



 **balta**

**Q3 2020 Results**

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# Introduction

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**Cyrille Ragoucy**  
Chief Executive Officer  
Chairman of the Board



**Jan-Christian Werner**  
Chief Financial Officer



**Emmanuel Rigaux**  
Chief Transformation Officer

# COVID-19 Q3 Update

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Balta remains focused on protecting the safety and health of its employees, customers and other stakeholders throughout and beyond the COVID-19 pandemic.

In the third quarter of 2020, all plants were operational. We remained focused on efficiently servicing customer orders and gradually increased production over summer.

We continued fixed and variable cost saving measures, ensured non-essential capital expenditure had shorter payback terms and tightly managed purchasing, inventory and other working capital.

Revenues recovered in the third quarter:

- Full recovery to normal levels in Rugs and Residential; and
- Commercial volume rebounded less strongly.

Given the continued uncertainties, we still expect to produce at approximately 85% of capacity in the fourth quarter of 2020. We anticipate some of the working capital savings to unwind, as we continue to ramp up and normalise.

# Q3 2020 Financial Summary

<b>(7.2%)</b> YoY sales growth <small>(consolidated)</small>	<b>(6.0%) organic</b>	<ul style="list-style-type: none"><li>• Q3 2020 Consolidated revenue of €144.4m</li><li>• Top-line recovery in Rugs (+11.0%) and Residential (+0.2%), while Commercial (-23.7%) still impacted by COVID-19 slowdowns</li></ul>
	<b>(1.2%) FX impact</b>	
<b>+26.3%</b> YoY Adj. EBITDA growth	<b>+28.1% organic</b>	<ul style="list-style-type: none"><li>• Q3 2020 Consolidated Adjusted EBITDA of €21.8m</li><li>• Margins still impacted by COVID-19 revenue shortfalls</li><li>• Positive and recurring NEXT contribution</li><li>• Continued fixed expenses savings</li><li>• Impact lower raw material prices</li></ul>
	<b>(1.8%) FX impact</b>	
<b>4.7x</b> Leverage Excluding IFRS16 <small>(on a like-for-like basis)</small>	<b>Net Debt</b> <b>€281.4m</b>	<ul style="list-style-type: none"><li>• Leverage reduced from H1 2020 of 5.9x</li><li>• Reported net debt includes €40.4m impact from IFRS16</li><li>• Net debt before the impact of IFRS16 down from H1 2020, as result of strong cash generation through working capital reduction and strong quarterly Adjusted EBITDA</li></ul>

# Balta's Strategic Priorities

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## 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

- 'Design to Recycle' Principle drives our product development strategy
- Continuous optimization across our factories to reduce water and energy consumption
- 'One Balta For Safety' – goal remains "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

# NEXT Revenue + €31m incremental revenues YTD

## Well on track to meet the €85m target for 2021 (vs 2018)

Key Drivers		2019 (vs 2018)	YTD 2020 (vs 2019)	Cumulative (vs 2018)
Revenue	1 Balta e-commerce	+ €5m	+ €5m	+ €10m
	2 New Segment Direct route to market	+ €10m	+ €8m	+ €18m
	3 Other Revenue Initiatives	+ €10m	+ €18m	+ €28m
	<b>Total Additional Sales</b>	<b>+ €25m</b>	<b>+ €31m</b>	<b>+ €56m</b>

Impacts shown for the Revenue initiatives are gross impacts and take no account of possible 'cannibalization effects'

# Case Study : Developing our market tailored approach with the launch of high-end and sustainable product collections

- Successful launch of high-end collections for Residential (Satino, Wild Luxury) in Northern Europe markets, which have shown continued resilience throughout the year
- New sustainable qualities launched at the beginning of the year such as ReGen and NewGen in Home are strong sellers
- Continued development of our Papilio brand
- Successful launch of the EliteFlex product range by Bentley in the Healthcare and Education segments



Polyester digital printed rug with cotton backing



# NEXT Margin Improvement : +€4m incremental savings YTD

## On track to meet the €16m target for 2021 (vs 2018)

<u>Key Drivers</u>		<u>2019A (vs 2018)</u>	<u>YTD 2020 (vs 2019)</u>	<u>Cumulative (vs 2018)</u>
<b>Margins</b>	4 Lean	+€6m	+€4m	+€10m
	5 Procurement	+€4m	+€1m	+€5m
	Incremental OPEX	(€4m)	(€1m)	(€5m)
	<b>Total EBITDA savings</b>	<b>+€6m</b>	<b>+ €4m</b>	<b>+ €10m</b>

