

# ARMSTRONG FLOORING, INC.

## FIRST QUARTER 2017 RESULTS

EARNINGS CALL

May 8, 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, May 8, 2017, and is subject to change. Any distribution of this presentation after May 8, 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)	Q1 2017	Q1 2016	Y/Y
Net Sales	\$265	\$284	(6.8%)
Adjusted EBITDA	9	13	(29.1%)
% of Sales	3.4%	4.4%	(100 bps)
Free Cash Flow	(\$46)	(\$37)	(\$9)

- Continued double-digit increases in LVT sales
- Inventory load-in and promotional activity in Q1 2016 in key strategic accounts not repeated
- Adj EBITDA impacted by lower sales which offset lower start up costs in LVT manufacturing operations
- Organizational realignment of go-to-market structure on track
- Repurchased ~10% of total share repurchase authorization in Q1 2017



# STRATEGIC PRIORITIES

## BUILDING VALUE THROUGH UNIQUE OPPORTUNITY

### 1 BUILD ON STRONG BRAND LEGACY



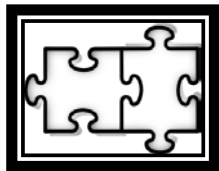
- New company with 100+ year legacy
- Focused on flooring success
- Strongest brand in industry
- "Let the buyer have faith"

### 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



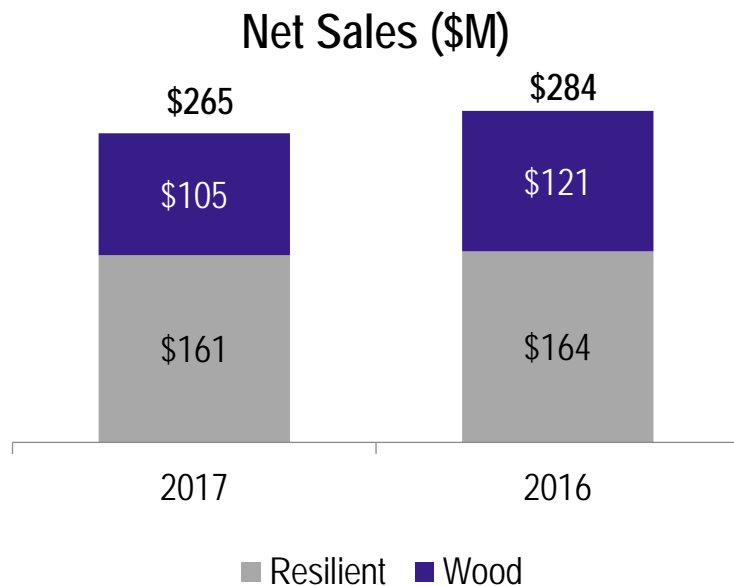
- #1 position in wood
- Improving product mix
- Driving productivity improvements

# VCT OPPORTUNITY

- Vinyl Composition Tile (“VCT”) a significant category within the hard surface flooring industry, especially in commercial end markets
- Agreement to purchase assets of Mannington Mills’ VCT business
- Will leverage Armstrong Flooring’s existing manufacturing and selling infrastructure
- Transaction expected to close in second quarter 2017 subject to customary closing conditions
- Purchase price of \$36 million to be funded by cash and availability of existing ABL facility
- Expected to be accretive to earnings in 2018



# AFI Q1 2017 RESULTS



**Q1 2016 Adjusted EBITDA**      **\$13M**

Volume	(4)
Price	(4)
Mix/Other	(2)
Mfg & Input Costs	7
SG&A	(1)

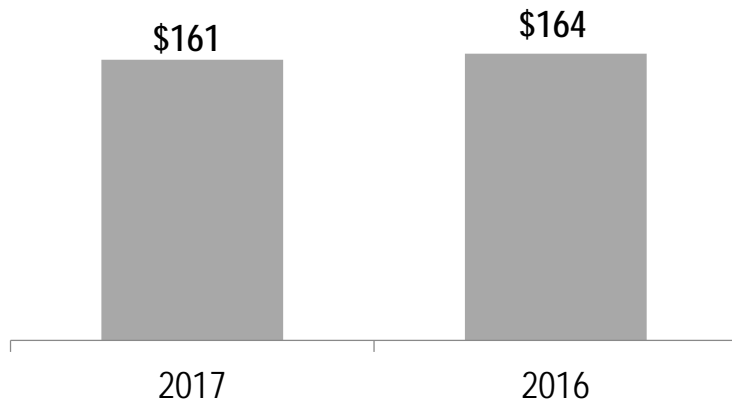
**Q1 2017 Adjusted EBITDA**      **\$9M**

