

ARMSTRONG FLOORING, INC.

Fourth Quarter and Full Year
2016 Results
Earnings Call

March 6, 2017



SAFE HARBOR STATEMENT

Disclosures in this release and in our other public documents and comments contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Those statements provide our future expectations or forecasts and can be identified by our use of words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” “outlook,” “target,” “predict,” “may,” “will,” “would,” “could,” “should,” “seek,” and other words or phrases of similar meaning in connection with any discussion of future operating or financial performance. Forward-looking statements, by their nature, address matters that are uncertain and involve risks because they relate to events and depend on circumstances that may or may not occur in the future. As a result, our actual results may differ materially from our expected results and from those expressed in our forward looking statements. A more detailed discussion of the risks and uncertainties that could cause our actual results to differ materially from those projected, anticipated or implied is included our reports filed with the U.S. Securities and Exchange Commission. Forward-looking statements speak only as of the date they are made. We undertake no obligation to update any forward-looking statements beyond what is required under applicable securities law. The information in this presentation is only effective as of the date given, March 6, 2017, and is subject to change. Any distribution of this presentation after March 6, 2017 is not intended and will not be construed as updating or confirming such information.

Armstrong Flooring, Inc. competes globally in many diverse markets. References to “*market*” or “*share*” data are simply estimations based on a combination of internal and external sources and assumptions. They are intended only to assist discussion of the relative performance of product segments and categories for marketing and related purposes. No conclusion has been reached or should be reached regarding a “*product market*,” a “*geographic market*” or “*market share*,” as such terms may be used or defined for any economic, legal or other purpose.

In addition, we will be referring to “non-GAAP financial measures” within the meaning of SEC Regulation G. Management uses non-GAAP measures in managing the business and believes the adjustments provide meaningful comparisons of operating performance between periods. We remove the impact of certain discrete expenses and income. The non-cash expense impact of the U.S. pension and depreciation and amortization is also excluded. Results for periods prior to April 1, 2016 include costs allocated to AFI from its former parent, Armstrong World Industries. These results have been adjusted by adding the difference between these costs and the estimated stand-alone costs.

A reconciliation of the differences between these measures with the most directly comparable financial measures calculated in accordance with GAAP can be found in the appendix section of this presentation.

KEY HIGHLIGHTS

(\$ in Millions)	Q4 2016	Q4 2015	Y/Y	YTD 2016	YTD 2015	Y/Y
Net Sales	\$272	\$280	(3.0%)	\$1,193	\$1,189	0.4%
Adjusted EBITDA (Wood FIFO) ⁽¹⁾	6	(10)	n/m	83	32	163.3%
% of Sales	2.0%	(3.5%)	550 bps	7.0%	2.7%	430 bps
Adjusted EBITDA (Wood LIFO) ⁽¹⁾	2	6	(65%)	73	61	19.1%
% of Sales	0.7%	2.0%	(130) bps	6.1%	5.2%	90 bps
Free Cash Flow ⁽¹⁾	(\$10)	(\$15)	+\$5	\$17	(\$6)	+\$22

- Focus on higher growth products offset challenging market environment
- Full year net sales increase 0.9% excluding foreign currency impact
- Full year Adjusted EBITDA up \$12 million under previous accounting method (LIFO)
- New \$50 million share repurchase program aligned with capital deployment objectives

STRATEGIC PRIORITIES

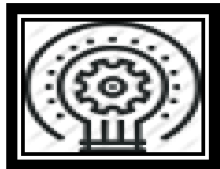
Building Value Through Unique Opportunity

1 BUILD ON STRONG BRAND LEGACY



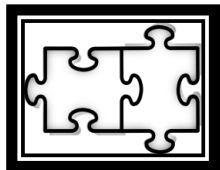
- New company with 100+ year legacy
- Focused on flooring success
- Strongest brand in industry
- “Let the buyer have faith”.

