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HALF-YEAR REPORT 2020

IMPACTED BY THE COVID-19 PANDEMIC

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The Forbo Group – a leading manufacturer of floor coverings, building and construction adhesives, as well as power transmission and conveyor belt solutions – reported net sales of CHF 542.3 million in the first half of 2020 (prior-year period: CHF 649.4 million). This equates to a decline of 11.4% in local currencies (– 16.5% in the corporate currency), which was attributable to the COVID-19 pandemic and its impact on the economy. Operating profit (EBIT) came to CHF 41.1 million, 46.8% lower than the previous year (prior-year period: CHF 77.3 million). The EBIT margin declined to 7.6% (prior-year period: 11.9%). Group profit amounted to CHF 31.7 million, 48.2% lower than the previous year (prior-year period: CHF 61.2 million).

Dear shareholders,

The first half of 2020 was impacted severely by the economic consequences of the COVID-19 pandemic and negative currency effects. Business performance until mid-February was good, but thereafter both divisions began to feel the pandemic-related global challenges. The first signs and negative effects were seen in our Asian activities as early as the extended Chinese New Year holiday. COVID-19 then spread throughout Europe and later into the Americas region and seriously impacted our business activities.

Many of our 25 production sites and 6 assembly centers worldwide had to be closed for periods of time in order to comply with government regulations or to protect our employees. Many markets saw building sites shut down at short notice, while construction projects were either postponed indefinitely or canceled altogether owing to the exceptional situation. A number of projects of our Movement Systems customers such as the expansion of airport facilities or renewals and replacements of industrial manufacturing sites were deferred. Customers and business partners were temporarily unreachable owing to local lockdown measures, especially in Europe.
We centrally coordinated far-reaching measures to protect our employees by supplying hygiene and prevention concepts and adjusting work processes while doing everything possible to maintain business continuity; as a result, our supply chains remained largely intact overall despite the significant restrictions.

In order to cushion the negative impact of the current business climate, we have reduced third-party costs, adjusted operational structures, and kept employing new hires to an absolute minimum. At the same time, we have implemented a series of cost-cutting measures.
Forbo's solid financial structure has allowed us to pursue all the strategic projects necessary to safeguard our market positions for the future even in these difficult times. In the reporting period, investments in important operational and strategic projects (targeted investments in growth markets, new products, and innovative product developments as well as digitization) were increased by about 20 percent compared with the first half of 2019.

The ongoing strength of the Swiss franc meant that the translation of local results into the corporate currency produced a negative currency effect compared with the first half of 2019. The effect came to about CHF 33 million in sales and CHF 4 million in operating profit. The trend affected all our main currencies, in particular the euro, the pound sterling, the Chinese renminbi, and the Swedish crown.

Global slump in demand towards the end of the first quarter of 2020
In the first half of 2020, Forbo generated net sales of CHF 542.3 million (prior-year period: CHF 649.4 million) amid a very challenging environment; this equates to a decline of 11.4% in local currencies (– 16.5% in the corporate currency). For the Group as a whole, the decline in sales in local currencies was about the same in all three regions. The timing and scale of the downturn varied in the different local markets and customer segments. Initially, orders were canceled or deferred; subsequently, many projects were postponed indefinitely or canceled outright.

Flooring Systems reported a reduction in sales of 11.1% in local currencies (– 16.4% in the corporate currency). The biggest contributing factors were decreases in demand – very drastic at times – in our core markets France and the UK, as well as in Italy and Spain.

Movement Systems reported a decline in sales of 12.0% in local currencies (– 16.6% in the corporate currency). The downturn started in the Asian markets, spread to the European businesses, and now has the core market USA in its grip.

Profitability hit by sales downturn and strong Swiss franc

The special circumstances associated with COVID-19 plus negative currency effects made a big dent in profitability. The shutdown of our customers' construction sites and plants compounded by the weeks-long closure of our facilities with their high fixed costs led to a significant decrease in sales and earnings. Current production and fabrication under the conditions of COVID prevention and safety measures in our plants have not yet reached the desired level of productivity.