		<u>2019</u>	<u>YTD 2020</u>	<u>Cumulative</u>
NEXT related spend	Non-recurring expenses	(€7m)	(€2m)	(€9m)
	CAPEX	(€3m)	(€2m)	(€5m)

Impacts shown for the Margin initiatives are the gross impacts before cost inflation

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)



# Lean Case Study : Broadloom – SBV Plant



## Internal regranulation of PP yarn-waste

- Capex investment with a pay-back < 2 years
- Reduces the cost of raw materials and waste
- Improves our environmental footprint
- Estimated 1.000 ton per year of waste will be regranulated and reused
- Further PP waste reduction potential being explored

**Fully operational since July 2020**



# ESG - Sustainability

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**Our sustainability strategy is an integral part of our business strategy. The primary goal of our product development process is to increase the level of recycled content and make products easier to recycle and therefore achieve a fully circular lifecycle.**

In the third quarter of 2020, we passed important milestones:

- Modulyss was awarded “Cradle to Cradle” Certified™ Platinum, Gold and Silver certificates for 127 sustainable products. Our “Cradle to Cradle” Certified™ products are CO<sup>2</sup> neutral following the CO<sup>2</sup>RE initiative.
- In September, Modulyss launched its “Cradle to Cradle” Certified™ Gold awarded EcoBack, a new “circular” backing. EcoBack is PVC and bitumen free, has a minimum 75% recycled content and is recyclable at the end of the carpet’s lifetime
- In Rugs, our sustainable products with a minimum content of 40% recycled material or single-material rugs already account for 17% of the division’s quarterly revenues. We already have 10 sustainable collections.
- Bentley successfully completed the NSF/ANSI 140 Audit. NSF/ANSI 140 is the highest US standard of environmentally-responsible carpet products. The Audit addressed the triple bottom line – economic-environmental-societal – throughout supply chain and assures sustainability over our product’s full commercial life.





# Digital Transformation at Balta is accelerating

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Digital Transformation encompasses managing customer relationships, operations, logistics and planning processes.

## *Managing Customer relationships*

- Strengthened social media presence with strong focus on architects, designers and influencers to support our Direct Route to Market approach



