



# Earnings Call Presentation 4th Quarter 2011 February 27, 2012





## Safe Harbor Statement

Our disclosures in this presentation 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," 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. 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 recent reports on Forms 10-K and 10-Q filed with the SEC. As a result, our actual results may differ materially from our expected results and from those expressed in our forward-looking statements. 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 of our website at [www.armstrong.com](http://www.armstrong.com).

The guidance in this presentation is only effective as of the date given, February 27, 2012, 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 the current year is used for all currency translations in the current year and prior years.
- 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 for all periods presented are calculated using a constant 42%, which is based on the full year historical tax rate.

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 – Fourth Quarter 2011

	2011	2010	Variance
<b>Net Sales <sup>(1)</sup></b>	\$647	\$641	0.9%
<b>Operating Income <sup>(2)</sup></b>	26	19	36.1%
% of Sales	4.1%	3.0%	110 bps
<b>EBITDA</b>	51	47	9.1%
% of Sales	7.9%	7.3%	60 bps
<b>Earnings Per Share <sup>(3)</sup></b>	\$0.16	\$0.11	45.5%
<b>Free Cash Flow</b>	90	43	112%
<b>Net (Cash) Debt</b>	362	559	(197)

(1) As reported Net Sales: \$652 million in 2011 and \$643 million in 2010.

(2) As reported Operating Income (Loss): \$22 million in 2011 and (\$30) million in 2010

(3) As reported EPS: \$0.14 in 2011 and \$(0.36) in 2010.

