6.9% margin, stable versus last year**
- **Maintained profitability year-on-year thanks to solid achievements in cost reduction and some easing of raw material costs**
- **Substantial additional set of cost cutting measures to adapt to reduced demand in Q2 2020 and strict cash management to protect cash-flows**
- **Solid level of liquidity with €650 million in cash and confirmed credit lines at the end of March; ongoing discussion with banks to set up additional credit lines and waive financial covenant**
- **Adjusted EBITDA to be affected in Q2 and FY 2020 by the current situation, leverage ratio target (Net debt to adjusted EBITDA between 1.6x and 2.6x at the end of the year) suspended for 2020 as announced in the press release of April 8th**

Paris, April 28, 2020: The Supervisory Board of Tarkett (Euronext Paris: FR0004188670 TKTT) met today and reviewed the Group's consolidated results for the first 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	Q1 2020	Q1 2019	Change
Net sales	**610.7**	**624.5**	***-2.2%***
of which organic growth	*-2.9%*	*+3.7%*	
Adjusted EBITDA (as reported)	**42.4**	**43.1**	
% net sales	*6.9%*	*6.9%*	

Commenting on these results, **CEO Fabrice Barthélemy** said*: "We had a promising start to the year, but the pandemic's spread and the lockdown measures penalized the end of the quarter. The management team immediately focused on protecting the health and safety of our employees and partners. We also took immediate actions to adapt to the lower activity we are anticipating in the second quarter including cost reduction and cash preservation measures. Thanks to the proven agility, creativity and full dedication of our teams, we have been able to maintain the service level required by our customers.*
While tightly managing the company in this uncertain environment, we are also pursuing our strategic initiatives and maintaining our focus on our strong expertise in key end-user markets. Tarkett has already faced downturns and demonstrated resilience. I am convinced we are well positioned to benefit from the recovery when it materializes. "

1. Net sales by segment

	Net sales			
€ million	Q1 2020	Q1 2019	Change	o/w LfL
EMEA	227.7	239.0	-4.7%	-3.7%
North America	196.1	195.8	+0.2%	-2.8%
CIS, APAC & LATAM	109.7	112.5	-2.5%	-1.1%
Sports	77.1	77.2	-0.0%	-3.3%
Total Group	**610.7**	**624.5**	**-2.2%**	**-2.9%**

The EMEA segment reported net revenues of €227.7 million, down -4.7% compared to Q1 2019, reflecting a revenue decline of -3.7% on a like-for-like basis and unfavorable exchange rate fluctuations, mainly due to the Swedish and Norwegian krona. The organic decline reflected a negative volume effect which was partially offset by selling price increases. The level of activity was in line with managements' expectations until mid-March, with organic growth roughly stable. The deployment and strengthening of lockdown measures at the end of the quarter resulted in the halt of construction projects and the shutdown of flooring retailers and distributors in some countries, particularly in Southern Europe. Consequently, demand was suddenly and significantly reduced in the region, outside the Nordic region and Germany which remained solid throughout the quarter. Some manufacturing sites were temporarily closed in late March, but all these sites reopened in mid-April and now operate at reduced capacity.

The North American segment reported net revenues stable compared to last year, as the appreciation of the dollar versus the euro fully covered the -2.8% revenue decline on a like-for-like basis. Until late March, business trends were improving after a depressed Q4 2019. Commercial carpet was better oriented than initially anticipated and grew with the exception of hospitality. The pandemic spread and the escalation of travel restrictions affected the hospitality segment in the quarter, while revenues remained lower than last year in residential activities. Shelter-in-place were extended to Canada and most US states by the end of March, generating some disruptions at quarter end. The manufacturing site in Canada has been shut down due to the lockdown measures, as well as one site in the US in early April, which has reopened since then.

