



# Earnings Call Presentation

## 3<sup>rd</sup> Quarter 2012

### October 31, 2012





## 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," and other words or phrases of similar meaning in connection with any discussion of the completion of the sale of our cabinets business, or 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, October 31, 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 are calculated using a constant 40% for 2012 and 42% for 2011, which are based on the full year historical tax rate.
- In September 2012, we entered into a definitive agreement to sell the Cabinets business and expect the sale to close in the fourth quarter of 2012. 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.**



## Divested Businesses

- Cabinets

- Announced sale in Q3 2012
  - Proceeds of \$27 million to be received later in the fourth quarter
- Treated as discontinued operation starting with Q3 2012
  - 10-Q isolates current and past results of Cabinets segment

Impact on 2012 Guidance	Q3	Q4	2012
Net Sales	\$35 - \$40M	\$30 - \$35M	\$135-\$145M
EBITDA			~\$5M

- Patriot

- Completed sale in Q3 2012
- Results included in the Wood Flooring segment

Impact on Guidance and 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 --					



## Key Metrics – Third Quarter 2012

	2012	2011	Variance
<b>Net Sales</b> <sup>(1)</sup>	\$698	\$714	(2.2)%
<b>Operating Income</b> <sup>(2)</sup>	110	95	15.3%
% of Sales	15.8%	13.4%	240 bps
<b>EBITDA</b>	135	121	11.1%
% of Sales	19.3%	17.0%	230 bps
<b>Earnings Per Share</b> <sup>(3)</sup>	\$0.97	\$0.85	14.2%
<b>Free Cash Flow</b> <sup>(4)</sup>	78	73	5.7%
<b>Net Debt</b>	784	467	317
<b>ROIC</b> <sup>(5)</sup>	9.5%	5.2%	430 bps

- (1) As reported Net Sales: \$695 million in 2012 and \$734 million in 2011  
(2) As reported Operating Income: \$109 million in 2012 and \$91 million in 2011  
(3) As reported EPS: \$1.24 in 2012 and \$0.88 in 2011  
(4) Cash flow information includes cash flows attributable to Cabinets  
(5) Unadjusted

