Press Release

Tarkett Group

First quarter 2019 results:

Robust organic growth
Selling prices increases fully offsetting purchasing cost inflation
Focus on profitability supported by the optimization of North America industrial footprint

Paris, April 24, 2019

<u>Highlights</u>

- **Solid organic growth[(1)] in Q1 2019 (+3.7% vs. Q1 2018), driven by EMEA (+5.8%) and Sports (+19.4%)**
- **Net revenues at €625 million, up 10.0% at current exchange rates versus Q1 2018, reflecting organic growth, the integration of Lexmark in the US and a positive forex impact (US$-driven)**
- **Selling price increases fully offset persistent inflation of raw material and freight costs**
- **Q1 2019 adjusted EBITDA[(2)] before IFRS 16 at €36 million or 5.7% of revenues, up 20% with 50bps margin improvement versus Q1 2018 (€30 million or 5.2% of revenues)**
- **Manufacturing optimization plan in North America announced in April to extract synergies from Lexmark integration and reduce cost base in the region**
- **Group's 2019 focus on sustainable profitability improvement and deleveraging**

(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.

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

"In the first quarter of 2019, Tarkett achieved sound organic growth driven by a good dynamic in EMEA and continuing momentum in Sports. In North America, the focus has been on improving operational efficiencies. In the CIS and Latin America, our proactive pricing policy enabled us to offset adverse currency movements. The business environment remained challenging with inflationary raw material and freight costs. We are very satisfied that pricing increases implemented in 2018 fully covered cost inflation in the first quarter. We will continue to manage the sales pricing with this aim and remain focused on our 2019 top priorities of sustainable profitability improvement and deleveraging."

Q1 2019 Sales by segment

€ million	Q1 2019	Q1 2018	Change (%)	of which 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%
Group Net Revenues	**624.5**	**567.9**	**+10.0%**	**+3.7%**

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Group net revenues saw a sustained rate of growth (+10%) in the first quarter of 2019 with **organic growth (+3.7%)** adding €22 million of revenues compared to Q1 2018 **and** with **the integration of Lexmark** and other 2018 bolt-on acquisitions **(+3.8%)** contributing €22 million. It also comprised a **positive forex impact (+2.4%)** of €14 million, mainly related to the appreciation of the dollar versus the euro.

The EMEA segment benefitted from a favorable comparison to a soft first quarter in 2018 with revenues up 5.8% on a like-for-like basis. This performance mostly derived from volume increase during the quarter. Sales in the UK and Scandinavia were particularly strong; they were sustained in Central Europe and stable in France but slowing down in Turkey and Middle East. Reported revenues were up 4.7%, negatively impacted by currency accounting for 1.1%, penalized by adverse exchange-rate movements affecting the Swedish krona.

The North America segment was down 0.6% year-on-year on a like-for-like basis as selling prices were materially raised and almost fully offset volume decrease. Commercial carpet activity sales stabilized in the quarter and revenues in resilient flooring were slightly below last year's levels after a buoyant 2018. The integration of Lexmark led to a positive perimeter impact of 12.4% representing most of the revenue growth during the quarter. Reported revenues were up 19.7%, including Lexmark contribution and a positive impact of 8.0% through the appreciation of the dollar versus the euro.

Sales across **the CIS, APAC and Latin America segment** declined by 2.2% on a like-for-like basis. Revenues in the CIS region declined on a like-for-like basis during the quarter reflecting a volume decrease; this was partially mitigated by a mix improvement. The level of activity in Brazil and Latin America continued to significantly grow on a like-for-like basis, driven by sustained volumes and prices increases. Revenues in APAC are down year-on-year mostly reflecting a lower activity in Australia. Reported revenues were down 3.2%, affected by a negative effect of currency movements for 1.0% due to the depreciation of the Russian ruble and the Brazilian real versus the euro.

Strong momentum in **Sports** continued in the first quarter, which is structurally low due to the segment's seasonality. Revenues grew by 19.4% on a like-for-like basis. Reported revenues were up 29.1% thanks to the 2018 bolt-on acquisitions (Thermagreen, The Tennis & Track Company and Grassman) for 2.6%. The appreciation of the dollar versus the euro generated a positive effect of 7.0% during the quarter.

Adjusted EBITDA (2)

€ 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	-	
Adjusted EBITDA as reported	**43.1**	**29.8**	***+44.6%***
% of sales	*6.9%*	*5.2%*	*170bps*

(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.

Tarkett reported an adjusted EBITDA of €43 million in the first quarter of 2019, after the application of the IFRS 16 accounting standard. The Group's **adjusted EBITDA before IFRS 16 application** amounted to **€36 million** in **Q1 2019,** up 20% versus last yea**r**. **EBITDA margin before IFRS 16** came in at **5.7% compared to 5.2% in Q1 2018,** a 50 basis point improvement versus last year.

Raw material and freight costs remained inflationary over the course of the quarter and increased by €7.7 million versus last year. This negative impact has been more than offset by selling prices increases which were implemented in 2018 and generated a positive impact of €8.1 million in the first quarter of 2019. In the CIS countries, the actions taken in 2018 to neutralize adverse currency movements continued to pay off as the net impact of currencies and selling prices evolution ("lag effect") was positive at €0.9 million.

Net productivity gains amounted to €4.1 million, an improving trend versus the last two quarters but still not at Group's targets. The difficulties experienced at two factories in North America last year are progressively being resolved. Normal wage increases and higher SG&A, partially due to higher year-on-year marketing spending including an increased participation in tradeshows, dragged down the adjusted EBITDA by €5.3 million.

The addition of Lexmark and acquisitions in the Sports segment, which were completed in 2018, improved the adjusted EBITDA by €4.8 million during the quarter. Lexmark was the main contributor to the change in scope and its integration is moving forward as planned. The former Lexmark team is now in charge of the North America hospitality business unit and leverages Tarkett's full product ranges, especially the Luxury Vinyl Tiles (LVT) products.

