May 6th, 2021
Audrey Dauvet
Group General Counsel and Secretary of the Supervisory Board
Tarkett
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Dear Ms. Dauvet:

As Tarkett's second largest shareholder, we are writing its independent board members to express our dissatisfaction with the current Tender Offer Price. Please distribute this letter to them. Tweedy, Browne Company LLC was founded in 1920 and has a long history of investing in undervalued securities. As value investors, we purchase businesses at discounts to their intrinsic value and own them over long periods of time. The current Tender Offer Price of €20 per share does not represent a fair value for Tarkett and is substantially below its intrinsic value.

We first invested in Tarkett around €20 per share in 2018 when it was suffering from raw material inflation and the downturn in its CIS business. We believed Tarkett's true intrinsic value was over €30 per share. We also were encouraged that various Deconinck family members were acquiring shares in Tarkett then and had purchased them in the low €30s in 2017.

Since our initial purchase, we have been material Tarkett shareholders and regularly acquired additional shares in the company. During this time, Tarkett had an unexpected management change, suffered from more raw material inflation, experienced a failed SAP installation, had business issues in North America, experienced a cyberattack, nearly breached its leverage covenants and was negatively impacted by the Coronavirus pandemic. Despite these events, we continued to own Tarkett because these were transitory issues that did not change Tarkett's intrinsic value, which was still well above its trading prices. Several Deconinck family members agreed with us and also purchased Tarkett shares. Instead of being rewarded for our patience and support of the company, we are now being taken advantage of with an opportunistic Offer Price based on the company's depressed earnings.

The assessment of the Offer Price in the Draft Offer Document is simply not credible. Trading in Tarkett's shares is highly illiquid, and therefore, does not reflect any meaningful price discovery on a short-term basis. As such, basing an Offer Price on a premium to recent trading averages indicates nothing about Tarkett's value.

Sell-side research price targets also are a deeply flawed method of determining the company's fair value. These price targets reflect one year time horizons, not the long-term intrinsic value of the business. Following the deal's announcement, the Baader Europe analyst wrote: "based on the long-term potential of the company, however, the offer is 'cheap' and reflects a strategic-financial decision of the buying parties to get full ownership of a cyclical company during an economic bust." The Barclays analyst similarly wrote regarding the offer that "the valuation is rather cheap and the timing opportunistic."

According to the Draft Offer Document, Tarkett is estimated to earn just €85 million in EBIT in 2021. Since 2013, Tarkett's average annual adjusted EBIT has been €163 million or nearly double this 2021 estimate. In fact, in 2020, the company earned over €100 million in adjusted EBIT despite experiencing the Coronavirus pandemic. Tarkett has actually never earned less than €100 million in adjusted EBIT since its IPO and in some years, has generated over €200 million in annual adjusted EBIT. Even if the €85 million in EBIT were an accurate estimate, basing a valuation off of a company's extremely depressed EBIT is a very flawed way of determining its fair value.

Tarkett's management has long stated that the company can achieve a 12% EBITDA margin, which is consistent with its historical profitability. Management also has said that this is a medium term goal and certainly "not a ceiling" for the company. Applying a 12% EBITDA margin to Tarkett's 2020 revenue and then deducting its 2020 depreciation yields an EBIT of €159.2 million. That figure mirrors Tarkett's long-term average EBIT noted above and is a much more accurate reflection of the "normalized" EBIT, which should be used for valuation purposes. The valuation in the Draft Offer Document also includes account receivables factoring as debt. Tarkett's lenders do not evaluate the company this way, and neither should anyone assessing its equity valuation.

Applying the average EBIT multiple of Tarkett's comparable companies per the Draft Offer Document or 14.2x to €159.2 million in EBIT results in an enterprise value of €2,261 million. After deducting the net debt of €365 million and pension obligations of €91.4 million as of 12/31/20 per the Draft Offer Document, Tarkett's equity value would be €1,804 million or €27.65 per share, which far exceeds the €20 Offer Price. And if the company were sold in its entirety to a strategic acquirer, it would receive a value much higher than €27.65 per share.

As independent board members responsible for overseeing the appraisal regarding the Offer, we strongly advise you to reject the flawed methodologies and inaccurate estimates used in the assessment of the Offer Price. While we are not opposed to tendering our shares, a fair Offer Price for the company is certainly well above €20 per share, and the true intrinsic value of the company is substantially higher than that.

Sincerely,

Roger R. de Bree
Managing Director and Investment Committee member

Andrew Ewert
Analyst

CC Françoise Leroy, Independent member of the Supervisory Board
Didier Michaud-Daniel, Independent member of the Supervisory Board
Sabine Roux de Bézieux, Independent member of the Supervisory Board