

July 29, 2016

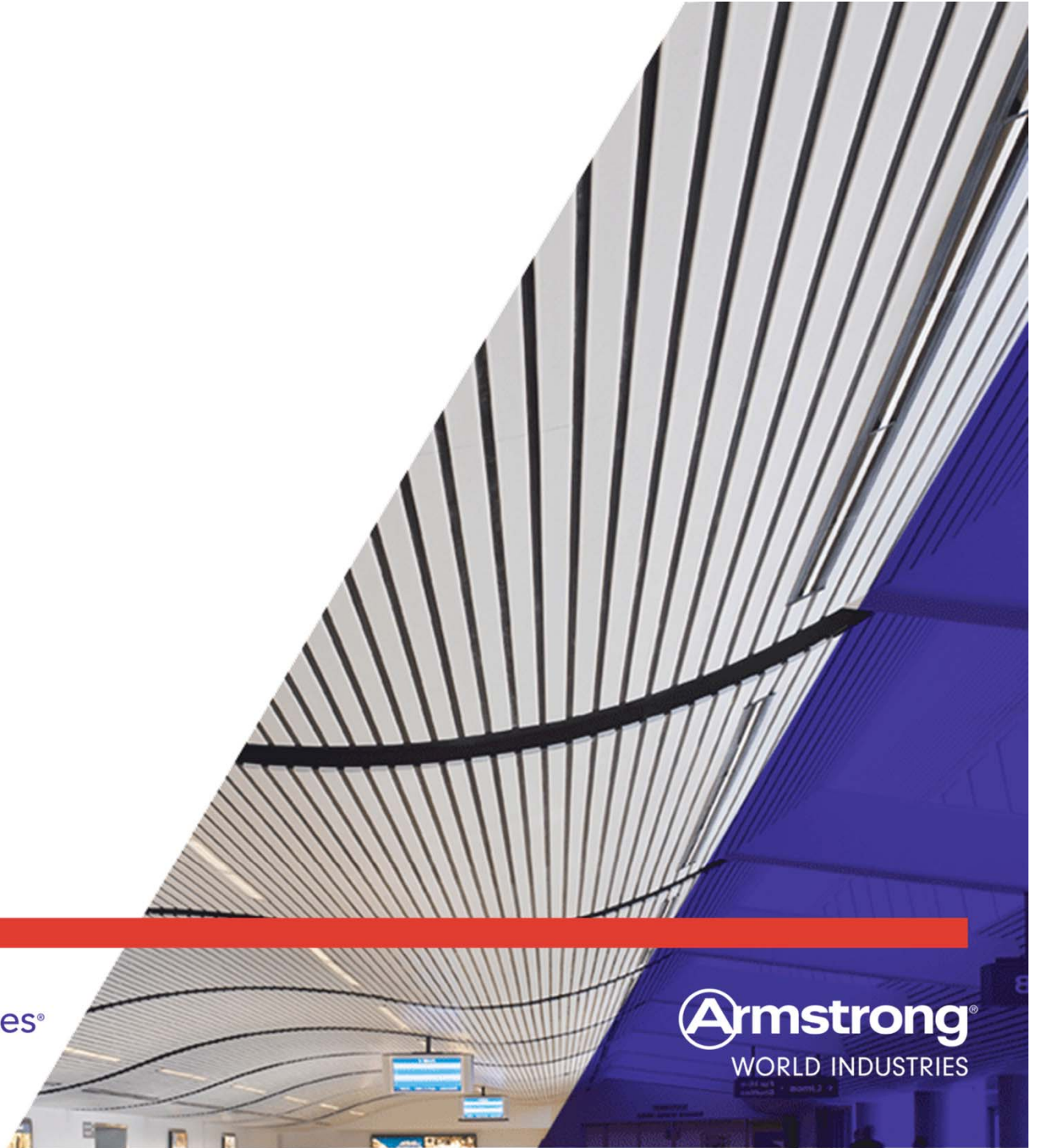
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# Earnings Call Presentation

2<sup>nd</sup> Quarter 2016

Inspiring Great Spaces®

**Armstrong**<sup>®</sup>  
WORLD INDUSTRIES



# Safe Harbor Statement

Our disclosures in this presentation, including without limitation, those relating to future financial results market conditions and guidance, and in our other public documents and comments contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Those statements provide our future expectations or forecasts and can be identified by our use of words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "outlook," "target," "predict," "may," "will," "would," "could," "should," "seek," and other words or phrases of similar meaning in connection with any discussion of future operating or financial performance or the separation of our businesses. Forward-looking statements, by their nature, address matters that are uncertain and involve risks because they relate to events and depend on circumstances that may or may not occur in the future. As a result, our actual results may differ materially from our expected results and from those expressed in our forward-looking statements. A more detailed discussion of the risks and uncertainties that may affect our ability to achieve the projected performance is included in the "Risk Factors" and "Management's Discussion and Analysis" sections of our reports on Forms 10-K and 10-Q filed with the SEC. Forward-looking statements speak only as of the date they are made. We undertake no obligation to update any forward-looking statements beyond what is required under applicable securities law.