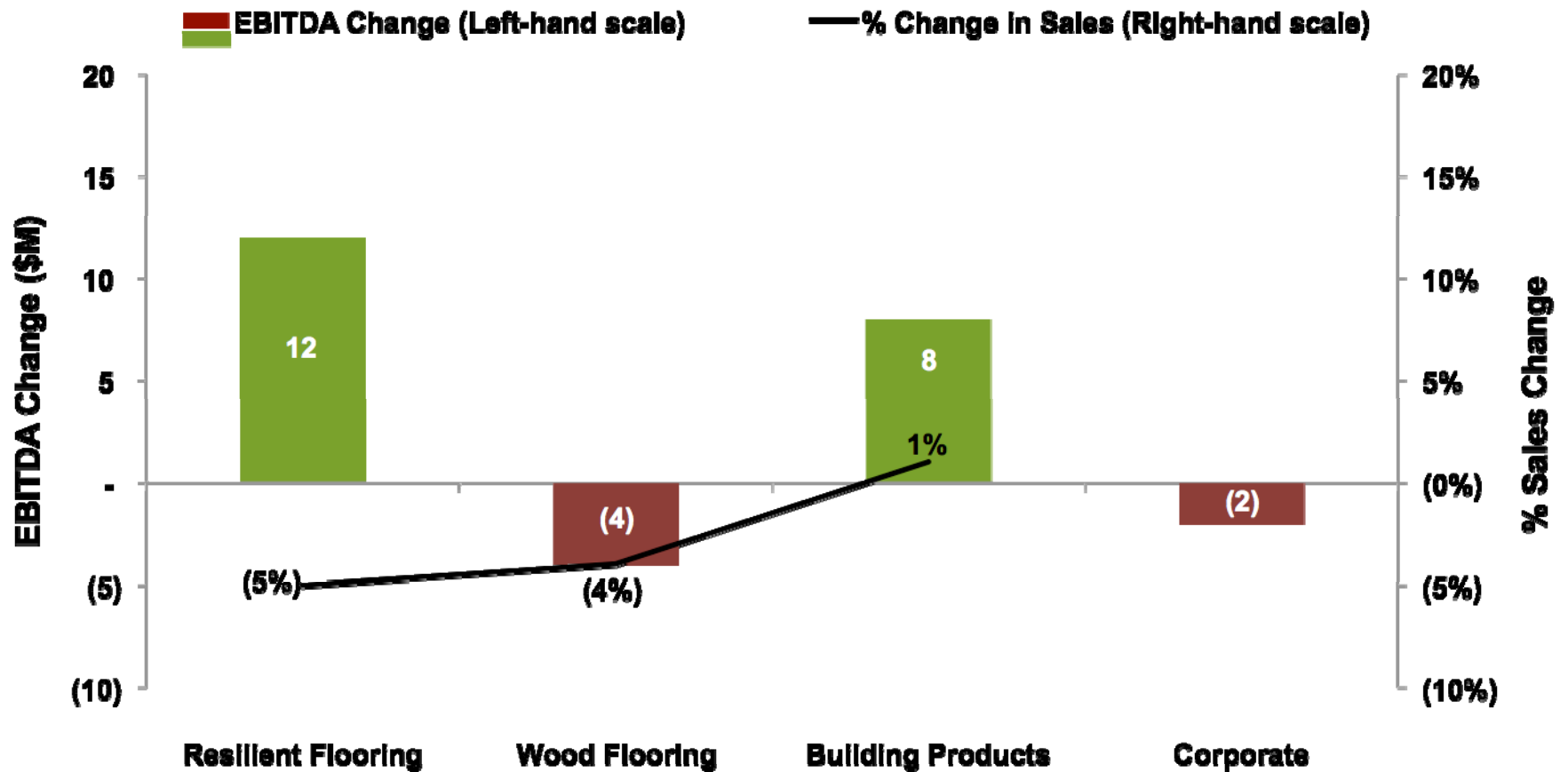


## Third Quarter 2012 vs. PY– Adjusted EBITDA to Reported Net Income

	2012	2011	V
<b>EBITDA– Adjusted</b>	\$135	\$121	\$14
Depreciation and Amortization	(25)	(26)	1
<b>Operating Income – Adjusted</b>	\$110	\$95	\$15
Foreign Exchange Movements	-	2	(2)
Cost Reduction Initiatives	(1)	(3)	2
Impairments	-	(2)	2
Restructuring	-	(1)	1
<b>Operating Income – As Reported</b>	\$109	\$91	\$18
Interest (Expense)	(14)	(10)	(4)
<b>EBT</b>	\$95	\$81	\$14
Tax (Expense)	(21)	(29)	8
<b>Net Income</b>	\$74	\$52	\$22

