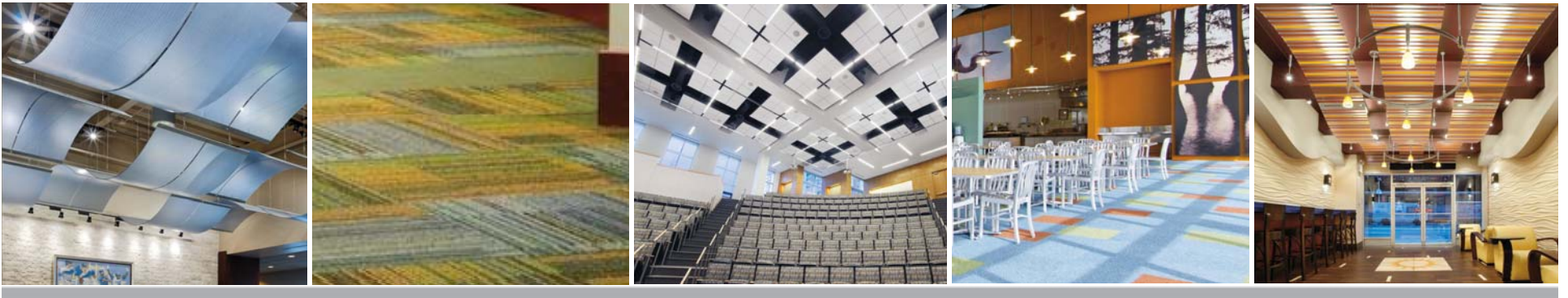




# Earnings Call Presentation 2<sup>nd</sup> Quarter 2013 July 29, 2013





## Safe Harbor Statement

Our disclosures in this presentation, including without limitation, those relating to future financial results 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. 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.armstrong.com](http://www.armstrong.com).

The guidance in this presentation is only effective as of the date given, July 29, 2013, 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 2013 is used for all currency translations in 2013 and prior years. Guidance is presented using the 2013 budgeted exchange rate for the year.
- We remove the impact of discrete expenses and income. Examples include plant closures, restructuring actions, and other large unusual items.
- Taxes for normalized Net Income and EPS are calculated using a constant 39% for 2013 results and guidance and 40% for 2012, which are based on the full year historical tax rates.
- In the fourth quarter of 2012, we completed the sale of Cabinets business. The financial results of the Cabinets business, which were previously shown as a separate reporting segment, have been reclassified and presented as discontinued operations. The financial results included within this presentation, including historical results, are presented on a continuing operations basis unless specifically noted otherwise.

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	No
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.**



## Key Metrics – Second Quarter 2013

	2013	2012	Variance
<b>Net Sales</b> <sup>(1)</sup>	\$709	\$676	4.8%
<b>Operating Income</b> <sup>(2)</sup>	71	86	(16.6)%
% of Sales	10.1%	12.7%	(260 bps)
<b>EBITDA</b>	98	110	(11.3)%
% of Sales	13.8%	16.3%	(250 bps)
<b>Earnings Per Share</b> <sup>(3)</sup>	\$0.62	\$0.73	(14.6)%
<b>Free Cash Flow</b> <sup>(4)</sup>	32	36	(10.6)%
<b>Net Debt</b>	764	878	(114)
<b>ROIC</b> <sup>(5)</sup>	9.3%	8.3%	100 bps

