

# ARMSTRONG FLOORING, INC.

Second Quarter 2016 Results

Earnings Call

August 12, 2016



# 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, August 12, 2016, and is subject to change. Any distribution of this presentation after August 12, 2016 is not intended and will not be construed as updating or confirming such information.

In addition, we will be referring to “non-GAAP financial measures” within the meaning of SEC Regulation G. 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.

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.

# BASIS OF PRESENTATION EXPLANATION

- When reporting our financial results within this presentation, we make several adjustments. Management uses non-GAAP measures in managing the business and believes the adjustments provide meaningful comparisons of operating performance between periods. Reconciliations to the nearest equivalent GAAP measures are presented on the following pages.
  - We report in comparable dollars to remove the effects of currency translation on the P&L. The budgeted exchange rate for 2016 is used for all currency translations in 2016 and prior years.
  - We remove the impact of certain discrete expenses and income. Examples include plant closures, restructuring actions, separation costs and other large unusual items. 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 expected ongoing costs as detailed in the appendix.

Item Adjustments		
	Comparable Dollars	Other Adjustments
Net Sales	Yes	No
Gross Profit	Yes	Yes
SG&A Expense	Yes	Yes
Operating Income	Yes	Yes
Cash Flow	No	No
EBITDA	Yes	Yes
Net Income	Yes	Yes
EPS	Yes	Yes

All figures throughout the presentation are in \$ millions unless otherwise noted. Figures may not add due to rounding.

# KEY HIGHLIGHTS – Q2 & H1 2016

(Dollars in Millions)	Q2 2016	Q2 2015	Y/Y	H1 2016	H1 2015	Y/Y
<b>Adjusted Net Sales</b> <sup>(1)</sup>	\$323	\$324	(0.4%)	\$608	\$582	4.6%
<b>Adjusted EBITDA</b> <sup>(1)</sup>	30	28	7.8%	40	31	28.4%
% of Sales	9.4%	8.7%	70 bps	6.5%	5.3%	120 bps
<b>Free Cash Flow</b> <sup>(1)</sup>	44	38	+5	7	(7)	+14

- 1H16 sales increased 4.6%, driven by Wood 9% and Resilient 2%
- Adjusted EBITDA up 28.4%, primarily from better input costs and productivity
- Continued strong LVT sales; plant making solid progress but more work to do
- Good progress on achieving full year of positive free cash flow

# STRATEGIC PRIORITIES

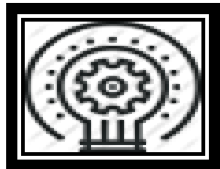
Building Value Through Unique Opportunity

## 1 BUILD ON STRONG BRAND LEGACY



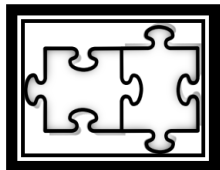
- New company with 100+ year legacy
- Focused on flooring success
- Strongest brand in industry
- “Let the buyer have faith”.

## 2 FOCUS ON INNOVATION



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

## 3 WIN WITH DISTRIBUTION



- Unique go-to-market-system
- Clear growth opportunity
- Leverage independent retailers to drive mix

