



PRESS RELEASE

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Regulated information

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Balta Q3 2019 Results

Group Highlights:

- Q3 consolidated: Revenue €155.6m +3.0%, Adjusted EBITDA €17.3m -7.0% on a like-for-like basis¹, Adjusted EBITDA margin 11.1%
 - Organic revenue growth +1.7% and FX +1.3%
 - Revenue growth by division: Rugs +0.4%, Commercial +7.1%, Residential 0.0%
- Adjusted EBITDA on a like-for-like basis¹ impacted by lower Rugs margin, partly offset by improved margins in both Commercial and Residential. Overall investments in NEXT in Q3 of €1.0m (year to date €3.0m)
- Net Debt stable vs. Q3 2018 (reported Net Debt Q3 2019 of €319.6m includes €42.2m IFRS16 impact) on a like-for-like basis²
- Leverage 3.9x stable vs. Q3 2018 on a like-for-like basis²

Business Update:

- The implementation of NEXT, the three year program designed to deliver a significant improvement in earnings, continued in Q3 with a first set of initiatives fully implemented in procurement and lean.
- Following the strong growth realized by Rugs in H1 2019, primarily from regained US outdoor programs and the timing of European program roll-outs, Rugs achieved also slight top line growth in Q3. For 2020, we secured an overall stable share for next year's US outdoor programs. Rugs margin for the quarter was negatively impacted by the one-off adjustment in relation to higher than foreseen sales discounts at Balta USA on sales in previous quarters, as well as our investments in NEXT, in particular the start-up costs for the US e-commerce business. Without these effects, Rugs had a solid underlying margin generation.
- Strong revenue evolution with further improved margins in Commercial, driven by the continued growth of our US business. In Europe, volumes were down over Q3 2018, but in line with expectations at better prices and margins.
- In Residential, Q3 revenue was flat year-on-year. UK revenue was slightly up, benefiting from pre-Brexit stocking at some of our customers. Trading in our Continental European markets remained subdued in the third quarter, but margins benefited from the price increases introduced at the start of the year.

Cyrille Ragoucy, CEO and Chairman of the Board of Balta said,

"Third quarter results for our Residential and Commercial divisions were in line with our expectations, showing improved margins versus last year, despite the upfront investments in NEXT. In Rugs, revenue growth was in line with expectations, however, margins were again penalized by exceptional items. We continue to focus on implementing the various growth and cost saving initiatives identified in NEXT, which will start benefiting our results and will contribute significantly to 2020 earnings. We remain on track for the full year 2019 guidance we provided in March."

¹ Like-for-like IFRS16 adjustment on Q3 2018 Adjusted EBITDA
² Excluding impact of IFRS16

Q3 2019 Revenue and Adjusted EBITDA per Division

(€ million, unless otherwise stated)	Q3 2018	Lfl IFRS16 Impact	Lfl Q3 2018	Q3 2019	% change Lfl ⁽¹⁾	o/w organic growth	o/w FX
Rugs	43.4		43.4	43.5	0.4%		
Commercial	54.5		54.5	58.4	7.1%		
Residential	47.1		47.1	47.1	0.0%		
Non-Woven	6.1		6.1	6.7	8.8%		
Consolidated Revenue	151.0		151.0	155.6	3.0%	1.7%	1.3%
Rugs	5.9	0.3	6.3	2.6	(58.2)%		
Commercial	7.9	1.2	9.1	10.5	15.5%		
Residential	2.5	0.1	2.5	3.5	39.0%		
Non-Woven	0.7	0.0	0.7	0.6	(9.5)%		
Consolidated Adjusted EBITDA	17.1	1.5	18.6	17.3	(7.0)%	(9.1)%	2.1%
Rugs	13.7%		14.4%	6.0%			
Commercial	14.6%		16.7%	18.0%			
Residential	5.3%		5.4%	7.5%			
Non-Woven	10.9%		11.0%	9.1%			
Consolidated Adjusted EBITDA Margin	11.3%		12.3%	11.1%			