(1) As reported Net Sales: \$707 million in 2013 and \$675 million in 2012

(2) As reported Operating Income: \$68 million in 2013 and \$78 million in 2012

(3) As reported EPS: \$0.51 in 2013 and \$0.71 in 2012

(4) Cash flow information includes cash flows attributable to Cabinets

(5) Unadjusted

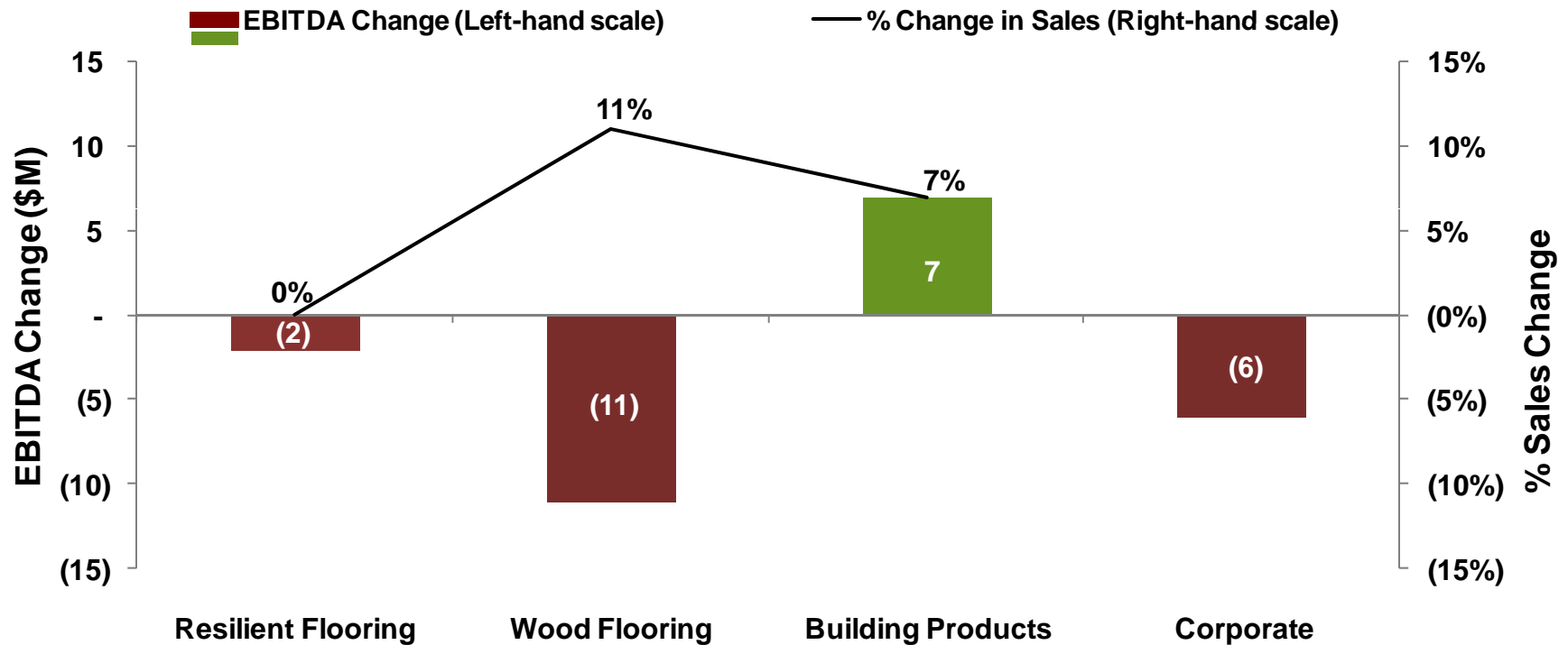


## Second Quarter 2013 vs. PY– Adjusted EBITDA to Reported Net Income

	2013	2012	V
<b>EBITDA– Adjusted</b>	\$98	\$110	(\$12)
Depreciation and Amortization	(27)	(24)	(3)
<b>Operating Income – Adjusted</b>	\$71	\$86	(\$15)
Foreign Exchange Movements	-	-	-
Cost Reduction Initiatives	(3)	(7)	4
Accelerated Depreciation (not included above)	-	(1)	1
<b>Operating Income – As Reported</b>	\$68	\$78	(\$10)
Interest (Expense)	(11)	(14)	3
<b>EBT</b>	\$57	\$64	(\$7)
Tax (Expense)	(26)	(22)	(4)
<b>Net Income</b>	\$31	\$42	(\$11)