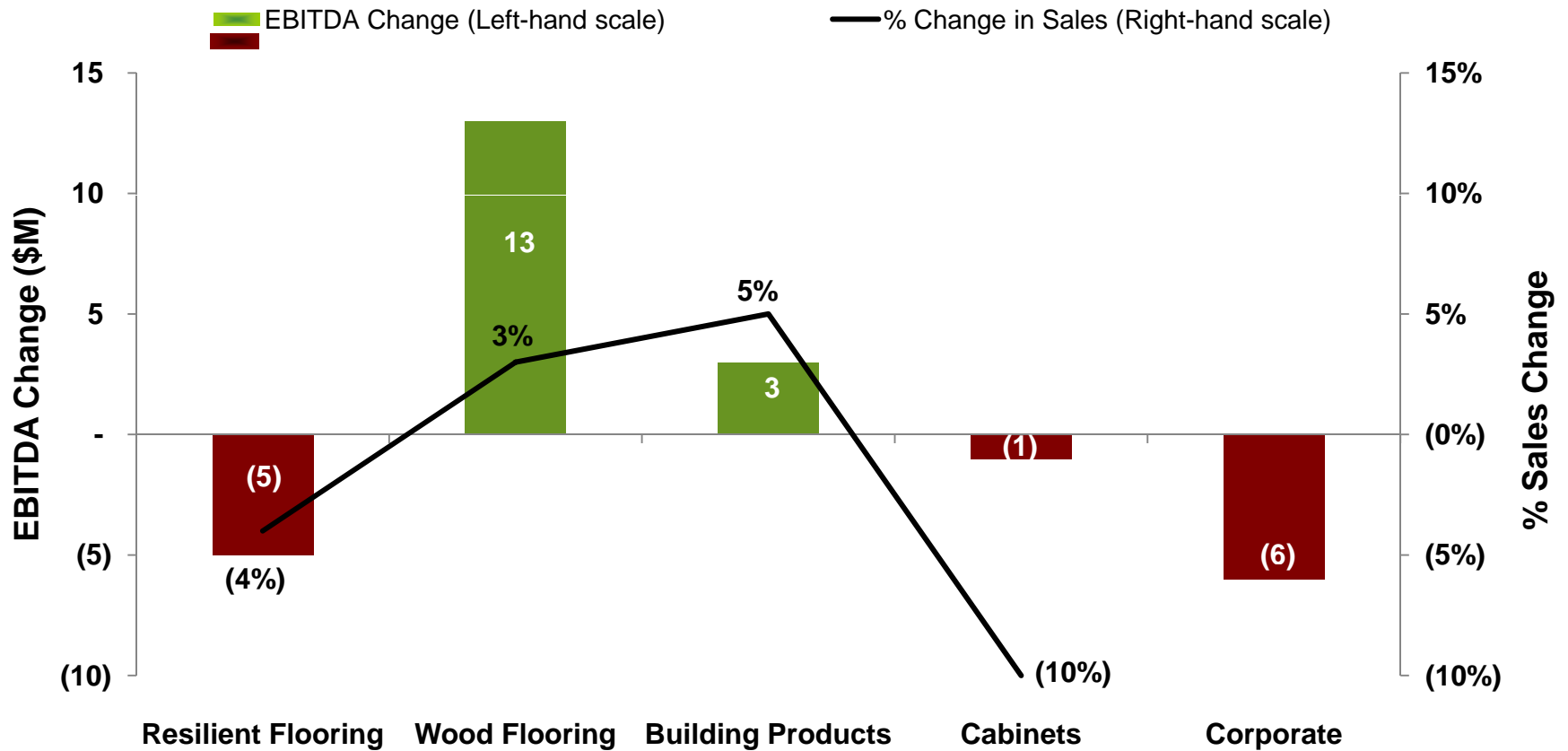


## Fourth Quarter 2011 – Adjusted EBITDA to Reported Net Income

	2011	2010	V
<b>EBITDA– Adjusted</b>	\$51	\$47	\$4
Depreciation and Amortization	(25)	(28)	3
<b>Operating Income – Adjusted</b>	\$26	\$19	\$7
Foreign Exchange Movements	1	1	-
Cost Reduction Initiatives	(3)	(9)	6
Accelerated Depreciation (not included above)	-	(11)	11
Executive Transition Costs	-	(1)	1
Restructuring	(1)	(7)	6
Impairments	(1)	(22)	21
<b>Operating Income – As Reported</b>	\$22	(\$30)	\$52
Interest (Expense) Income	(11)	(8)	(3)
<b>EBT</b>	\$11	(\$38)	\$49
Tax (Expense) Benefit	(2)	17	(19)
<b>Net Income</b>	\$9	(\$21)	\$30

