



 **balta**

**2019 Full Year Results**

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# Introduction

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**Cyrille Ragoucy**  
CEO  
Chairman of the Board

**FY 2019 headlines**



**Jan-Christian Werner**  
CFO

**Financial Review**



**Emmanuel Rigaux**  
CTO

**Update on NEXT**

# Full Year 2019 Financial Summary

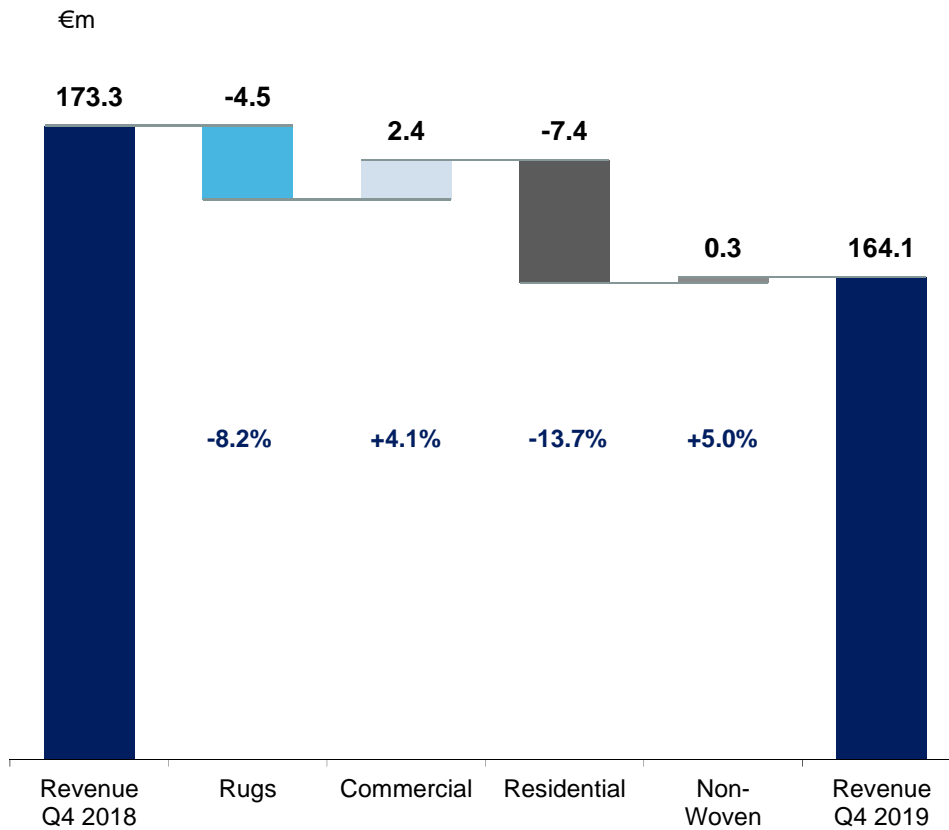
<p><b>+3.9%</b> yoy sales growth (consolidated)</p>	<p>+2.6% organic  +1.3% FX impact</p>	<ul style="list-style-type: none"> <li>• FY2019 Consolidated Revenue of €671.2m</li> <li>• Solid top-line growth in Rugs (+7.4%) and Commercial (+9.7%), while decline in Residential (-5.8%)</li> </ul>
<p><b>(5.7%)</b> Adj. EBITDA growth (on a like-for-like basis<sup>(1)</sup>)</p>	<p>(7.4%) organic  +1.8% FX impact</p>	<ul style="list-style-type: none"> <li>• FY2019 Consolidated Adjusted EBITDA of €74.4m</li> <li>• Margin improvement in both Residential and Commercial</li> <li>• Rugs margins impacted by negative one-offs</li> <li>• Investments in NEXT of €4.2m of which €0.5m non-recurring</li> </ul>
<p><b>4.0x</b> Leverage Excluding IFRS 16 (on a like-for-like basis)</p>	<p>Net Debt €313.7m</p>	<ul style="list-style-type: none"> <li>• Leverage slightly up from 3.9x as at Q3 2019 (3.6x FY2018)</li> <li>• Net debt includes €44,7m increase from IFRS16</li> <li>• Net debt on a like-for-like basis slightly up from FY2018, mainly the result of the upfront costs of NEXT</li> </ul>