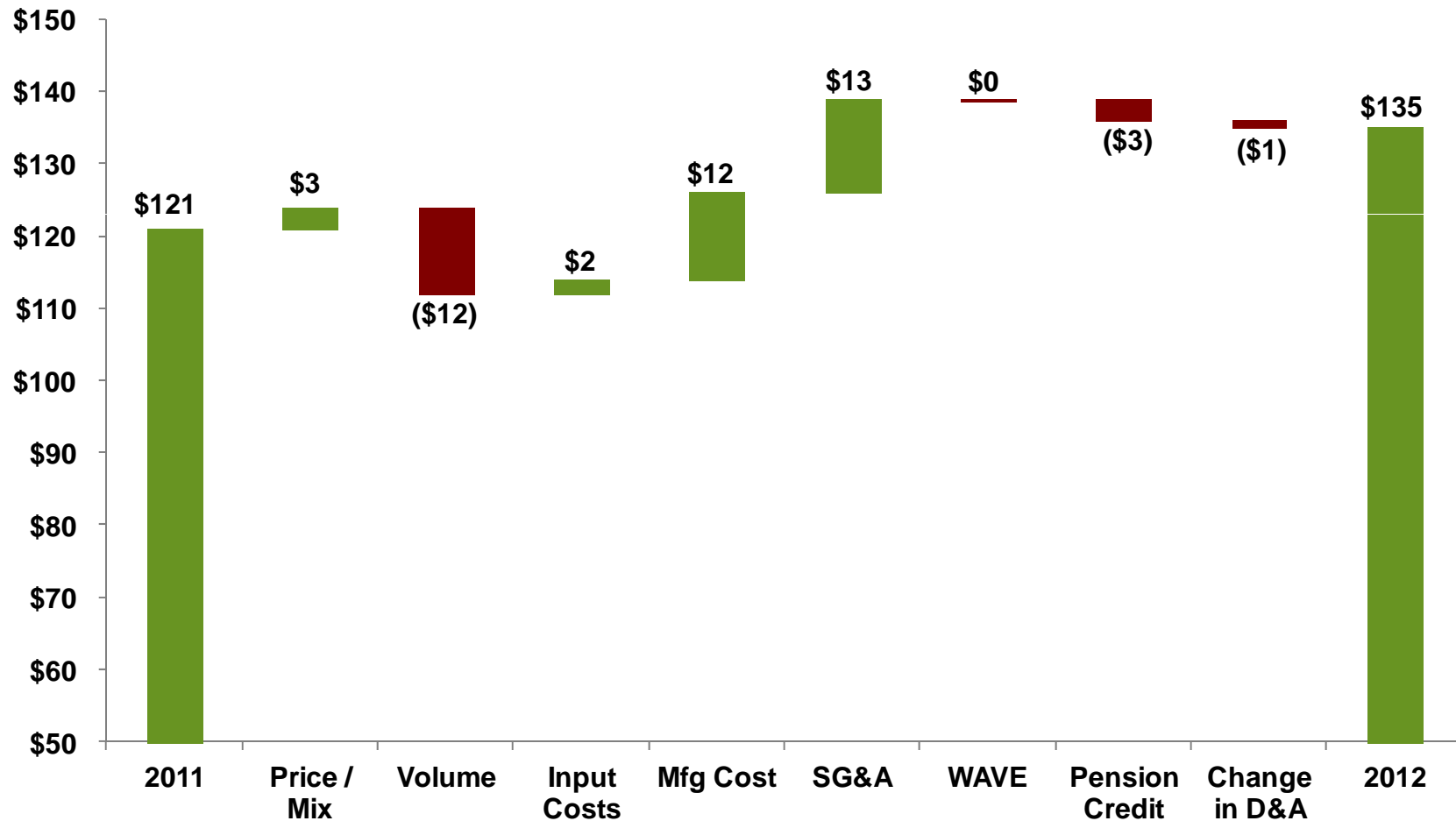


## Third Quarter Sales and EBITDA by Segment – 2012 vs. PY





