Tarkett

Press release

Tarkett Group

H1 results: performance reflecting progressive sales recovery and inflation in purchasing and freight costs in Q2

Q2 and Half Year 2021 Results

- **Net revenues up +2.0% in H1 2021 versus H1 2020 thanks to Q2 2021 performance (revenues up +16% organically in Q2 2021), reflecting organic growth of +6.3% and negative forex impacts;**
- **Adjusted EBITDA at €112.7 million in H1 2021, or 8.9% of net revenues (versus 8.6% in H1 2020) as margin recovery was impeded by inflation in purchasing and freight costs in Q2;**
- **Adjusted EBIT of €37.9 million versus €25.1 million in H1 2020;**
- **Net profit breakeven in H1 2021 compared to a loss of -€64.9 million in H1 2020, which included a non-cash impairment charge of -€54 million;**
- **Free cash flow of -€43.9 million in H1 2021, a lower cash consumption than its usual seasonality reflecting a low level of inventories due to shortages in the supply chain;**
- **Net debt at €523.6 million well under control, reflecting a net financial leverage of 1.8x (after IFRS16 application) at the end of June 2021 compared to 2.8x at end of June 2020;**
- **Recovery remains muted due to slow improvement in Workplace and Hospitality. Inflation in purchasing costs and raw material shortages accelerated recently, resulting in a negative inflation impact now estimated at €130 million in 2021 (versus €100 million anticipated in April);**
- **Therefore the Group expects its 2021 Adjusted EBITDA margin to be below its 2020 margin of 10.6%. The Group confirms, as announced in April, that it will not reach its mid-term target (at least 12%) by 2022 and anticipates that it will be delayed by at least one year.**

Paris, July 29, 2021: The Supervisory Board of Tarkett (Euronext Paris: FR0004188670 TKTT) met today and reviewed the Group's consolidated results for the half year of 2021.

The Company uses alternative performance indicators (not defined by IFRS) described in appendix 1 (page 6):

€ million	H1 2021	H1 2020	Change
Net sales	**1,261.2**	**1,237.0**	**+2.0%**
of which organic change	*+6.3%*	*-*	
Adjusted EBITDA	**112.7**	**106.3**	**+6.0%**
% net sales	*8.9%*	*8.6%*	
Adjusted EBIT	**37.9**	**25.1**	**+50.8%**
% net sales	*3.0%*	*2.0%*	
Result from operations (EBIT)	**30.2**	**-43.6**	**-169.4%**
% net sales	*2.4%*	*-3.5%*	
Net profit attributable to owners of the Company	**0.3**	**-64.9**	**-100.4%**
Fully diluted Earnings per share (€)	*0.00*	*-1.00*	
Free cash-flow	**-43.9**	**-75.9**	**-42.2%**
Net Debt	**523.6**	**728.0**	**-28.1%**
Leverage (net debt to adjusted EBITDA)	*1.8x*	*2.8x*	

1. H1 Net sales and Adjusted EBITDA by segment

in euro millions	Net Sales H1 2021	Net Sales H1 2020	% change	Organic change	Adjusted EBITDA H1 2021	Adjusted EBITDA H1 2020	H1 2021 Margin	H1 2020 Margin
EMEA	445.3	405.6	*+9.8%*	*+8.7%*	59.1	46.6	*13.3%*	*11.5%*
North America	352.4	357.7	*-1.5%*	*+6.9%*	27.4	32.5	*7.8%*	*9.1%*
CIS, APAC & LATAM	254.7	222.9	*+14.3%*	*+20.1%*	39.2	32.4	*15.4%*	*14.5%*
Sports	208.9	250.7	*-16.7%*	*-10.7%*	12.4	18.9	*6.0%*	*7.6%*
Central Costs	-	-	-	-	(25.4)	(24.1)	-	-
TOTAL	**1,261.2**	**1,237.0**	***+2.0%***	***+6.3%***	**112.7**	**106.3**	***8.9%***	***8.6%***

The EMEA segment reported net revenues of €445.3 million, up +9.8% reflecting an organic growth of +8.7% and negative forex impacts mostly related to the Swedish krona. The organic increase reflected solid growth in Residential and improved trends in Commercial thanks to Healthcare and Education. Workplace was still affected by the lack of investment decisions and therefore commercial carpet sales remained lower than last year. The level of activity was particularly dynamic in France, Italy and Portugal which recorded a rapid recovery and reported revenues above 2019 levels.