2 FOCUS ON INNOVATION



- Heritage of innovation leadership
- Differentiated portfolio
- Reinvesting in core competencies

3 WIN WITH DISTRIBUTION



- Unique go-to-market-system
- Clear opportunity to gain share
- Accelerate growth with independent retailers to improve mix

4 GAIN LVT MARKET LEADERSHIP



- Significant growth opportunity
- Aligns to core competencies
- Attractive margin contribution
- Opportunity to be #1

5 ENHANCE WOOD PROFITABILITY



- #1 position in wood
- Improving product mix
- Driving productivity improvements

WOOD LIFO TO FIFO ACCOUNTING CHANGE

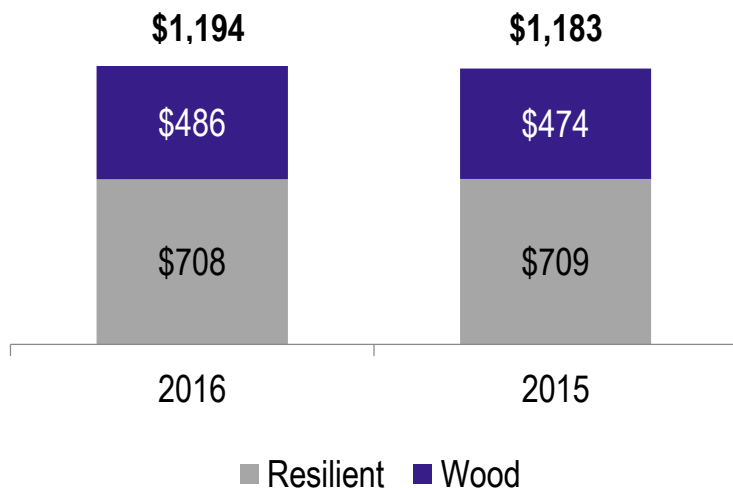
AFI	<u>2016</u>	<u>2015</u>	<u>Q4:16</u>	<u>Q4:15</u>
EBITDA (Wood LIFO, Constant Fx)	72.7	61.0	2.0	5.7
LIFO Adj	10.3	(31.9)	3.5	(15.5)
<u>Remove Fx Adj</u>	<u>0.1</u>	<u>2.4</u>	<u>-</u>	<u>-</u>
EBITDA (Wood FIFO, Actual Fx)	83.1	31.5	5.5	(9.7)
Wood				
EBITDA (Wood LIFO, Constant Fx)	17.0	21.3	(3.3)	6.8
LIFO Adj	10.3	(31.9)	3.5	(15.5)
<u>Remove Fx Adj</u>	<u>-</u>	<u>1.0</u>	<u>-</u>	<u>-</u>
EBITDA (Wood FIFO, Actual Fx)	27.3	(9.6)	0.2	(8.7)

- Changed Wood inventory accounting method from LIFO to FIFO
- Hard lumber spot prices have historically been volatile
- FIFO a better fit with Wood segment operations, as the FIFO method:
 - provides better matching of revenues with actual costs of products sold
 - more accurately reflects combination of long production cycles and timing of raw material purchases
 - is more consistent with building product peers

Wood accounting change expected to improve transparency and comparability of results

AFI FULL YEAR RESULTS

Adjusted Net Sales (\$M)



2015 Adjusted EBITDA (LIFO) \$61M

Volume	9
Price	(26)
Mix/Other	(9)
Mfg & Input Costs	28
SG&A	9

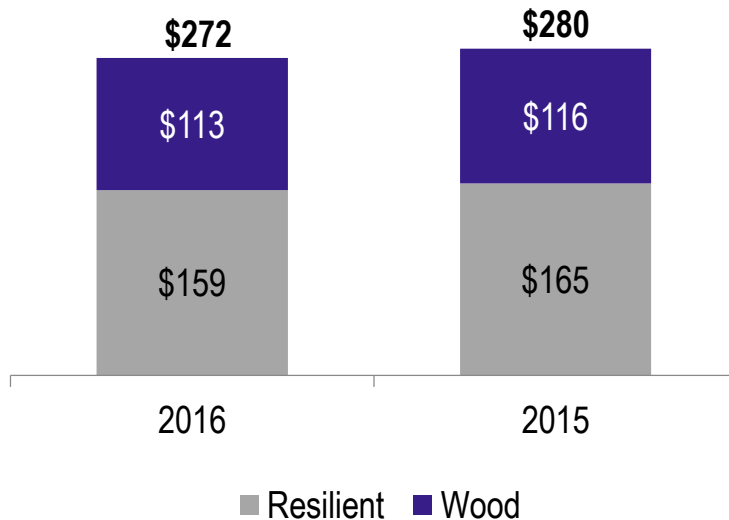
2016 Adjusted EBITDA (LIFO) \$73M

Key Highlights

- Sales up 1% excluding foreign currency
- Wood segment sales up from volume gains, partially offset by competitive price pressures
- Resilient segment sales impacted by competitive price pressure and lower volumes in traditional resilient products, partially offset by stronger LVT sales
- Favorable volume offset by negative mix impact
- Price more than offset by lower input costs and good manufacturing productivity, including LVT operations ramp up
- SG&A spending lower