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Financial Review

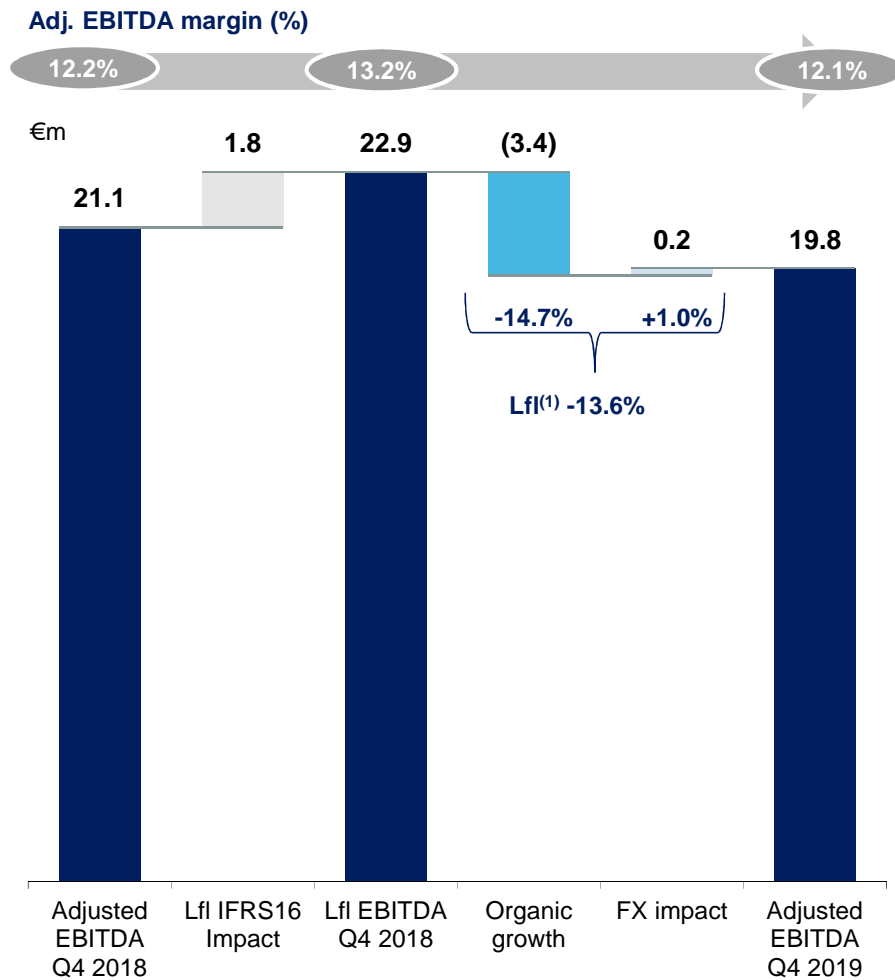
# Group Q4 2019 Revenue Performance



	Q4 Growth (€m)	Q4 Growth (%)
Organic	-€10.2m	-5.9%
FX Impact	+€1.0m	+0.6%
Reported	-€9.1m	-5.3%

- Rugs impacted by delayed US outdoor shipments and e-commerce sales below initial expectations
- Residential saw reversal of the Q3 pre-Brexit stocking by some customers in Q4
- Continued growth in Commercial, led by our US business

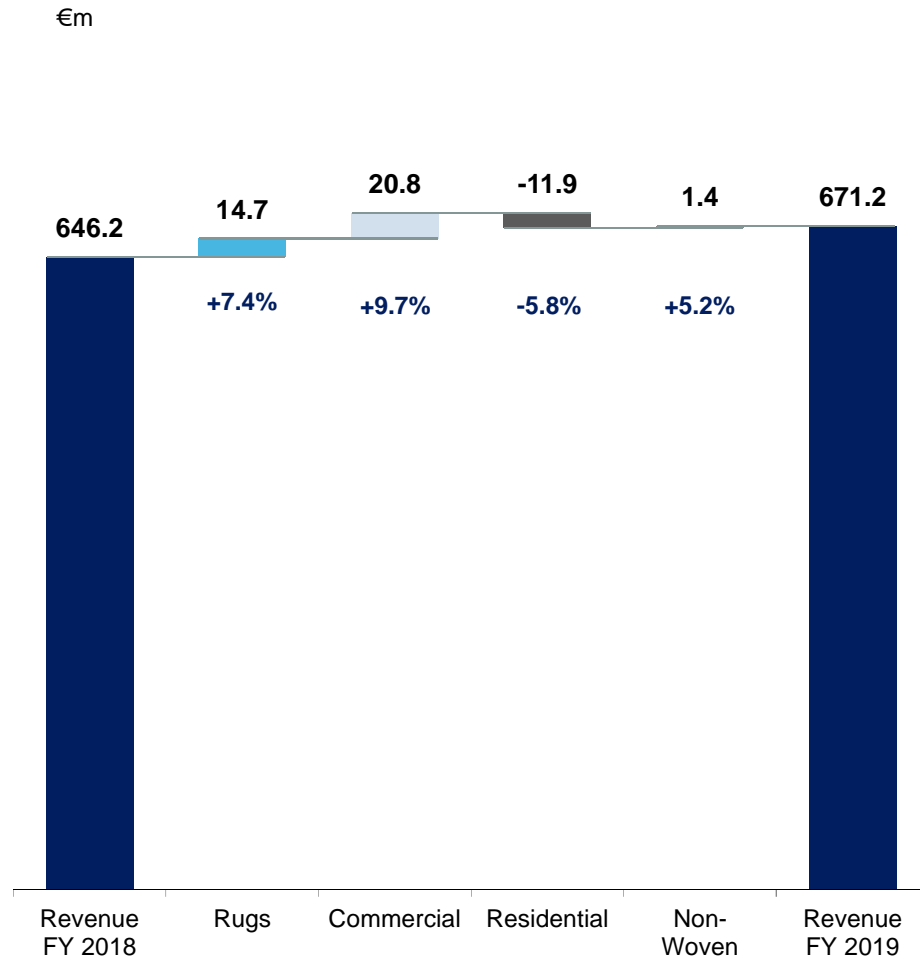
# Group Q4 2019 Adjusted EBITDA and Margins



€m	Lfl(1) Q4 2018	Reported Q4 2019	% Change Lfl(1)
Rugs	9.9	5.0	-49.4%
Commercial	9.9	10.7	+8.7%
Residential	2.8	3.7	+28.5%
Non-Woven	0.3	0.4	+27.6%
<b>Consolidated Adjusted EBITDA</b>	<b>22.9</b>	<b>19.8</b>	<b>-13.6%</b>

- Rugs impacted by delayed US outdoor shipments and e-commerce sales below initial expectations
- Investments in NEXT €1.2m in Q4 2019
- Residential and Commercial benefiting from mix, price increases and cost saving initiatives