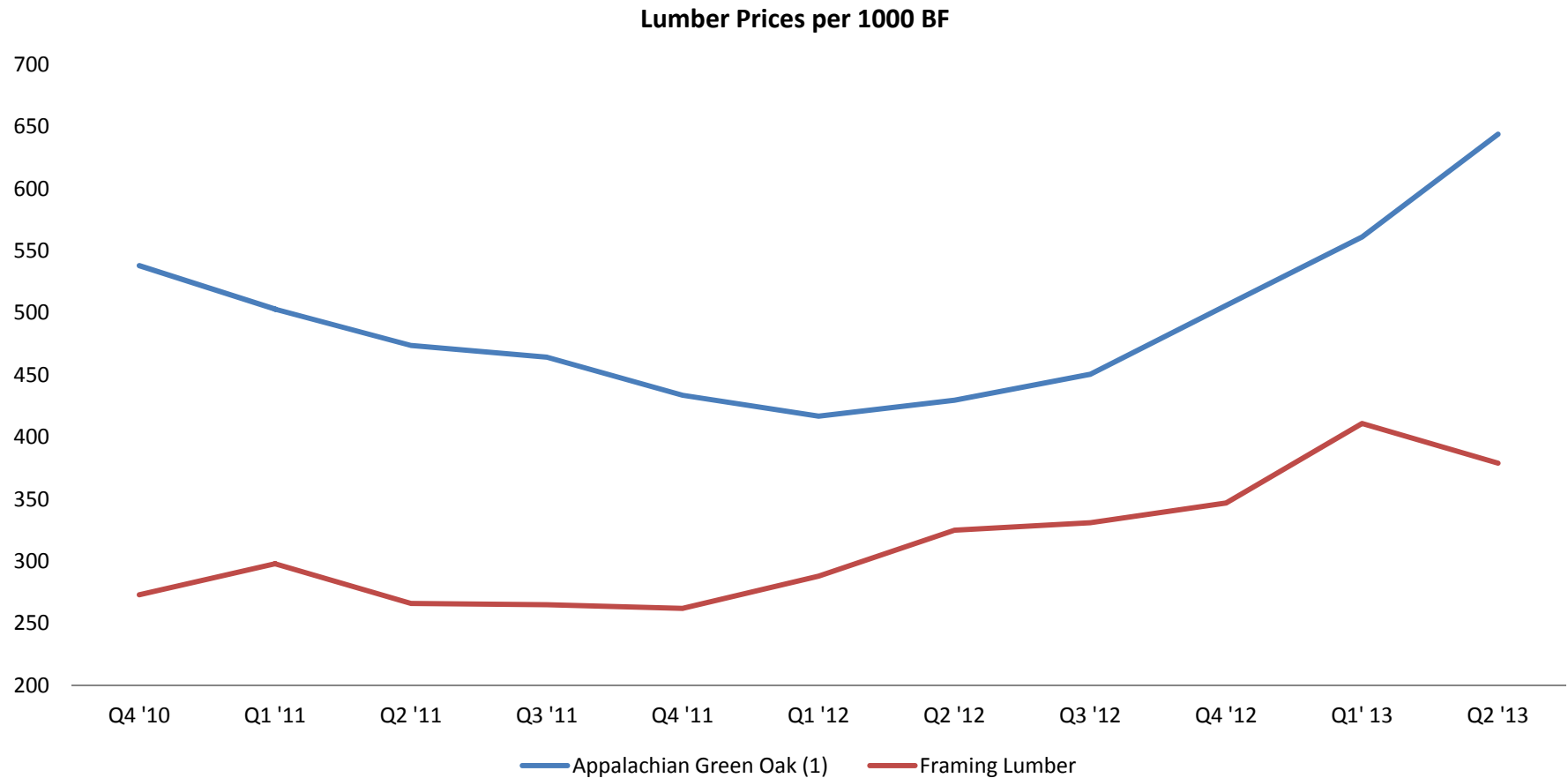


## Second Quarter Sales and EBITDA by Segment – 2013 vs. PY





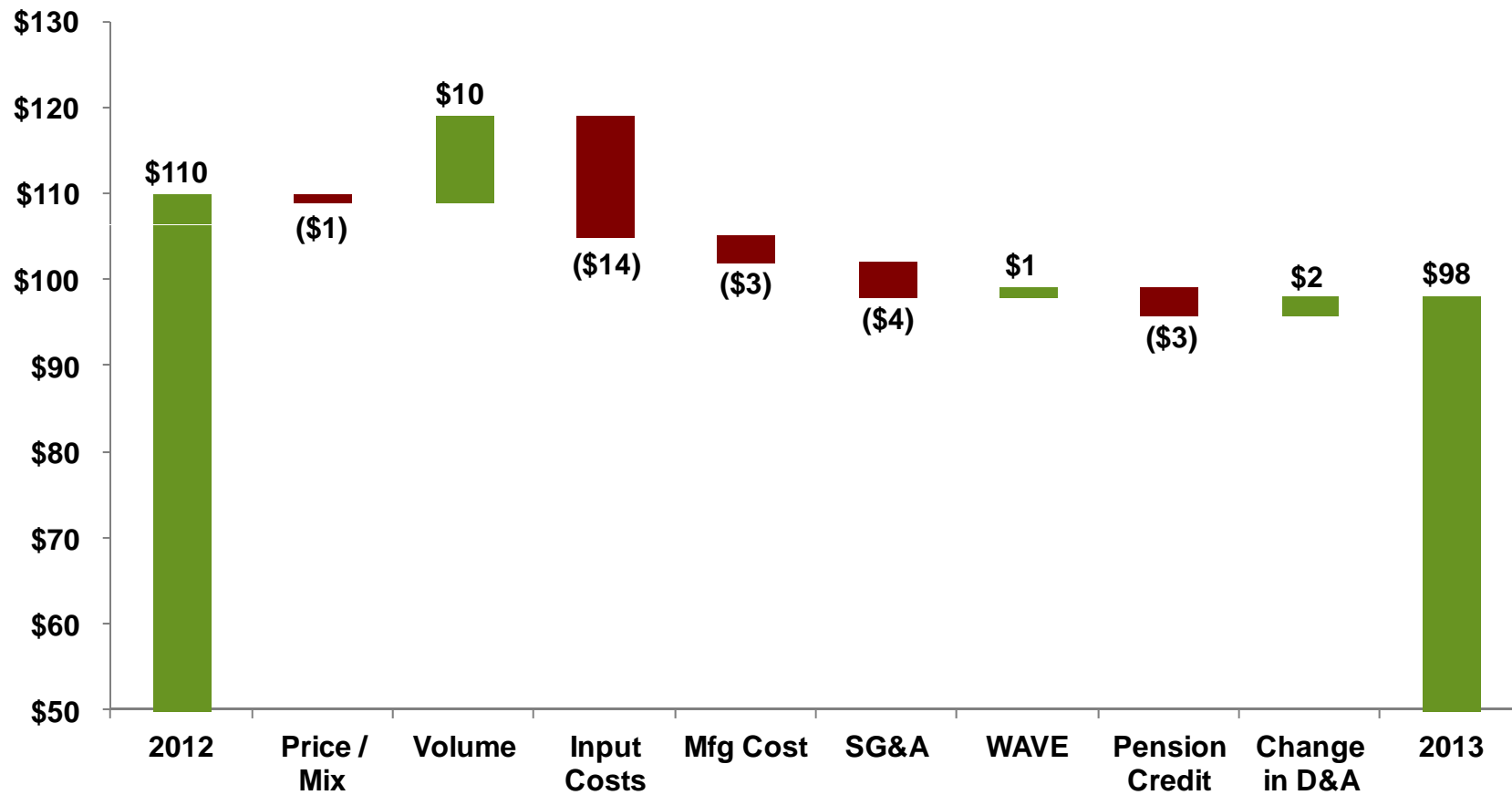
## Lumber Prices – Appalachian Green Oak vs. Framing Lumber