In addition, we will be referring to non-GAAP financial measures within the meaning of SEC Regulation G. A reconciliation of the differences between these measures with the most directly comparable financial measures calculated in accordance with GAAP are included within this presentation and available on the Investor Relations page of our website at [www.armstrongceilings.com](http://www.armstrongceilings.com).

The guidance in this presentation is only effective as of the date given, July 29, 2016, and will not be updated or affirmed unless and until we publicly announce updated or affirmed guidance.

# Basis of Presentation Explanation

When reporting our financial results within this presentation, we make several adjustments. Management uses the non-GAAP measures below in managing the business and believes the adjustments provide meaningful comparisons of operating performance between periods. As reported results will be footnoted throughout the presentation.

- We report in comparable dollars to remove the effects of currency translation on the P&L. The budgeted exchange rate for 2016 is used for all currency translations in 2016 and prior years. Guidance is presented using the 2016 budgeted exchange rate for the year.
- We remove the impact of discrete expenses and income. Examples include plant closures, restructuring actions, separation costs and other large unusual items. We also remove the non-cash impact of our U.S. Pension Plan.
- Taxes for normalized Net Income and EPS are calculated using a constant 39% for 2016 guidance, and 2016 and 2015 results, which are based on the expected long term tax rate.
- Results throughout this presentation are presented on a continuing operations basis. As a result of the April 1, 2016 AFI separation, the majority of the AWI corporate support functions were incorporated into the Americas segment. Results throughout this presentation reflect the allocation of corporate costs into the segments and were held constant in 2015 for comparability purposes. Please refer to the Appendix for more information.

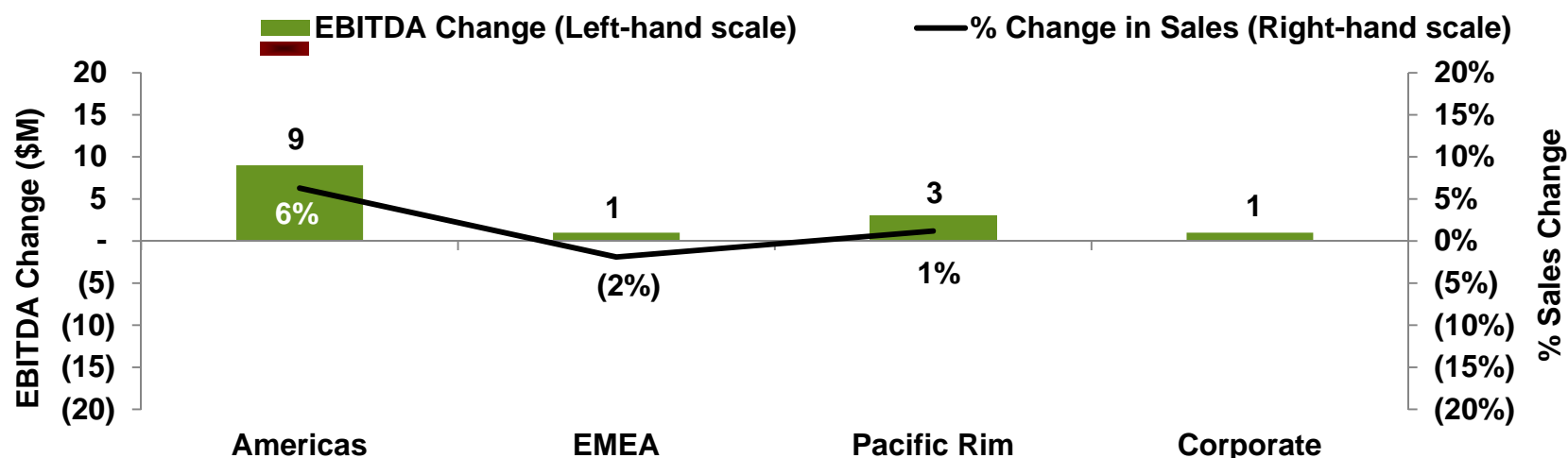
## What Items Are Adjusted

	Comparable Dollars	Other Adjustments
Net Sales	Yes	No
Gross Profit	Yes	Yes
SG&A Expense	Yes	Yes
Equity Earnings	Yes	Yes
Operating Income	Yes	Yes
Net Income	Yes	Yes
Cash Flow	No	Yes
Return on Capital	Yes	Yes
EBITDA	Yes	Yes

All figures throughout the presentation are in \$ millions unless otherwise noted. Figures may not add due to rounding.