Operating profit before depreciation and amortization (EBITDA) came to CHF 68.4 million (prior-year period: CHF 106.1 million), corresponding to a decline of 35.5%. The EBITDA margin declined to 12.6% (prior-year period: 16.3%). Operating profit (EBIT) decreased by 46.8% to CHF 41.1 million (prior-year period: CHF 77.3 million). The EBIT margin declined to 7.6% (prior-year period: 11.9%).

Group profit

Owing to the lower operating profit and a slightly negative financial result, Group profit reduced to CHF 31.7 million (prior-year period: CHF 61.2 million), corresponding to a decline of 48.2%. Earnings per share (undiluted) was down by 48.0% to CHF 19.84 (prior-year period: CHF 38.19).

Equity ratio remains strong

Equity at end of June 2020 stood at CHF 640.8 million (year-end 2019: CHF 676.6 million). The equity ratio was 60.7% (year-end 2019: 61.7%).

Balance sheet remains solid

Net cash came to CHF 186.0 million at the end of June 2020 (year-end 2019: CHF 217.5 million). The decline is mainly due to the payout of the dividend. In addition, Forbo held treasury shares valued at CHF 73.1 million, based on the share price at end of June 2020 (year-end 2019: CHF 80.2 million).

Performance of the divisions

The **Forbo Flooring Systems** division reported net sales of CHF 366.2 million in the first half of 2020 (prior-year period: CHF 438.3 million). The percentage decline in sales was just barely in the double-digit range in the Europe and Asia/Pacific regions and in the high single-digit range in the Americas. Despite the exceptionally steep decreases in Europe, the important core market Germany maintained its prior-year level, most northern markets reported a slight gain in sales, and the growth market Russia raised its turnover. Since demand in the core market USA had been weaker the previous year, the downturn here was initially not very pronounced, but the trend got more significant in the course of the second quarter. In the meantime, business activity has almost come to a standstill in key customer segments such as retail, offices, and hospitality. In Asia/Pacific, the positive exceptions were Japan and Australia, while all other markets reported steep declines in demand at various times.
The building and construction adhesives activity reported firm sales growth on the whole, the reason being that there is a time lag before the impact on this activity is felt.

Operating profit (EBIT) decreased by 35.3% to CHF 36.6 million (prior-year period: CHF 56.6 million). This decline is the result of the downturn in sales and a cost base that was too high for the sales level. The EBIT margin declined to 10.0% (prior-year period: 12.9%). Our task in the coming months will be to play out on our competitive advantages by developing targeted marketing activities with our broad-based product portfolio and a reliable service level.

The **Forbo Movement Systems** division reported net sales of CHF 176.1 million in the first half of 2020 (prior-year period: CHF 211.1 million). The percentage sales decline was just barely in the double-digit range in the Europe and Asia/Pacific regions and somewhat higher in the Americas region. In Europe, all markets – with the exception of a few minor ones – reported a decline in sales, in some cases steep. The hardest hit were the UK, France, Italy and Spain. In the Americas, the USA suffered a significant downturn in the second quarter because core segments such as sports, industrial production, and airports almost came to a standstill. The growth market Mexico maintained the prior-year level due to a well-established food segment base. Sales trends in Asia/Pacific were very mixed. The core market China was very hard hit in the first quarter but has recovered somewhat during recent weeks. Japan, an equally important market, has not yet recovered, likewise India, where the impact has been huge, and growth markets in Southeast Asia.

Operating profit (EBIT) decreased by 61.8% to CHF 10.2 million (prior-year period: CHF 26.7 million). The reasons were the downturn in sales, a continuous high depreciation on investments made in the past, and a fixed-cost base that was too high. The EBIT margin came to 5.8% (prior-year period: 12.7%). In the second half of the year, our task is to focus on close cooperation with our main customer segments in order to provide the required products and services as efficiently and optimal as possible.

Focus on cost structure
Forbo has a solid capital structure, good liquidity, a robust cash flow, and is free of debt. We were therefore able to pursue all our strategically important projects despite the difficult situation. Measures to adjust costs to the lower sales level were started some months ago and will be continued in the second half-year too according to the situation. This should ensure that we can remain competitive despite the extraordinary challenges.

Outlook for 2020
The course that the COVID-19 pandemic will take and the impact on the economy it will have in the various countries and customer segments cannot be reliably assessed. While all our sites are operational again – although to a limited extent in some cases – further restrictions cannot be ruled out. No recovery is yet in sight at present for our important core markets such as the USA and the UK, which have been severely impacted.