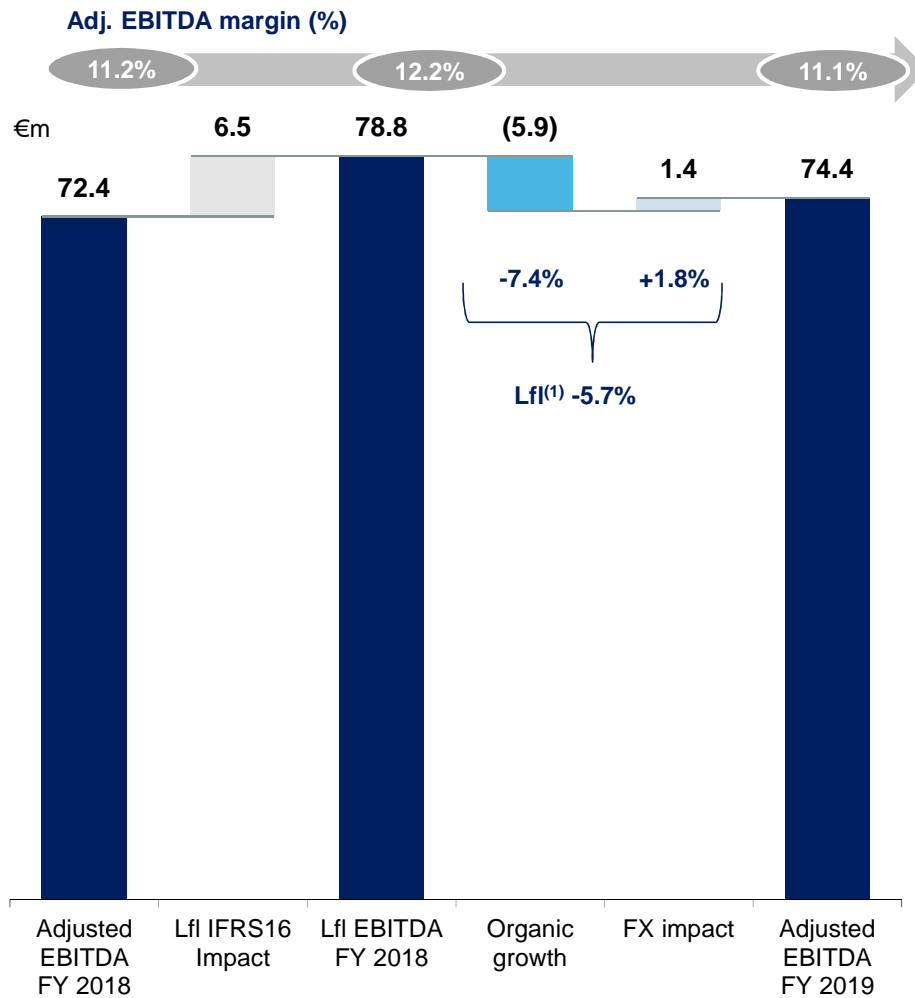
# Group FY 2019 Revenue Performance



	FY Growth (€m)	FY Growth (%)
Organic	+€16.7m	+2.6%
FX Impact	+€8.3m	+1.3%
<b>Reported</b>	<b>+€24.9m</b>	<b>+3.9%</b>

- Continued solid growth in our US Commercial business
- Some recovery in European Rugs after challenging 2018
- Residential market environment overall remained more challenging both in UK & Continental Europe

# Group FY 2019 Adjusted EBITDA and Margins



€m	Lfi(1) FY 2018	Reported FY 2019	% Change Lfi(1)
Rugs	29.0	16.8	-42.2%
Commercial	35.6	40.5	+13.7%
Residential	11.8	15.1	+27.5%
Non-Woven	2.4	2.1	-13.4%
<b>Consolidated Adjusted EBITDA</b>	<b>78.8</b>	<b>74.4</b>	<b>-5.7%</b>

- Rugs impacted by several negative one-off adjustments
- Investments in NEXT €4.2m of which €0.5m non-recurring
- Commercial and Residential benefited from price/mix and cost saving initiatives
- Positive impact from c.€2m accruals release & c.€1m sale of excess EUA's

# From Adjusted EBITDA to Net Income

<i>€million</i>	2019	2018	
Revenues	671.2	646.2	
Adjusted EBITDA	74.4	72.4	▶ Adjusted EBITDA & Depreciation impacted by IFRS16
Depreciation and amortisation	(39.6)	(32.4)	
Adjusted Operating Profit	34.8	39.9	
Non-recurring income/expenses	(6.6)	(7.7)	▶ Non recurring expenses in 2019 primarily in relation to NEXT
Operating Profit	28.1	32.2	
Financial income and expenses	(25.2)	(25.8)	
Profit Before Tax	3.0	6.4	
Income Tax	7.4	1.0	▶ Tax income mainly driven by recognition of previously unrecognized tax losses as a result of the alignment of the intercompany financing to the enacted tax legislation
Reported Net Income	10.4	7.3	