## 4 GAIN LVT MARKET LEADERSHIP



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

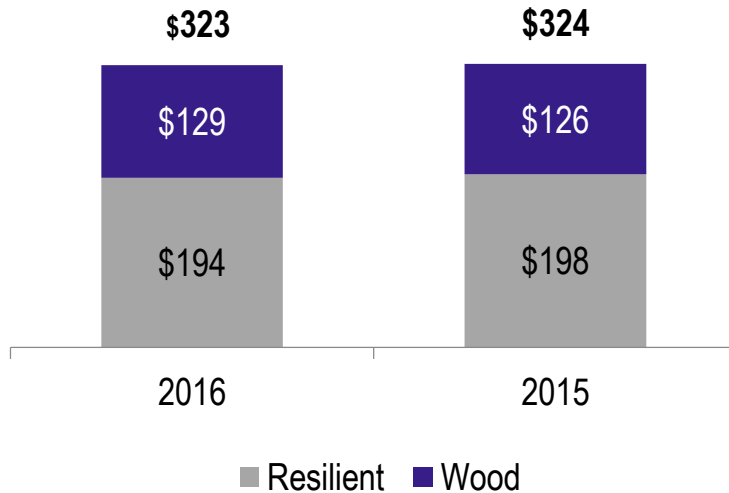
## 5 ENHANCE WOOD PROFITABILITY



- #1 position in wood
- Growing product segment
- Recapture share

# AFI SECOND QUARTER RESULTS

## Adjusted Net Sales (\$M)



## Q2 2015 Adjusted EBITDA \$28M

Volume	1
Price	(7)
Mix/Other	(4)
Mfg & Input Costs	11
SG&A	2

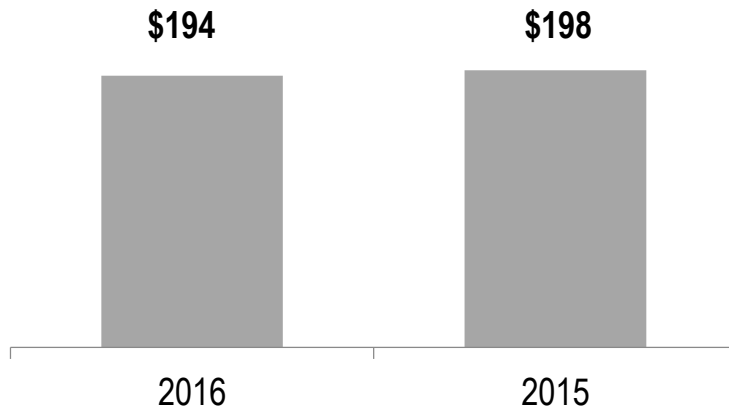
## Q2 2016 Adjusted EBITDA \$30M

## Key Highlights

- North America net sales flat; Pacific Rim sales down modestly
- Resilient segment sales down on competitive price declines and net inventory reductions at strategic customers
- Wood segment sales up on strong volume
- Fall through on incremental volume offset by price compression in both Resilient and Wood
- Mix lower on more sourced products
- Benefit of productivity and lower input costs partially offset by LVT plant ramp up expenses
- Lower promotional spend versus prior year

# RESILIENT SEGMENT

## Adjusted Net Sales (\$M)



**Q2 2015 Adjusted EBITDA** **\$22M**

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

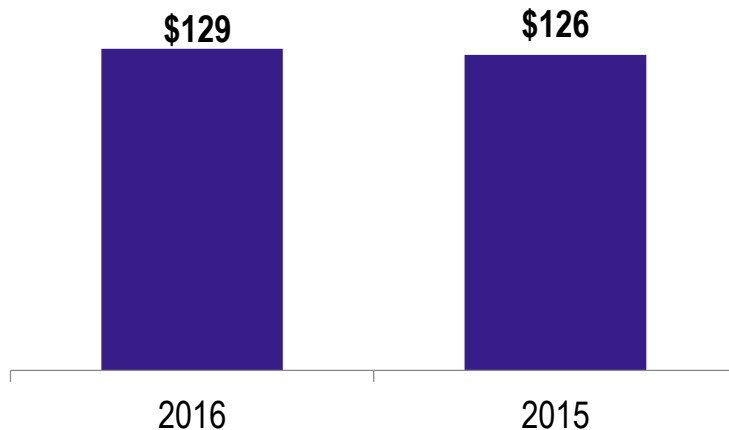
**Q2 2016 Adjusted EBITDA** **\$23M**

## Key Highlights

- Net sales decreased 2% on lower price across most resilient categories
- Volume declined 2%, primarily in the commercial end-market while mix was up 2% driven by strong growth in LVT
- Mix impact negative due to higher proportion of sourced product
- Benefit of lower input costs and productivity partially offset by LVT operation ramp-up expenses, which were sequentially lower than Q1
- Lower promotional spend versus prior year

# WOOD SEGMENT

## Adjusted Net Sales (\$M)



**Q2 2015 Adjusted EBITDA** **\$6M**

Volume	3
Price	(3)
Mix/Other	(2)
Mfg & Input Costs	4
SG&A	--

**Q2 2016 Adjusted EBITDA** **\$8M**

## Key Highlights

- Net sales increased 2% on a constant currency basis
- Volume increased 7%
- Price declined by 3% due to industry price pressure; mix down 2% on higher sales to strategic customers
- Volume benefit more than offset by negative price and mix
- Strong manufacturing productivity
- Lumber costs favorable vs prior year; costs higher than prior quarter but stabilizing



# CASH FLOW

	<u>Q1 2016</u>	<u>Q2 2016</u>	<u>H1 2016</u>	<u>Vs. 2015</u>
Operating Cash Flow	(\$29)	\$53	\$24	+9
Investing Cash Flow	<u>(8)</u>	<u>(10)</u>	<u>(17)</u>	<u>+5</u>
<b>Free Cash Flow</b>	<b>(37)</b>	<b>44</b>	<b>7</b>	<b>+14</b>

- Stronger seasonal cash flow in Q2; positive cash flow for 1H
- Q1 pre-separation cash outflow funded by AWI
- On track to be cash flow positive for full year (including Q1 outflow)