Given the unpredictability of the current situation, it is difficult to issue any qualified guidance for the coming months. Assuming that the pandemic eases off somewhat in our important markets in the coming months and there are no further waves of infection, we anticipate slightly higher sales in the second half of 2020 compared with the first half of the year plus an improvement in Group profit also due to the cost adjustments we have made.

This E. Schneider
Executive Chairman

Stephan Bauer
CEO

Forbo Holding Ltd
Baar, July 28, 2020

Consolidated balance sheet and income statement

Condensed consolidated balance sheet

Unaudited, CHF m	30.6.2020	31.12.2019
Assets		
Current assets	**626.8**	**652.1**
Cash and cash equivalents	185.7	217.7
Current financial assets	0.3	0.0
Trade and other receivables and deferred income	212.8	198.9
Inventories	228.0	235.5
Non-current assets	**428.2**	**445.3**
Non-current financial assets	0.3	0.2
Deferred tax assets	48.8	45.4
Property, plant, and equipment, intangible assets and goodwill	379.1	399.7
Total assets	**1,055.0**	**1,097.4**
Shareholders' equity and liabilities		
Current liabilities	**251.2**	**257.3**
Current financial liabilities	13.0	13.4
Trade payables	61.4	98.1
Current provisions, accrued expenses, current tax and other liabilities	176.8	145.8
Non-current liabilities	**163.0**	**163.5**
Non-current financial liabilities	23.4	26.8
Employee benefit obligations, non-current provisions, and deferred tax liabilities	139.6	136.7
Total liabilities	**414.2**	**420.8**
Shareholders' equity	**640.8**	**676.6**
Total shareholders' equity and liabilities	**1,055.0**	**1,097.4**

Condensed consolidated income statement

Unaudited, CHF m	First half 2020	First half 2019
Net sales	**542.3**	**649.4**
Cost of goods sold	– 346.1	– 394.8
Gross profit	**196.2**	**254.6**
Operating expenses	– 155.1	– 177.3
Operating profit	**41.1**	**77.3**
Financial result	– 0.5	0.5
Group profit before taxes	**40.6**	**77.8**
Income taxes	– 8.9	– 16.6
Group profit	**31.7**	**61.2**
Group profit attributable to shareholders of Forbo Holding Ltd	31.7	61.2
Earnings per share, total		
Basic earnings per share in CHF	19.84	38.19
Diluted earnings per share in CHF	19.84	38.19

The accompanying notes are an integral part of the half-year report.

Consolidated comprehensive income statement and statement of changes in equity

Consolidated comprehensive income statement

Unaudited, CHF m	First half 2020	First half 2019
Group profit	**31.7**	**61.2**
Items that will not be reclassified to the income statement:		
Remeasurements of employee benefit obligations, net of taxes	0.9	– 3.1
Items that were or may be subsequently reclassified to the income statement:		
Translation differences	– 26.2	– 7.3
Other comprehensive income, net of tax	**– 25.3**	**– 10.4**
Total comprehensive income	**6.4**	**50.8**
Share of Forbo Holding Ltd shareholders in total comprehensive income	6.4	50.8

Consolidated statement of changes in equity first half 2020

Unaudited, CHF m	Share capital	Treasury shares	Reserves	Translation differences	Total
January 1, 2020	**0.2**	**– 0.1**	**1,002.6**	**– 326.1**	**676.6**
Group profit			31.7		31.7
Other comprehensive income, net of tax			0.9	– 26.2	– 25.3
Total comprehensive income			**32.6**	**– 26.2**	**6.4**
Share-based payments			1.7		1.7
Treasury shares		– 0.0	– 7.1		– 7.1
Dividend payment			– 36.8		– 36.8
June 30, 2020	**0.2**	**– 0.1**	**993.0**	**– 352.3**	**640.8**