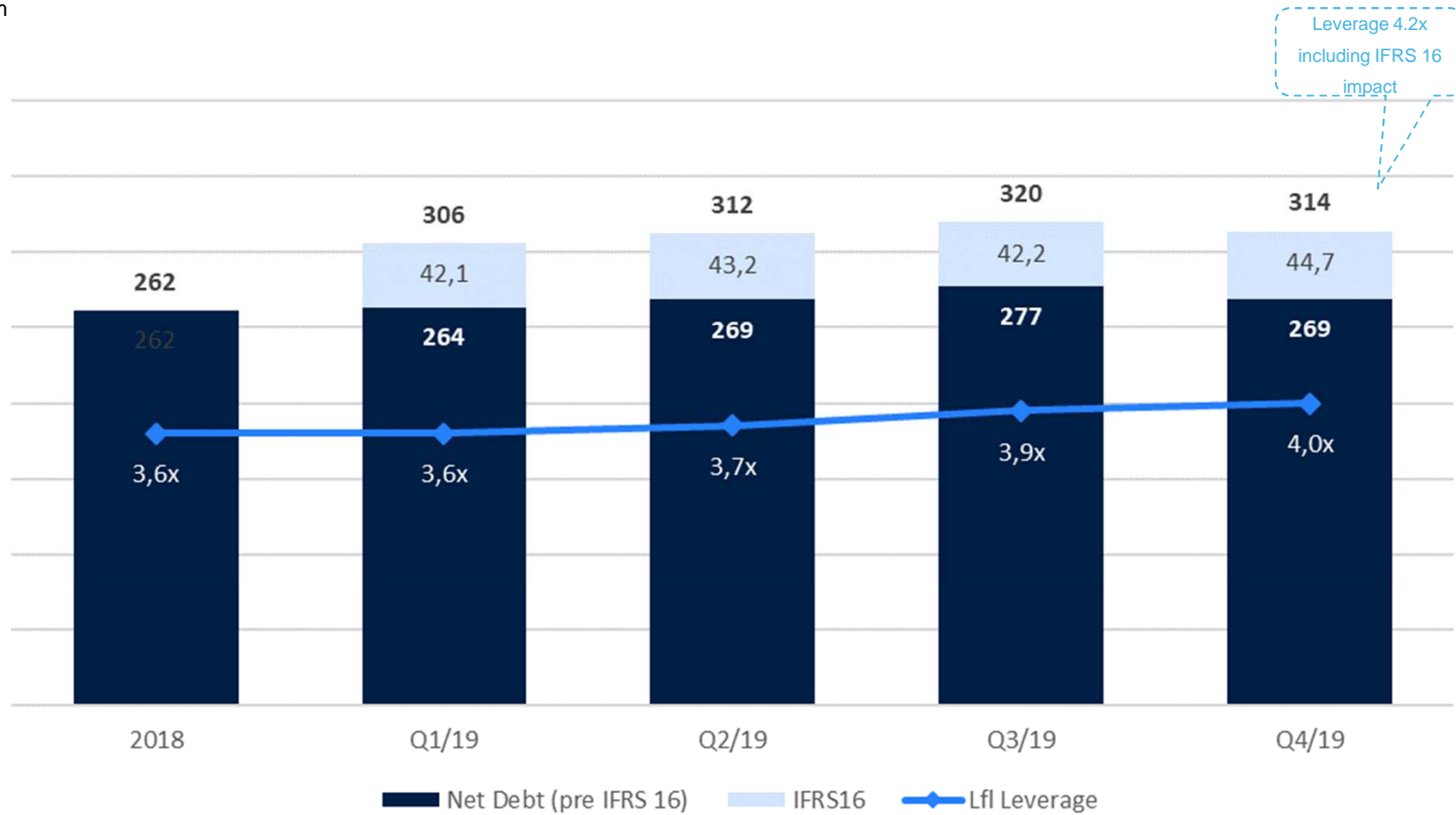
# Cash Flow

€million	2019	2018
<b>Adjusted EBITDA</b>	<b>74.4</b>	<b>72.4</b>
Non-recurring expenses (net)	(6.6)	(7.7)
Changes in provisions and FV of derivatives	(0.8)	(6.2)
<b>Cash generated before changes in working capital</b>	<b>67.0</b>	<b>58.5</b>
Changes in working capital <sup>(1)</sup>	(9.9)	(7.3)
Net income tax paid	(7.9)	(4.8)
<b>Net cash generated by operating activities</b>	<b>49.3</b>	<b>46.4</b>
Capital expenditure, net of disposals	(27.4)	(30.8)
<b>Net cash generated by investing activities</b>	<b>(27.4)</b>	<b>(30.8)</b>
Interest and other finance charges paid	(20.8)	(21.0)
Net debt repayments	(8.6)	(2.1)
Dividends paid	-	(2.9)
<b>Net cash generated by financing activities</b>	<b>(29.5)</b>	<b>(26.0)</b>
<b>Net change in cash</b>	<b>(7.6)</b>	<b>(10.5)</b>

