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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).

Baar, July 28, 2020

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 by Forbo in its 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 Forbo's business activities.

Many of the Group's 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 Forbo 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 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.

Forbo centrally coordinated far-reaching measures to protect its employees by supplying hygiene and prevention concepts and adjusting work processes while doing everything possible to maintain business continuity; as a result, supply chains remained largely intact overall despite the significant restrictions.

In order to cushion the negative impact of the current business climate, Forbo has reduced third-party costs, adjusted operational structures, and kept employing new hires to an absolute minimum. At the same time, a series of cost-cutting measures were implemented.

Forbo's solid financial structure has allowed it to pursue all the strategic projects necessary to safeguard its 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 Forbo's main currencies, in particular the euro, the pound sterling, the Chinese renminbi, and the Swedish crown.

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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 the 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 customers' construction sites and plants compounded by the weeks-long closure of Forbo's own 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 Forbo's 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.

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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%). The task in the coming months will be to play out on the Group's competitive advantages by developing targeted marketing activities with Forbo's 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, the task is to focus on close cooperation with the division's 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. It was therefore able to pursue all its 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 Forbo 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 that it will have in the various countries and customer segments cannot be reliably assessed. While all Forbo 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 Forbo's 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 Forbo's important markets in the coming months and there are no further waves of infection, the Group anticipates 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 it has made.

You can find further information in the electronic version of the 2020 half-year report published this morning on the Internet: www.forbo.com – Investors

Forbo is a leading producer of flooring systems, building and construction adhesives, as well as power transmission and conveyor belt solutions. The company employs more than 5,400 people and has an international network of 25 sites with production and distribution, 6 assembly centers, as well as 48 pure sales organizations in a total of 38 countries across the globe.

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The company generated net sales of CHF 1,282.2 million in the 2019 business year. Forbo is headquartered in Baar in the canton of Zug, Switzerland.

Forbo Holding Ltd is listed on SIX Swiss Exchange (security number 354151, ISIN CH0003541510, Bloomberg FORN SW, Reuters FORN.S).

Contact person:
This E. Schneider
Executive Chairman
Phone +41 58 787 25 49
Fax +41 58 787 20 49
www.forbo.com