@modulyss\_official

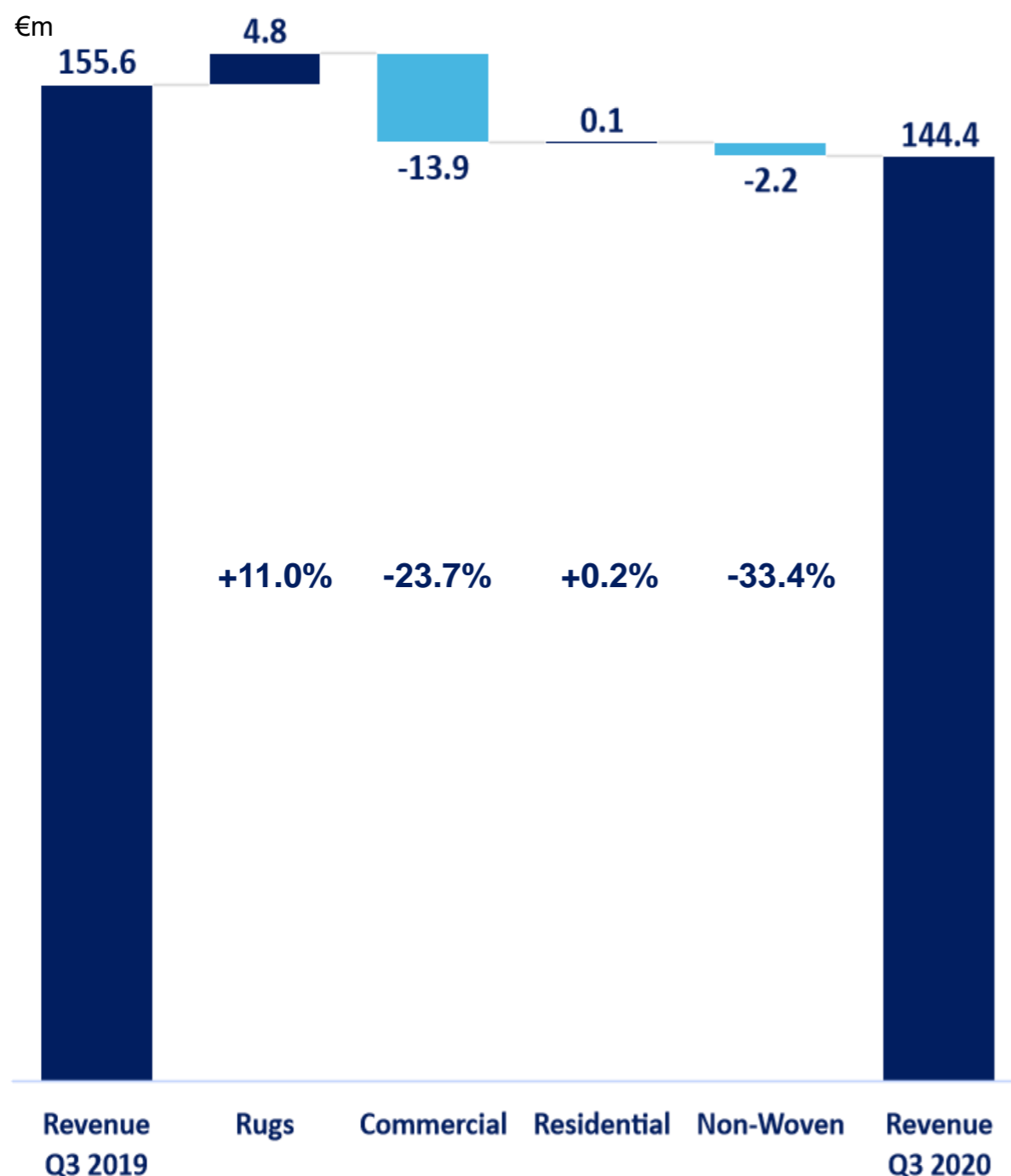
@bentleymillsla

- As physical B2B events were cancelled by COVID-19 restrictions, we created virtual events to launch new collections digitally with digital showroom tours, webinars and digital brochures
- Enhanced digital tools for online sample ordering via Bentley and modulyss websites and new software to create high quality rendering of our carpet tiles

## *Production and Logistics*

- Launch of integrated sales forecasting tool, available on mobile devices to improve planning and forecasting reliability
- Development of mobile solution for predictive maintenance integrated with ERP, to reduce costs and downtime. Initial pilot was successfully launched over summer.
- Roll-out of reverse bidding solution on transportation, to reduce both cost and RFQ preparation time (by 60%)