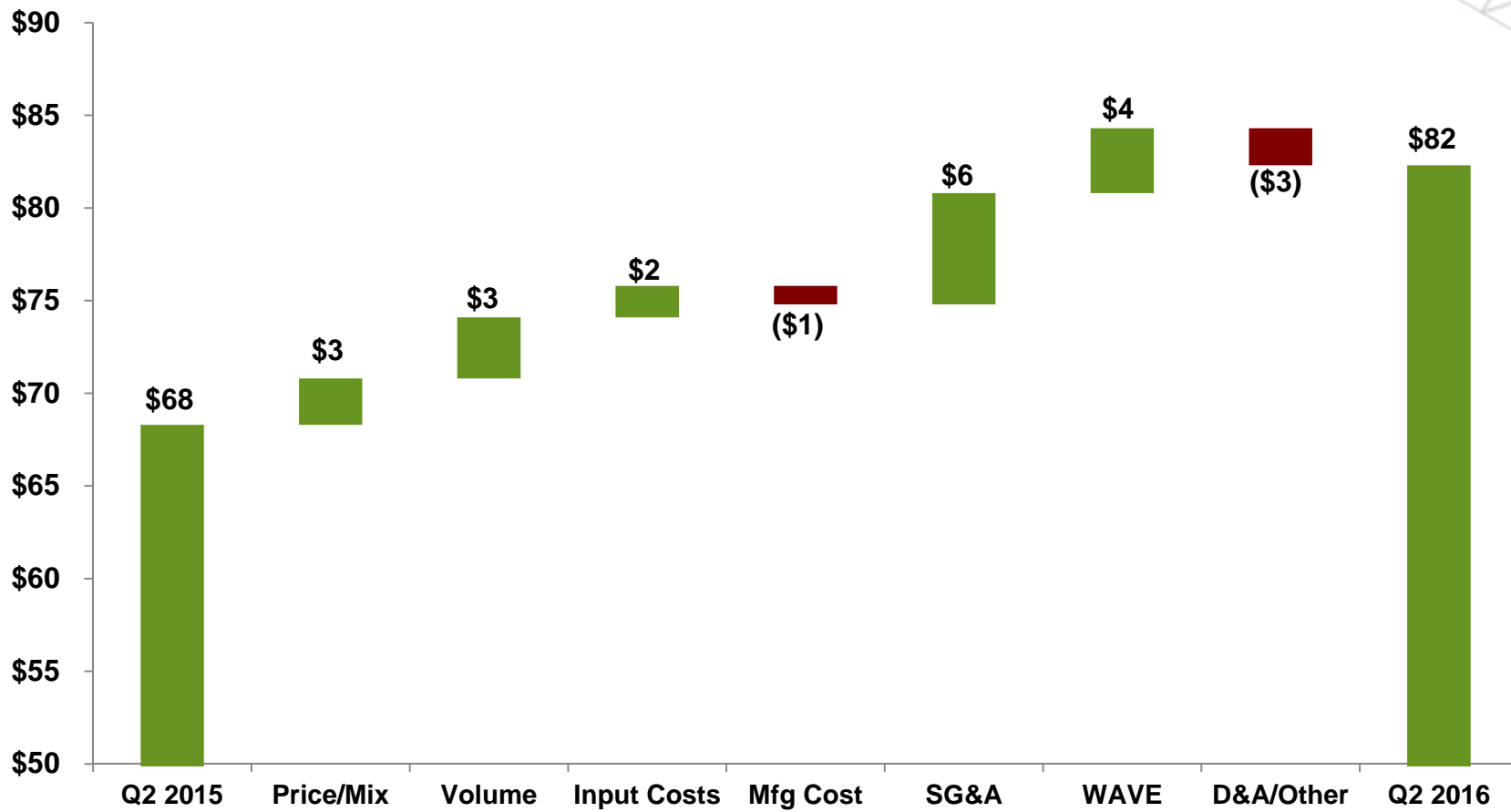
# Consolidated Company Key Metrics - Second Quarter 2016

	2016	2015	Variance
<b>Net Sales <sup>(1)</sup></b>	\$315	\$303	3.9%
<b>Operating Income <sup>(2)</sup></b>	\$61	\$49	24.4%
% of Sales	19.4%	16.2%	320 bps
<b>EBITDA</b>	82	68	19.3%
% of Sales	25.9%	22.5%	340 bps
<b>Earnings Per Share <sup>(3)</sup></b>	\$0.56	\$0.45	24.0%
<b>Net Debt</b>	774	823	(49)

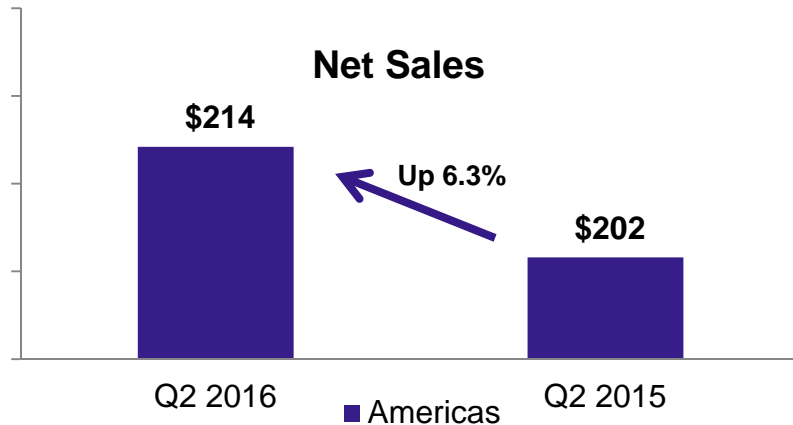


(1) As reported Net Sales: \$314 million in 2016 and \$306 million in 2015  
 (2) As reported Operating Income: \$52 million in 2016 and \$41 million in 2015  
 (3) As reported EPS: \$0.29 in 2016 and \$0.27 in 2015

# EBITDA Bridge – Second Quarter 2016 vs. PY



# Americas Second Quarter Results



## Key Highlights

- Excluding the unfavorable impact of foreign exchange of \$1 million, net sales increased 6.3% as the Americas saw **mid single digit volume growth** and continued improvement in average unit value (“AUV”). Growth initiatives contributed significantly to this result with premium products in the core tile business and Architectural Specialties (“AS”) both up double digits.