The EMEA segment recorded an Adjusted EBITDA margin of 13.3%, up 180 basis point compared to H1 2020. This improvement reflected the volume recovery coupled with solid cost reduction, but was partially offset by further increase in purchasing and freight costs. In addition, shortages of raw materials and lower freight availability contributed to the inflation. Therefore additional selling prices increases were implemented at the end of the semester.

The North American segment reported net revenues of €352.4 million, down -1.5% compared to H1 2020, reflecting an organic growth of +6.9% and a negative forex impact related to the depreciation of the dollar versus the euro over the period. After a tough start of the year, revenues in Commercial started recovering in Q2, mainly driven by Healthcare and Education. Hospitality improved gradually compared to last year, but Workplace was still lagging behind. As a result, carpet sales remained weak in the first half, while resilient products recorded solid growth. Rubber and accessories products also progressed. The activity in Residential remained very dynamic reflecting solid trends in home renovation and new construction.

The Adjusted EBITDA margin amounted to 7.8% in H1 2021 compared to 9.1% in H1 2020, reflecting a negative mix related to lower carpet volumes and inflation in purchasing and freight costs, which started earlier in the region and have been particularly significant in the first half. Therefore Tarkett has implemented additional selling price increases to mitigate the inflation impact. In addition, the Group's cost reduction actions were successful in further improving the cost structure.

Net revenues in **the CIS, APAC and Latin America segment** amounted to €254.7 million, up 14.3% compared to H1 2020, largely driven by a very strong organic growth (+20.1%). Volumes continued to increase significantly in CIS countries thanks to a dynamic demand for residential products. The growth, however, slowed down at the end of the first semester due to new lockdowns and some product availability issues related to raw material shortages. This strong performance was mitigated by a negative currency effect owing to a weaker rubble, partially offset by several rounds of selling price increases (the net effect on sales of currency and selling price adjustments in the CIS amounts to -€9.4m). The level of activity in APAC progressed and the order book improved despite new lockdowns. Revenues grew in Latin America thanks to a solid performance in Brazil, mostly driven by the success of the LVT offer and significant selling price increases to offset Brazilian real weakening.

The CIS, APAC and Latin America segment reached an Adjusted EBITDA margin of 15.4% in H1 2021, up 90 basis points versus H1 2020. Profitability increased as a result of strong growth in CIS countries coupled with further cost savings. Tarkett also significantly increased its selling prices to compensate for the currency depreciation and also to partially offset the inflation in raw materials and freight.

Net revenues of the **Sports segment** amounted to €208.9 million, down -16.7% mostly reflecting an organic decline of -10.7% and a negative forex impact related to the depreciation of the dollar versus the euro. Several projects were postponed and cancelled at the beginning of the year. Sales remained below last year but the order book started improving in Q2. The revenue decrease was mostly driven by North America, which demonstrated a solid resilience in H1 2020. In that region, the slowdown affected artificial turf and running tracks businesses in North America, partially offset by improvements in EMEA.

Sports recorded an Adjusted EBITDA margin of 6.0%, down 160 basis point compared to H1 2020. This decrease was mostly driven by the lower activity and higher purchasing and freight costs.