Consolidated statement of changes in equity first half 2019

Unaudited, CHF m	Share capital	Treasury shares	Reserves	Translation differences	Total
January 1, 2019 (before application of IFRS 16)	**0.2**	**– 0.1**	**905.1**	**– 313.6**	**591.6**
Effect of application of IFRS 16 (net of tax)			– 1.4		– 1.4
January 1, 2019 (restated)	**0.2**	**– 0.1**	**903.7**	**– 313.6**	**590.2**
Group profit			61.2		61.2
Other comprehensive income, net of tax			– 3.1	– 7.3	– 10.4
Total comprehensive income			**58.1**	**– 7.3**	**50.8**
Share-based payments			2.3		2.3
Treasury shares	– 0.0	0.0	0.4		0.4
Dividend payment			– 33.7		– 33.7
June 30, 2019	**0.2**	**– 0.1**	**930.8**	**– 320.9**	**610.0**

The accompanying notes are an integral part of the half-year report.

Consolidated cash flow statement

Condensed consolidated cash flow statement		
Unaudited, CHF m	First half 2020	First half 2019
Group profit	**31.7**	**61.2**
Depreciation of property, plant, and equipment, right-of-use assets and amortization of intangible assets	27.3	28.8
Increase in operating working capital	– 27.3	– 80.4
Other adjustments for non-cash items	9.2	15.5
Net cash flow from operating activities	**40.9**	**25.1**
Purchase of property, plant, and equipment and intangible assets	– 15.6	– 13.0
Other cash flows from investing activities	0.5	0.6
Net cash flow from investing activities	**– 15.1**	**– 12.4**
Dividend payment	– 36.8	– 33.7
Cash outflow from transactions with treasury shares, net	– 7.0	
Cash outflow from leases	– 8.5	– 9.1
Other cash flows from financing activities	– 0.0	– 0.0
Net cash flow from financing activities	**– 52.3**	**– 42.8**
Decrease in cash and cash equivalents	– 26.5	– 30.1
Translation differences on cash and cash equivalents	– 5.5	– 1.3
Cash and cash equivalents at beginning of year	217.7	127.4
Total cash and cash equivalents as at June 30	**185.7**	**96.0**

The accompanying notes are an integral part of the half-year report.

Notes to the condensed consolidated half-year financial statements (unaudited)

01 General information

This condensed consolidated interim report of Forbo Holding Ltd and its subsidiaries (hereinafter 'the Group') covers the six-month period from January 1, 2020, to June 30, 2020 (hereinafter 'reporting period'), and was drawn up in accordance with International Accounting Standard 34 (IAS 34) 'Interim Financial Reporting'. The consolidated half-year financial statements do not include all information reported in the consolidated full-year financial statements and should therefore be read in conjunction with the consolidated financial statements as at December 31, 2019.

The consolidated half-year financial statements have not been audited by the auditors. They were approved for publication by the Board of Directors on July 27, 2020.

02 Group accounting principles

The accounting principles applied in the consolidated half-year report are in line with the accounting policies set out in the 2019 Annual Report with the exceptions listed below.

The following relevant new standards of the International Accounting Standards Board (IASB) were applied for the first time in the business year that began on January 1, 2020:

– Amendments to IFRS 3 'Definition of a business'
– Amendments to IAS 1 and IAS 8 'Definition of material'
– Amendments to IFRS 9, IAS 39 and IFRS 7 'Interest rate benchmark reform'
– Amendments to references to the conceptual framework in IFRS Standards

Standards, interpretations or amendments that have been published but are not yet mandatory have not been adopted early. The first-time adoption of the before-mentioned revised standards and interpretations had no appreciable impact on the half-year report presented here.

The preparation of the consolidated half-year financial statements requires management to use estimates and assumptions that may affect reported revenues, expenses, assets, liabilities, and contingent liabilities at the date of the financial statements. If the estimates and assumptions used by management to the best of its knowledge at the date of the financial statements happen to differ from subsequent actual facts, the original estimates and assumptions will be adjusted in the reporting period in which the facts have changed. The consolidated half-year financial statements do not contain any significant new estimates and assumptions used by management compared with the consolidated financial statements as at December 31, 2019.

Income tax expenditure is estimated on the basis of average actual tax rates during the current business year.

03 Segment information

The Group is a global producer of Flooring Systems and Movement Systems. The divisions correspond to the internal management structure and are run separately because the products that they manufacture, distribute, and sell differ fundamentally in terms of production, distribution, and marketing.