**2015 Q2 Adjusted EBITDA\***

**\$71M**

AUV

2

Like for like pricing was positive and mix continued to improve driven by growth in premium products

Volume

4

Strong broad based volume growth across the product portfolio and geographic regions

SG&A

(1)

Modest SG&A investments to enhance our U.S. Commercial selling capabilities

WAVE

4

Our WAVE joint venture delivered a record earnings quarter

**2016 Q2 Adjusted EBITDA**

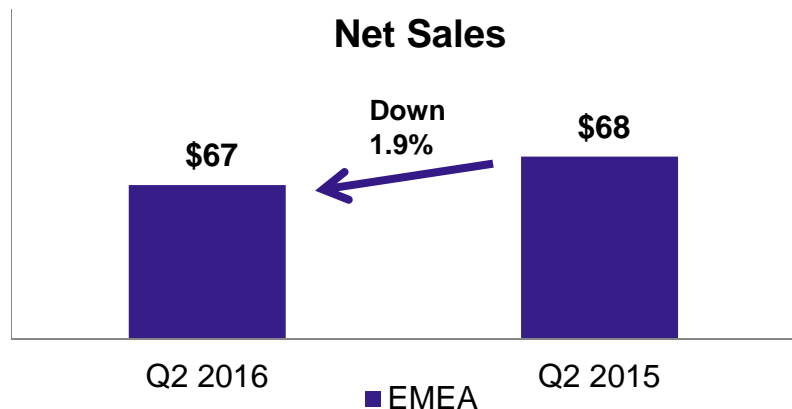
**\$80M**

**Margins improved 240 bps driven by mid single digit volume growth and a record earnings quarter from WAVE**



\* Corporate costs of \$17M were allocated to the Americas segment in 2016 and held constant in the prior year for comparability purposes. See Appendix for more details.

# EMEA Second Quarter Results



## Key Highlights

- Excluding the unfavorable impact of foreign exchange of \$2 million, net sales decreased 1.9% driven mainly by lower volume in the Middle East.

**2015 Q2 Adjusted EBITDA\*** (\$1)

Volume (1)

Sequential volume improvement from Q1 with weakness in the Middle East offset partially by improvement in Russia

SG&A 2

Driven by prior cost reduction actions

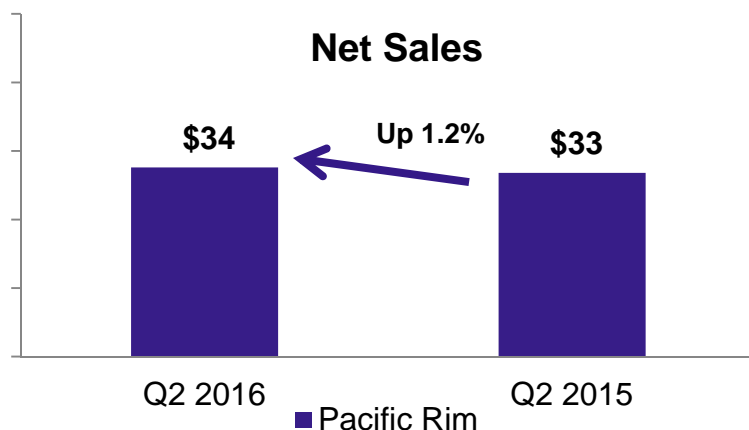
**2016 Q2 Adjusted EBITDA** (\$-)

**Margins improved 130 bps driven by strong cost control**



\* Cost allocations of \$2M were removed from the EMEA segment in 2016 and those allocation changes were held constant in the prior year for comparability purposes. See Appendix for more details

# Pacific Rim Second Quarter Results



## Key Highlights

- Excluding the unfavorable impact of foreign exchange of \$1 million, net sales increased 1.2% due to improvement in AUV.