2. Group H1 2021 results

Group net revenues amounted to €1,261.2 million, up +2% on a reported basis and +6.3% organically compared to H1 2020 thanks to a favorable comparison basis (H1 2020 revenues were down -12.6% organically). After a challenging first quarter, like-for-like revenues grew in Q2 driven by solid growth in residential across Tarkett's key segments and soft recovery in commercial. Some end-user commercial segments are still penalized by the lack of investment decisions. The CIS, APAC and Latin America segment remained very dynamic throughout the first half, while EMEA and North America started recovering in Q2. In Sports, the level of activity was still down compared to H1 2020 which was particularly resilient notwithstanding the pandemic. While the number of projects is still lower than last year, the order book is however showing some improvement.

Adjusted EBITDA amounted to €112.7 million in H1 2021 compared to €106.3 million in H1 2020 and reached 8.9% of net sales compared to 8.6% in H1 2020. The improvement was driven by volume recovery that resulted in a positive impact on the Adjusted EBITDA of +€18.0 million in H1 2021.

As announced previously, inflation in raw material and freight costs intensified throughout the first half. Purchasing costs penalized the Adjusted EBITDA by -€38.1 million compared to H1 2020 reflecting higher raw material prices and rapidly increasing freight costs. Shortages in the supply chain were numerous and contributed to the cost increase and resulted in a low level of inventories for the season. In response to this inflation, Tarkett has been implementing additional selling price increases. Sales pricing generated a positive impact of €12.0 million, offsetting around one third of purchasing costs inflation. Salary increases amounted to -€5.2 million year-over-year, reflecting contained wage increases of 2020 and 2021.

Tarkett remained focused on improving its cost base and pursue its Change to Win initiatives to improve the cost structure. In total, the Group delivered €46.9 million of cost savings in H1 2021, out of which €27.2 million of productivity gains and €19.7 million of SG&A cost reduction. Structural cost savings amounted to €38 million and will be well above the initial target of €30 million in 2021.

Exchange rates (CIS countries excluded) had a positive effect amounting to +€0.9 million, as the impact of the dollar depreciation versus the euro and negative exchange rates in Sweden were fully offset at the Adjusted EBITDA level. The net impact of currency and selling price movements in the CIS countries also had a positive effect (lag effect of +€3.0 million) as significant selling prices increases were deployed in the region to offset the ruble depreciation and mitigate raw material inflation.

EBIT amounted to €30.2 million and **Adjusted EBIT** to €37.9 million. Depreciation and amortization was down compared to H1 2020 due to the asset impairment recorded in H1 2020 and last year capex containment. **The adjustments to EBIT** (details in Appendix 1) represented €7.7 million in H1 2021, including restructuring costs of €5.9 million due to the global footprint optimization and SG&A cost savings program. A gain of €2 million on asset disposal is also recorded in H1 2021, while adjustments included a non-cash impairment charge of - €54 million and tax write-off of -€4 million in H1 2020.

Financial expenses increased by €3.0 million to reach -€19.7 million in H1 2021. The decrease in interest expenses driven by lower financial debt was offset by one-off costs related to the Schuldschein refinancing. Financial leases remained stable year-over-year. **Income tax** charge amounted to -€10.6 million in H1 2021, reflecting the non recognition of deferred tax assets related to losses carried forward, mainly in France and higher BEAT tax in the US and CVAE in France reflecting the profit improvement compared to last year. **Net profit** was breakeven in H1 2021 compared to a loss of €64.9 million in H1 2020.

3. Balance sheet and cash flow statement

In the first half of 2021, Tarkett recorded a negative change in working capital which was lower than previous years. Due to the seasonality of the business, Tarkett is usually increasing its inventories during the first half in view of Q3 activity peak. Since the end of Q1 2021, shortages and disruptions in the supply have been numerous, notably for oil derivatives. As a result, inventory levels were lower than usual at the end of June and seasonality was less pronounced.

At the end of June, Tarkett had transferred €132 million of receivables to the non-recourse factoring program, which is almost stable compared to the end of December 2020 with a decrease limited to -€1.3 million. The non-recourse factoring program is excluded from the net debt calculation.