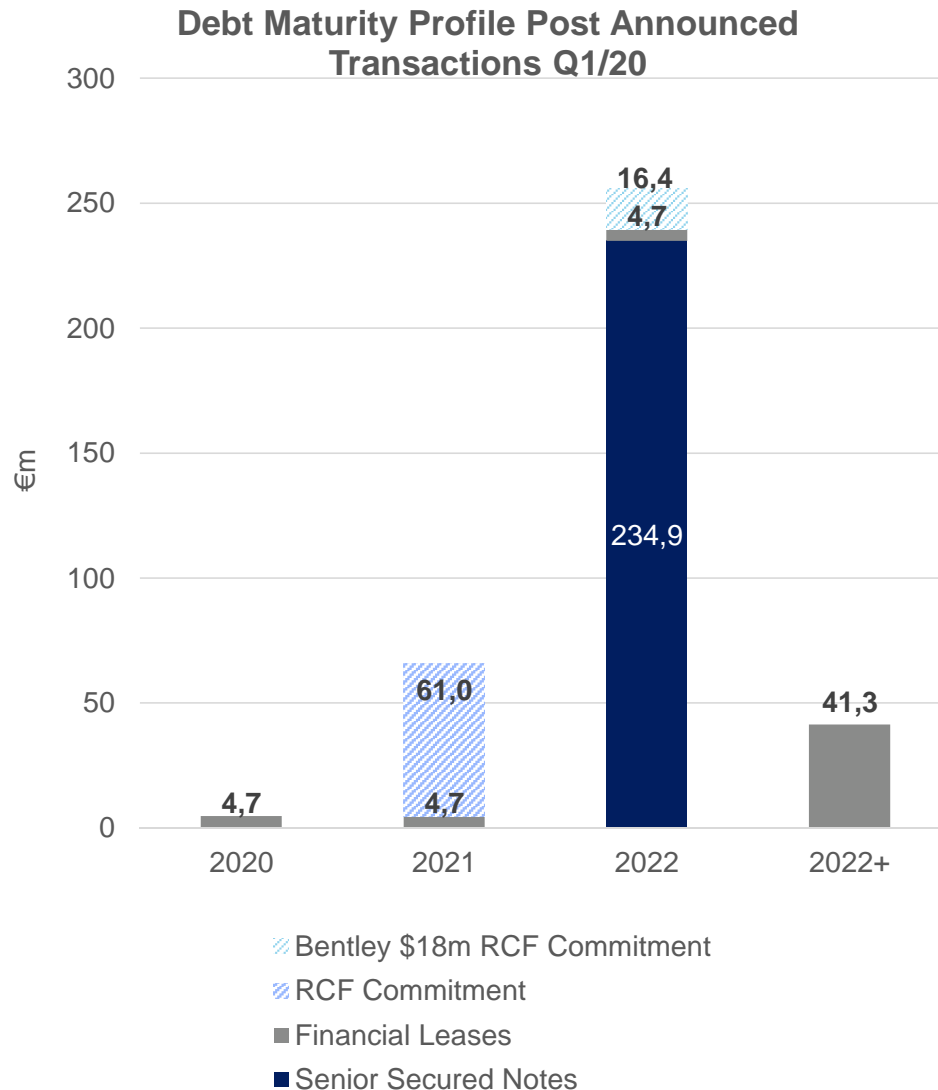
► Interest expenses and repayment of net debt above last year by the application of IFRS 16

# Leverage of 4.0x Excluding IFRS 16

€m



# Announced repayment of €35m Senior Term Loan in Q1/20



## Sale-and-lease-back announced January 2020

- Entered into sale-and-lease-back of two of our plants in Belgium (Tielt & part of Sint-Baafs-Vijve)
- Proceeds of €42m
- Amortizing to the repurchase option of 14% after 10 years, which can be extended further
- Fixed interest rate of 2.7%

## Senior Secured Notes due September 2022

- Continuously monitoring the market on refinancing alternatives
- Prepayment penalty to refinance the €234.9m outstanding Senior Secured Notes of c.€4.5m until September 2020, with no prepayment penalty thereafter



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Update on NEXT

# NEXT: Key Assumptions

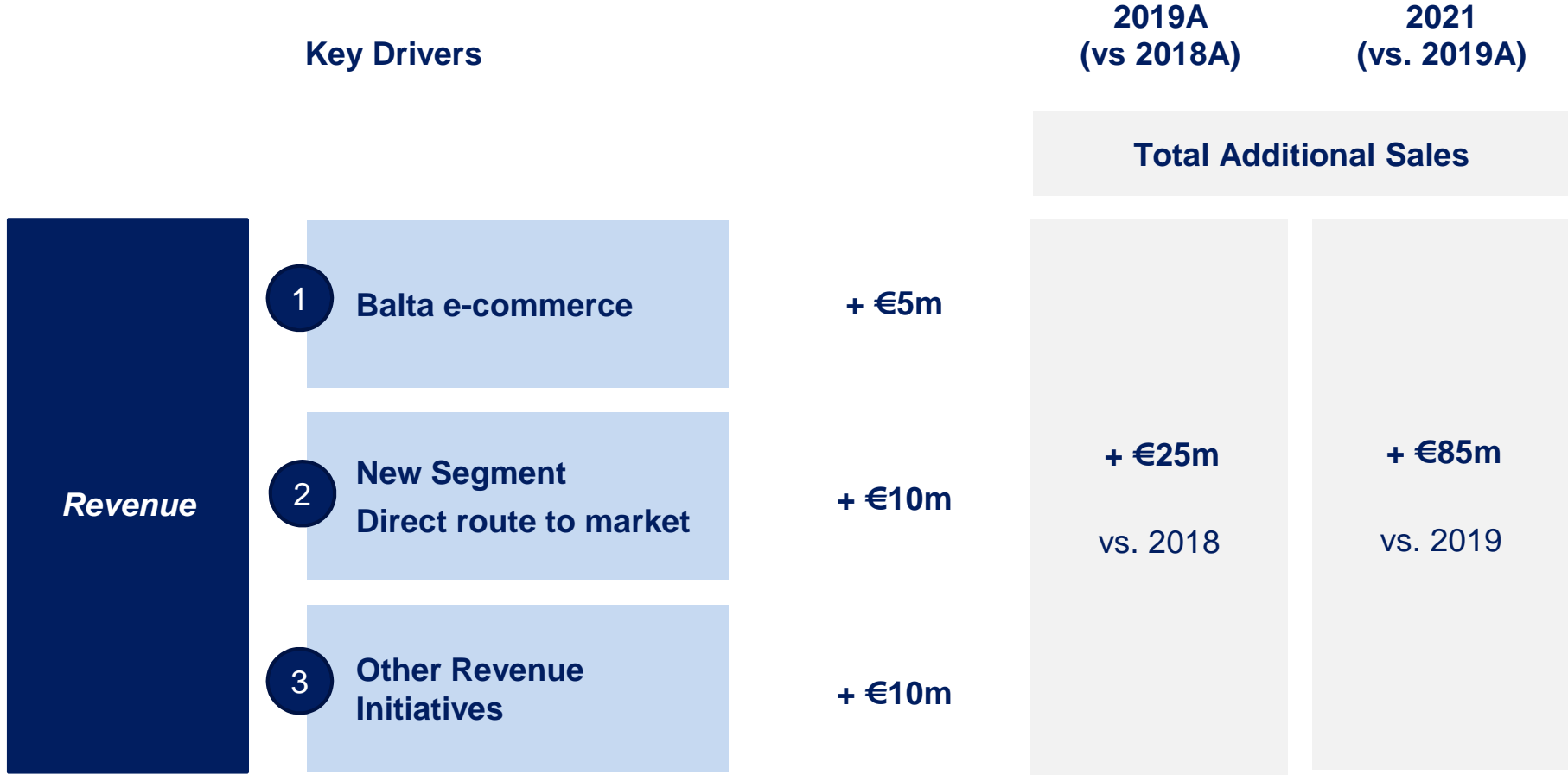
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**Next impacts presented in the following pages are to be understood as follows:**