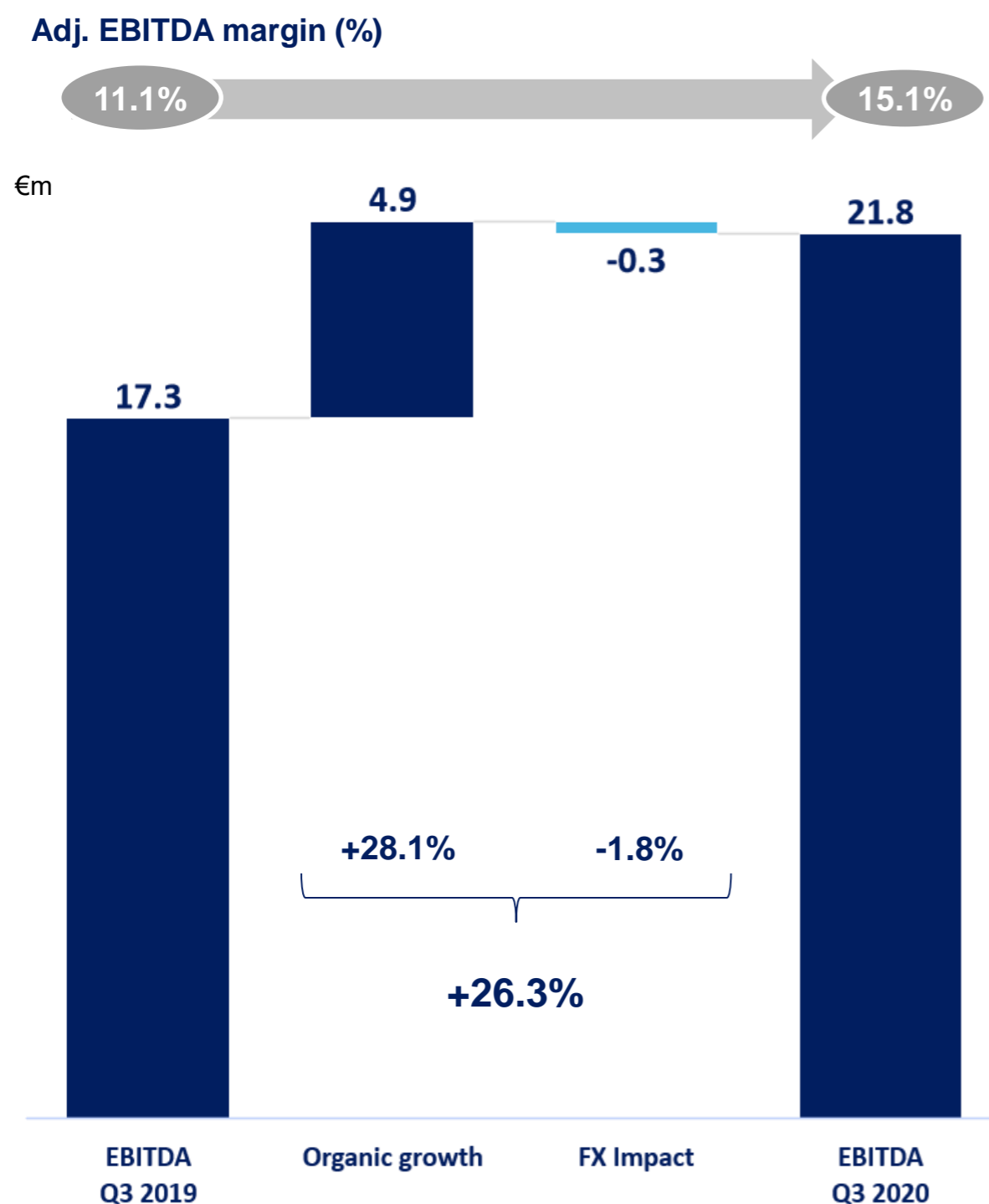
# Group Q3 2020 Revenue Performance



	Q3 Growth (€m)	Q3 Growth (%)
Organic	-€9.4m	-6.0%
FX Impact	-€1.8m	-1.2%
<b>Reported</b>	<b>-€11.2m</b>	<b>-7.2%</b>

- Rugs revenues outperformed last year's third quarter, following the COVID-19 related revenue drop in H1. US revenue grew well above last year's, while US e-commerce continues to grow, but still impacted by fixed costs. Year-on-year volume recovered as of June in Europe.
- Commercial Revenue continued to be impaired by the COVID-19 impact in both Europe and US.
- Residential had volume rebounds from June, with solid demand in UK, France and Benelux. Share of higher margin products continued to increase.

