

PRESS RELEASE

Sint-Baafs-Vijve, 6 May 2020
Regulated information
For immediate publication

Balta 2020 Quarter One Results

Group Financial Highlights:

- Q1 consolidated Revenue €159.7m (-13.0% YoY), Adjusted EBITDA €17.1m (-2.2% YoY), Adjusted EBITDA margin 10.7% (up from 9.5% in Q1 2019)
    - Organic revenue growth -13.6% and FX +0.6%
    - Revenue growth by division: Rugs -25.0%, Commercial +2.0%, Residential -14.3%
- Strong improvement in Adjusted EBITDA for the two first months of the year with +15.7% YoY growth thanks to our NEXT initiatives. Adjusted EBITDA margin for the same period increased from 8.5% to 10.2%
- The positive impact from our NEXT initiatives remains visible in the full first quarter margin improvement despite the revenue decline, that was mainly driven by the impact of the Coronavirus outbreak (COVID-19) on March sales
- Q1 Adjusted EBITDA includes €2.5m of costs associated with property taxes for the full year (similar to last year)
- Net Debt increased by €12.8m vs. Q4 2019 due to a working capital increase due to seasonal patterns as well as COVID-19 (reported Net Debt Q1 2020 of €326.6m includes €45.4m IFRS16 impact)
- Leverage is up to 4.3x from 4.0x at the end of Q4 2019, excluding the impact of IFRS16

Business Update:

- Following a strong start in the first two months of the year, the impact of COVID-19 has been felt from March 2020, with falling orders across all business lines. Balta has taken swift and decisive measures to mitigate the situation.
- NEXT, the three year program designed to deliver significant improvement in earnings, delivered strong improvements visible in the first two months of 2020. The Group believes the benefits from NEXT will resume, albeit with some delays, once demand and production return towards normal levels.
- Rugs performance was lower compared to an exceptionally strong first quarter in 2019 combined with lower than expected sales in parts of Europe, and saw the first impacts from COVID-19 starting mid-March in most regions.
- Commercial improved year on year, driven by the continued growth of our US business and improved margins due to NEXT initiatives. In Europe, the market environment remains challenging.
- Residential revenue was lower year on year, due to the exceptional pre-Brexit stocking by UK customers in the first quarter of 2019. Trading in our key Continental European markets remained subdued in the first quarter. However, margins and EBITDA improved due to NEXT initiatives.
- As precautionary measures due to the uncertainty around the duration of the COVID-19 disruptions, Balta has drawn down the Revolving Credit Facilities in US and Europe of €72.7m in March, resulting in cash at the end of Q1 of €80.4m, and has successfully reached an agreement with the majority of its European SSRCF banks to provide additional covenant flexibility for the impact of COVID-19 through the second quarter of 2021.

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

"Our first quarter results were in line with management's expectations until mid-March. We saw a 15.7% increase in Adjusted EBITDA in the first two months of 2020 compared to the same period in 2019, driven by strong margin improvement from NEXT initiatives. From mid-March, our revenues and Adjusted EBITDA were impacted by a significant slowdown due to COVID-19 lockdown measures, particularly in Europe. Revenues decreased by more than 29% during March 2020 compared to the same period in 2019, as a result of a decrease in orders from customers. The management team has focused on protecting the health and safety of our employees, while adapting our cost base to the lower activity, including temporary production shutdowns as well as fixed cost reductions, and ensuring the continuity of our service to customers. We are also now planning for when we return towards more normal activity levels and are confident that Balta will be able to resume NEXT improvements once the situation normalises, albeit with delays."

Q1 2020 Revenue and Adjusted EBITDA per Division

(€million, unless otherwise mentioned)	Q1 2020	Q1 2019	% Change	o/w organic growth	o/w FX
Rugs	49.2	65.5	(25.0)%		
Commercial	56.8	55.7	2.0%		
Residential	47.0	54.9	(14.3)%		
Non-Woven	6.7	7.4	(9.5)%		
Consolidated Revenue	**159.7**	**183.5**	**(13.0)%**	**(13.6)%**	**0.6%**
Rugs	4.3	6.2	(31.1)%		
Commercial	8.2	7.7	5.7%		
Residential	4.1	3.3	25.3%		
Non-Woven	0.5	0.3	109.2%		
Consolidated Adjusted EBITDA	**17.1**	**17.5**	**(2.2)%**	**(3.2)%**	**1.0%**
Rugs	8.7%	9.5%			
Commercial	14.4%	13.9%			
Residential	8.7%	6.0%			
Non-Woven	8.0%	3.4%			
Consolidated Adjusted EBITDA Margin	**10.7%**	**9.5%**			

Rugs

Our Rugs division realized revenue of €49.2m, down 25.0% versus the first quarter of 2019. Sales were lower by comparison with an exceptionally strong first quarter 2019 in parts of Europe. In North America, we benefited from the patio outdoor sales pushed from the last quarter of 2019 and had good direct shipment business, however we were negatively impacted by the fixed costs we incurred for the ramp up in e-commerce. As of March, we saw a sharp decline in orders for the division due to COVID-19.