Flooring Systems develops, produces, and sells linoleum, vinyl floorings, entrance flooring systems, carpet tiles, and needle felt floor coverings, Flotex – the washable textile flooring –, as well as the various accessory products required for installing, processing, cleaning, and care of flooring. In the Movement Systems division, the Group develops, produces, and sells high-quality conveyor and processing belts, as well as plastic modular belts, and drive, timing and flat belts made of synthetic materials. Corporate includes the costs of the Group headquarters and certain items of income and expenses which are not directly attributable to a specific business.

The Flooring Systems and Movement Systems divisions are reportable segments. The identification of reportable segments is based on internal management reporting to the Group's Executive Chairman and its Chief Executive Officer and hence on the financial information used to review the performance of the operational units in order to reach a decision on the allocation of resources.

The Executive Chairman and the Chief Executive Officer assess the performance of the segments based on their operating result (EBIT). The net financial result is not allocated to the divisions since it is Corporate Treasury that exercises central control over the financial result.

First half 2020

Unaudited, CHF m	Flooring Systems	Movement Systems	Corporate/ Elimination	Total
Total sales	366.2	176.3	– 0.2	542.3
Inter-segment sales		– 0.2	0.2	
Net sales to third parties	366.2	176.1		542.3
Operating profit (EBIT)	36.6	10.2	– 5.7	41.1
EBITDA[1)]	53.8	19.8	– 5.2	68.4
Operating assets	503.3	292.1	24.6	820.0
Capital expenditure	7.8	7.8	0.0	15.6
Number of employees (June 30)	3,003	2,415	39	5,457

1) Operating profit before depreciation and amortization

First half 2019

Unaudited, CHF m	Flooring Systems	Movement Systems	Corporate/ Elimination	Total
Total net sales	438.3	211.2	– 0.1	649.4
Inter-segment sales		– 0.1	0.1	
Net sales to third parties	438.3	211.1		649.4
Operating profit (EBIT)	56.6	26.7	– 6.0	77.3
EBITDA[1)]	75.1	36.5	– 5.5	106.1
Operating assets	572.7	305.4	25.3	903.4
Capital expenditure	10.5	2.5		13.0
Number of employees (June 30)	3,170	2,512	42	5,724

1) Operating profit before depreciation and amortization

Reconciliation of segment information to the income statement and balance sheet:

Unaudited, CHF m	First half 2020	First half 2019
Total segment result (EBIT)	**41.1**	**77.3**
Financial result	– 0.5	0.5
Group profit before taxes	**40.6**	**77.8**

Unaudited, CHF m	30.6.2020	31.12.2019
Total operating assets	**820.0**	**834.1**
Non-operating assets	235.0	263.3
Total assets	**1,055.0**	**1,097.4**

The following table shows revenue broken down by geographic region and by the two product groups that are identical with the reportable segments.

Net sales per segment by region

	Flooring Systems		Movement Systems	
Unaudited, CHF m	First half 2020	First half 2019	First half 2020	First half 2019
Regions				
Europe	279.0	335.7	70.8	82.9
Americas	59.7	68.4	58.2	72.9
Asia/Pacific and Africa	27.5	34.2	47.1	55.3
Total net sales to third parties	**366.2**	**438.3**	**176.1**	**211.1**

04 Changes in the scope of consolidation

In the reporting period, the sales company Forbo Flooring Ukraine LLC was founded in Kiev, Ukraine, within the Flooring Systems division.

05 Balance sheet

Details regarding the change in cash and cash equivalents can be found in the consolidated cash flow statement. The CHF 13.9 million increase in trade and other receivables versus year-end 2019 was due to other receivables and timing-related. The latter also applies to the change in inventories, while they declined owing to the decrease in demand.

Property, plant, and equipment declined to CHF 279.8 million in the first half of 2020, with investments in property, plant, and equipment coming to CHF 15.6 million versus depreciation of CHF 25.0 million in total. Depreciation on leased property, plant, and equipment in the first half of 2020 came to CHF 8.1 million, while the carrying amount of the leased property, plant, and equipment as at June 30, 2020, came to CHF 38.2 million. Intangible assets declined to CHF 99.3 million owing to amortization of CHF 2.3 million. Selective testing for impairment of property, plant, and equipment, intangible assets, and goodwill at the cash-generating unit level did not result in any impairment.