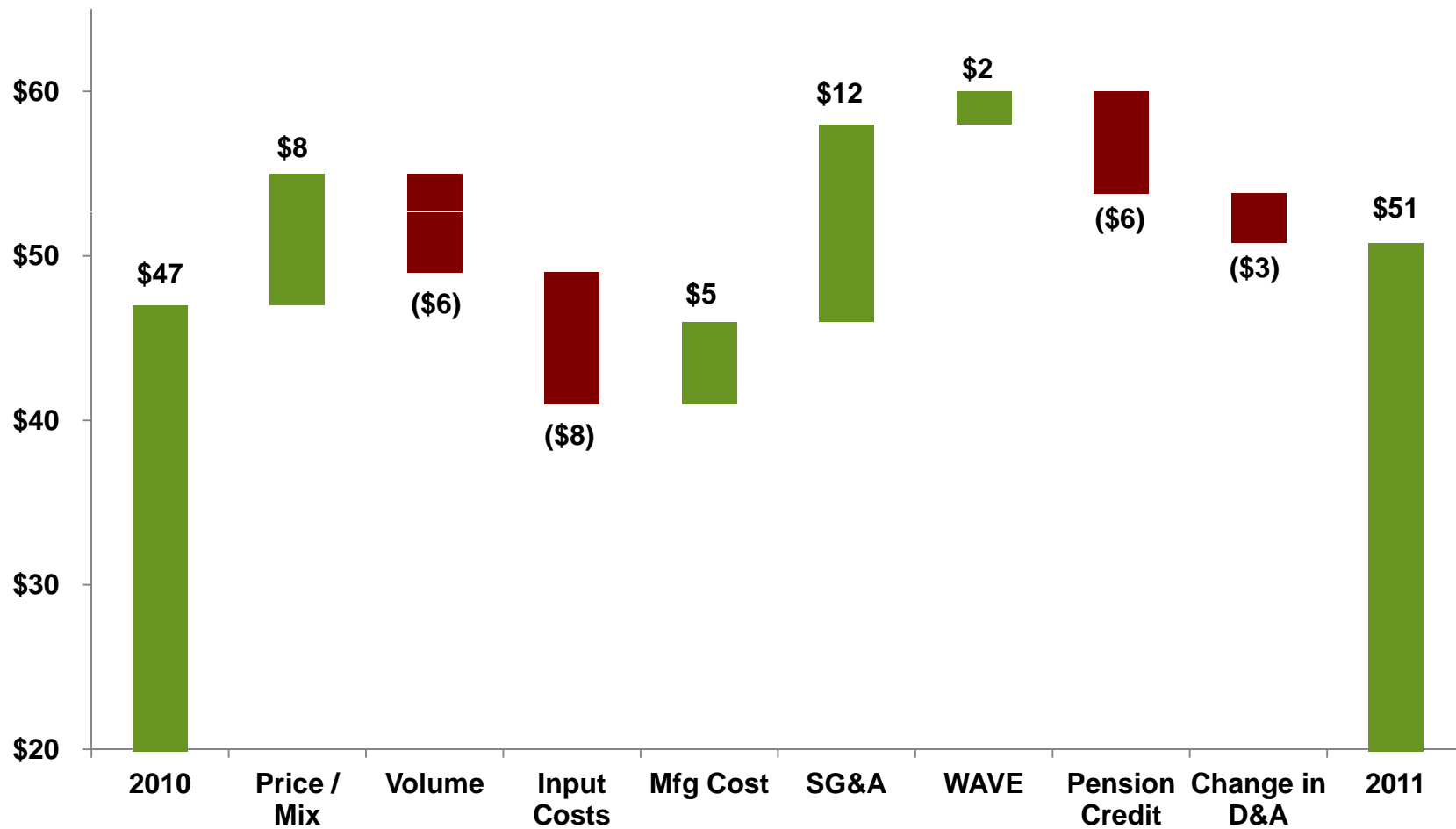


## Fourth Quarter Sales and EBITDA by Segment – 2011 vs. 2010



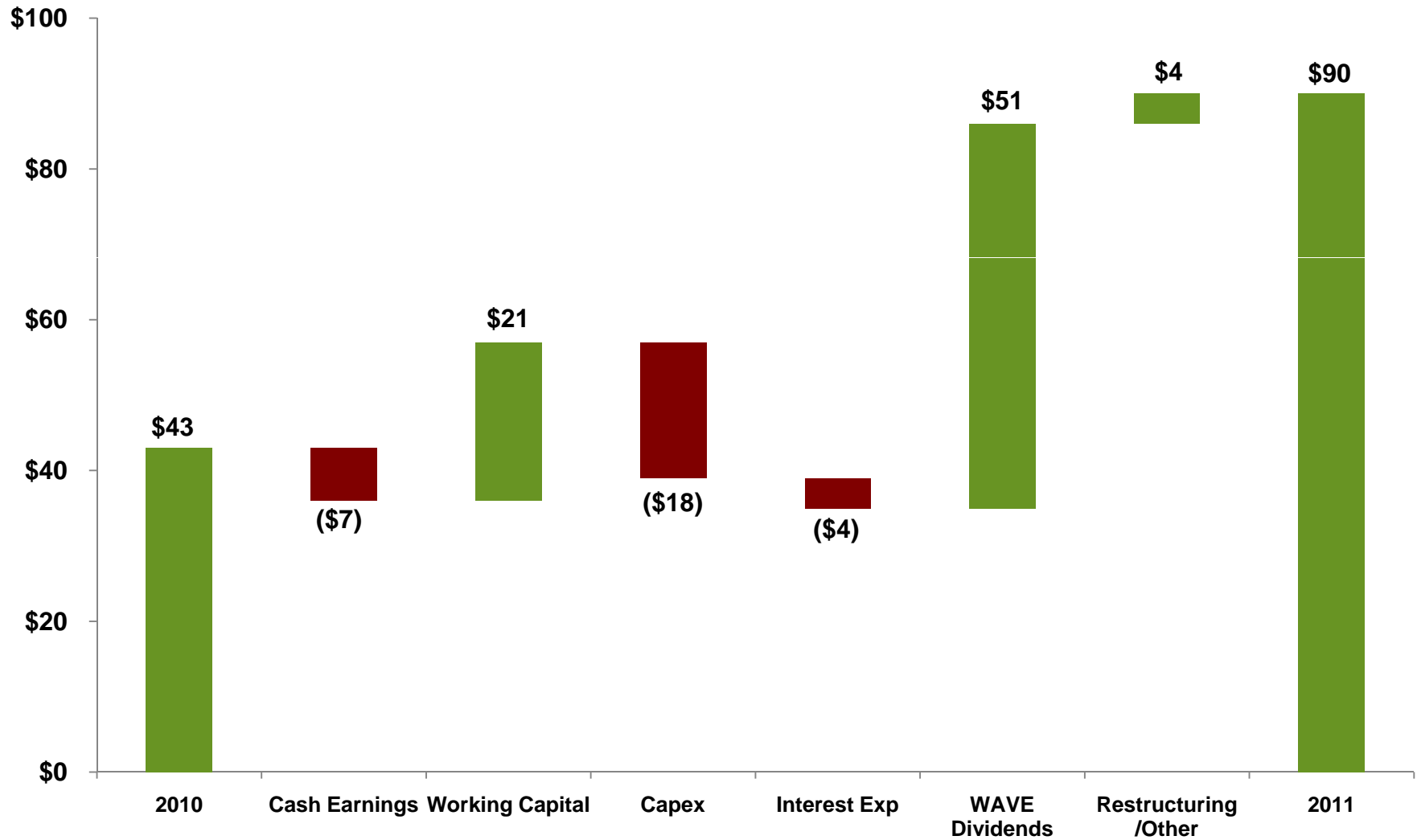


## EBITDA Bridge – Fourth Quarter 2011 vs. Prior Year





## Free Cash Flow – Fourth Quarter 2011 vs. Prior