- The assumptions are calculated versus a baseline of 2018 or 2019
- Impacts shown for the Revenue initiatives are the anticipated gross impacts and take no account of possible 'cannibalization effects' or the current macro-economic uncertainty
- Impacts shown for the Margin initiatives are the anticipated gross impacts before cost inflation
- Impacts are calculated on the basis of forecast volumes
- FX exchange rates are assumed stable over the period
- Lean and Procurement are P&L impacts (excluding Capex savings or cost avoidance) and affect either COGS (raw materials consumption or costs) or fixed expenses (e.g. maintenance)



# NEXT Revenue : Our Target is to add €85m of revenues to our Top Line in the next two years



# NEXT Margin Improvement : €16m additional savings planned in the next two years

	Key Drivers	2019A (vs.2018A)	2020F (vs. 2019A)	2021F (vs. 2020A)
<b>Margins<sup>(1)</sup></b>	4 Lean	+ €6m	+ €7m	+ €4m
	5 Procurement	+ €4m	+ €3m	+ €3m
	Incremental Opex	(€4m)	(€1m)	(€0m)
	<b>Total EBITDA savings</b>	<b>+ €6m</b>	<b>+ €9m</b>	<b>+ €7m</b>

		2019	2020	2021
<b>NEXT related spend</b>	Non-recurring expenses	(€7m)	(€2m)	(€0m)
	Capex	(€3m)	(€8m)	(€0m)

Notes:  
 (1) Impacts based on forecast volumes

# 1 Balta e-commerce

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## NEXT ambition

Establishing a strong position in the B2B e-commerce to capture growth, starting with Rugs in US and then EU