### 2015 Q2 Adjusted EBITDA\*

\$-M

AUV	1	Like for like pricing was positive and mix continued to improve
Manufacturing & Input costs	1	Favorable productivity
SG&A	1	Driven by prior cost reduction actions

### 2016 Q2 Adjusted EBITDA

\$3M

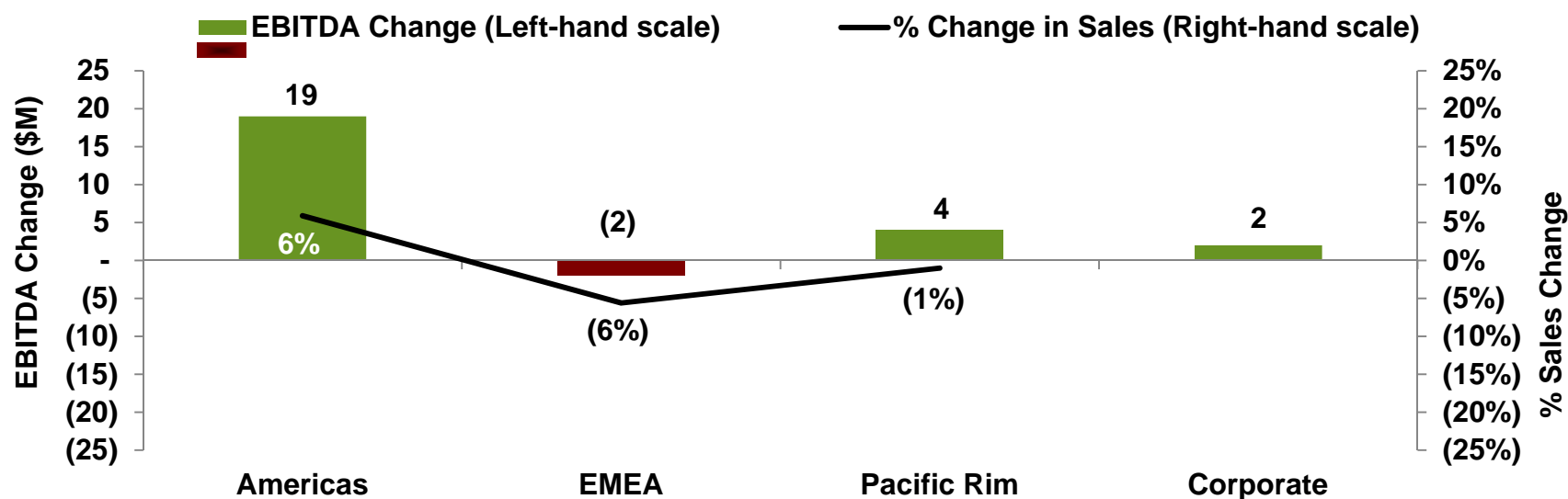
**Margins improved 710 bps driven by improvement in AUV and strong SG&A cost control**

\* Costs allocations of less than \$1M were removed from the Pacific Rim segment in 2016 and those allocation changes were held constant in the prior year for comparability purposes. See Appendix for more details



# Consolidated Company Key Metrics – 1st Half 2016

	2016	2015	Variance
<b>Net Sales</b> <sup>(1)</sup>	\$607	\$591	2.6%
<b>Operating Income</b> <sup>(2)</sup>	113	91	24.4%
% of Sales	18.6%	15.4%	320 bps
<b>EBITDA</b>	152	129	18.5%
% of Sales	25.1%	21.7%	340 bps
<b>Earnings Per Share</b> <sup>(3)</sup>	\$1.05	\$0.78	35.5%



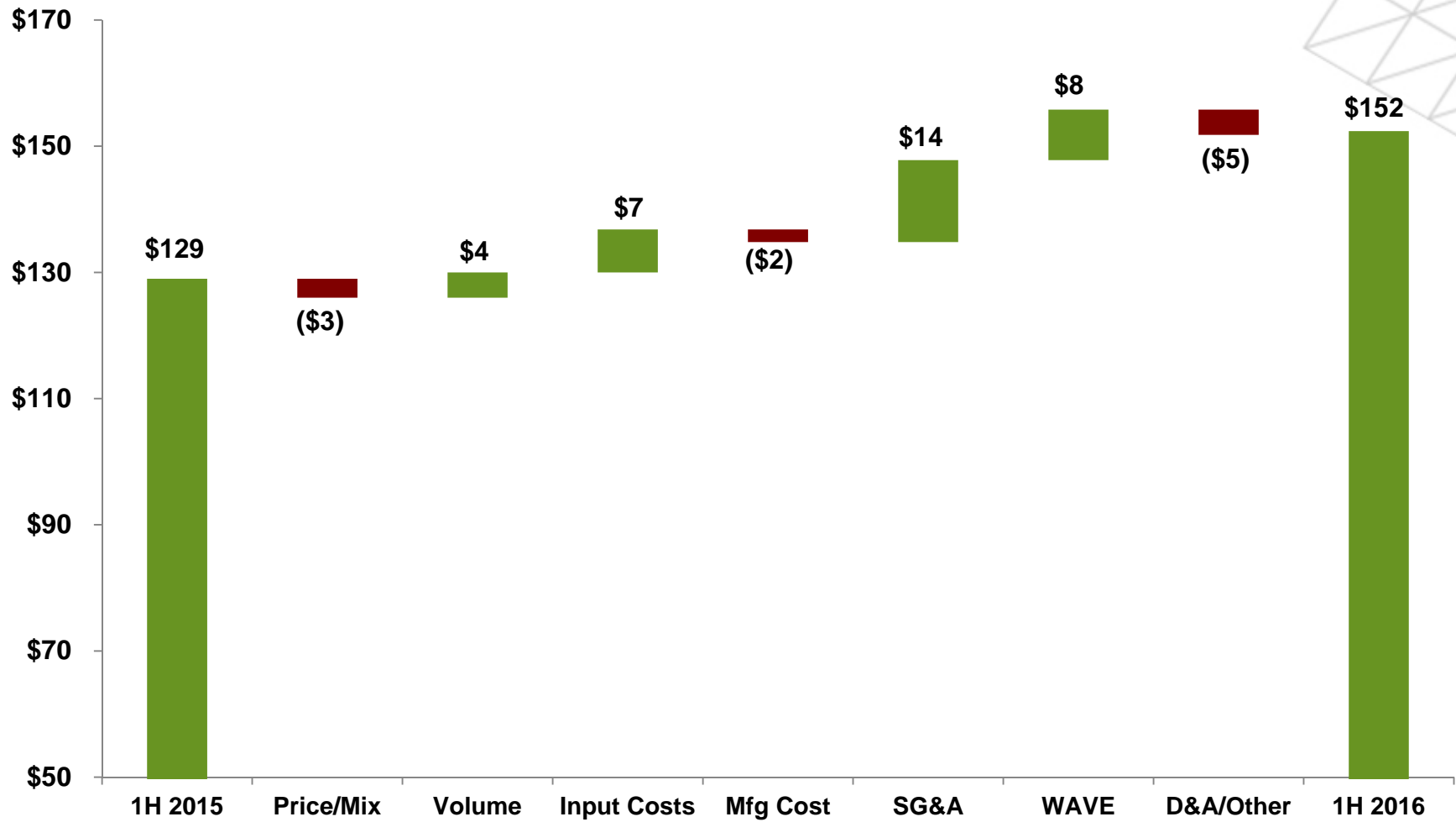
(1) As reported Net Sales: \$602 million in 2016 and \$598 million in 2015