## Key Highlights

- Net sales down (6.8%) driven primarily by wood
- Wood segment sales down on high inventory load-in and promotional activity in Q1 2016 at key strategic accounts
- Resilient segment sales impacted by competitive price pressure and lower volumes in traditional resilient products, partially offset by stronger LVT sales
- Negative fall through from year-on-year sales decline
- Improvement in manufacturing costs driven by favorable comparison to high LVT operations ramp up in Q1 2016
- Productivity more than offset higher input costs
- SG&A slightly higher due to standalone cost build

# RESILIENT SEGMENT

Net Sales (\$M)



## Key Highlights

- Resilient segment sales impacted by continued competitive price pressure and lower volume in traditional resilient products
- Vinyl sheet sales lower in strategic retail channel; expect lower vinyl sheet sales in this channel to continue through Q4 2017
- Significant mix benefit from double-digit LVT sales growth

Q1 2016 Adjusted EBITDA \$5M

Volume	1
Price	(3)
Mix/Other	--
Mfg & Input Costs	5
SG&A	--

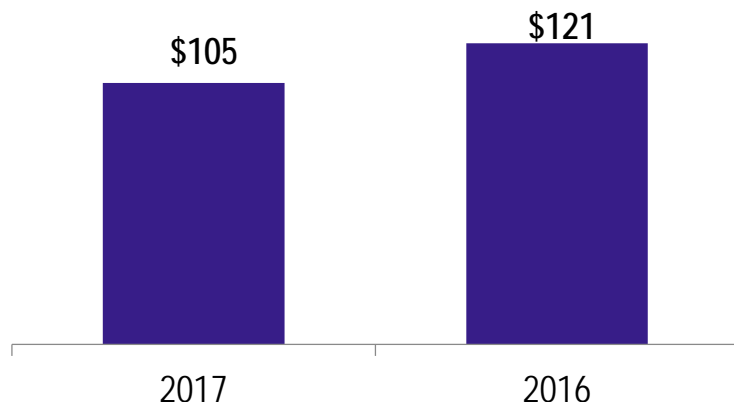
Q1 2017 Adjusted EBITDA \$8M

- Stronger volumes offset by unfavorable price
- Productivity gains from lower LVT operation costs
- Targeting price increases to compensate for higher raw material inputs



# WOOD SEGMENT

Net Sales (\$M)



## Key Highlights

- Timing of inventory load-in and promotional activity at key strategic accounts in prior year period impacted both solid and engineered wood sales
- Price lower year-over-year due to competitive pressure

**Q1 2016 Adjusted EBITDA** **\$8M**

Volume	(5)
Price	(1)
Mix/Other	(2)
Mfg & Input Costs	1
SG&A	--

**Q1 2017 Adjusted EBITDA** **\$1M**

- Negative fall through to EBITDA from lower sales
- Lumber costs up versus prior year
- Strong productivity gains across plant network more than offset lumber inflation



# FREE CASH FLOW AND LIQUIDITY

	<u>Q1</u> <u>2017</u>	<u>Q1</u> <u>2016</u>
Operating Cash Flow	(\$33)	(\$29)
Net Capex	<u>(13)</u>	<u>(8)</u>
Free Cash Flow	(46)	(37)

## Free Cash Flow

- Q1 2017 free cash flow consistent with expectations
- Free cash flow seasonally lowest in Q1 and builds in Q2 and Q3
- Increased capex from timing of spend for Q4 2016 commitments
- Cash balance of \$33 million and outstanding debt of \$73 million at March 31, 2017
- Anticipate another year of positive free cash flow in 2017

## Liquidity

- \$5M of shares repurchased during Q1 2017
- Net debt / EBITDA well below stated long-term leverage target of 1.5-2.0x
- Ample liquidity to invest in growth and execute \$50 million share repurchase program and announced acquisition