The Group continued to tightly manage its capital spending, which was still controlled in the first half. **Capex** amounted to €24 million in H1 2021, versus €34 million in H1 2020.The Group plans to increase its capital spending in the second half compared to last year.

Tarkett generated a **free cash-flow** of -€43.9 million in H1 2021, a lower cash consumption than its usual seasonality reflecting a low level of inventories.

Gross debt amounted to €681.0 million and cash to €157.3 million at the end of June 2021. **Reported net financial debt** amounted to €524 million at the end of December including €109 million of leases recorded under IFRS 16 (vs. net financial debt of €728 million at the end of June 2020). This represents a **financial leverage of 1.8x** Adjusted EBITDA at the end of June 2021, which is at the low end of the mid-term target range set up by the Group upon announcement of Change to Win strategic roadmap in June 2019 (Adjusted EBITDA to Net Debt after application of IFRS 16 comprised between 1.6x and 2.6x at each year-end).

4. 2021 Outlook and mid-term financial objectives

Residential has been growing in H1 across Tarkett's key regions and is expected to keep on growing in H2. In Sports, the pipeline of activity started recovering in Q2 and the order book has improved. In other commercial segments, demand remains globally below 2019 levels, particularly in Workplace and Hospitality. As a result, the Group expects its revenue growth to slowdown in H2 2021 compared to Q2 2021, which benefitted from a favorable comparison basis.

In this context of progressive recovery, Tarkett is pursuing its Change to Win strategic roadmap to foster sustainable growth and gain market shares. The Group is also maintaining a strong focus on improving its cost structure and pursuing its cost reduction initiatives, including actions on its industrial footprint and on the SG&A cost base. Tarkett expects to generate at least €50 million of structural cost reduction in 2021 (compared to €30 million initially expected as announced in February 2021).

Raw material prices and freight costs further increased in Q2 2021, and Tarkett now expects inflation impact to be around €130 million in 2021 (versus €100 million anticipated at the end of April). Tarkett is proactively managing its selling prices to mitigate this inflation and has already planned additional selling price increases in flooring in H2.

Given this inflationary context and the slow recovery of some commercial segments, Tarkett confirms that the 2022 Adjusted EBITDA margin objective of at least 12% will be achieved later than initially anticipated. The Group now anticipates it will be delayed by at least one year, at the soonest in 2023.

The Group plans to increase its capital spending compared to the constrained level of 2020. Notwithstanding higher working capital requirements, the Group anticipates to generate positive free cash flow in 2021. With net financial leverage at 1.8x at the end of June, Tarkett is already operating within its target 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 audited consolidated financial statements for 2021 interim results are available on Tarkett's website https://www.tarkett.com/en/content/financial-results. The analysts' conference will be held on Friday July 30, 2021 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.

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

- October 28, 2021: Q3 2021 financial results - *press release after close of trading on the Paris market and conference call the following morning*

Investor Relations Contact

Investors@tarkett.com

Media contacts

Tarkett - Véronique Bouchard Bienaymé - communication@tarkett.com
Brunswick - tarkett@brunswickgroup.com - Tel.: +33 (0) 1 53 96 83 83

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 H1 2021, a -€9.4 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 H1 2021	Net Sales H1 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%
Total Group – Q2	702.4	626.3	+12.1%	-4.0%	-	+16.2%
Total Group - H1	**1,261.2**	**1,237.0**	**+2.0%**	**-4.3%**	**-**	**+6.3%**

- **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 H1 2021	Adjusted EBITDA H1 2020	% margin 2021	% margin 2020
Total Group – Q1	34.0	42.4	+6.1%	+6.9%
Total Group – Q2	78.7	64.0	+11.2%	+10.2%
Total Group – H1	**112.7**	**106.3**	**+8.9%**	**+8.6%**