# EFFECTIVE TAX RATE

	<u>Q1 2016</u>	<u>Q2 2016</u>	<u>H1 2016</u>
Income from continuing operations before income taxes	(4.7)	9.4	4.7
Income tax expense	<u>(0.4)</u>	<u>3.7</u>	<u>3.3</u>
Net income (loss) from continuing operations	<u>(4.3)</u>	<u>5.7</u>	<u>1.4</u>
Effective Tax Rate (ETR)	9%	39%	70%

- Q2 ETR of 39%; expect tax rate to be ~40% going forward

# 2016 REVISED OUTLOOK

2015

2016

ADJ. NET SALES	\$1,183 million <sup>(1)</sup>	\$1,205 - \$1,235 million <i>2% - 4% growth</i>
ADJ. EBITDA	\$61 million <sup>(1)</sup>	\$70 - \$80 million <i>15% - 31% growth</i>
CAPITAL EXPENDITURES	\$62 million	\$45 - \$50 million
FREE CASH FLOW <sup>(2)</sup>	Negative	Positive

# 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

<b>AFI</b>	<b><u>2016 Q2</u></b>	<b><u>2015 Q2</u></b>	<b><u>2016 Q2 YTD</u></b>	<b><u>2015 Q2 YTD</u></b>	<b><u>2015 FY</u></b>
Net Sales	324	327	608	586	1,189
Comparability Fx Adjustments	(1)	(2)	0	(4)	(6)
<b>Adjusted Net Sales</b>	<b><u>323</u></b>	<b><u>324</u></b>	<b><u>608</u></b>	<b><u>582</u></b>	<b><u>1,183</u></b>

<b>Resilient</b>	<b><u>2016 Q2</u></b>	<b><u>2015 Q2</u></b>	<b><u>2016 Q2 YTD</u></b>	<b><u>2015 Q2 YTD</u></b>
Net Sales	195	200	359	357
Comparability Fx Adjustments	(1)	(2)	-	(3)
<b>Adjusted Net Sales</b>	<b><u>194</u></b>	<b><u>198</u></b>	<b><u>359</u></b>	<b><u>353</u></b>

<b>Wood</b>	<b><u>2016 Q2</u></b>	<b><u>2015 Q2</u></b>	<b><u>2016 Q2 YTD</u></b>	<b><u>2015 Q2 YTD</u></b>
Net Sales	129	127	250	229
Comparability Fx Adjustments	(0)	(0)	0	(1)
<b>Adjusted Net Sales</b>	<b><u>129</u></b>	<b><u>126</u></b>	<b><u>250</u></b>	<b><u>228</u></b>

# EBITDA RECONCILIATION

	2016 Q2			2015 Q2			2016 Q2 YTD	2015 Q2 YTD	2015 FY
	<u>AFI</u>	<u>Resilient</u>	<u>Wood</u>	<u>AFI</u>	<u>Resilient</u>	<u>Wood</u>	<u>AFI</u>	<u>AFI</u>	<u>AFI</u>
Net Income	6			9			3	47	49
Discontinued Operations, net of tax	-			0			(2)	(42)	(40)
Interest Expense	1			-			1	-	-
Other Expense	2			0			2	(0)	4
Tax Expense	4			6			3	6	5
<b>Operating Income</b>	<b>12</b>	<b>13</b>	<b>(2)</b>	<b>15</b>	<b>15</b>	<b>(0)</b>	<b>7</b>	<b>11</b>	<b>18</b>
Depreciation and amortization	11	8	3	9	6	3	22	19	38
Cost reduction expense and multilayered wood flooring duties	6	-	6	4	0	4	6	3	4
US Pension	2	2	0	2	2	-	4	5	12
Adjustment for coporate expense	-	-	-	(1)	(0)	(0)	1	(5)	(8)
Foreign exchange rate comparability	(0)	(0)	-	(1)	(1)	(0)	(0)	(2)	(3)
<b>Adjusted EBITDA</b>	<b>30</b>	<b>23</b>	<b>8</b>	<b>28</b>	<b>22</b>	<b>6</b>	<b>40</b>	<b>31</b>	<b>61</b>

# FREE CASH FLOW RECONCILIATION

	<u>2016 Q2</u>	<u>2015 Q2</u>	<u>2016 Q2 YTD</u>	<u>2015 Q2 YTD</u>
Operating Cash Flow	53	50	24	15
Investing Cash Flow	<u>(10)</u>	<u>(12)</u>	<u>(17)</u>	<u>(22)</u>
Free Cash Flow	<u>44</u>	<u>38</u>	<u>7</u>	<u>(7)</u>