AFI FOURTH QUARTER RESULTS

Adjusted Net Sales (\$M)



Key Highlights

- Sales down 3% overall
- Strong LVT and solid wood shipments
- Unfavorable market trends on legacy portfolio
- Lower price in response to market pressure

Q4 2015 Adjusted EBITDA (LIFO) \$6M

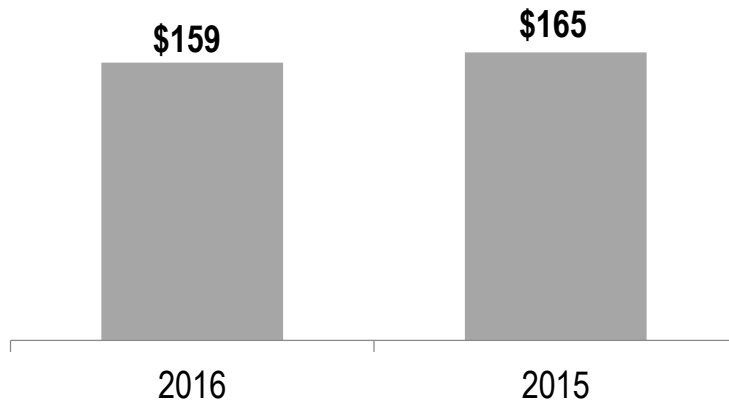
Volume	(1)
Price	(8)
Mix/Other	(2)
Mfg & Input Costs	2
SG&A	6

- Lower fall-through from net sales
- Strong productivity gains
- Input cost inflation under LIFO method
- Lower SG&A spend vs prior year

Q4 2016 Adjusted EBITDA (LIFO) \$2M

RESILIENT SEGMENT

Adjusted Net Sales (\$M)



Q4 2015 Adjusted EBITDA (\$1M)

Volume	(2)
Price	(4)
Mix/Other	(4)
Mfg & Input Costs	9
SG&A	6

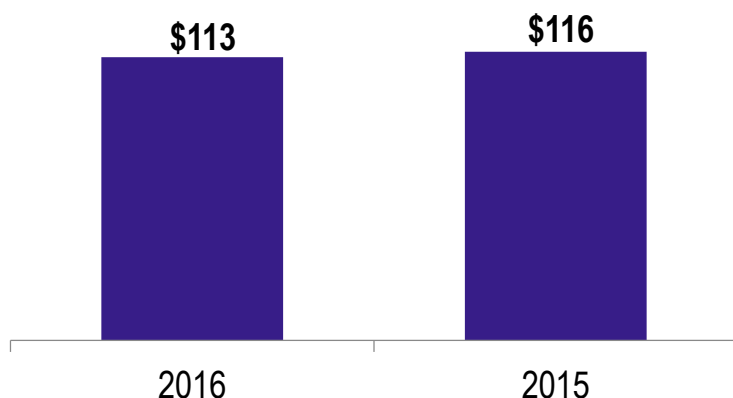
Q4 2016 Adjusted EBITDA \$5M

Key Highlights

- Resilient segment sales impacted by continued competitive price pressure and lower volume in traditional resilient products
- Mix benefit from stronger LVT sales
- Negative fall-through of price and volume
- Mix impact unfavorable from more sales of sourced product
- Productivity gains from lower LVT operation costs
- Benefit from lower input cost
- Lower SG&A spending

WOOD SEGMENT

Adjusted Net Sales (\$M)



Key Highlights

- Volume up on strong solid wood shipments
- Wood segment sales down due to competitive price pressure

Q4 2015 Adjusted EBITDA (LIFO) \$7M

Volume	(1)
Price	(4)
Mix/Other	2
Mfg & Input Costs	(8)
SG&A	--

Q4 2016 Adjusted EBITDA (LIFO) (\$3M)

