Tarkett

Half Year 2021 Results

Friday, 30th July 2021

Operator: …today and thank you for standing by. Welcome to the Tarkett Half Year Results 2021. At this time, all participants are in a listen-only mode. After the speaker's presentation, there will be a question and answer session. To ask a question during this session, you will need to press star one on your telephone. If you require any further assistance, please press star zero. I will now like to hand over the call to your first speaker today, Mr Fabrice Barthelemy. Thank you. Please go head.

Half Year Results 2021

Fabrice Barthelemy

Chief Executive Officer, Tarkett

Overview

Summary

Good morning and thank you for joining our H1 results call. I am Fabrice Barthelemy. I am CEO of Tarkett and this morning I will share the call with Raphael Bauer our CFO.

Before we get into the Q2 and H1 numbers, I would like to say a word on the results of the simplified tender offer that was launched by Tarkett participation on Tarkett shares. The offer is closed since the 9th of July. Following some further share purchases last week, the holding company owned by Deconinck family and by Wendel now owns 88.7% of the share capital and 87.8% of the voting rights of Tarkett.

Moving onto our H1 results. On slide two, you see that our Q2 sales show the strong rebound compared to Q2 2020 with an organic growth of 16%. However, the level of activity is still below the activity of Q2 2019 and this is due mainly to our exposure to some segments like workplace and hospitality that are still depressed worldwide.

In addition, I want to mention that the start of the year was slow in the sports segment, despite now a very strong order book for the remainder of the year.

Residential and healthcare segments have rebounded strongly and our new collections of LVT have been very well received, especially, in Europe.

Our EBITDA margin has improved and is above that of Q2 2019, thanks to a strong consolidation programme. Meanwhile, as you know, we have proceed several waves of price increases in all segments and geographies, in order to offset the sharp rise of raw material and freight costs.

On slide three, over H1 the organic change was plus 6.3% and the EBITDA margin is within 10 basis points of the level of 2019 despite the various strong negative impact of raw material and freight costs.

On slide four, the free cashflow is negative in H1 due to the seasonality of working capital but you see that in spite of that, the cashflow has been actually stronger than usual seasonality would normally suggest due to mainly to lower inventories. Therefore, following that result our leverage is only slightly above the leverage of December 2020 which is actually much lower than the normal seasonality would suggest and the leverage is now down to 1.8 times EBITDA compared to 2.8 times EBITDA at the end of June 2020.

Some references as a transition towards Raphael's part you see that we continue to gain a very interesting project including large project in commercial segments. 70,000 square metres for a clinical centre in Belgrade is really a large project in Europe in the healthcare segment.

With that I would like to hand over to Raphael who is going to guide us in a bit before detailing to the financials.

Financial Results

Raphael Bauer

Chief Financial Officer, Tarkett

Performance break down

Encouraging growth

Thank you, Fabrice, and good morning everyone. We are now moving onto slide seven which is second quarter revenues as Fabrice commented, up 16% compared to 2020. All of our divisions are strongly up. Besides sports but let us remind ourselves that sports had done still a solid quarter in 2020. In spite of the pandemic, we are able to make installations as was basis of comparison in sport is still stronger last year.

See also there is negative foreign currency effect of €25 million, mostly owing to the US dollar effect year-on-year.

Over the first half on page eight, organic change is up 6.3%, again, driven by the three following divisions. It is owing to softer first quarter with the acceleration of growth in the second quarter.

So, on page nine, we have summarised the main driver that explain the EBITDA evolution between the second quarter of last year, €64 million and the second quarter of this year €78 million. You have seen already those comments in the trading update released last week end, surprisingly, the main driver is a strong contribution of higher volumes of €8 million but also a solid level of cost reductions, structural cost reduction actions that we have initiated since 2019 after being deployed and are delivering solid results €25 million over the quarter.

Now, as expected, the EBITDA and the EBITDA margin is under pressure in the quarter owing to inflation. €32 million on the quarter only of cost increase, coming mainly from raw materials but also from freight cost increases. We have offset almost 60% of that for selling price increases in all geographies. In some instances, as we speak in July, we are deploying a short wave of selling price increases.

On page 10, you see the evolution of EBITDA for the first half and the message is actually the same in the second quarter. You see that the significant cost increase in raw materials and freight is leading to €38 million negative impact on EBITDA. What it tells us is that most of that comes from the second quarter and, actually, a significant share of what see in the second quarter comes from June.

Ahead of us, we have a third quarter with very significant inflation and that is why we have updated our full year estimate for the inflation impact, both raw materials and freight and we estimate now that it is going to be around €130 million on the full year basis in 21 compared to 2020.

Let's move to the—view division by division on page 11 starting with EMEA to give a bit more colour on the business in our main geographies. In EMEA in the second quarter we still seen a solid level of activity in residential and also better activity trends in commercial healthcare and education and that is mostly for vinyl products.

Unsurprisingly and as expected, we still see a softer level of activity in workplace, in hospitality also and that is still a penalising the activity in commercial carpet.

Worth of notice is some countries are doing very well even in both 2019 level significantly so; France, Italy, Portugal, for instance, were not the only ones.

As you can see, the EBITDA margin significantly improved compared to H1 2020, driven by a solid level of cost reduction but also the source benefit of selling price increases combined with the benefit of approaching the range due to higher level of activity.

In North America on page 12 as you will know, we have a much higher share of commercial activity and workplace is an important segment for North American business and activity as in Europe is still soft also in workplace North America. We see still a very dynamic activity in residential and also adding Europe, improvement in vinyl flooring and in vinyl accessories used in education and has scaled up mainly.