Year







## Key Metrics – Full Year 2011

	2011 Actual	2010 Actual	Variance
<b>Net Sales</b> <sup>(1)</sup>	\$2,819	\$2,786	1.2%
<b>Operating Income</b> <sup>(2)</sup>	272	188	43.7%
% of Sales	9.7%	6.8%	290 bps
<b>EBITDA</b>	377	303	24.4%
% of Sales	13.4%	10.9%	250 bps
<b>Earnings Per Share</b> <sup>(3)</sup>	\$2.23	\$1.73	28.9%
<b>Free Cash Flow</b>	170	180	(6%)
<b>Net (Cash) Debt</b>	362	559	(197)

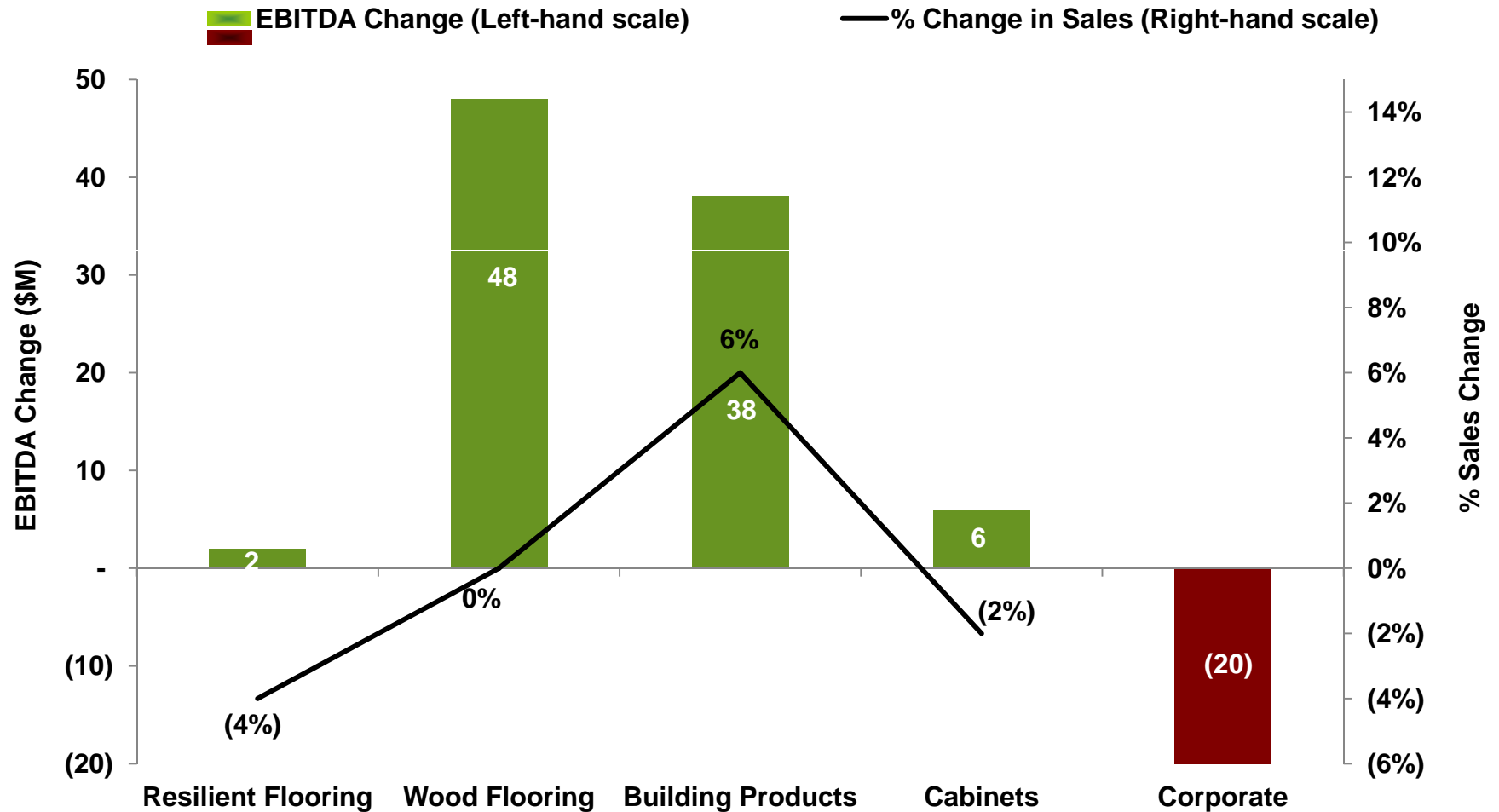
(1) As reported Net Sales: \$2,860 million in 2011 and \$2,766 million in 2010.