(1) Hardwood Market Report Published 7/5/13



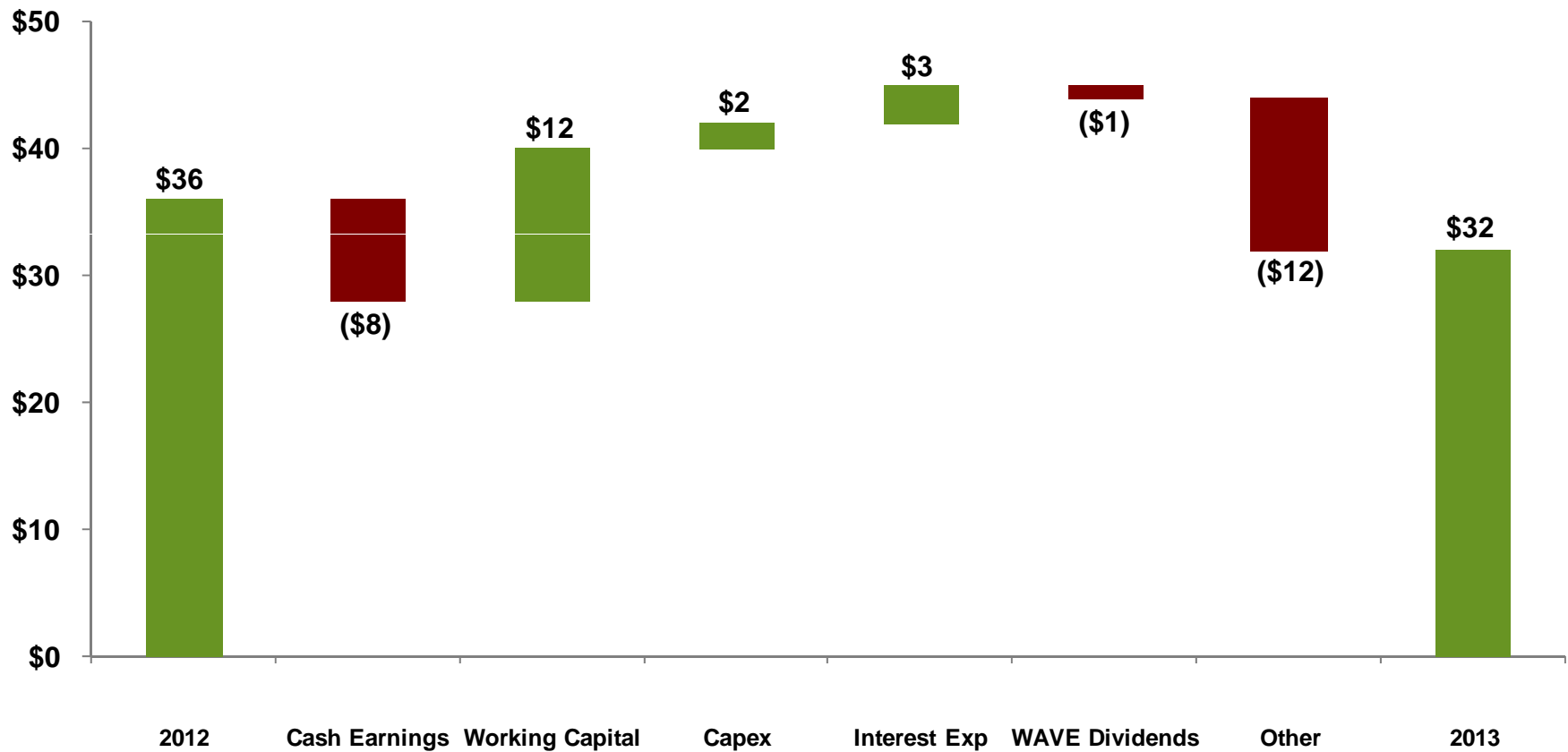
## EBITDA Bridge – Second Quarter 2013 vs. Prior Year







## Free Cash Flow – Second Quarter 2013 vs. Prior Year



Cash flow information includes cash flows attributable to Cabinets



## Key Metrics – 1<sup>st</sup> Half of 2013

	2013 Actual	2012 Actual	Variance
<b>Net Sales</b> <sup>(1)</sup>	\$1,329	\$1,311	1.4%
<b>Operating Income</b> <sup>(2)</sup>	125	145	(13.5)%
% of Sales	9.4%	11.0%	(160 bps)
<b>EBITDA</b>	177	194	(8.8)%
% of Sales	13.3%	14.8%	(150 bps)
<b>Earnings Per Share</b> <sup>(3)</sup>	\$0.84	\$1.22	(30.9)%
<b>Free Cash Flow</b> <sup>(4)</sup>	(19)	(14)	(36.9)%
<b>Net Debt</b>	764	878	(114)
<b>ROIC</b> <sup>(5)</sup>	9.3%	8.3%	100 bps

(1) As reported Net Sales: \$1,329 million in 2013 and \$1,311 million in 2012.