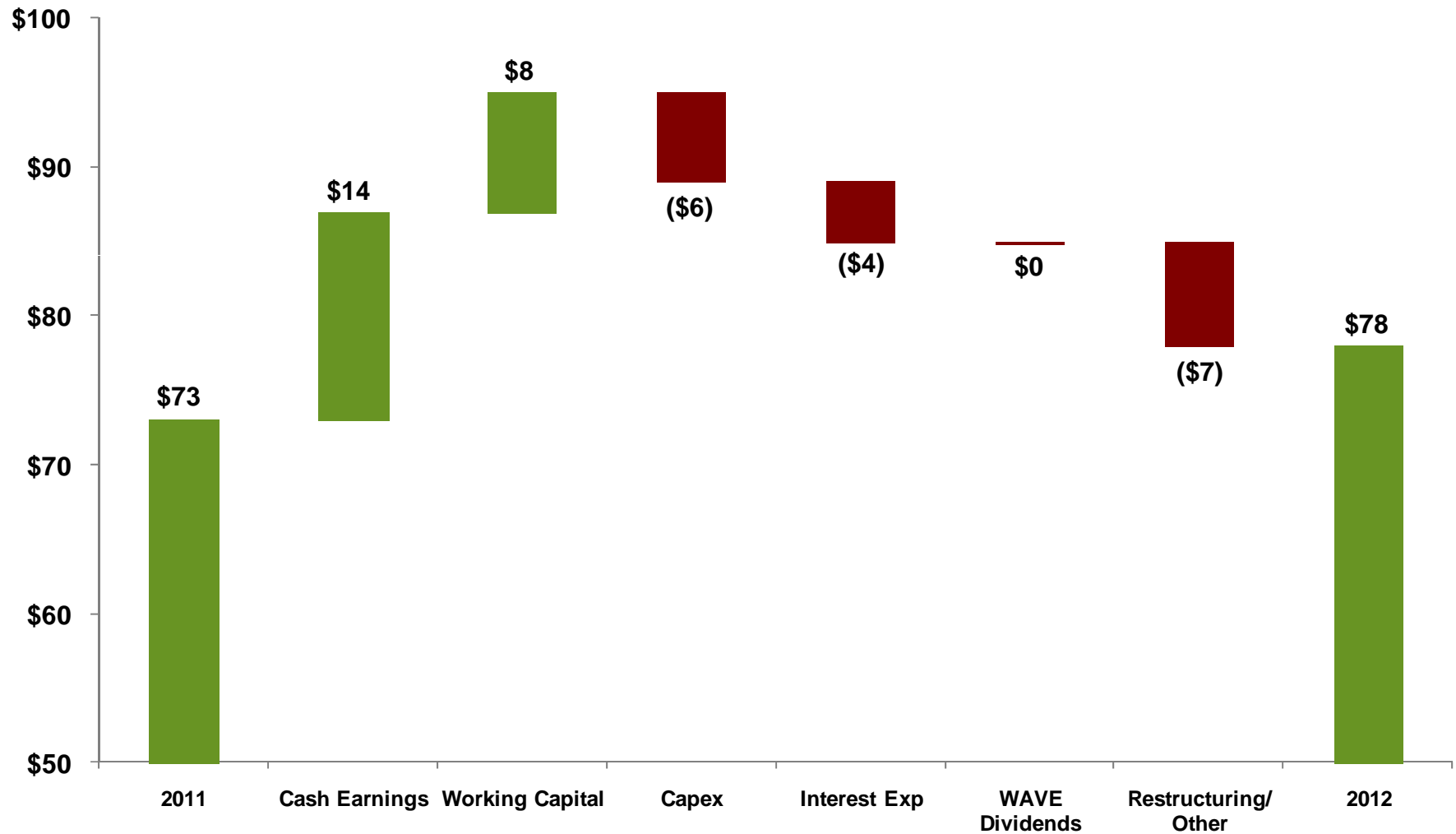
## EBITDA Bridge – Third Quarter 2012 vs. Prior Year