- Favorable fall-through of volume and mix
- Negative impact from price
- Recognized lumber cost inflation under LIFO through year-end
- Expect continued inflation in spot market prices for hard lumber

FREE CASH FLOW

	<u>Q1</u> <u>2016</u>	<u>Q2</u> <u>2016</u>	<u>Q3</u> <u>2016</u>	<u>Q4</u> <u>2016</u>	Full Year <u>2016</u>
Operating Cash Flow	(\$29)	\$53	\$31	(\$1)	\$54
Net Capex	<u>(8)</u>	<u>(10)</u>	<u>(10)</u>	<u>(\$9)</u>	<u>(37)</u>
Free Cash Flow	(37)	44	21	(10)	17

- Strong improvement in cash flow and leverage metrics during 2016
- Reduced full year net capex spend helped by efficiency and timing of projects
- Cash balance of \$31 million and outstanding debt of \$21 million at year-end
- Ample liquidity to invest in growth and \$50 million share repurchase program

2017 OUTLOOK

2016

2017

ADJ. EBITDA (FIFO)

\$83 million⁽¹⁾

\$75 to \$85 million

ADJ. EBITDA (LIFO)

\$73 million⁽¹⁾

\$74 to \$84 million

GROSS CAPITAL
EXPENDITURES

\$38 million

\$45 to \$50 million

- Expect annualized SG&A savings of \$6 - 7 million from streamlined go to market strategy beginning in 2Q17
- Anticipate another year of positive cash flow
- Expect 1Q17 Adjusted EBITDA year-over-year comparison to be most challenging due to one-time load in activity and lower corporate G&A spend in prior year

MEDIUM-TERM FINANCIAL GOALS

**REVENUE FLOW
THROUGH**

20 - 30%
**Incr. EBITDA
Margins**

EBITDA MARGIN

10%



BUILDING VALUE THROUGH UNIQUE OPPORTUNITY

- ✓ Leading hard surfaces flooring company
- ✓ Most recognized brands
- ✓ Expansive product portfolio
- ✓ Renewed focus on innovation
- ✓ Differentiated go-to-market system
- ✓ Operational, financial and organizational transformation



Appendix

NET SALES RECONCILIATION

\$ million

AFI	<u>2016 Q4</u>	<u>2015 Q4</u>	<u>2016 Full Year</u>	<u>2015 Full Year</u>
Net Sales	272	280	1,193	1,189
Comparability Fx Adjustments	1	0	1	(5)
Adjusted Net Sales	<u>272</u>	<u>280</u>	<u>1,194</u>	<u>1,183</u>

EBITDA RECONCILIATION

\$ million

AFI	2015	2016	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Net Income (loss)	29.6	9.2	37.4	4.8	4.0	(16.6)	(0.8)	7.0	9.3	(6.3)
Net (income) loss from discontinued operations	(39.9)	(1.7)	(42.5)	0.2	(1.1)	3.5	(1.7)	0.0	0.0	0.0
Income tax expense (benefit)	(7.3)	4.1	0.4	3.3	(2.2)	(8.8)	0.5	4.4	6.0	(6.8)
Other expense, net	3.6	5.8	(0.2)	0.1	2.2	1.5	0.1	1.7	0.3	3.7
Interest Expense	0.0	1.5	0.0	0.0	0.0	0.0	0.0	0.7	0.6	0.2
Operating Income (loss)	(14.0)	18.9	(4.9)	8.4	2.9	(20.4)	(1.9)	13.8	16.2	(9.2)
Depreciation and amortization	38.1	46.6	9.4	9.3	9.6	9.8	11.4	10.8	11.9	12.4
U.S. pension expense	11.5	8.7	2.9	2.9	2.9	2.9	2.2	2.2	2.2	2.2
Multilayered wood flooring duties and cost reduction expense	4.0	8.4	(1.2)	4.2	0.3	0.7	0.3	5.9	2.1	0.1
Adjustment for Corporate expense	(8.0)	0.5	(3.8)	(1.8)	0.2	(2.7)	0.5	0.0	0.0	0.0
Adjustment to LIFO	31.9	(10.3)	1.5	6.2	8.7	15.5	(2.7)	(2.0)	(2.1)	(3.5)
Foreign exchange rate comparability	(2.4)	(0.1)	(1.2)	(1.0)	(0.3)	0.0	(0.1)	(0.1)	0.1	0.0
Adjusted EBITDA (Wood LIFO, Constant Fx)	61.0	72.7	2.7	28.3	24.3	5.7	9.7	30.6	30.4	2.0
Reverse adjustment to LIFO	(31.9)	10.3	(1.5)	(6.2)	(8.7)	(15.5)	2.7	2.0	2.1	3.5
Reverse foreign exchange rate comparability	2.4	0.1	1.2	1.0	0.3	0.0	0.1	0.1	(0.1)	0.0
Adjusted EBITDA (Wood FIFO, Actual Fx)	31.5	83.1	2.4	23.1	15.9	(9.7)	12.5	32.7	32.4	5.5