(2) As reported Operating Income: \$73 million in 2016 and \$75 million in 2015

(3) As reported EPS: \$0.17 in 2016 and \$0.37 in 2015

# EBITDA Bridge – 1H 2016 vs. Prior Year

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# 2016 Guidance

	<u>2015 Constant Currency Results</u>	<u>2016 Constant Currency Guidance</u>	
<b>Revenue<sup>(1)</sup></b>	<b>\$1,224</b>	<b>\$1,230 – \$1,280</b> <i>1% – 5% YoY Growth</i>	<ul style="list-style-type: none"> <li>▪ 1% – 4% North America volume growth</li> <li>▪ -1% – 2% International volume growth</li> <li>▪ 1% – 3% average unit value increase</li> </ul>
<b>Adjusted EBITDA<sup>(2)</sup></b>	<b>\$296</b>	<b>\$310 – \$330</b> <i>5% – 12% YoY Growth</i>	<ul style="list-style-type: none"> <li>▪ \$42 million of standalone corporate costs</li> <li>▪ 1% – 2% cost savings over inflation</li> <li>▪ Increased sales and marketing investments to expand total solutions selling capabilities</li> </ul>
<b>Adjusted EPS<sup>(3)</sup></b>	<b>\$2.02</b>	<b>\$2.05 – \$2.25</b> <i>2% – 11% YoY Growth</i>	<ul style="list-style-type: none"> <li>▪ \$45 million of interest expense</li> <li>▪ Normalized 39% effective tax rate</li> <li>▪ 56 million average diluted shares outstanding</li> <li>▪ Cash tax rate 30% – 35%</li> </ul>
<b>Free Cash Flow</b>	<b>\$86<sup>(4)</sup></b>	<b>\$80 – \$100</b>	<ul style="list-style-type: none"> <li>▪ \$190 million cash flow from operations</li> <li>▪ \$100 million of total capital expenditures</li> </ul>