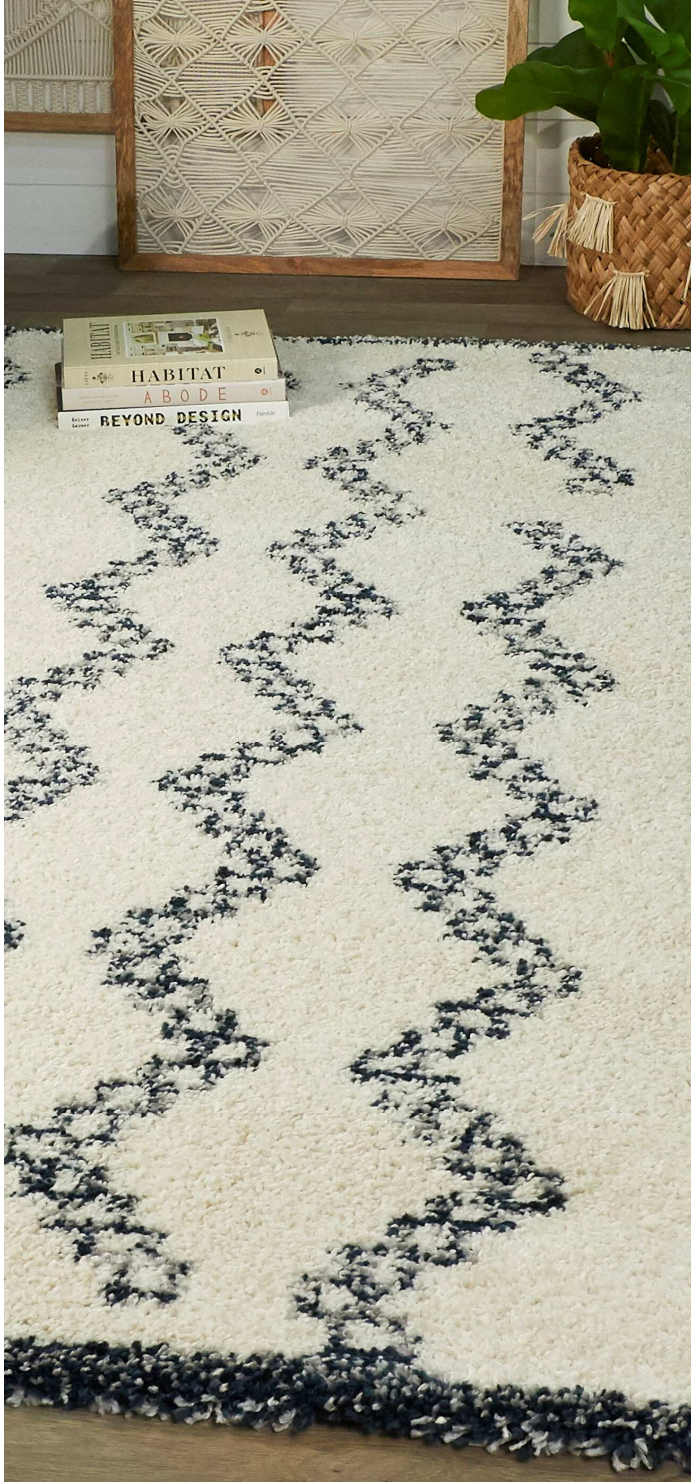
## What we have done so far

- Supply chain redesigned for specific e-commerce requirements in 2019, from production planning in Turkey and Belgium to dropship services requirements in US
- Initial introduction new indoor rugs collection in US
- Product development process and team put in place in H2 2019 in order to meet online web trends and search patterns
- Opened a dedicated state-of-the-art e-commerce warehouse in Savannah, US
- Set-up strong partnerships with pure e-commerce and traditional brick & click players in US, with a dedicated e-commerce team
- Opened a photography studio design in the US to increase agility and responsiveness to new customer trends

## 2020 Key Implementation Milestones

- Introduce new indoor rugs collection in US to both pure and brick & click players
- Enhanced EDI Customer Integration in US
- Define strategy and roll out e-fulfillment in EU, with a dedicated e-commerce team

# Establishing a successful position in the US online business



**Tackling the US e-commerce channel  
with a dedicated design team  
& state-of-the-art e-commerce warehouse  
in Savannah**

**Specific US design team**  
Introduced 600 new SKUs  
with additional 250 designs in Q1 2020

**Fast track prototyping for brick & click players**

**End-user delivery across US within 2 to 3 days**

**Same-day order fulfilment with  $\approx$  99% accuracy**  
Continuously exceed industry standards  
with our expected volume increase

## 2 Focus Segments & Direct Route To Market Approach

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### NEXT ambition

Be the growth leader in commercial flooring category, through delivery of unmatched value and customer experience

### What we have done so far

- Focus on high growth segments and direct route to market approach for Bentley and modulyss brands (Architects and Designers, Multi-family, Education, Government)
- Leverage synergies between Bentley and modulyss product ranges for cross-selling
- Investment in new machines to expand tiles product ranges (colourpoint at Bentley, press nip at modulyss)
- Broadened product portfolio with LVT products in US

### 2020 Key Implementation Milestones

- Leverage additional sales hires and selectively complement segment coverage
- Expand direct route to market strategy to new geographies
- Further develop synergies between Bentley and modulyss

# Intensifying our focus segment approach with our award-winning brand

**BENTLEY**

launching new carpet and LVT styles  
to meet price and aesthetic needs  
of education & multi-family segment

## **Continued revenue double digit growth in target segments in 2019**

Offering product design, style and customer service  
to segments with high potential of business development

### **Education, Bentley's second largest segment**

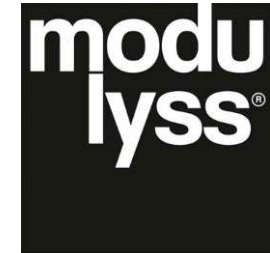
Benefiting from highly efficient production facilities  
to meet growing demands

### **Salesforce expansion**

Recruited 13 highly skilled sales representatives to address focus  
segments, with 5 additional hires planned in 2020



# Developing modulyss direct route to market approach



**Develop closer relationships with  
Architects & Designers**

## **Move to customer centric organization and products**

Offering new product designs  
Developing end-of-life solutions and cradle-to-cradle offering  
Developing online tools to facilitate visualization and sampling process

## **Salesforces and show rooms expansion**

Recruited 17 sales & marketing people  
focused on specifiers and Architects and Designers  
Developing unique concepts for each and every project  
Opened 5 showrooms in key urban centers

### 3 Other Revenue initiatives

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#### **NEXT ambition**

**Increasing margins by generating new sales from new higher-end products and developing smart pricing across business units**

#### **What we have done so far**

- Strengthened sales force capability with solid tools required for differentiated pricing
- Increased product development capability to speed up the pipeline
- Launched business wide new collections, including our innovative recycled Re\_Generation collection and Satino, the wall-to-wall carpets with innovative fibers

#### **2020 Key Implementation Milestones**

- Introduce new collections to key customers, focusing on innovative and sustainable products
- Continue communication campaign to ensure visibility and traction
- Implement a groupwide improved differentiated pricing methodology



# Addressing demand for sustainable and recyclable products

Our Rugs division values sustainable product development through innovation, turning trash into treasure



**RE\_GENERATION RUGS:**  
A new range of in- & outdoor area rugs made from recycled materials comprising plastic PET-bottles, discarded cotton fabric and pre-consumer leather waste; foldable for more compact transportation and storage, and certified by the Belgian Quality Association  
**Launched in January 2020**



**NEW GENERATION RUGS:**  
A range of single material tufted indoor area rugs  
Creating easy-to-recycle, washable and long-lasting rugs,  
**Generating 10% Rugs revenues**