(2) As reported Operating Income: \$239 million in 2011 and \$81 million in 2010

(3) As reported EPS: \$1.90 in 2011 and \$ 0.19 in 2010.

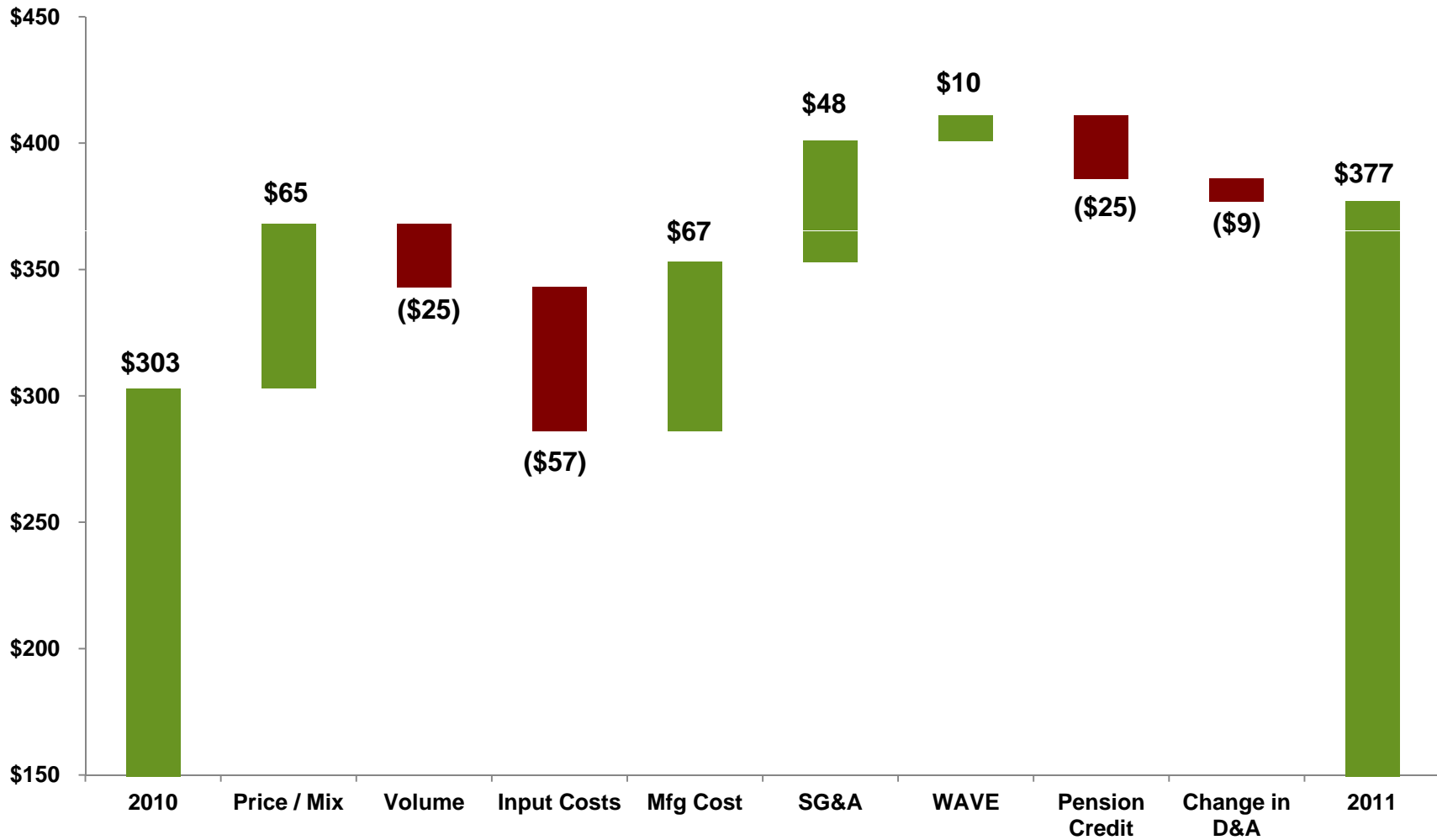


# Full Year Sales and EBITDA by Segment – 2011 vs. 2010



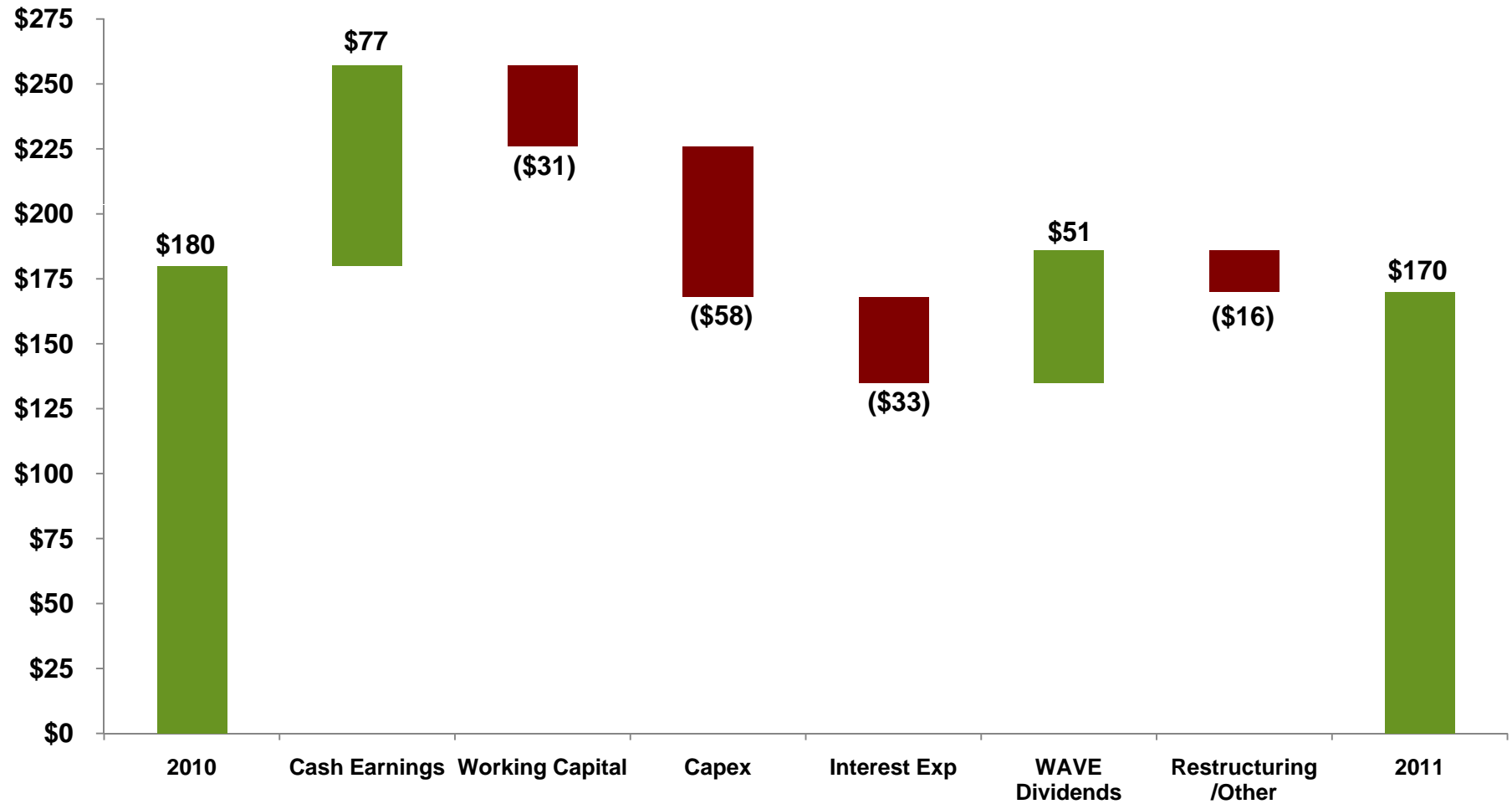


## EBITDA Bridge – Full Year 2011 vs. Prior Year



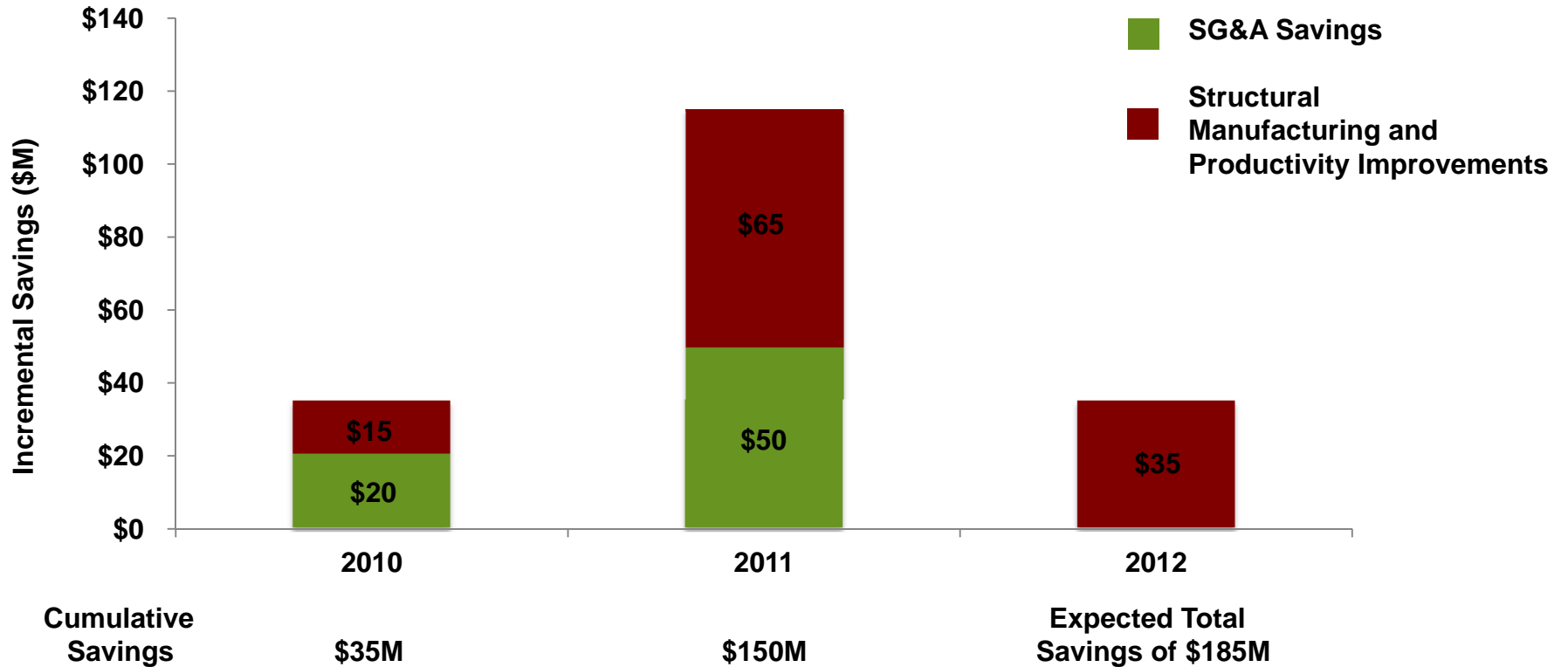


## Free Cash Flow – Full Year 2011 vs. Prior Year





## Cost Savings Program



**Cumulative savings of \$185 million expected from manufacturing and SG&A.**



## AWI - Return on Invested Capital (ROIC) – As Reported



**Highest ROIC (7.4%) since emergence in 2006**

Trailing 12 months



## Key Metrics – Guidance 2012

	2012 Estimate Range		2011	Variance	
<b>Net Sales<sup>(1)</sup></b>	2,900	to 3,000	2,819	3%	to 6%
<b>Operating Income<sup>(2)</sup></b>	310	to 350	272	14%	to 29%
<b>EBITDA</b>	420	to 460	377	11%	to 22%
<b>Earnings Per Share<sup>(3)</sup></b>	\$2.75	to \$3.15	\$2.23	23%	to 41%
<b>Free Cash Flow</b>	50	to 100	170	(71%)	to (41%)

(1) Sales figures include foreign exchange impact.

(2) As reported Operating Income: \$240 - \$280 million in 2012 and \$239 million 2011.

(3) As reported earnings per share: \$2.55- \$3.00 in 2012 and \$1.90 in 2011.