## Free Cash Flow – Third Quarter 2012 vs. Prior Year



Cash flow information includes cash flows attributable to Cabinets



## Key Metrics – September YTD 2012

	2012 Actual	2011 Actual	Variance
<b>Net Sales</b> <sup>(1)</sup>	\$2,002	\$2,052	(2.4)%
<b>Operating Income</b> <sup>(2)</sup>	254	244	4.0%
% of Sales	12.7%	11.9%	80 bps
<b>EBITDA</b>	328	321	2.0%
% of Sales	16.4%	15.7%	70 bps
<b>Earnings Per Share</b> <sup>(3)</sup>	\$2.17	\$2.05	5.7%
<b>Free Cash Flow</b> <sup>(4)</sup>	64	80	(19.8)%
<b>Net Debt</b>	784	467	317
<b>ROIC</b> <sup>(5)</sup>	9.5%	5.2%	430 bps

(1) As reported Net Sales: \$2,006 million in 2012 and \$2,100 million in 2011.

(2) As reported Operating Income: \$229 million in 2012 and \$216 million in 2011

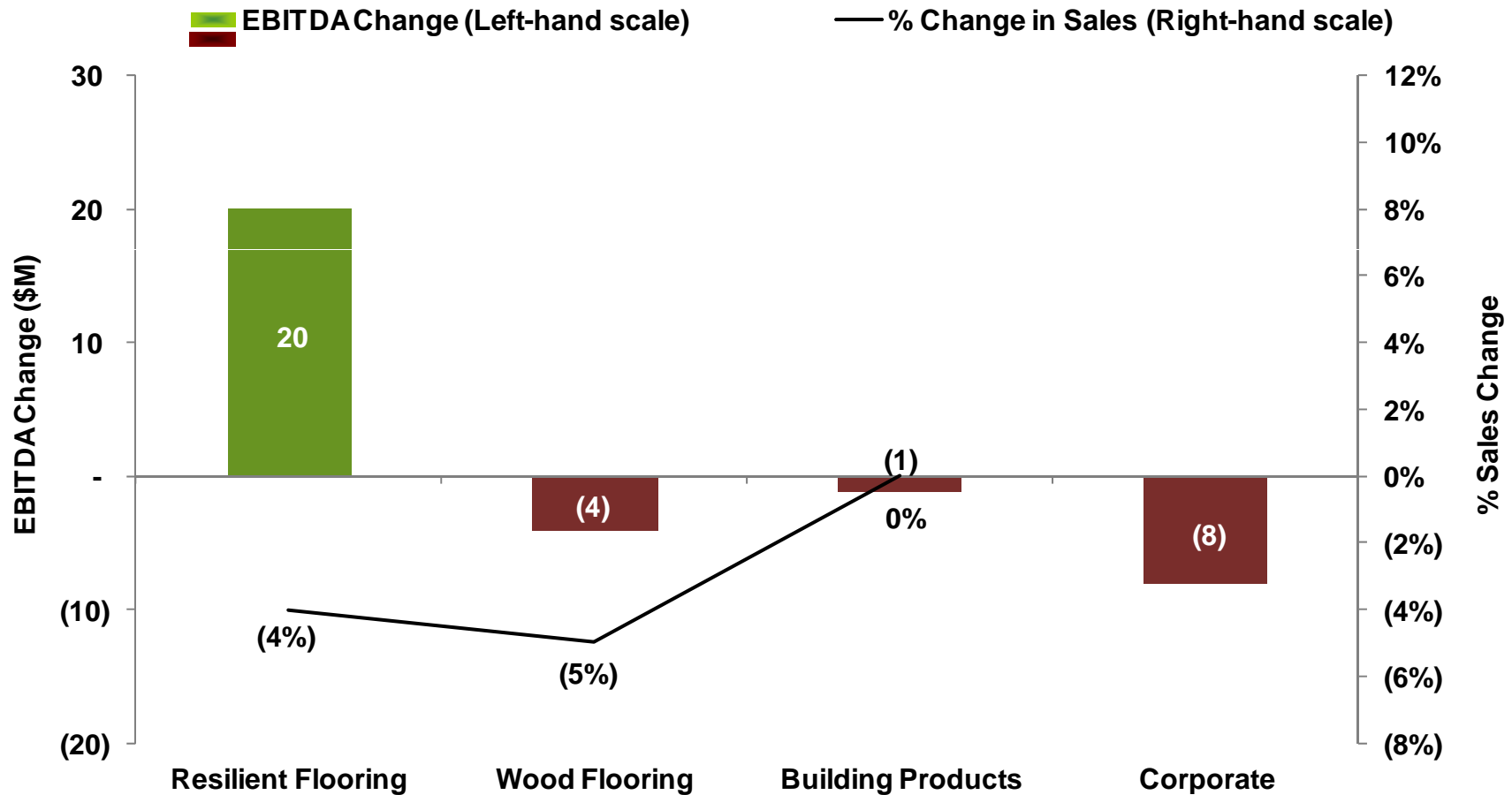
(3) As reported EPS: \$2.26 in 2012 and \$1.74 in 2011.