## Differentiating our position with our stylish and handcrafted brand



**launching a mix of hand-made trendy and  
prestigious products inspired by nature**

### **Stylish & affordable designs**

Reflecting contemporary lifestyle trends  
with a wide range of price categories  
fitting a large customer base

### **Sustainable production**

In-house designers and hand-made rugs  
produced by experts in artisanal work

**Orders already confirmed to double in 2020**

## NEXT ambition

Implement the Lean program in all plants to establish superior cost position and deliver sustainable margin improvement

## What we have done so far

- Implementation ongoing in all EU and US plants.
- In six plants, multiple “waves” are currently rolled out in parallel
- Scope covers all production areas, maintenance, quality and energy
- 15 change agents deployed across plants to drive cultural change and continuous improvement, with close involvement of plant leadership

## 2020 Key Implementation Milestones

- First benefits from Lean program in Turkish plant (Usak)
- Fully deploy Lean waves in all plants, ramping up benefits and establish continuous improvement process in all plants

## Financial Impact

- Lean implementation is on track and has delivered expected €6m margin improvement in 2019
- In excess of €11m EBITDA impact expected in the next two years
- 2022 run-rate savings of 3.4% of annual production cost in scope <sup>(1)</sup>

(1) On a 2020 COGS baseline

## 4 Lean – case study

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### Rugs – SBV Finishing line

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- Overall Equipment Effectiveness improvement on gluing lines
- 30% productivity improvement achieved vs 2018
- Enabled by CAPEX investments with a pay-back period of 18 months
- Increased productive output of machines and value-added time from operators manning the lines

## 4 Case study inventory reduction

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### Broadloom

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10% raw materials inventory reduction through :

- Introducing vendor owned inventory for externally sourced semi-finished products
- Just-in-time ordering of yarn creels, enabled by a 1 month reduction of the overall lead time
- Close collaboration through partnerships with key suppliers

## NEXT ambition

**Our ambition is to optimize spending and maximize savings for all product groups, without compromising on quality, service and sustainability**

## What we have done so far

- Price, product and supplier optimization: working on multiple fronts, such as the introduction of new suppliers, raw materials adjustments & intensive price negotiations.
- Improved automated processing to increase purchasing efficiency and process time

## 2020 Key Implementation Milestones

- Main Raw Material contracts and agreements finalized by end of January
- Fourth-Party Logistics (4PL) will be setup for container transport in H2/2020

## Financial Impact

- 2019 EBITDA savings of €4m were ahead of plan
- On track with our target to deliver in excess of €6m EBITDA savings in the next two years



# Creating procurement synergies with One Balta

**Bringing together world-wide Balta product specialists  
to work on product optimization, sourcing projects  
and purchased SKUs reduction**

**Working groups created with 10 specialists involved in each**  
Focusing on Plastic packaging, Cardboard packaging  
and machinery spare parts

**Synergies triggering important purchased SKU reductions**  
e.g. going from 3000 spare parts to 1500

**Best Cost Country Sourcing Strategy**  
In new geographies such as in Asia and Turkey and  
for new categories such as spare parts and machinery

# Supply chain optimization

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<b>NEXT ambition</b>	<b>End-to-end improvements to supply chain to significantly reduce working capital requirements and improve service levels</b>
<b>What we have done so far</b>	<ul style="list-style-type: none"><li>• Enhancements made to existing planning and CRM tools</li><li>• Shift to vendor owned inventory and just-in-time ordering of raw materials and externally sourced semi-finished products, reducing lead times by 1 month through partnerships with key suppliers</li><li>• Close collaboration and feedback loop in place with Sales to realize first improvements in forecast accuracy</li></ul>
<b>2020 Key Implementation Milestones</b>	<ul style="list-style-type: none"><li>• Implement a new forecasting tool and support processes across Business Units to enhance the way we manage forecasting and improve forecast accuracy</li><li>• Start implementation of fit-for-purpose planning tools as a key enabler, not only for further inventory improvements along our entire supply chain, but also to support e-commerce growth</li></ul>
<b>Financial Impact</b>	<ul style="list-style-type: none"><li>• Resulting inventory improvements in 2019 of €5m are ahead of plan, with inventory relative to sales improved by up to 12% (Rugs)</li></ul>

# Complexity reduction

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## NEXT ambition

Right trade-off between a broad product offering and the adherent cost of complexity in supply chain and production

## What we have done so far

- Created transparency on complexity drivers and costs at SKU level
- Net reduction of SKUs in Residential by 10%
- Net reduction of different yarn types used in Rugs by 25% through rationalizing similar colors and standardizing yarns for declining SKUs

## 2020 Key Implementation Milestones

- Further net reduction of SKUs in Residential by 10%
- Further yarn and SKU rationalization in Rugs, freeing up space for the launch of additional e-commerce SKUs

# Balta's Strategic Priorities

## NEXT

### Three year earnings enhancement program

- Delivering sustainable growth & improving commercial excellence
- Increasing cost competitiveness

## Environmental, Social and Governance (ESG)

### Contributing to Sustainable Development Goals

- Appointed Head of Innovation and Sustainability reporting to the Executive Committee
- 'Design to Recycle' Principle drives our product development strategy
- Continuous optimization across our factories to reduce water and energy consumption
- 'One Balta For Safety' = Zero Harm to Balta employees

## Digital Transformation

### Digital Transformation

- Enhancing customer experience through state-of-the-art visualization and ordering tools
- Connecting plants, processes and people

**With the NEXT initiatives in place we expect significant top-line and EBITDA growth in the next years. However, macro-economic conditions remain uncertain.**



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Q&A Session