Margin is under pressure in North America. At the level of activity in particular in commercial carpet, one of the most profitable segments, is still slow so it is poor to meet to compare to last year and the inflation has also impacted significantly North America. We are deploying additional wave of selling price increase in July in North America as we speak.

Solid quarter for CIS Asia-Pacific and Latin America, owing to still very good volumes, not only in the CIS by the way, but also in Latin America in Brazil, for instance and in all those geographies, volumes have contributed to the organic growth but also significant level of selling price increases.

To offset both currency weakness, be it in Russia or in Brazil, but also the inflation impact. In Russia, we have announced for July the third wave of selling price increases to offset further inflation impact to come.

As you can see margin has improved nicely and that is owing to better volumes and still solid level of savings coming from the operations, from the factories.

To conclude this Zoom on our businesses, sports which is down significantly so compared to last year. Again, I am going to remind that sports have not been significantly impacted by the pandemic last year in the first half. We were still able to install and recognise revenue. This year, the first half is softer, owing to less project end of last year and beginning of this year. However, as Fabrice has indicated, we end up the semester which is solid out of book that gives a better perspective than anticipated initially for the second half of this year. Unsurprisingly, margin are lower than last year, mostly, owing to lower volumes and cost inflation.

Now, we published yesterday night further information in addition to the trading update and that the EBIT and the net result. EBIT is €30 million for the first half. It is compared to an

EBITDA loss last year 43.6 million. Last year was impacted by a significant asset in term on charge of €54 million, mostly related to asset in North America.

This year, as you can see in adjustment to EBITDA which are—EBIT which are relatively limited €7.7 million. Most of the charge is coming from [inaudible] provisions related to cost savings programmes, be it in manufacturing or [inaudible].

The net income of the Group, page 16 is break even, slightly positive, again, compared to a loss last year, driven by the demand booked in June 2020.

Financial charges are slightly higher than last year, owing to the refinancing of [inaudible] private placement and some make over cost that were recognised in the first half of this year.

Taxes are above last year, owing to a higher profit before tax. Last year, income tax charge was also reduced by the asset [inaudible] in North America is tax [inaudible].

In his introduction, Fabrice also mentioned cashflow, much lower consumption than the usual pattern, €44 million cashflow consumption in the first half, compared to €76 million last year, for instance. This owing both to the lower level of activity in the first quarter but also to a low level of inventory, a historically low level of inventory. In some instances, lower than what we would want due to some raw material shortages and supply difficulties for some of our factories. Inventory is lower than what we expected earlier.

This means also that the seasonality of our cashflow will be different, the pattern will be different this year and we expect a less strong level of positive cashflow for H2. Net, net, however, we still target positive cashflow for the full year and at Tarkett perimeter, reduction of net debt over the full year basis.

A quick word on financing. To conclude, you can see here on slide 18, liquidity at the end of June, actually, in July, we have reimbursed most of our Schuldschein and we are now financed at Tarkett level mostly through Tarkett loans from Tarkett participation, Tarkett participation being a financed with a term loan. There is also a new RCF that has been set up and Tarkett is able to assess that new RCF.

I will now hand over to Fabrice for the outlook.

Group Outlook

Fabrice Barthelemy

Chief Executive Officer, Tarkett

What lies ahead

Expectation summary

Thank you, Raphael. So, we expect the recovery to be still very progressive in the segments. The commercial segments are the most affected by the pandemic and those segments are, clearly, workplace and hospitality. Many of our corporate customers have delayed their renovation projects and are still delaying their renovation project. Occupancy rates in the hotels are improving, month after month, but are still well below what we could call a normalised level, a pre-COVID level.

We expect to have a sustained level of activity in residential, even if we see signs of slow down in some markets and as I mentioned earlier, in sports our order book is very strong and we anticipate a strong H2.

We now estimate purchasing and freight cost inflation to reach 130 million over the full year, following a further forced measures at chemical plants, the increase of the crude oil price and also our renewed tensions on freight and transportation with some shortages of drivers in some regions like the UK or the US.

Our selling price increases will only offset half of that additional cost this year, despite, I would like to say again, a non-precedented level of price increase since the beginning of the year in all regions and in all segments.

Our structural cost savings will reach 50 million and that is well above our initial target for the year but we are doing very well on that front in all geography.

As a consequence, we expect in 2021 the EBITDA margin to be below 2020 which was helped by very low raw material prices in H2 and during the whole year, last year.

As for our mid-term objectives, there is no change compared to our last obligation. We have achieved our target of a financial leverage between 1.6 times and 2.6 times. We have stated earlier also in April that our EBITDA margin objective is delayed by at least one year due to the COVID crisis and to the tensions on the raw materials. Further on, our growth target will certainly depend on the situation on some specific segments such as workplace and hospitality.

With that, I would like to thank you very much for your attention and we will go on with the session of question and answer. So, operator, this is back to you.

Operator: Thank you. As a reminder, to ask a question, you may need to press star one on your telephone. To withdraw your question, press the pound key. Please standby while we compile the Q&A roster. Thank you and that is star one if you wish to ask a question. So, again, for participants that would like to ask questions, if you could press star and one on your telephone.

Okay, so, looks like no one will be asking questions. Please continue.

Fabrice Barthelemy: I would like to thank you very much for your attendance to this call. Again, we are pleased with the rebound of activity in Q2 and with the margins as we have delivered in Q2. I wish you a very nice rest of the day and thank you for your attendance. Thank you.

Operator: So, that does conclude our conference for today. Thank you all for participating. You may all disconnect.

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