Industrial footprint optimization

The Group announced in April an optimization plan of its manufacturing operations in North America. The manufacturing of flooring accessories in Waterloo (Canada) will transition to the recently expanded Chagrin Falls (Ohio, US) facility with the aim of improving the cost base of this business. The manufacturing of broadloom commercial carpets in Truro (Canada) will be transferred to the Dalton (Georgia, US) facility which was acquired with the purchase of Lexmark allowing to extract the planned cost synergies. Both movements will also enable logistics and shipments to be optimized. The closure of the Waterloo and Truro facilities is expected to be completed by the end of the year.

These moves resulted from Tarkett's decision to optimize its industrial footprint, which is one of the Group's top priorities. The Group already launched the process to close the jointly-owned LaminatePark plant in Germany. The closure of this site is planned by the end of 2019.

Restructuring costs related to these actions are estimated at around €25 million for 2019, with most of the cash out expected in the second half. Overall these actions will generate around €10 million of savings on an annualized basis.

Outlook

Tarkett confirms that its business environment has not changed since February 2019 and the overall market conditions are more difficult than in 2018.

In this context, Tarkett is pursuing its efforts to improve the cost structure and has already implemented a set of measures for that purpose. The Group will maintain its focus on productivity gains and optimizing its industrial footprint which will support its priority to restore profitability. Working capital and capex will also continue to be tightly managed, enabling to increase its free cash flow generation and to deleverage.

The environment remains inflationary as demonstrated by the recent oil pricing rally, notwithstanding a softer purchasing cost inflation expected by the Group in the second quarter. In this context, the Group now expects an adverse impact comprised between €15 million and €20 million in 2019 (versus €15 million expected previously). Tarkett will continue to manage its sales pricing with the aim of offsetting purchasing cost inflation.

Governance

Tarkett announced new leadership in North America with the **appointment of Jeff Fenwick as President & CEO of Tarkett North America** after a short interim period. In his previous position, Jeff was the Chief Operating Officer for Tarkett North America, where he was responsible for leadership of the commercial and residential sales and customer service organizations.

The analysts' conference will be held on Thursday April 25, 2019 at 11:00 am CEST and an audio webcast service (live and replay) along with the results presentation will be available on www.tarkett.com.

Financial calendar

- April 26, 2019: Annual General Meeting
- June 19, 2019: Investor Day
- July 23, 2019: H1 2019 financial results - *press release after close of trading on the Paris market and presentation in person the following morning*
- October 23, 2019: Q3 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 36 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 "Doing Good. Together.", the Group has implemented an eco-innovation strategy based on Cradle to Cradle® principles and promotes circular economy, with the ultimate goal of contributing to people's health and wellbeing, 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

Change in sales by segment in the first quarter (€ million)

Q1 2018	**567.9**
+/- EMEA	+13.2
+/- North America	(1.0)
+/- CIS, APAC & Latin America	(2.6)
+/- Sports	+11.3
Q3 2018 sales like-for-like[(1)]	**588.8**
+/- Scope	+21.8
+/- Currencies	+14.2
+/- Selling price lag effect in CIS	(0.6)
Q1 2019	**624.5**

(1) Like-for-like: a constant scope and exchange rates. (NB: In the CIS, price increases implemented to offset currency fluctuations are not included in organic growth, which therefore only reflects volume and price effects). See the definition of alternative performance indicators at the end of this press release.

Change in adjusted EBITDA by segment in the first quarter (€ million)

Q1 2018	**29.8**
+/- Currencies	+0.7
+/- Selling price lag effect in CIS	+0.9
+/- Volume / Mix	+0.5
+/- Selling prices	+8.1
+/- Purchasing prices	(7.7)
+/- Productivity	+4.1
+/- Scope	+4.8
+/- Salary increase, SG&A and other	(5.3)
+/- IFRS 16 impact	+7.3
Q1 2019	**43.1**

3/ Definition of alternative performance measures (not defined under IFRSs)

The Tarkett Group uses the following non-IFRS financial indicators:

- Organic growth
- Adjusted EBITDA
- Net cash flow from operations

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 and Turkey 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*	of which organic growth
Total Group – Q1	624.5	567.9	+10.0%	*+2.4%*	*+3.8%*	*+3.7%*

- **Adjusted EBITDA**:
  - Adjusted EBITDA is calculated by deducting the following income and expenses from operating income 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 reversals of provisions relating to impairment losses;
    - costs arising on corporate and legal restructuring;
    - share-based payment expenses;
    - other one-off items considered non-recurring owing to their nature.

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 by an amount of around €100 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 €27 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	8
North America	8
CIS, APAC & Latin America	5
Sports	3
Central	3
Group's estimated IFRS 16 impact for 2019	**27**

Forward Looking Statement

The information contained in this press release has not been independently verified and no express or implied representations or warranties are made as to the fairness, accuracy, completeness or correctness of the information or opinions set out herein.

This press release may contain estimates and/or forward-looking statements. These do not represent forecasts of Tarkett's results or other performance indicators, but rather trends or targets as appropriate. These statements are inherently subject to risks and uncertainties, most of which are outside Tarkett's control, including but not limited to the risks described in Tarkett's registration document, the French version of which was filed on March 21, 2018 and is available on www.tarkett.com. These risks and uncertainties include those discussed or identified in the "Risk factors" section of its registration document filed with the AMF. These statements do not constitute guarantees as to Tarkett's future performance, which may differ materially from these forward-looking statements. Tarkett disclaims any intention or obligation to update these forward-looking statements in light of events or circumstances that may arise subsequent to the date of publication of this press release.