(1) Like-for-like IFRS16 adjustment on Q3 2018 Adjusted EBITDA

YTD 2019 Revenue and Adjusted EBITDA per segment

(€ million, unless otherwise stated)	YTD Q3 2018	Lfl IFRS16 Impact	Lfl YTD Q13 2018	YTD Q3 2019	% change Lfl ⁽¹⁾	o/w organic growth	o/w FX
Rugs	144.1		144.1	163.3	13.3%		
Commercial	156.4		156.4	174.8	11.7%		
Residential	152.2		152.2	147.7	(3.0)%		
Non-Woven	20.2		20.2	21.3	5.2%		
Consolidated Revenue	472.9		472.9	507.0	7.2%	5.7%	1.5%
Rugs	18.4	0.8	19.2	11.8	(38.6)%		
Commercial	22.0	3.7	25.7	29.7	15.7%		
Residential	8.7	0.2	9.0	11.4	27.2%		
Non-Woven	2.1	0.0	2.1	1.6	(20.1)%		
Consolidated Adjusted EBITDA	51.2	4.7	55.9	54.6	(2.4)%	(4.5)%	2.1%
Rugs	12.8%		13.3%	7.2%			
Commercial	14.1%		16.4%	17.0%			
Residential	5.7%		5.9%	7.7%			
Non-Woven	10.1%		10.2%	7.7%			
Consolidated Adjusted EBITDA Margin	10.8%		11.8%	10.8%			

(1) Like-for-like IFRS16 adjustment on YTD Q3 2018 Adjusted EBITDA

Rugs

Our Rugs division realized Revenue of €43.5m, up 0.4% versus the third quarter of 2018, resulting in a year-to-date growth of 13.3%. In the US, our e-commerce sales from the dedicated state-of-the-art warehouse in Savannah have continued to progress albeit still at a low level. Revenue in the quarter was further impacted by the one-off adjustment for the higher than anticipated sales discounts on sales in previous quarters. In Europe, top-line grew versus the third quarter of 2018, against the backdrop of a challenging market environment.

Adjusted EBITDA in Q3 was €2.6m, down from €6.3m on a like-for-like basis¹ in the same period last year. This drop in the Adjusted EBITDA¹ margin from 14.4% to 6.0% is mainly a result of a one-off adjustment for the higher than foreseen sales discounts at Balta USA on sales in previous quarters and costs for NEXT, in particular in relation to the startup of the US e-commerce activities. Without these effects, Rugs had a solid underlying margin generation.

Commercial

Our Commercial division realized Revenue of €58.4m, up 7.1% versus the third quarter of 2018, resulting in a year-to-date growth of 11.7%. The US business continued its strong organic growth spurred by additional share gains. In Europe, Revenue declined year on year on the back of lower volumes as the market environment remained more challenging, while pricing improved. We continued to execute our strategy to grow our presence in the direct channel, targeting architects and designers, by adding dedicated sales personnel.

Adjusted EBITDA in Q3 was €10.5m, up from €9.1m on a like-for-like basis¹ for the same period last year with Adjusted EBITDA margin further improving from 16.7% to 18.0% on a like-for-like basis¹. Overall volume growth and the impact from price increases had a positive effect on margins, more than offsetting cost inflation and investments in NEXT, in particular for expanding our sales teams.

Residential

Our Residential division had Revenue of €47.1m, flat versus the third quarter of 2018, resulting in a year-to-date top-line decline of -3.0%. In the UK, we realized modest sales growth against a generally challenging and volatile environment. Our performance in the third quarter benefited from modest pre-Brexit stocking by some of our customers. In Continental Europe we succeeded in increasing the prices of our products while volumes continued to be subdued. We continue to focus on growing our share of higher margin products, representing 37% of Q3 2019's Residential Revenue.

Adjusted EBITDA in Q3 was €3.5m, up from €2.5m on a like-for-like basis¹ for the same period last year. On a like-for-like basis¹, Adjusted EBITDA margin in Residential increased to 7.5% from 5.4%, benefiting from a growing share of higher margin products, price increases we realized outside of the UK and the first benefits from our lean projects, partly offset by our investments in NEXT.