The total financial liabilities of CHF 36.4 million are, as in the prior-year period, related solely to leasing liabilities, of which CHF 13.0 million will fall due within less than 12 months.

The CHF 36.7 million decrease in trade accounts payable, like the increase in trade and other receivables, was timing-related. The other non-financial positions in current liabilities increased by CHF 31.0 million, especially for accrued expenses.

Non-current non-financial liabilities increased by CHF 2.9 million owing to provisions. Pension liabilities decreased by CHF 1.1 million mainly owing to higher plan assets in the UK. The remeasurement of employee benefit obligations, amounting to CHF 0.9 million after tax, was credited to the consolidated comprehensive income statement.

Compared with December 31, 2019, shareholders' equity decreased by CHF 35.8 million to CHF 640.8 million. The increase in shareholders' equity by the amount of Group profit of CHF 31.7 million was offset mainly by the dividend payment of CHF 36.8 million and the other comprehensive income, net of tax, of CHF 25.3 million. The equity ratio stood at 60.7% as per June 30, 2020.

06 Income statement

Net sales of CHF 542.3 million were 16.5% lower than in the prior-year period owing to restrictions connected with the COVID-19 pandemic. The sales decline stood at 11.4% in local currencies. The impact on the individual countries varied in timing and scale, but the percentage sales declines were similar across the regions Europe, Americas and Asia/Pacific and Africa.

Proportionate to net sales, the cost of goods sold increased versus the prior-year period owing to fixed costs. Operating expenses decreased owing to efficiency measures in comparison with the prior-year period.

Operating profit (EBIT) in the reporting period came to CHF 41.1 million, which was CHF 36.2 million lower than the prior-year period.

The financial result of CHF – 0.5 million mainly reflects interest expenses for leasing obligations. The financial result the previous year came to CHF 0.5 million owing to foreign exchange gains.

Income tax amounted to CHF 8.9 million, corresponding to a tax rate of 21.9%. In the prior-year period, the tax rate was 21.3%.

The resulting Group profit came to CHF 31.7 million and was thus CHF 29.5 million, or 48.2%, lower than in the prior-year period.

Undiluted earnings per share on the basis of the average number of shares in circulation amounted to CHF 19.84 in the reporting period (prior-year period: CHF 38.19). The Long-Term Incentive Plan (LTI) did not result in any significant dilution effect. Diluted earnings per share also came to CHF 19.84 (prior-year period: CHF 38.19).

07 Cash flow statement

Cash flow from operating activities came to CHF 40.9 million; the gain of CHF 15.8 million versus the prior-year period was due to the smaller increase in net operating working capital.

Cash flow from investing activities consists of the cash outflow of CHF 15.6 million for investments in property, plant, and equipment and intangible assets along with interest income of CHF 0.5 million.

Cash flow from financing activities reflects the cash outflow of CHF 36.8 million for the dividend payment, payments of CHF 8.5 million for leasing obligations, and the purchase of treasury shares amounting to CHF 7.0 million.

08 Main exchange rates applied

The following exchange rates against the CHF have been applied for the most important currencies concerned:

			Income statement Average exchange rate, 6 months		Balance sheet on balance-sheet date	
Exchange rates			**2020**	**2019**	**30.6.2020**	**31.12.2019**
Euro countries	EUR	1	1.0642	1.1294	1.0692	1.0859
USA	USD	1	0.9659	0.9998	0.9515	0.9682
United Kingdom	GBP	1	1.2161	1.2934	1.1707	1.2722
Japan	JPY	100	0.8925	0.9085	0.8833	0.8912
China	CNY	100	13.7333	14.7300	13.4376	13.9100
Sweden	SEK	100	9.9819	10.7466	10.1952	10.3745

09 Events after the balance sheet date

Between the balance sheet date and the date of publication of this half-year report, no events occurred that could have a significant effect on the 2020 half-year financial statements.

Calendar

Media and financial analysts' conference for the 2020 business year:	Thursday, March 4, 2021
2021 Ordinary General Meeting:	Thursday, April 1, 2021
2021 half-year report:	Friday, July 30, 2021

Our half-year report is published in German and in English translation.

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