Note: Dollars in millions except per share values

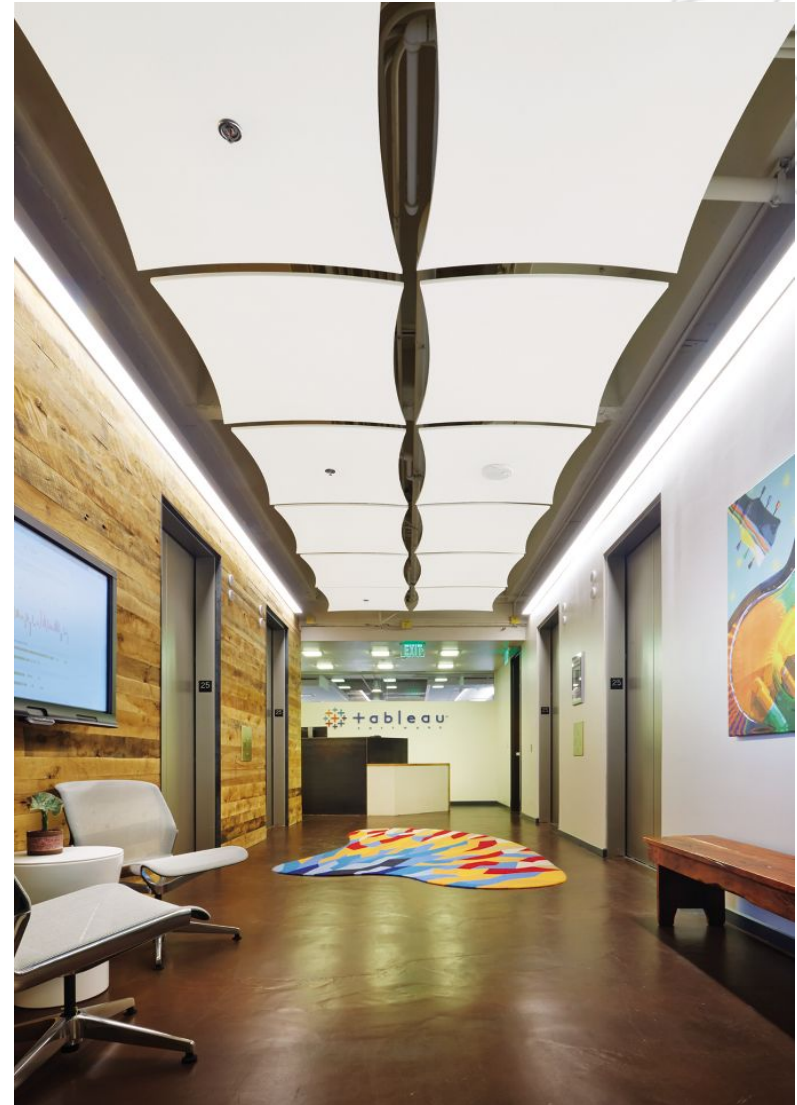
(1) As-reported revenue of \$1,231 million in 2015. 2016 As-reported sales will have (1%) - (3%) FX headwind

(2) Includes pro forma standalone corporate expense of \$42 million; excludes pension, separation costs and other extraordinary expenses

(3) Excludes pension, separation costs and other extraordinary expenses. As reported earnings per share of \$1.30 - \$1.50 impacted by \$34 million of separation expenses and an as reported effective tax rate of ~53%

(4) No FX adjustment. Pro forma standalone free cash flow for AWI in 2015, excludes separation costs and other extraordinary expenses

# Appendix



# Q2 2016 vs. PY - Adjusted EBITDA to Reported Net Income

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	CONSOLIDATED			AMERICAS			EMEA			PACIFIC RIM			CORPORATE		
	2016	2015	V	2016	2015	V	2016	2015	V	2016	2015	V	2016	2015	V
<b>EBITDA - Adjusted Comparable Base</b>	-	\$68		-	\$71		-	(\$1)		-	\$0	(\$0)	-	(\$1)	
Corp Cost Allocation	-	(\$1)		-	(\$17)		-	\$3		-	-	-	-	\$14	
<b>EBITDA- Adjusted</b>	\$82	\$69	\$13	\$80	\$88	(\$8)	(\$0)	(\$4)	\$4	\$3	\$0	\$3	(\$1)	(\$15)	\$14
Depreciation and Amortization	(\$21)	(\$19)	(\$2)	(\$13)	(\$11)	(\$2)	(\$5)	(\$3)	(\$2)	(\$3)	(\$2)	(\$1)	-	(\$3)	\$3
<b>Operating Income – Adjusted</b>	\$61	\$50	\$11	\$67	\$77	(\$10)	(\$5)	(\$7)	\$2	\$0	(\$2)	\$2	(\$1)	(\$18)	\$17
Non-cash Impact of U.S. Pension	\$3	\$4	(\$1)	\$3	\$4	(\$1)	-	-	-	-	-	-	-	-	-
Separation Expenses	\$4	\$5	(\$1)	-	-	-	-	-	-	-	-	-	\$4	\$5	(\$1)
Cost Reduction Initiatives	\$3	-	\$3	-	-	-	-	-	-	\$3	-	\$3	-	-	-
Foreign Exchange Movements	(\$1)	-	(\$1)	-	\$1	(\$1)	-	(\$1)	\$1	(\$1)	-	(\$1)	-	-	-
<b>Operating Income – As Reported</b>	\$52	\$41	\$11	\$64	\$72	(\$8)	(\$5)	(\$6)	\$1	(\$2)	(\$2)	\$0	(\$5)	(\$23)	\$18
Interest/Other (Expense)	(\$11)	(\$8)	(\$3)	-	-	-	-	-	-	-	-	-	-	-	-
<b>EBT – excluding SWAP charge</b>	\$41	\$33	\$8	-	-	-	-	-	-	-	-	-	-	-	-
Charge to settle existing interest rate SWAPS due to refinancing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>EBT - As Reported</b>	\$41	\$33	\$8	-	-	-	-	-	-	-	-	-	-	-	-
Tax (Expense)	(\$24)	(\$18)	(\$6)	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Income</b>	\$17	\$15	\$2	-	-	-	-	-	-	-	-	-	-	-	-