€ million		Of which adjustments					
	H1 2021	Restructuring	Gains / losses on assets sales / impairment	Business combination	Share-based payments	Other	H1 2021 adjusted
Result from operating activities (EBIT)	**30.2**	**5.9**	**(2.0)**	**0.0**	**1.7**	**2.0**	**37.9**
Depreciation and amortization	74.9	-	0.1	-	-	-	74.9
Others	(0.2)	-	-	-	-	-	(0.2)
EBITDA	**104.9**	**5.9**	**(1.9)**	**0.0**	**1.7**	**2.0**	**112.7**

- **Free cash-flow** is defined as cash generated from operations, plus or minus the following inflows and outflows: working capital, payment of lease liabilities, net capital expenditure (investments in property plant and equipment and intangible assets net from proceeds), net interest received (paid), net income taxes collected (paid), and miscellaneous operating items received (paid).

Free cash-flow reconciliation table (in € million)	H1 2021	H1 2020
Operating cash flow before working capital changes excl. payment for lease liabilities	**103.2**	**96.4**
Payment of lease liabilities	(16.4)	(16.4)
Operating cash flow before working capital changes	**86.9**	**80.0**
Change in working capital *o/w change in factoring programs (implemented in 2019)*	(77.9) *1.3*	(102.2) *(16.7)*
Net interest paid	(9.7)	(11.1)
Net taxes paid	(15.3)	(4.1)
Miscellaneous operational items paid	(3.9)	(4.9)
Acquisitions of intangible assets and property, plant and equipment	(29.8)	(35.6)
Proceeds from sale of property, plant and equipment	5.9	1.9
Free Cash Flow	**(43.9)**	**(75.9)**

- **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 December, the financial leverage as per our credit documentation was at 1.5x 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.

in million euros		June 2021	December 2020	June 2020
Net Financial Debt	**A**	**524**	**474**	**728**
of which Lease Liabilities		109	109	97
Net Financial Debt pre-IFRS 16	**B**	**414**	**365**	**631**
Adjusted EBITDA LTM	C	284	278	260
Lease charge		(31)	(31)	(31)
Adjusted EBTIDA LTM pre-IFRS16	D	254	247	229
Financial leverage	**A/C**	**1.8x**	**1.7x**	**2.8x**
Leverage as per covenants(1)	**B/D**	**1.6x**	**1.5x**	**2.8x**
IFRS16 impact on leverage		0.2x	0.2x	0.0x

(1) 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) FY 2020, H2 and Q4

Net sales by segment

H1 2020	1,237.0
+/- EMEA	35.2
+/- North America	24.7
+/- CIS, APAC & LATAM	44.8
+/- Sports	(26.8)
H1 2021 LfL	**1,314.9**
+/- Currencies	(44.3)
+/- Selling price lag effect in CIS	(9.4)
H1 2021	**1,261.2**

Q2 2020	626.3
+/- EMEA	44.4
+/- North America	46.4
+/- CIS, APAC & LATAM	30.3
+/- Sports	(19.8)
Q2 2021 LfL (1)	**727.6**
+/- Currencies	(24.7)
+/- Selling price lag effect in CIS	(0.5)
Q2 2021	**702.4**

Adjusted EBITDA by nature

H1 2020	106.3
+/- Volume / Mix	18.0
+/- Sales Pricing	12.0
+/- Raw Material & Freight	(38.1)
+/- Salary Increase	(5.2)
+/- Productivity	27.2
+/- SG&A	19.7
+/- Covid action	(25.1)
+/- One-offs & Others	(6.0)
+/- Selling price lag effect in CIS	3.0
+/- Currencies	0.9
H1 2021	**112.7**

Q2 2020	64.0
+/- Volume / Mix	37.9
+/- Sales Pricing	8.6
+/- Raw Material & Freight	(32.4)
+/- Salary Increase	(2.6)
+/- Productivity	17.4
+/- SG&A	7.7
+/- Covid actions	(27.3)
+/- One-offs & Others	(1.3)
+/- Selling price lag effect in CIS	6.0
+/- Currencies	0.7
Q2 2021	**78.7**