

**This E. Schneider**

Executive Chairman  
and CEO ad interim

'After some challenging years and the positive signs towards the end of 2021, we responded to volume growth in the first half of 2022 by increasing investment in markets and sales activities, accompanied by the expansion of operating structures and personnel. When demand abruptly weakened in late summer 2022, especially in Flooring Systems, we reacted with a delay in taking necessary actions, which put further pressure on earnings in the second half of 2022.

The relevant measures have now been introduced, and we are well-prepared to face the challenges ahead, despite a business environment that remains demanding.

We will continue to broaden our attractive and innovative product portfolio, expand our range of services, and invest in growth markets, digitization, and new product technologies.'

# TO OUR SHAREHOLDERS

Dear Madam, dear Sir,

Forbo looks back on a mixed year. We made a good start to 2022 after the pandemic-affected performances of previous years. This changed in an environment that became challenging once again from spring 2022 due to the difficult geopolitical and financial situation. Profitability was held back by significant increases in the cost of raw materials, transport, and energy along with higher personnel and other costs. It was possible to reduce the extent of this effect, though with a certain time lag, by raising sales prices. In addition, the sales development in Asia/Pacific was affected by renewed Covid lockdowns in China.

Overall, Forbo dealt well with most of these challenges in the first half of 2022. Afterwards, however, demand began to decline in late summer 2022, with this trend accelerating in the fourth quarter 2022. Volume growth in the first half of 2022 gave way to an unexpectedly sharp fall in demand in the second half – with Flooring Systems being increasingly hard hit. As a result, volumes were lower for the year as a whole.

In 2021, Forbo's sales and earnings had returned to the pre-pandemic levels of 2019. In the first half of the reporting year, the Group expanded structures and staffing levels significantly, with a view to achieving further growth. From late summer 2022, this much higher cost base was set against an increasingly sharp decline in volumes, which together resulted in substantially lower earnings. At the same time, the cost of raw materials, energy, and logistics continued to rise. However, thanks to our innovative, high-quality products and services, we were able to offset most of these increases with corresponding sales price increases.

Owing to the stronger Swiss franc, the translation of local results into the corporate currency produced a negative currency effect year on year, with a CHF 67 million impact on sales. Many of our main operating currencies were affected, in particular the euro, the pound sterling, the Japanese yen, and the Swedish krona. Only the US dollar yielded a positive effect.

## Significant decline in demand from late summer 2022

### **Sales growth in all regions thanks to sales price increases**

In the year under review, Forbo generated net sales of CHF 1,293.2 million (previous year: CHF 1,254.0 million), up 8.5% in local currencies. This was largely attributable to increases in sales prices amounting to 11.0%. Due to negative currency effects, this equates to a rise in sales of 3.1% in the corporate currency. All three regions contributed to this sales growth in local currencies: +12.0% in Asia/Pacific, +8.0% in Europe, and +7.6% in the Americas.

Net sales at Flooring Systems rose by 9.0% in local currencies to CHF 878.0 million (previous year: CHF 851.8 million). This corresponds to an increase of 3.1% in the corporate currency. After a positive first half-year, demand declined sharply from late summer 2022, becoming even stronger in the fourth quarter. One of the reasons for this was the shift away from renovation projects to energy-saving projects due to the energy crisis. This came at the expense of flooring orders. There was also caution in general about taking on new major projects, due to the significant rise in construction costs.

Movement Systems recorded net sales of CHF 415.2 million (previous year: CHF 402.2 million), a rise of 7.3% in local currencies and 3.2% in the corporate currency. In all customer segments, sales returned to pre-pandemic levels, as in some areas there was a discernible catch-up effect. There was an above-average increase in demand for conveyor and processing belts used in industrial production, for flat belts used in packaging plants, and for conveyor belts for sports treadmills in fitness centers and for processing raw materials.

## Profitability affected by slump in demand and one-time impacts

### **Declining volumes and a significant increase in the cost structure resulted in a strong decrease in EBIT and margins**

On the basis of the positive market development at the end of 2021 and beginning of 2022, structures were expanded and staffing levels significantly increased in the first half of 2022. From late summer 2022, this was set against an increasingly strong decline in volumes, which together resulted in substantially lower earnings. At the same time, costs of raw materials, energy, and logistics continued to rise. Sales price increases had a positive effect on the result, as did the initiatives to increase earnings introduced in the second half of 2022.

The operating result was further impaired by a number of one-time impacts totaling CHF 20 million, the majority of which affected Flooring Systems. Due to the political and economic situation in Russia, impairments were made on goodwill and property, plant, and equipment. Added to this was the cost of structural adjustments and various elements recognized in other operating expenses and income, including the creation of provisions for a number of legal cases.

Operating profit before depreciation and amortization (EBITDA) reduced by CHF 42.2 million, or 17.9%, to CHF 193.4 million (previous year: CHF 235.6 million). Group operating profit (EBIT) decreased by CHF 46.4 million, or 25.9%, to CHF 132.6 million (previous year: CHF 179.0 million). This resulted in an EBITDA margin of 15.0% (previous year: 18.8%) and an EBIT margin of 10.3% (previous year: 14.3%).

## Group profit lower than in previous year

### **Lower earnings reflected in Group profit**

As a result of the significantly lower operating profit (EBIT), a slightly higher tax rate of 22.6% (previous year: 22.1%), and a lower financial result of CHF – 1.6 million (previous year: CHF + 2.2 million) due to exchange rate losses on foreign currencies, Group profit decreased by 28.2% or CHF 39.8 million to CHF 101.4 million (previous year: CHF 141.2 million).