## 2012 Financial Outlook

**Raw Material & Energy Inflation**

▶ \$25 - \$35 million increase

**Manufacturing Productivity**

▶ Adjusted Gross Margin +100 to +150 bps vs. 2011

**U.S. Pension Credit**

▶ \$15 - \$25 million; 60% manufacturing, 40% SG&A

**Earnings from WAVE**

▶ \$0 - \$5 million vs. 2011

**Cash Taxes/ETR**

▶ \$10 - \$20 million. Adjusted ETR of ~40%

**Q1**

▶ Sales \$670 – \$710 million EBITDA \$75 – \$90 million

**Capital Spending**

▶ \$240 - \$270 million

**Exclusions from EBITDA**

▶ \$5 - \$10 million associated with already announced actions





# Appendix





## Full 2011 - Adjusted EBITDA to Reported Net Income

	2011	2010	V
<b>EBITDA– Adjusted</b>	<b>\$377</b>	<b>\$303</b>	<b>\$74</b>
Depreciation and Amortization	(105)	(115)	10
<b>Operating Income – Adjusted</b>	<b>\$272</b>	<b>\$188</b>	<b>\$84</b>
Foreign Exchange Movements	3	1	2
Cost Reduction Initiatives	(15)	(17)	2
Laminate Duty refunds	-	7	(7)
Accelerated Depreciation (not included above)	(9)	(31)	22
Executive transition costs	-	(15)	15
Restructuring	(9)	(22)	13
Impairments	(3)	(30)	27
<b>Operating Income – As Reported</b>	<b>\$239</b>	<b>\$81</b>	<b>\$158</b>
Interest (Expense) Income	(46)	(14)	(32)
<b>EBT</b>	<b>\$193</b>	<b>\$67</b>	<b>\$126</b>
Healthcare Reform- Medicare Subsidy Elimination	-	(22)	22
Tax (Expense) Benefit	(81)	(34)	(47)
<b>Net Income</b>	<b>\$112</b>	<b>\$11</b>	<b>\$101</b>



## Adjusted Operating Income to Free Cash Flow

	2012 Estimate Range		
<b>Adjusted Operating Income</b>	310	to	350
D&A		110	
<b>Adjusted EBITDA</b>	420	to	460
Changes in Working Capital	(20)	to	-
Capex	(240)	to	(270)
Pension Credit	(15)	to	(25)
Interest Expense	(40)	to	(45)
Cash Taxes	(10)	to	(20)
Other, including cash payments for restructuring and one-time items		(20)	
<b>Free Cash Flow</b>	50	to	100



# Consolidated Results

## Fourth Quarter

	2011 Reported	Comparability <sup>(1)</sup> Adjustments	FX <sup>(2)</sup> Adj	2011 Adjusted	2010 Reported	Comparability <sup>(1)</sup> Adjustments	FX <sup>(2)</sup> Adj	2010 Adjusted
<b>Net Sales</b>	652	-	(5)	647	643	-	(2)	641
<b>Operating Income</b>	22	5	(1)	26	(30)	50	(1)	19
<b>EPS</b>	\$0.14	\$0.02	\$-	\$0.16	(\$0.36)	\$0.47	\$-	\$0.11

## Full Year

	2011 Reported	Comparability <sup>(1)</sup> Adjustments	FX <sup>(2)</sup> Adj	2011 Adjusted	2010 Reported	Comparability <sup>(1)</sup> Adjustments	FX <sup>(2)</sup> Adj	2010 Adjusted
<b>Net Sales</b>	2,859	-	(40)	2,819	2,766	-	20	2,786
<b>Operating Income</b>	239	36	(3)	272	81	108	(1)	188
<b>EPS</b>	\$1.90	\$0.35	(\$0.02)	\$2.23	\$0.19	\$1.54	\$-	\$1.73

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

(2) Eliminates impact of foreign exchange movements



## Segment Operating Income (Loss)

Fourth Quarter						
	2011 Reported	Comparability <sup>(1)</sup> Adjustments	2011 Adjusted	2010 Reported	Comparability <sup>(1)</sup> Adjustments	2010 Adjusted
Building Products	35	-	35	16	16	32
Resilient Flooring	(5)	3	(2)	(2)	3	1
Wood Flooring	9	1	10	(32)	28	(4)
Cabinets	(2)	-	(2)	(1)	-	(1)
Unallocated Corporate (Expense) Income	(15)	-	(15)	(11)	2	(9)

Full Year						
	2011 Reported	Comparability <sup>(1)</sup> Adjustments	2011 Adjusted	2010 Reported	Comparability <sup>(1)</sup> Adjustments	2010 Adjusted
Building Products	226	11	237	171	27	198
Resilient Flooring	16	21	37	13	18	31
Wood Flooring	43	-	43	(46)	39	(7)
Cabinets	(1)	1	-	(6)	-	(6)
Unallocated Corporate (Expense) Income	(45)	-	(45)	(51)	23	(28)

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



## Cash Flow

	Fourth Quarter		Full Year	
	2011	2010	2011	2010
(\$ millions)				
<b>Net cash from operations</b>	82	49	212	190
Net cash provided by (used for) investing	24	(37)	(18)	(41)
Add back (subtract) adjustments to reconcile to free cash flow				
Restricted cash	(20)	30	(28)	30
Acquisition (divestiture)	4	1	4	1
<b>Free Cash Flow</b>	90	43	170	180