Net revenues in **the CIS, APAC and Latin America segment** were down -2.5% in Q1 2020, driven by a revenue decline of -1.1% on a like-for-like basis and unfavorable exchange rate fluctuations, mostly due to the Brazilian real. In CIS countries, the volume effect was slightly positive in spite of a challenging environment. Further, the lag effect (net effect of currency and selling price adjustments) was positive during the quarter. The level of activity in Latin America remained dynamic until shelter-in-place was deployed at the end of March. In China, revenues were significantly hit in February, but the activity was close to normal in March. The level of activity in the rest of Asia has also been affected by the coronavirus crisis in February and March.

Net revenues of the **Sports segment** were stable compared to Q1 2019 as the positive forex impact related to the dollar appreciation versus the euro offset a revenue decline of -3.3% on a like-for-like basis. Revenues in North America, which represents 80% of the business, were slightly up notwithstanding a tough comparison basis and some delays in both turf and track activities due to weather conditions. The acceleration of lockdown measures mid-March led to the sudden halt of projects in Europe, resulting in a material decrease in revenues in the region in March. Australia was affected by the bush fires at the beginning of the quarter and by lockdown measures at the end of the quarter. While installation is still possible in most US states, projects are still halted in EMEA for the moment.

2. Adjusted EBITDA

Reported adjusted EBITDA amounted to €42.4 million in Q1 2020. The adjusted EBITDA margin was at 6.9% and remained stable compared to Q1 2019 in spite of the revenue decrease.

The volume effect was negative in Q1 2O20, reflecting the lower volumes since mid-March due to the coronavirus outbreak. Selling prices were resilient and stable compared to Q1 2019. Raw material costs started to decline in Q1 2020. As a result, purchasing costs, including freight and energy, improved by €3.7 million compared to last year and supported profitability in the quarter. Salary increases amounted to €4.4 million year-over-year, reflecting wage increases given in 2019 and early 2020 .

Cost savings amounted to €7.7 million in Q1 2020. Net productivity gains from operations totaled €2.4 million and SG&A costs were reduced by €5.3 million during the quarter. Tarkett substantially accelerated SG&A cost savings due the expected sharp slowdown in activity. This set of measures came on top of cost actions that have been implemented as part of the Change to Win strategic plan.

Exchange rates (CIS countries excluded) recorded a negative effect amounting to -€1.7 million. The appreciation of the dollar versus the euro was fully offset by unfavorable exchange rate fluctuations related to Norwegian krona and Brazilian real. The net impact of currency and selling-price movements in the CIS countries had a further positive effect (lag effect of €2.0 million).

3. Covid-19 action plan

Tarkett would like to stress that its number one priority is to protect the health and safety of its employees and their families. The Group is implementing all necessary measures to avoid the risk of contamination, while allowing the continuity of production and service to its customers.

As the lockdown measures have been strengthened and extended to most countries and regions, Tarkett is expecting its activity to be severely hit in the second quarter. The Group is now seeing impacts on demand in all its key geographies outside China. The activity in April has significantly slowed down and sales are expected to be down around -40% compared to April 2019.

A vigourous set of measures has been implemented since mid-March in order to mitigate the negative impact on profitability and protect cash-flows, including:

- Temporary lay-offs and reduction in working time in all locations concerned, including for support functions, in accordance with schemes proposed by local governments;
- Drastic reduction of discretionary costs, deferral of expenses, hiring freeze and cancellation of projects;
- Capex will be limited to safety and a selection of key productivity projects. They should be significantly reduced to around €80 million compared to €125 million in 2019;
- Cancellation of the dividend initially proposed, as communicated on March 18th.

In addition, on April 9th CEO Fabrice Barthélemy pledged to reduce his fixed compensation by 20% as long as the Group uses temporary lay-offs and reduction in working time schemes. The executive management committee has unanimously followed this initiative. The board of Directors have also decided to reduce their annual director's fees.

4. Liquidity

At the end of March, the Group had a cash position of €217 million and available undrawn credit lines above €500 million, out of which €443 million are confirmed. Gross debt before application of IFRS 16 amounted to €887 million at the end of March (out of which €2 million to repay before year end).

Given the extraordinary circumstances, Tarkett has initiated discussions to set up additional lines with its main banks, including credit lines guaranteed by the French government. These discussions also aim at obtaining a waiver of its financial covenant for 2020 (leverage of 3.5x end of June and 3.0x end of December).