# 1H 2016 vs. PY - Adjusted EBITDA to Reported Net Income

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	CONSOLIDATED			AMERICAS			EMEA			PACIFIC RIM			CORPORATE		
	2016	2015	V	2016	2015	V	2016	2015	V	2016	2015	V	2016	2015	V
<b>EBITDA - Adjusted Comparable Base</b>	-	\$129		-	\$134		-	\$2		-	(\$1)		-	(\$5)	
Corp Cost Allocation	-	(\$1)		-	(\$34)		-	\$6		-	-	-	-	\$28	
<b>EBITDA- Adjusted</b>	\$152	\$130	\$22	\$153	\$168	(\$15)	(\$1)	(\$4)	\$3	\$3	(\$1)	\$4	(\$3)	(\$33)	\$30
Depreciation and Amortization	(\$39)	(\$38)	(\$1)	(\$26)	(\$21)	(\$5)	(\$8)	(\$7)	(\$1)	(\$4)	(\$5)	\$1	(\$1)	(\$5)	\$4
<b>Operating Income – Adjusted</b>	\$113	\$92	\$21	\$127	\$147	(\$20)	(\$9)	(\$11)	\$2	(\$1)	(\$6)	\$5	(\$4)	(\$38)	\$34
Non-cash Impact of U.S. Pension	\$6	\$7	(\$1)	\$6	\$7	(\$1)	-	-	-	-	-	-	-	-	-
Separation Expenses	\$31	\$9	\$22	-	-	-	-	-	-	-	-	-	\$31	\$9	\$22
Cost Reduction Initiatives	\$3	-	\$3	-	-	-	-	-	-	\$3	-	\$3	-	-	-
Foreign Exchange Movements	-	\$1	(\$1)	\$1	\$4	(\$3)	-	(\$3)	\$3	(\$1)	(\$2)	\$1	-	\$2	(\$2)
<b>Operating Income – As Reported</b>	\$73	\$75	(\$2)	\$120	\$136	(\$16)	(\$9)	(\$8)	(\$1)	(\$3)	(\$4)	\$1	(\$34)	(\$49)	\$15
Interest/Other (Expense)	(\$16)	(\$20)	\$4	-	-	-	-	-	-	-	-	-	-	-	-
<b>EBT – excluding SWAP charge</b>	\$57	\$55	\$2	-	-	-	-	-	-	-	-	-	-	-	-
Charge to settle existing interest rate SWAPS due to refinancing	(\$11)	-	(\$11)	-	-	-	-	-	-	-	-	-	-	-	-
<b>EBT - As Reported</b>	\$46	\$55	(\$9)	-	-	-	-	-	-	-	-	-	-	-	-
Tax (Expense)	(\$36)	(\$34)	(\$2)	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Income</b>	\$10	\$21	(\$11)	-	-	-	-	-	-	-	-	-	-	-	-

# Consolidated Results

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## Second Quarter

	2016 Reported	Comparability <sup>(1)</sup> Adjustments	FX <sup>(2)</sup> Adj	2016 Adjusted	2015 Reported	Comparability <sup>(1)</sup> Adjustments	FX <sup>(2)</sup> Adj	2015 Adjusted
<b>Net Sales</b>	314	-	1	315	306	-	(3)	303
<b>Operating Income</b>	52	10	(1)	61	41	8	-	49
<b>EPS</b>	\$0.29	\$0.28	(\$0.01)	\$0.56	\$0.27	\$0.18	\$-	\$0.45

## YTD

	2016 Reported	Comparability <sup>(1)</sup> Adjustments	FX <sup>(2)</sup> Adj	2016 Adjusted	2015 Reported	Comparability <sup>(1)</sup> Adjustments	FX <sup>(2)</sup> Adj	2015 Adjusted
<b>Net Sales</b>	602	-	5	607	598	-	(7)	591
<b>Operating Income</b>	73	40	-	113	75	15	1	91
<b>EPS</b>	\$0.17	\$0.88	\$-	\$1.05	\$0.37	\$0.40	\$0.01	\$0.78

(1) See earnings press release and 10-Q for additional detail on comparability adjustments. See slides 13 and 14 for more details.

(2) Eliminates impact of foreign exchange movements

# Corporate Cost Allocation by Quarter - Consolidated

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	Q1	Q2	Q3	Q4	FY
COGS	\$4.7	\$4.8	\$4.7	\$4.8	\$19.0
SG&A	\$11.6	\$11.5	\$11.9	\$11.7	\$46.7
<b>Total corporate cost allocation</b>	\$16.3	\$16.3	\$16.6	\$16.5	\$65.7
Less non-cash impact of U.S. pension	\$3.2	\$3.2	\$3.2	\$3.2	\$12.8
Less impact of D&A	\$2.7	\$2.7	\$2.7	\$2.7	\$10.9
<b>Total corporate costs impacting adjusted EBITDA (excluding D&amp;A and pension)</b>					\$42.1

- Corporate cost pushdown allocation held constant in prior years for comparability purposes
- FY Corporate costs of \$65.7M were allocated to the Americas business in 2016 of which \$16.3M booked in Q2; 70% to SG&A, 30% to COGS and held constant in prior year for comparability purposes
- For FY 2016 \$12.8M of non-cash pension costs were allocated to the Americas business with \$3.2M booked in Q2.