(2) As reported Operating Income: \$115 million in 2013 and \$120 million in 2012

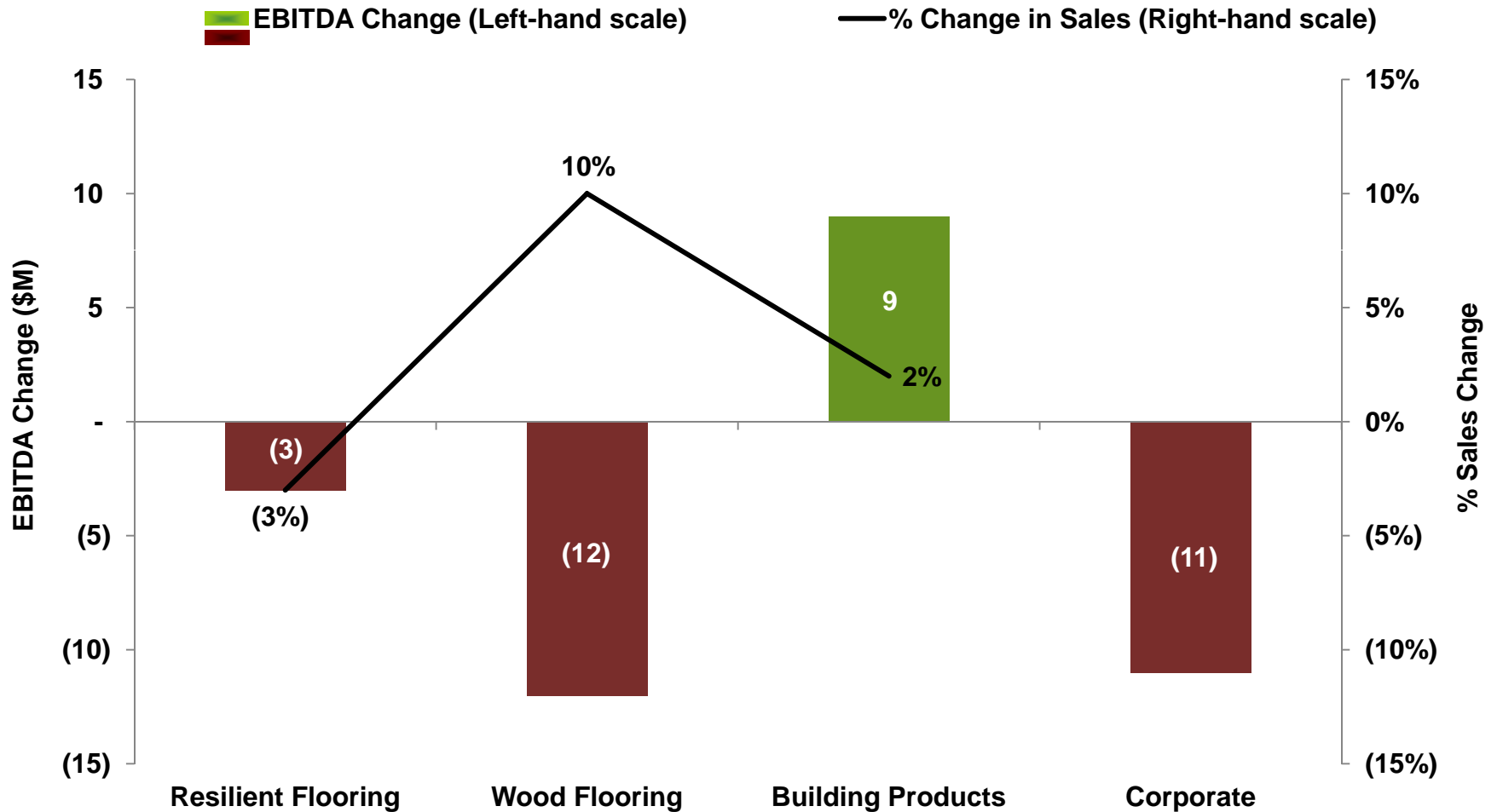
(3) As reported EPS: \$0.56 in 2013 and \$ 1.03 in 2012.