5. Outlook

Given the unprecedented level of uncertainty, accurate impacts of the Covid-19 crisis cannot be quantified at the moment for the first half nor for the full year. They will depend on many different factors including the duration of the pandemic and the prevention and support measures adopted by local governments.

In this context, Tarkett expects some inflation driven by logistics and will keep managing its selling prices to offset such impacts. Raw material prices which started decreasing in Q1 2020 are expected to further decline in the second half given recent oil price levels. As a result of the action plans detailed above, cost savings are expected to be well above the €30 million annual target. The evolution of raw material prices and cost actions will help mitigate the effect of reduced demand and production disruptions.

Notwithstanding these actions, the current situation will likely affect the adjusted EBITDA for the second quarter and the full year. Tarkett is therefore not in a position to confirm its leverage ratio target (i.e. Net Debt to adjusted EBITDA comprised between 1.6x and 2.6x at the end of the year), as announced in the press release of the 8th of Aril 2020.

This challenging context does not prevent Tarkett from pursuing its strategic initiatives to deliver on its mid-term financial objectives by 2022. Tarkett has solid assets and is well-positioned to benefit from the recovery:

- Balanced portfolio between geographies, end markets and channels;
- Local manufacturing and supply model, which provides little reliance on long-distance imports;
- Manufacturing processes enabling quick implementation of social distancing in plants and flexible production capacity;
- A good social dialog allowing to maintain operations and to rapidly reopen manufacturing sites which have been temporarily shut down;
- Leadership positions in Healthcare and Aged care, that should benefit from stimulus plans and public investment on top of short-term projects;
- Long-term commitment towards circular economy.

*The analysts' conference will be held on **Wednesday April 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

Annual General Meeting – April 30, 2020
In compliance with French regulations, the 2020 Shareholder's Meeting will exceptionally be held in closed session. A live audio webcast will be made available to allow shareholders to follow the meeting and presentation. Shareholders will be able to vote either by post ahead of the Meeting or by giving a proxy to the Chairman of the Shareholders' Meeting. It has been decided to appoint Fabrice Barthélemy, Group CEO and Wendy Kool-Foulon, Group Legal Director, and, both shareholders of the Company, as scrutineers. Eric La Bonnardière, Chairman of the Supervisory Board, will chair the Shareholders' Meeting.

Financial calendar

- April 30, 2020: Annual General Meeting
- July 29, 2020: Q2 and Half Year 2020 financial results – *press release after close of trading on the Paris market and conference call the following morning*
- October 20, 2020: Q3 2020 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 €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/ 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 2020, a +€0.1 million positive 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	2020	2019	% Change	o/w exchange rate effect	o/w scope effect	o/w organic growth
Total Group – Q1	610.7	624.5	-2.2%	+0.7%	-	-2.9%

- 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.

2/ Bridges (€ million)

Net sales by division

Q1 2019	624.5
+/- EMEA	-8.9
+/- North America	-5.4
+/- CIS, APAC & LATAM	-1.2
+/- Sports	-2.6
Q1 2020 Sales Like for Like	**606.4**
+/- Currencies	+4.1
+/- Selling price lag effect in CIS	+0.1
Q1 2020	**610.7**

Adjusted EBITDA by nature

Q1 2019	43.1
+/- Volume / Mix	-9.5
+/- Sales Pricing	-0.3
+/- Raw Material & Freight	+3.7
+/- Productivity	+2.4
+/- SG&A	+5.3
+/- Salary Increase	-4.4
+/- Currencies	-1.7
+/- Selling price lag effect in CIS	+2.0
+/- One-offs & Others	+1.9
Q1 2020	**42.4**

3/ Q1 adjusted EBITDA

€ million	Q1 2020	Q1 2019	Q1 2020 margin	Q1 2019 margin
Adjusted EBITDA excl. IFRS 16	34.6	35.8	*5.7%*	*5.7%*
Reported adjusted EBITDA	42.4	43.1	*6.9%*	*6.9%*