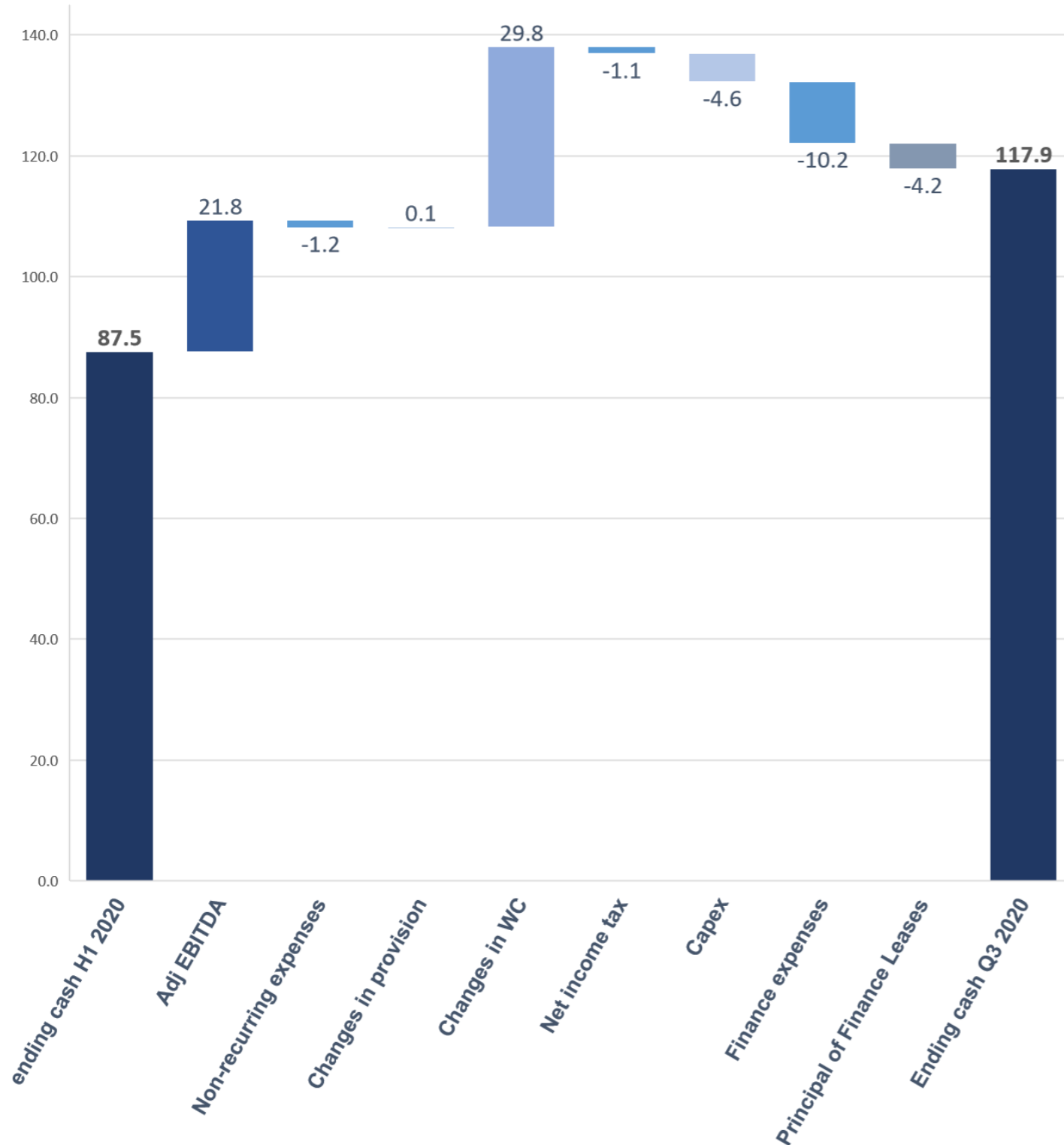
# Group Q3 2020 Adjusted EBITDA and Margins



€m	Q3 2020	Q3 2019	% Change
Rugs	6.9	2.6	163.9%
Commercial	7.1	10.5	(32.1)%
Residential	7.3	3.5	105.3%
Non-Woven	0.5	0.6	(14.7)%
<b>Consolidated Adjusted EBITDA</b>	<b>21.8</b>	<b>17.3</b>	<b>26.3%</b>

- All divisions benefited from strict cost control and lower material prices
- Rugs experienced strong impact from higher volume, better product mix and earnings improvements from NEXT initiatives
- Commercial declined due to COVID-19 related revenue shortfalls, despite fixed expense savings and positive effect from NEXT initiatives in US
- Residential continued increasing share of higher margin product and saw positive impacts from NEXT