Adjusted EBITDA in Q1 was €4.3m, down from €6.2m in the same period last year. The Adjusted EBITDA margin decreased from 9.5% to 8.7%. The negative volume impact is only partly compensated for by better mix, currency upside, lower raw material prices and NEXT savings.

Commercial

Our Commercial division realized revenue of €56.8m, up 2.0% versus the first quarter of 2019. Our US business consolidated its organic growth, previously spurred by share gains in the office segment and growth in new targeted segments from NEXT initiatives, resulting in increased gross margins. In Europe, after a good start to the year driven by our Direct Route to Market via architects and designers, we experienced a decline in orders due to COVID-19 as of mid-March.

Adjusted EBITDA in Q1 was €8.2m, up from €7.7m in the same period last year with Adjusted EBITDA margin increasing from 13.9% to 14.4%. Our US business, and also now our European business, achieved strong margin improvement from NEXT initiatives.

Residential

Our Residential division realized revenue of €47.0m, down 14.3% versus the first quarter of 2019. Our UK sales were lower than last year, driven by the exceptional pre-Brexit stocking benefit in the first quarter of 2019. In Continental Europe, whilst trading continued to be subdued, we succeeded in increasing the prices of our products. We continued to grow our export sales and our share of higher margin products grew to 39% of Q1 2020 Residential Revenue.

Adjusted EBITDA in Q1 was €4.1m, up from €3.3m in the same period last year. Adjusted EBITDA margin in Residential grew to 8.7% from 6.0% benefiting, despite lower revenue, from favorable raw material prices and the margin impact from our NEXT initiatives.

COVID-19

COVID-19 represents an unprecedented disruption to our business and the wide variations in potential outcomes present a material challenge to our business and industry. In response to the outbreak of the pandemic, governments in the markets in which we operate have implemented strict social distancing measures, including varying degrees of lockdowns and the closure of non-essential businesses, including the businesses of a number of our customers. These measures have resulted in a significant deterioration of macroeconomic conditions, with each of the markets in which we operate expected to see negative economic growth for 2020.

Balta formed an internal COVID-19 taskforce which coordinates our response across the group to protect the health and safety of our workforce and customers and to mitigate the effect of COVID-19 on our operations. We have implemented a number of measures to reduce our operating costs and manage our cash flows, including:

- Temporarily shutting down 6 of our 8 plants on a voluntary basis to reduce operating costs
- Senior staff taking voluntary reductions in pay, from 50% for the CEO and paid directors, 40% for the Management Committee to 30% for group-wide leadership. The reduced compensation will not be repaid
- The vast majority of staff put into temporary government unemployment support programs in Belgium, UK, France and Germany
- Fixed and variable cost saving measures, curtailing non-essential expenditure such as product launches and marketing
- Tight management of purchasing, inventory and other working capital
- Deferral of all non-essential capital expenditure

Other than voluntary closures, our plants are fully operational and have not yet been ordered to close by any government. We have maintained the flexibility to resume part of production at our facilities to satisfy demand and service customer orders. Balta looks forward to resuming full production once demand conditions permit.

As a precautionary measure to address our short-term liquidity and working capital needs, on 11 March 2020, we drew €72.7m under our revolving credit facilities. As of 31 March 2020, we held cash and cash equivalents of €80.4m.

In April 2020, we have successfully reached an agreement with our majority lending banks under the €61m Super Senior Revolving Credit Facility to adjust the covenant calculation for the impact of COVID-19 through the second quarter of 2021, which should provide additional flexibility in the covenant tests to account for disruption due to COVID-19. We had proactively approached our majority lending banks because, as a result of the decreasing EBITDA levels, we were facing the possibility of breaching our leverage covenant in subsequent quarters to Q1 2020, where the twelve month period being tested includes months that are impacted by the pandemic.

We are in regular contact with the governments in our key markets to determine the availability of, and our eligibility for, government support measures, including the availability of additional financing.

We are currently forecasting a ramp-up in production beginning in early June 2020 and, under this scenario, we are estimating that we would be producing at approximately 85% of capacity in the fourth quarter of 2020. We anticipate additional working capital requirements as we begin our production ramp-up. We have assumed that our customers will continue to pay according to invoice terms, and plan to continue to manage our cash flow conservatively for the duration of the crisis. Based on these assumptions, we are currently forecasting our existing cash on hand and cash flow to be sufficient for our business through the expected production ramp-up.

Earnings call

The Q1 2020 Results will be presented on 5 May 2020 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 IFRS16 in 2019

IFRS16 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 IFRS16 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.

Next scheduled announcement

Balta intends to publish its H1 2020 results on 28 August 2020