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

(5) Unadjusted

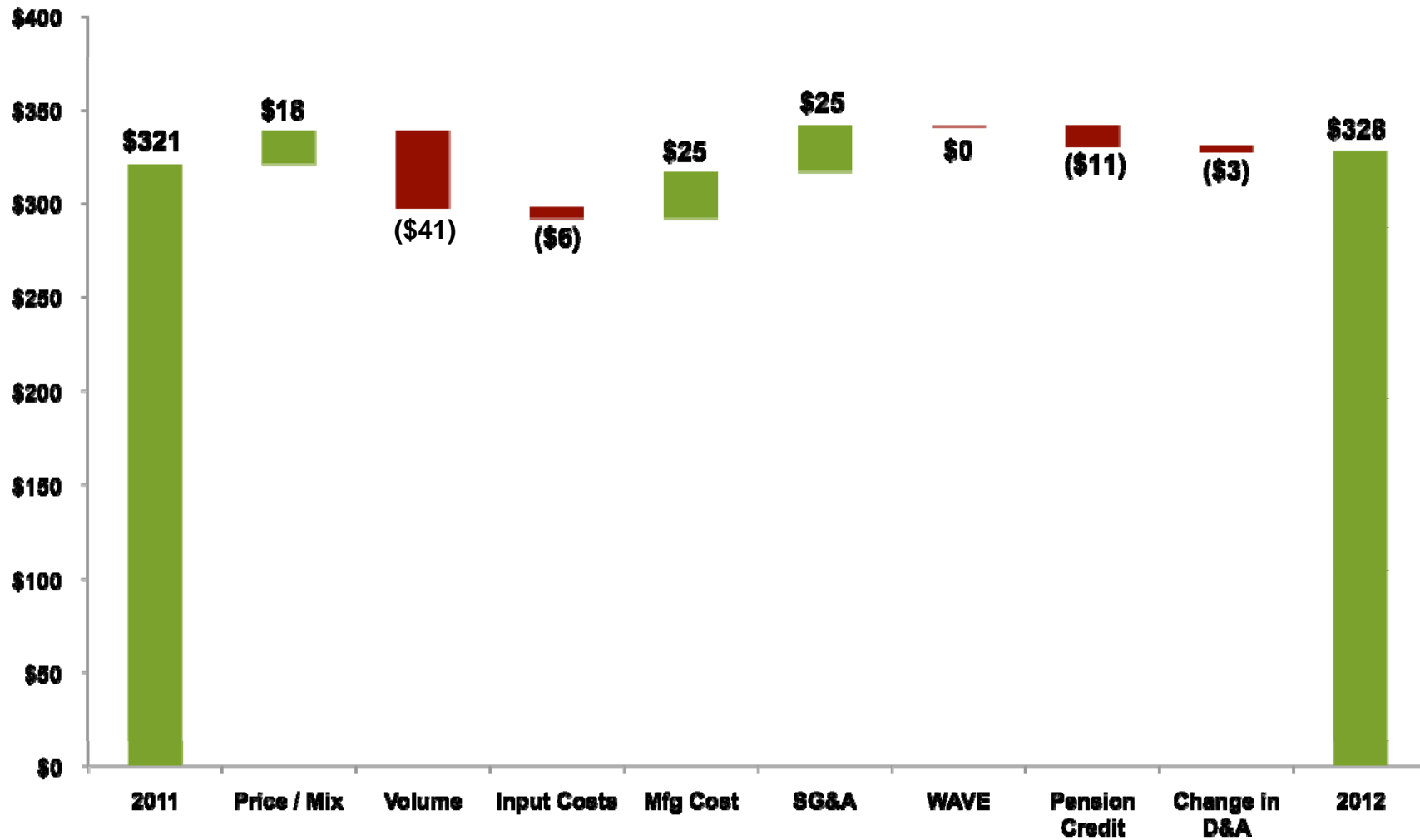


## September YTD Sales and EBITDA by Segment – 2012 vs. 2011



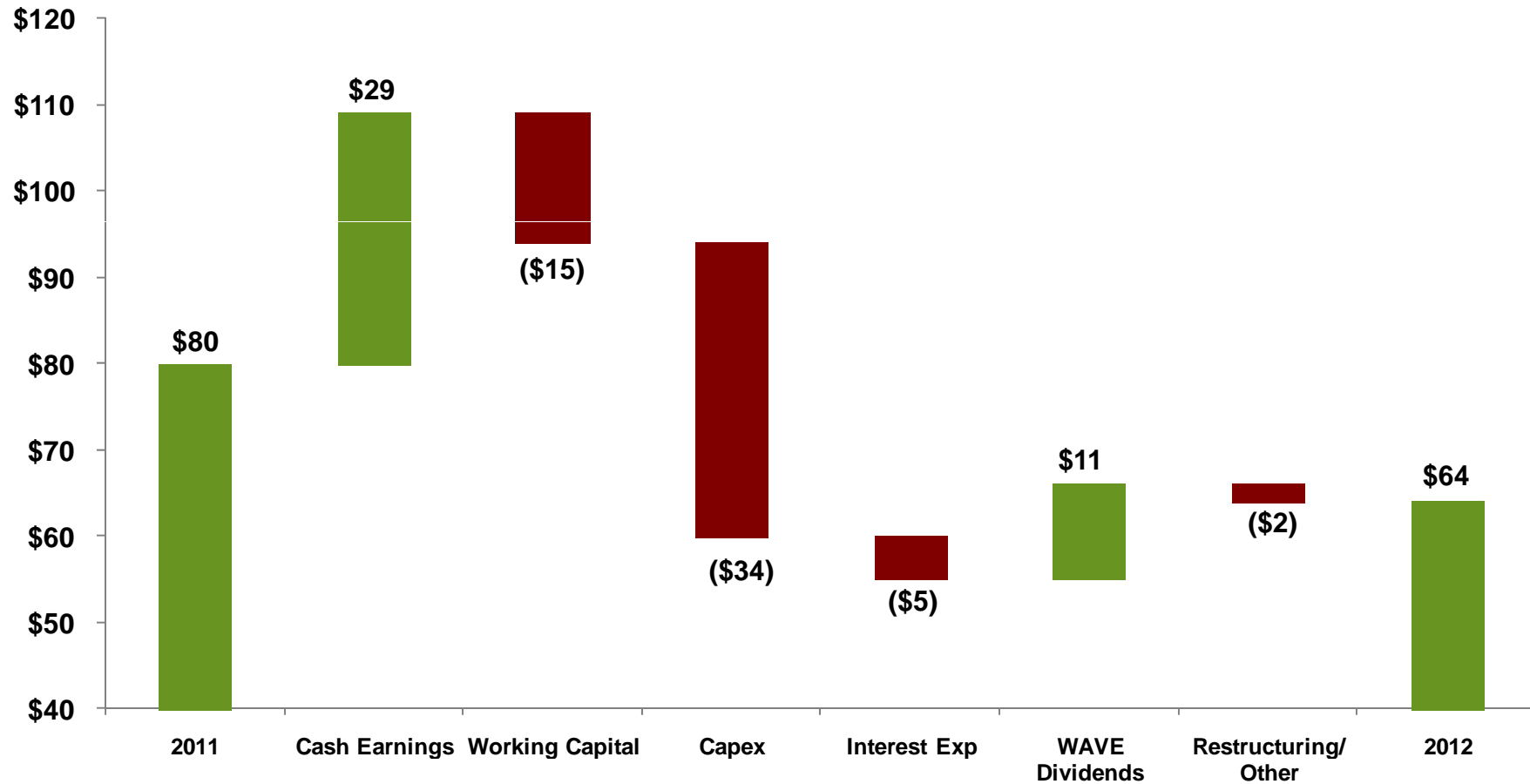