# 2017 OUTLOOK

2016

2017

ADJ. EBITDA

\$83 million

\$75 to \$85 million

GROSS CAPITAL  
EXPENDITURES

\$38 million

\$45 to \$50 million



# MEDIUM-TERM FINANCIAL GOALS

REVENUE FLOW  
THROUGH

20 - 30%  
Incr. EBITDA  
Margins

EBITDA MARGIN

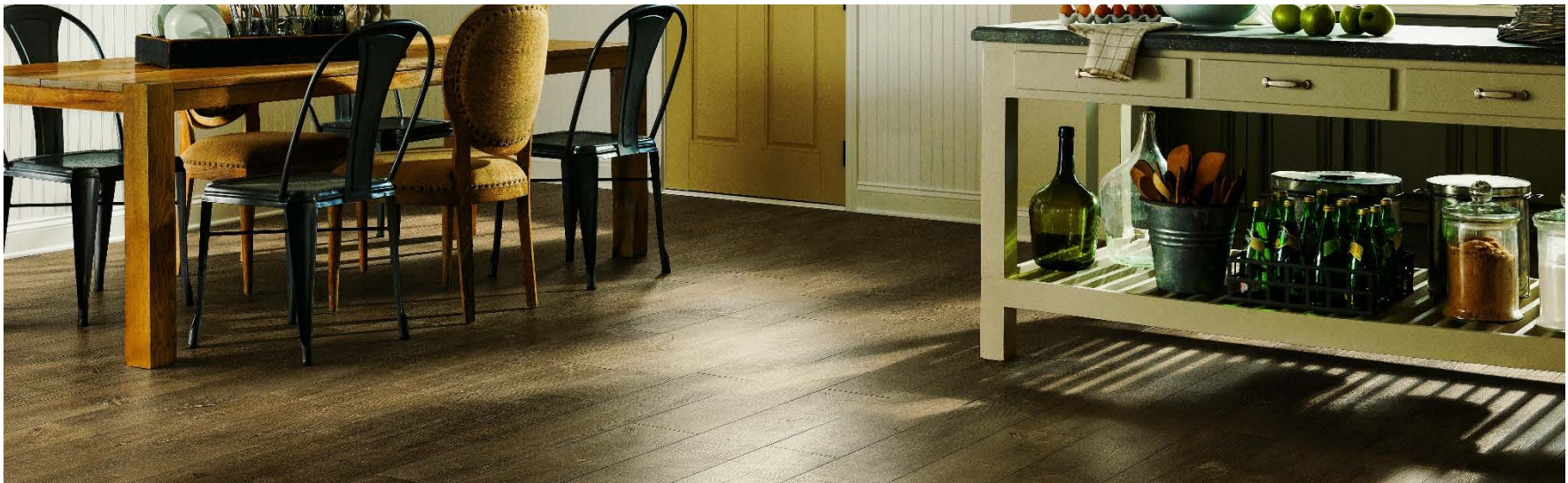
10%





# 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

# RECONCILIATIONS TO GAAP

\$ million

## Adj EBITDA

	Three months ended March 31,					
	Total	<u>2017</u>		Total	<u>2016</u>	
		Resilient	Wood		Resilient	Wood
<b>Net Loss</b>	<b>(\$7.8)</b>			<b>(\$0.8)</b>		
Net gain from discontinued operations	—			(1.7)		
Interest Expense	0.5			—		
Other (Income) & Expense	(0.2)			0.1		
Taxes	<u>(2.1)</u>			<u>0.5</u>		
Operating Loss	(9.6)	(5.0)	(4.6)	(1.9)	(5.4)	3.5
Depreciation and amortization	11.6	8.2	3.4	11.4	8.2	3.2
Reorganization expense and multilayered wood flooring duties	4.7	2.7	2.0	0.3	(0.1)	0.4
U.S. pension expense	2.3	1.9	0.4	2.2	1.8	0.4
Adjustment for corporate expense	<u>—</u>	<u>—</u>	<u>—</u>	<u>0.5</u>	<u>—</u>	<u>0.5</u>
<b>Adjusted EBITDA</b>	<b><u>\$ 8.9</u></b>	<b><u>\$ 7.7</u></b>	<b><u>\$ 1.2</u></b>	<b><u>\$12.5</u></b>	<b><u>\$ 4.5</u></b>	<b><u>\$8.0</u></b>

## Free Cash Flow

	Three months ended March 31,	
	<u>2017</u>	<u>2016</u>
Operating Cash Flow	(33.4)	(29.6)
Purchases of property, plant, and equipment	(12.7)	(7.9)
Sale of assets	<u>0.1</u>	<u>0.1</u>
<b>Free Cash Flow</b>	<b><u>(\$46.0)</u></b>	<b><u>(\$37.4)</u></b>