# Cash Flow Q3 2020: + €30.4m



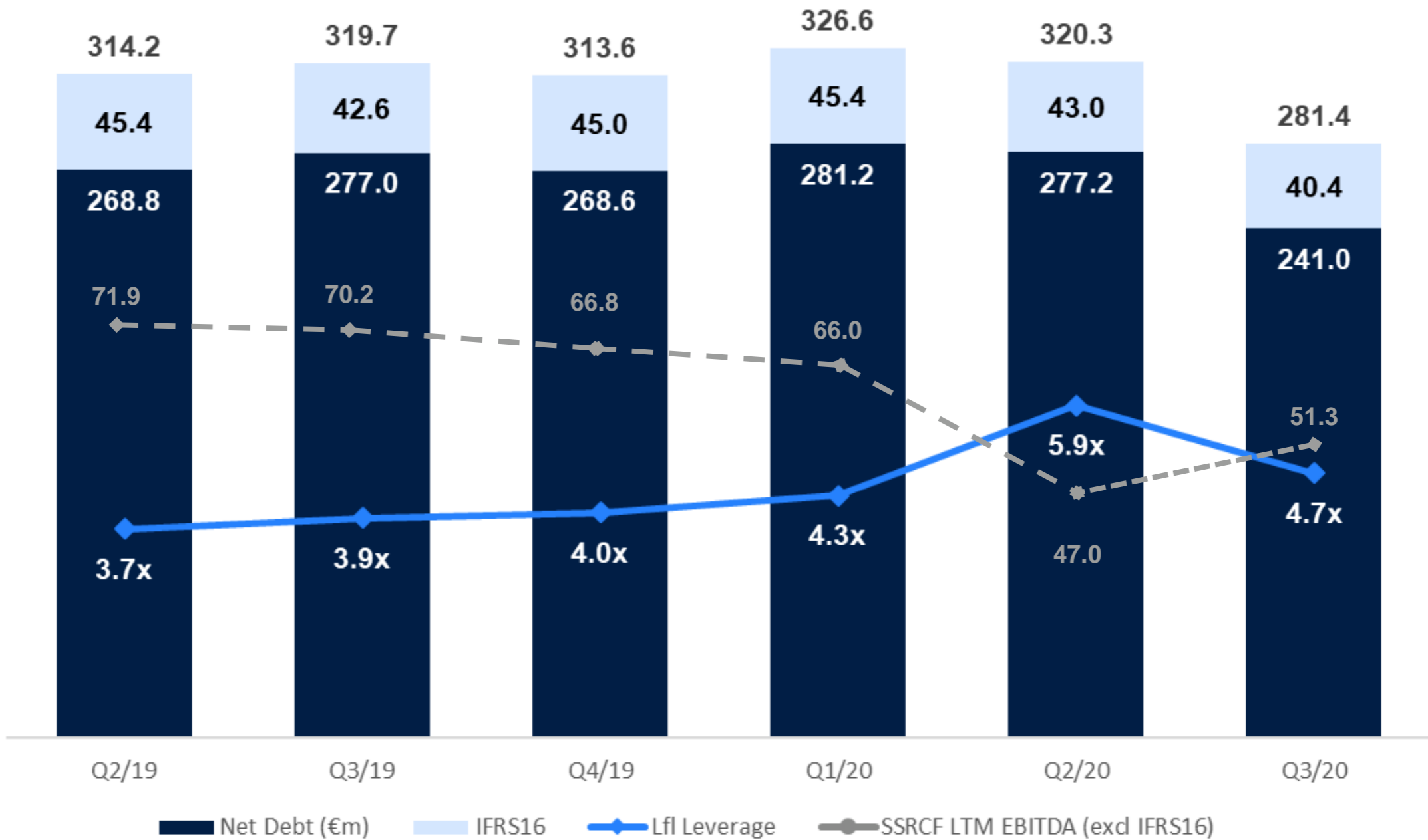
- Positive net cash flow of €30.4m in Q3 2020
- As of 30 September 2020, we held cash and cash equivalents of €117.9m, including fully drawn Revolving Credit Facilities of €72.0m.
- Cashflow in Q3 2020 increased through focus on cash preservation, tight working capital management and strict capital expenditures

Changes in Working Capital of €29.8m represent:

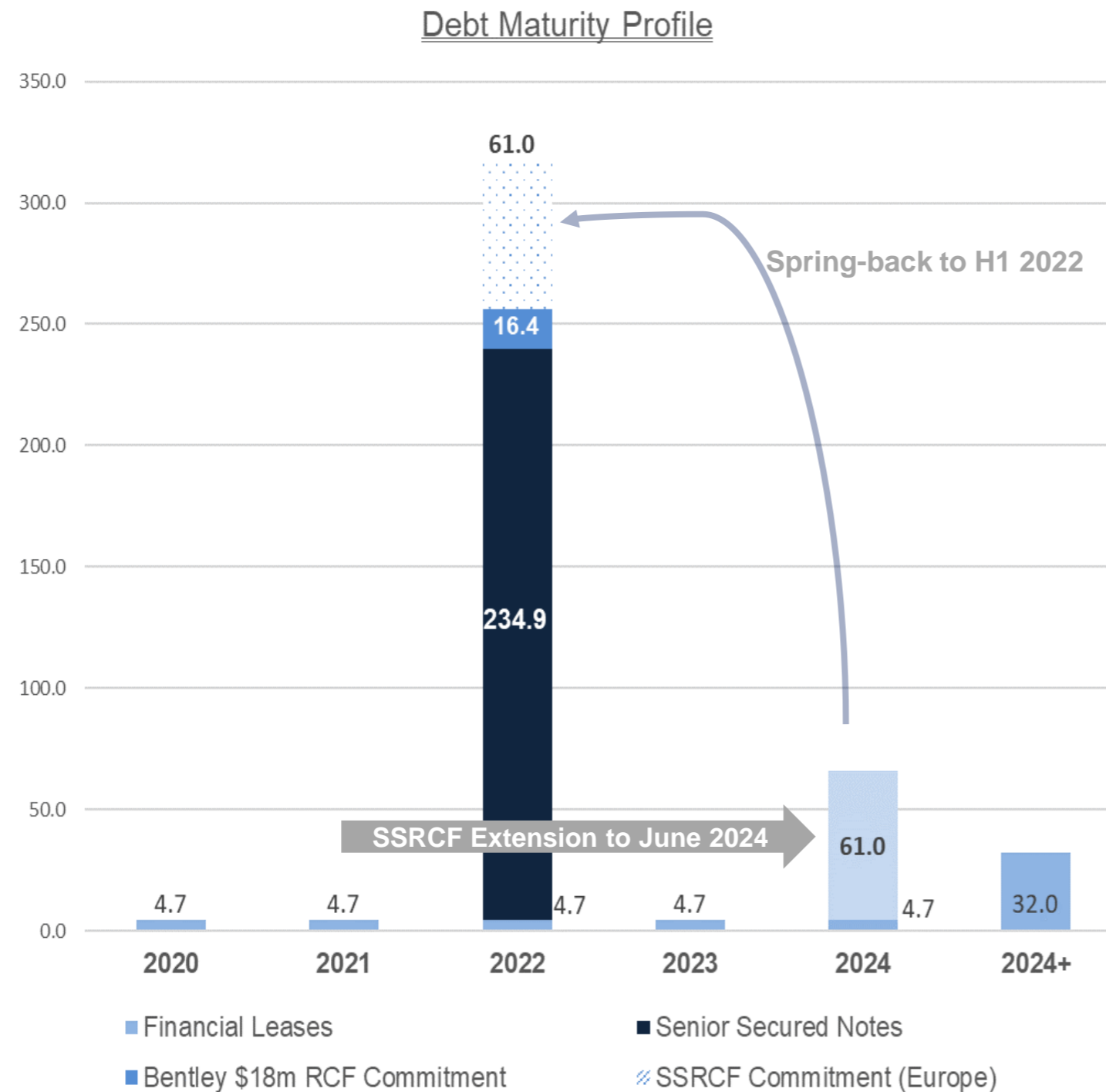
- Inventory +€15.7m
- Trade Receivables -€7.9m
- Trade Payables +€18.1m
- Other Working Capital +€6.6m
- Translation -€2.7m

# Leverage of 4.7x, excluding IFRS16

€m



# Extension of €61m Super Senior Revolving Credit Facility in October 2020



## Super Senior Revolving Credit Facility

- Signed Amend and Extend Agreement of the European €61m Super Senior Revolving Credit Facility with all lenders in October 2020
- Small increase in interest rate
- Extended to 30 June 2024, with spring-back to June 2022
- Spring-back date based on refinancing or extension of Senior Secured Notes due September 2022

## Senior Secured Notes due September 2022

- Continuously monitoring the market on options to manage our capital structure

# Conclusion

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## The third quarter of 2020 was strong

- Full revenue recovery in Rugs and Residential versus Q3 2019
- Commercial still somewhat impacted by COVID-19
- Material increase in Adjusted EBITDA year-on-year by 26% and Adjusted margin increased from 11.1% to 15.1%
- Continued trend in October
- Strong cash position of €117.9m at end Q3 2020
- Amend and Extend deal on European RCF closed
- Sustainable inventory related working capital savings in 2020

## COVID-19

Based on our current knowledge, Balta is confident about handling the second wave restrictions

- Experience from successfully handling first wave impacts
- All plants and facilities are made COVID-19 safe
- No reduction in production planned
- No cliff in our current order book as customers reconfirmed orders due to their low inventory
- Increased cash comfort due to strong cash position and extended European SSRFCF maturity



 **balta**

Q&A Session