## Solid balance sheet

### **Significant decline in cash and cash equivalents, but sound equity base**

Inventories increased by 20.3% or CHF 53.3 million to CHF 316.2 million due to higher procurement and manufacturing costs, complex supply chains, and challenges in the coordination of sales and production planning. Net liquidity came to CHF 21.4 million at year-end 2022 (previous year: CHF 56.2 million). This decrease was mainly attributable to the lower earnings and the significantly higher operating working capital. In addition, as at December 31, 2022, Forbo held treasury shares valued at CHF 78.6 million. Free cash flow declined by 60.6% to CHF 50.5 million (previous year: CHF 128.1 million), due to the strong decrease in earnings and the higher value of inventories.

The solid equity ratio increased to 57.3% (previous year: 53.2%).

The undiluted earnings per share reflect the significantly lower earnings and therefore declined by 21.7% to CHF 71.76 (previous year: CHF 91.63).

## Changes to the Executive Board

### **Changes to the Executive Board**

In view of the earnings performance and differences of opinion about the management and direction of the company, the Board of Directors and CEO Michael Schumacher decided to terminate the employment. He left the company at the end of November 2022. The Board of Directors would like to thank Michael Schumacher for his commitment and wishes him all the best for the future.

The role of CEO has been assumed on an interim basis by This E. Schneider, Executive Chairman, who will oversee the introduction of the measures to increase earnings.

Jens Fankhänel takes over as the new CEO on March 1, 2023. As the former Chairman of the Executive Board of the publicly listed Kardex Holding AG, he will quickly be able to bring his wide-ranging operational and strategic experience of managing industrial companies to bear. He will continue to pursue the proven strategy and implement operational matters in a focused way. Jens Fankhänel has been a member of the Board of Directors and the Strategy Committee of Forbo Group since April 2022. With his appointment to the position of CEO, he will step down from the Forbo Board of Directors at the coming Ordinary General Meeting.

## Proposals to the Ordinary General Meeting

### **Elections to the Board of Directors**

With the exception of Jens Fankhänel, all the current members of the Board of Directors will stand for re-election for a further one-year term of office.

This E. Schneider – Executive Chairman since 2014 – will, at the request of the Board of Directors and as previously communicated in summer 2022, stand for election as full-time Chairman of the Board of Directors at the upcoming Ordinary General Meeting.

### **Dividend adjusted in line with the decline in earnings**

Due to the lower earnings and reduced cash flow in the reporting year, though with a sound equity base and confidence that the earnings situation will improve, the Board of Directors will propose to the Ordinary General Meeting that a dividend of CHF 23 per share be paid for the 2022 business year (previous year: CHF 25 per share), corresponding to a payout ratio of 32 percent.

### **Authorization for a share buyback program**

The Board of Directors will propose to the Ordinary General Meeting that it be authorized, over a period of three years, to repurchase treasury shares up to a maximum of 10 percent of the share capital via a second trading line on the SIX Swiss Exchange or by another means in order to reduce capital.

## Priorities and outlook for 2023

### **Priorities 2023**

Measures have been introduced and are being implemented to improve operating profitability and accelerate the implementation of operational and strategic projects. These include focusing on essential projects, optimizing aspects of sales and production planning, taking measures to increase efficiency, and adapting structures in accordance with the lower volumes.

Forbo will continue to pursue the successful strategy of recent years. We have an attractive product portfolio in both divisions. We are continuing to invest in line with the strategy in our range of products and services, in growth markets, in digitization, and in new production technologies and expansion – combined as always with an improved carbon footprint and increased efficiency. We will exploit external opportunities for growth if they create long-term added value.

**Outlook for 2023**

Thanks to its solid and healthy financial foundations, proven strategy and leading market position, Forbo is well-placed to achieve further sustainable and profitable growth again and build on the levels of profitability we have been accustomed to.

We expect the first half of 2023 to be a demanding period with volumes decreasing slightly compared with the same period of 2022. Despite further inflation-related cost increases and ongoing high raw material prices, we are convinced that the implemented measures and initiatives, a clear focus, as well as higher sales prices will mitigate these factors.

Assuming there is no significant change in the geopolitical and economic environments, we anticipate slightly higher sales in local currencies compared with the previous year. With the elimination of the one-time impacts and implementation of the measures to improve operating profitability, we expect a Group profit in the magnitude of CHF 130 million if foreign exchange rates remain the same.

## Thank you

**Thanks to employees, business partners, and shareholders**

This reporting year once again demanded a special effort and commitment from our employees to meet the various challenges we faced efficiently and effectively. With great commitment, flexibility, good communications, teamwork, and creativity we were able to respond to the changing circumstances, and overcome supply chain bottlenecks and massive increases in costs in order to provide our customers with the reliable and competent service they have come to expect. Thank you all for your tireless commitment!

We also wish to thank our customers, business partners, and suppliers for their excellent cooperation in these times that remain exceptional.

On behalf of the Board of Directors and the Executive Board, we would also like to thank you, our shareholders, for your ongoing loyalty and the trust you place in Forbo.

Baar, March 2023



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## Financial calendar

Ordinary General Meeting	<b>Thursday, March 30, 2023</b>
Publication of Half-Year Report 2023	<b>Friday, July 28, 2023</b>
Publication of Annual Report 2023	<b>Tuesday, March 5, 2024</b>