## EBITDA Bridge – September YTD 2012 vs. Prior Year





## Free Cash Flow – September YTD 2012 vs. Prior Year



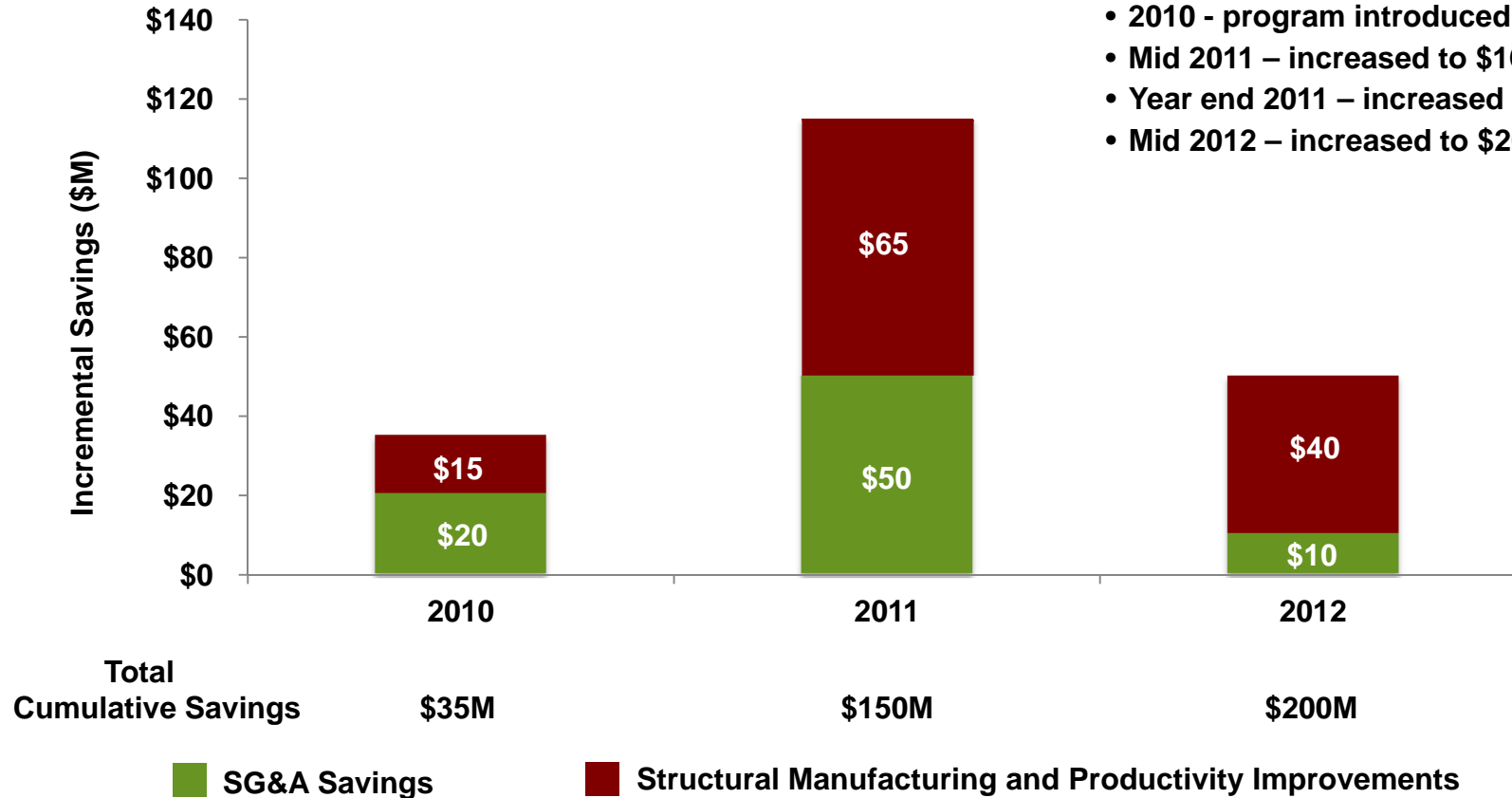
Cash flow information includes cash flows attributable to Cabinets