(4) Cash flow information includes cash flows attributable to Cabinets

(5) Unadjusted

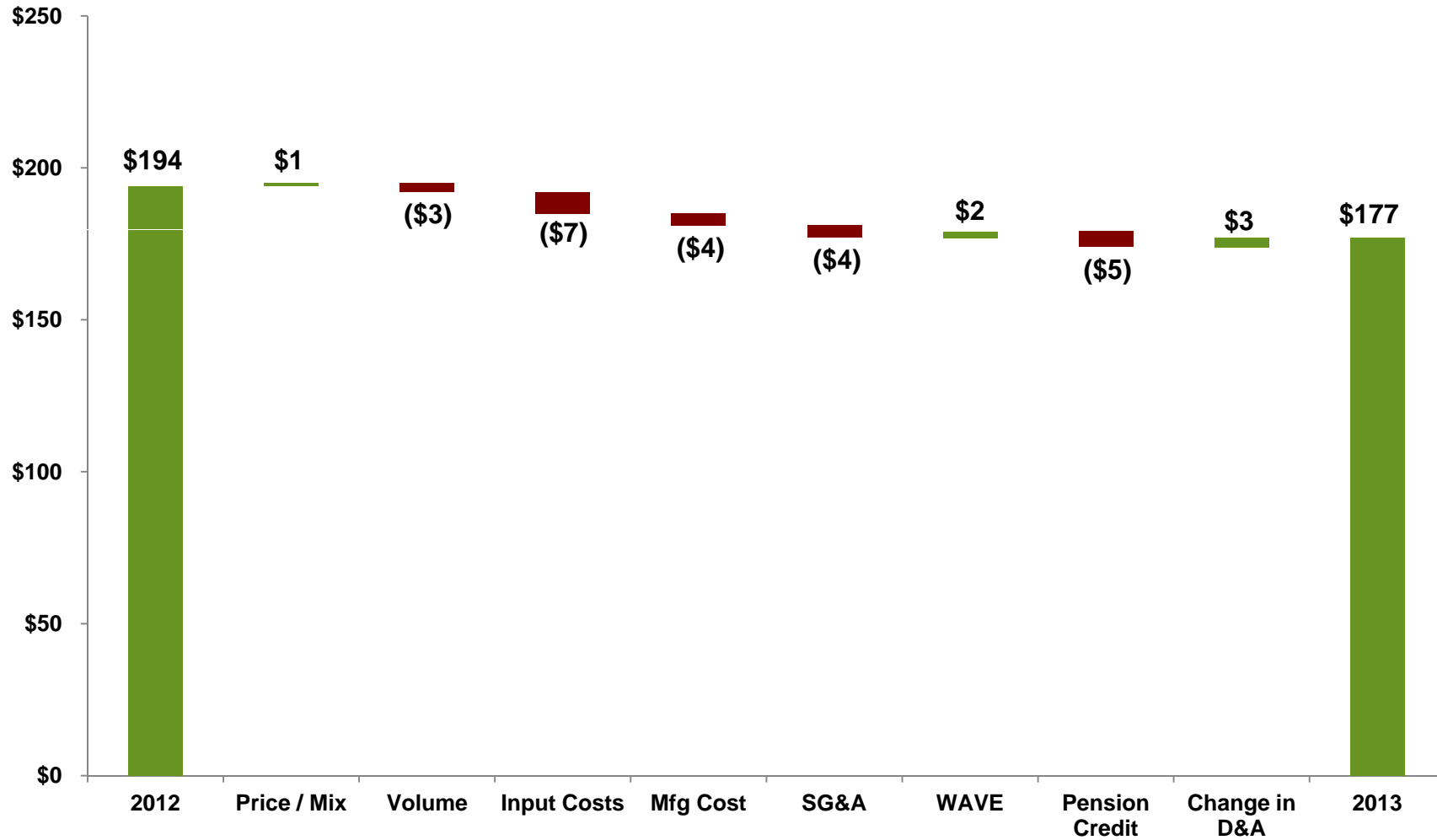


## 1H Sales and EBITDA by Segment – 2013 vs. 2012



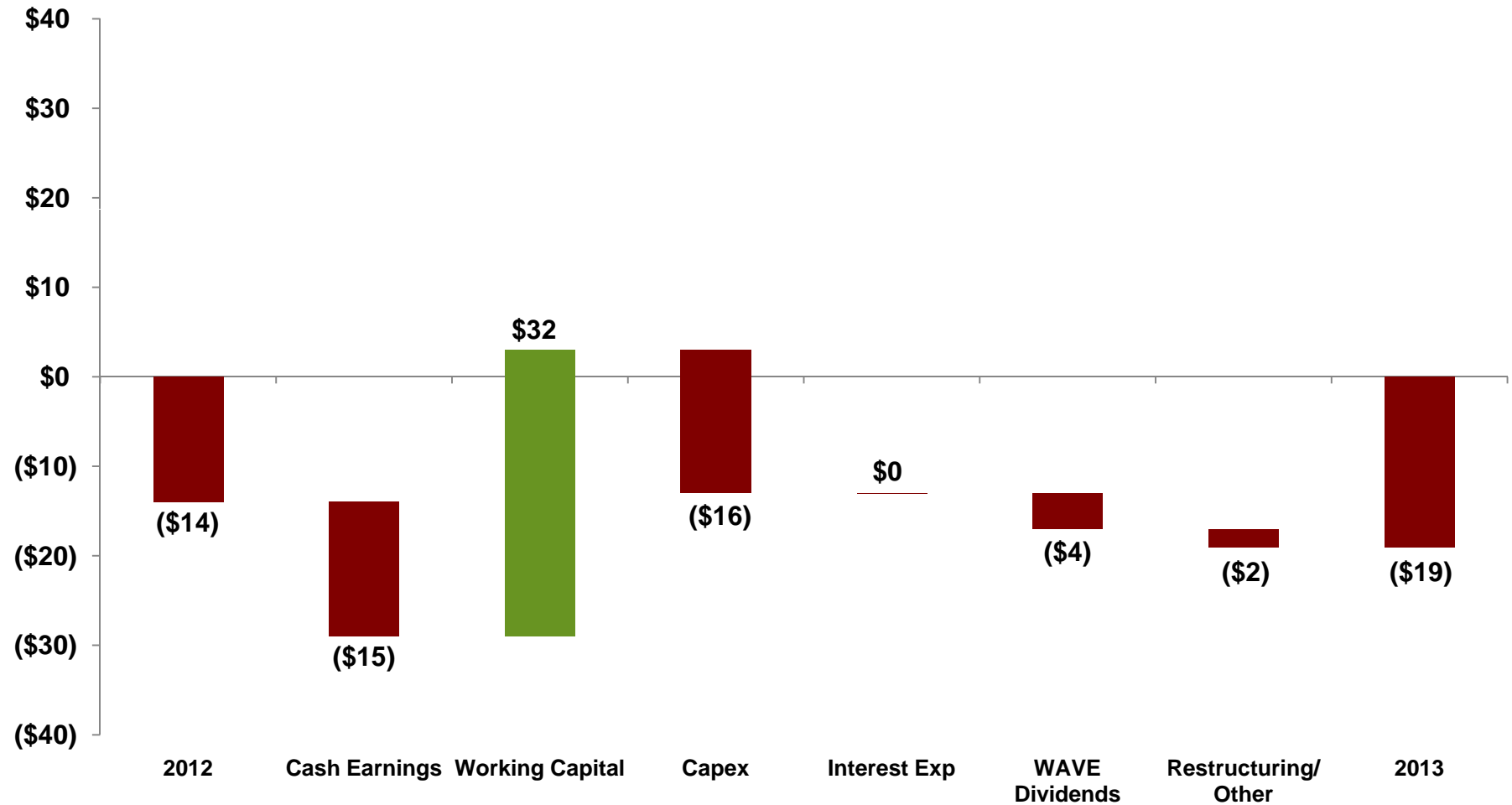


## EBITDA Bridge – 1H 2013 vs. Prior Year





## Free Cash Flow – 1H 2013 vs. Prior Year





## Key Metrics – Guidance 2013

	2013 Estimate Range <sup>(1)</sup>		2012 <sup>(1)</sup>	Variance		
<b>Net Sales<sup>(2)</sup></b>	2,700	to 2,800	2,623	3%	to	7%
<b>Operating Income<sup>(3)</sup></b>	260	to 290	302	(14)%	to	(4)%
<b>EBITDA</b>	370	to 400	402	(8)%	to	0%
<b>Earnings Per Share<sup>(4)</sup></b>	\$2.00	to \$2.30	\$2.53	(21)%	to	(9)%
<b>Free Cash Flow</b>	50	to 100	89	(44)%	to	12%

(1) Guidance and 2012 results are presented using 2013 budgeted foreign exchange rates

(2) 2012 and 2013 net sales include the impact of foreign exchange

(3) As reported Operating Income: \$245- \$275 million in 2013 and \$271 million 2012

(4) As reported earnings per share: \$1.70 - \$2.00 in 2013 and \$2.41 in 2012



## 2013 Financial Outlook

### Raw Material & Energy Inflation

▶ \$50 - \$60 million vs. 2012

### Manufacturing Productivity\*

▶ Adjusted Gross Margin (100) to (150) bps vs. 2012

### SG&A\*

▶ 15.75% to 16.25% of sales

### U.S. Pension Credit

▶ Down \$10 million; 60% manufacturing, 40% SG&A

### Earnings from WAVE

▶ \$0 - \$5 million vs. 2012

### Cash Taxes/ETR\*

▶ \$10 - \$20 million; Adjusted long-term ETR of ~39%<sup>(2)</sup>

### Q3

▶ Sales<sup>(1)</sup> \$740 – \$780 million; EBITDA \$110 – \$130 million

### Capital Spending\*

▶ \$180 - \$200 million

### Exclusions from EBITDA\*

▶ \$10 to \$15 million

(1) Net sales include foreign exchange impact

(2) As reported ETR of 43% for 2013

\* Changed from April Outlook



# Appendix







## Divested Businesses

- Cabinets
  - Announced sale in Q3 2012 and finalized sale in Q4 2012
  - Treated as discontinued operation starting with Q3 2012
- Patriot
  - Completed sale in Q3 2012
  - Results included in the Wood Flooring segment