Resilient	2015	2016	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Operating Income (loss)	11.2	15.1	0.5	14.8	4.7	(8.8)	(5.4)	13.4	11.9	(4.8)
Depreciation and amortization	26.1	32.6	6.4	6.3	6.7	6.6	8.2	7.8	8.3	8.2
U.S. pension expense	10.2	7.3	2.6	2.6	2.6	2.6	1.8	1.8	1.8	1.8
Multilayered wood flooring duties and cost reduction expense	(0.1)	0.8	(1.2)	0.2	0.3	0.6	(0.1)	0.0	1.0	0.0
Adjustment for Corporate expense	(6.2)	0.0	(3.2)	(1.2)	0.2	(2.0)	0.0	0.0	0.0	0.0
Foreign exchange rate comparability	(1.4)	(0.1)	(0.7)	(0.7)	(0.1)	0.0	(0.1)	(0.1)	0.0	0.0
Adjusted EBITDA (Constant Fx)	39.7	55.6	4.4	22.1	14.2	(1.1)	4.4	22.9	23.0	5.3
Reverse foreign exchange rate comparability	1.4	0.1	0.7	0.7	0.1	0.0	0.1	0.1	0.0	0.0
Adjusted EBITDA (Actual Fx)	41.1	55.8	5.1	22.8	14.3	(1.1)	4.5	23.0	23.0	5.3

Wood	2015	2016	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Operating Income (loss)	(25.2)	3.8	(5.4)	(6.4)	(1.8)	(11.6)	3.5	0.4	4.3	(4.4)
Depreciation and amortization	12.0	14.1	3.0	3.0	2.9	3.1	3.2	3.0	3.6	4.2
U.S. pension expense	1.3	1.4	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4
Multilayered wood flooring duties and cost reduction expense	4.1	7.5	0.0	4.0	0.0	0.1	0.4	5.9	1.1	0.1
Adjustment for Corporate expense	(1.8)	0.5	(0.6)	(0.6)	0.2	(0.7)	0.5	0.0	0.0	0.0
Adjustment to LIFO	31.9	(10.3)	1.5	6.2	8.7	15.5	(2.7)	(2.0)	(2.1)	(3.5)
Foreign exchange rate comparability	(1.0)	0.0	(0.5)	(0.3)	(0.2)	0.0	0.0	0.0	0.0	0.0
Adjusted EBITDA (Wood LIFO, Constant Fx)	21.3	17.0	(1.7)	6.2	10.1	6.8	5.3	7.6	7.4	(3.3)
Reverse adjustment to LIFO	(31.9)	10.3	(1.5)	(6.2)	(8.7)	(15.5)	2.7	2.0	2.1	3.5
Reverse foreign exchange rate comparability	1.0	0.0	0.5	0.3	0.2	0.0	0.0	0.0	0.0	0.0
Adjusted EBITDA (Wood FIFO, Actual Fx)	(9.6)	27.3	(2.7)	0.3	1.6	(8.7)	8.0	9.6	9.5	0.2

FREE CASH FLOW RECONCILIATION

\$ million

	<u>2016</u> <u>Q1</u>	<u>2016</u> <u>Q2</u>	<u>2016</u> <u>Q3</u>	<u>2016</u> <u>Q4</u>	<u>2016</u> <u>Full Year</u>
Operating Cash Flow	(29)	53	31	(1)	54
Purchases of property, plant, and equipment	(8)	(10)	(10)	(10)	(38)
Sale of assets	0	0	(0)	0	1
Free Cash Flow	<u>(37)</u>	<u>44</u>	<u>21</u>	<u>(10)</u>	<u>17</u>