¹ Like-for-like IFRS16 adjustment on Q3 2018 Adjusted EBITDA

Earnings call

The Q3 2019 Results will be presented on 6 November 2019 at 10:00 CET via a webcast, by CEO and Chairman of the Board Cyrille Ragoucy and CFO Jan-Christian Werner. Dial-in details and the results presentation will be available on www.baltainvestors.com

Glossary: Alternative Performance Measures

The following alternative performance measures (non-IFRS) have been used as management believes that they are widely used by certain investors, securities analysts and other interested parties as supplemental measures of performance and liquidity. The alternative performance measures may not be comparable to similarly titled measures of other companies, have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our operating results, our performance or our liquidity under IFRS.

Organic Growth is defined as growth excluding (i) FX impact, which comprises the translation of key foreign entities, (ii) M&A impact and (iii) the impact of IFRS16. Note that as from 1 January 2019 onwards, the calculation of the FX impact changed, whereby transactional FX impacts are no longer taken into account under FX impact. When retroactively applying the new method to calculate FX impact on full year 2018, the FX impact on Consolidated Revenue would have been -0.2% instead of -1.3%, and the FX impact on Consolidated Adjusted EBITDA would remain -0.3%.

Adjusted EBITDA is defined as operating profit / (loss) adjusted for (i) the impact of the purchase price allocation mainly on change in inventories, (ii) gains on asset disposals, (iii) integration and restructuring expenses, (iv) depreciation / amortization and (v) impairment and write-off

Gross Debt is defined as (i) Senior Secured Notes adjusted for the financing fees included in the carrying amount, (ii) Senior Term Loan Facility adjusted for capitalized financing fees and (iii) Bank and other borrowings adjusted for capitalized financing fees

Net Debt is defined as (i) Senior Secured Notes adjusted for the financing fees included in the carrying amount, (ii) Senior Term Loan Facility adjusted for capitalized financing fees, (iii) Bank and other borrowings adjusted for capitalized financing fees and (iv) cash and cash equivalents

Leverage is defined as the ratio of Net Debt to Adjusted EBITDA (excluding IFRS16 as per financing documentation)

Impact of IFRS 16 in 2019

IFRS 16 has been applicable since 1 January 2019. The new accounting standard results in almost all leases being recognized on the balance sheet by lessees, as the distinction between an operating and finance lease is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized.

The standard will primarily affect the accounting for the Group's operating leases. For the remaining lease term, the right-of-use assets and lease liabilities recognized amount to around €45m. The Group expects that net profit after tax will not be materially impacted for 2019 as a result of adopting the new rules. Adjusted EBITDA, used to measure segment results is expected to increase between approximately €6m and €8m, as the operating lease payments were included in the Adjusted EBITDA, but the amortization of the right-of-use assets and interest on the lease liability are excluded from this measure. The IFRS 16 adjustments will increase the Reported Net Debt to Adjusted EBITDA ratio by between 0.2x – 0.3x.

In relation to Balta's financing agreements, the documentation provides for the effect of changes in accounting standards to be neutralized. As such, the application of IFRS16 has no consequences for the Group's financing.

For further information, please contact

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About Balta

Balta is a leading manufacturer of textile floor coverings, selling to over 130 countries worldwide. The Balta divisions are Balta Rugs (Balta home), Balta Residential Carpets & Tiles (under the brands Balta carpets, ITC and Balta carpet tiles), Balta Commercial Carpets & Tiles (under the brands modulyss, arc edition and Bentley), and Balta Non-Woven (under the brand Captiqs). With the addition of Bentley, Balta employs nearly 4,000 people in 10 manufacturing sites and distribution centres in Belgium, Turkey and the United States.

Important notice

Certain financial data included in this press release are “non-IFRS financial measures.” These non-IFRS financial measures may not be comparable to similarly titled measures presented by other entities, nor should they be construed as an alternative to other financial measures determined in accordance with International Financial Reporting Standards. Although Balta believes these non-IFRS financial measures provide useful information to users in measuring the financial performance and condition of its business, users are cautioned not to place undue reliance on any non-IFRS financial measures or any ratios included in this presentation.

This press release may include projections and other “forward-looking” statements. Any such projections or statements reflect the current views of the issuer about further events and financial performance. No assurances can be given that such events or performance will occur as projected and actual results may differ materially from these projections. Rounding adjustments have been made in calculating some of the financial information included in this press release. As a result, figures shown as totals in some tables may not be exact arithmetic aggregations of the figures that precede them.