Patriot impact on Y-o-Y Comparisons	Q3 2012	Q4 2012	2012	1H 2013	Q3 2013	2013
Net Sales	\$3-\$4M	\$7 - \$8M	\$10 - \$12M	\$18 - \$20M	\$6 -\$7M	\$24-\$27M
EBITDA	-- Minimal --					



## 1H 2013 - Adjusted EBITDA to Reported Net Income

	2013	2012	V
<b>EBITDA– Adjusted</b>	<b>\$177</b>	<b>\$194</b>	<b>(\$17)</b>
Depreciation and Amortization	(52)	(49)	(3)
<b>Operating Income – Adjusted</b>	<b>\$125</b>	<b>\$145</b>	<b>(\$20)</b>
Foreign Exchange Movements	(1)	(1)	-
Cost Reduction Initiatives	(9)	(9)	-
Accelerated Depreciation and Impairments (not included above)	-	(10)	10
Impairment	-	(5)	5
<b>Operating Income – As Reported</b>	<b>\$115</b>	<b>\$120</b>	<b>(\$5)</b>
Interest (Expense) Income	(43)	(24)	(19)
<b>EBT</b>	<b>\$72</b>	<b>\$96</b>	<b>(\$24)</b>
Tax (Expense) Benefit	(38)	(35)	(3)
<b>Net Income</b>	<b>\$34</b>	<b>\$61</b>	<b>(\$27)</b>



## Adjusted Operating Income to Free Cash Flow

	2013 Estimate Range		
<b>Adjusted Operating Income</b>	260	to	290
D&A		110	
<b>Adjusted EBITDA</b>	370	to	400
Changes in Working Capital	(10)	to	(30)
Capex	(180)	to	(200)
Interest Expense	(65)	to	(70)
Cash Taxes	(10)	to	(20)
Other, including cash payments for restructuring and one-time items	(10)	to	(15)
<b>Free Cash Flow</b>	50	to	100



## Consolidated Results

### Second Quarter

	2013 Reported	Comparability <sup>(1)</sup> Adjustments	FX <sup>(2)</sup> Adj	2013 Adjusted	2012 Reported	Comparability <sup>(1)</sup> Adjustments	FX <sup>(2)</sup> Adj	2012 Adjusted
<b>Net Sales</b>	707	-	2	709	675	-	1	676
<b>Operating Income</b>	68	3	-	71	78	8	-	86
<b>EPS</b>	\$0.51	\$0.11	\$-	\$0.62	\$0.71	\$0.02	\$-	\$0.73

### YTD

	2013 Reported	Comparability <sup>(1)</sup> Adjustments	FX <sup>(2)</sup> Adj	2013 Adjusted	2012 Reported	Comparability <sup>(1)</sup> Adjustments	FX <sup>(2)</sup> Adj	2012 Adjusted
<b>Net Sales</b>	1,329	-	-	1,329	1,311	-	-	1,311
<b>Operating Income</b>	115	9	1	125	120	24	1	145
<b>EPS</b>	\$0.56	\$0.27	\$0.01	\$0.84	\$1.03	\$0.18	\$0.01	\$1.22

(1) See earnings press release and 10-Q for additional detail on comparability adjustments

(2) Eliminates impact of foreign exchange movements



## Segment Operating Income (Loss)

Second Quarter						
	2013 Reported	Comparability <sup>(1)</sup> Adjustments	2013 Adjusted	2012 Reported	Comparability <sup>(1)</sup> Adjustments	2012 Adjusted
<b>Building Products</b>	65	2	67	54	8	62
<b>Resilient Flooring</b>	17	1	18	22	-	22
<b>Wood Flooring</b>	3	-	3	14	-	14
<b>Unallocated Corporate (Expense) Income</b>	(17)	-	(17)	(12)	-	(12)

YTD						
	2013 Reported	Comparability <sup>(1)</sup> Adjustments	2013 Adjusted	2012 Reported	Comparability <sup>(1)</sup> Adjustments	2012 Adjusted
<b>Building Products</b>	124	3	127	97	23	120
<b>Resilient Flooring</b>	24	7	31	32	2	34
<b>Wood Flooring</b>	3	-	3	16	-	16
<b>Unallocated Corporate (Expense) Income</b>	(36)	-	(36)	(25)	-	(25)

(1) Eliminates impact of foreign exchange movements and non-recurring items; see earnings press release and 10-Q for additional detail.



## Cash Flow

(\$ millions)	Second Quarter		YTD	
	2013	2012	2013	2012
<b>Net cash from operations</b>	\$57	\$63	\$43	\$30
Net cash (used for) investing	(25)	(27)	(62)	(42)
Add back (subtract) adjustments to reconcile to free cash flow				
Restricted cash	-	-	-	(2)
<b>Free Cash Flow</b>	\$32	\$36	(\$19)	(\$14)

Cash flow information includes cash flows attributable to Cabinets