## Cost Savings Program

### Cost Out Program Evolution

- 2010 - program introduced with \$150M goal
- Mid 2011 – increased to \$165M goal
- Year end 2011 – increased to \$185M goal
- Mid 2012 – increased to \$200M goal



**Cumulative savings of \$200 million achieved from manufacturing and SG&A.**



## Key Metrics – Guidance 2012

	2012 Estimate Range			2011	Variance		
<b>Net Sales<sup>(1)</sup></b>	2,600	to	2,650	2,723	(5)%	to	(3)%
<b>Operating Income<sup>(2)</sup></b>	285	to	315	273	4%	to	15%
<b>EBITDA</b>	385	to	415	375	3%	to	11%
<b>Earnings Per Share<sup>(3)</sup></b>	\$2.35	to	\$2.65	\$2.23	5%	to	19%
<b>Free Cash Flow</b>	50	to	80	170	(71)%	to	(53)%

(1) Net sales include foreign exchange impact

(2) As reported Operating Income: \$250- \$280 million in 2012 and \$240 million 2011

(3) As reported earnings per share: \$2.40- \$2.70 in 2012 and \$1.91 in 2011



## 2012 Financial Outlook

### Raw Material & Energy Inflation \*

▶ \$10 - \$20 million increase

### Manufacturing Productivity

▶ Adjusted Gross Margin +50 to +100 bps vs. 2011

### U.S. Pension Credit

▶ \$12 million; 60% manufacturing, 40% SG&A

### Earnings from WAVE

▶ Flat vs. 2011

### Cash Taxes/ETR

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

### Q4

▶ Sales<sup>(1)</sup> \$585 – \$635 million EBITDA \$60 – \$90 million

### Capital Spending\*

▶ \$210 - \$230 million

### Exclusions from EBITDA

▶ \$10 - \$15 million associated with already announced actions

\* Changed from July Outlook

<sup>(1)</sup> Net sales include foreign exchange impact





# Appendix





## September YTD 2012 - Adjusted EBITDA to Reported Net Income

	2012	2011	V
<b>EBITDA– Adjusted</b>	<b>\$328</b>	<b>\$321</b>	<b>\$7</b>
Depreciation and Amortization	(74)	(77)	3
<b>Operating Income – Adjusted</b>	<b>\$254</b>	<b>\$244</b>	<b>\$10</b>
Foreign Exchange Movements	-	3	(3)
Cost Reduction Initiatives	(10)	(12)	2
Accelerated Depreciation and Impairments (not included above)	(10)	(9)	(1)
Impairment	(5)	(2)	(3)
Restructuring	-	(8)	8
<b>Operating Income – As Reported</b>	<b>\$229</b>	<b>\$216</b>	<b>\$13</b>
Interest (Expense) Income	(38)	(36)	(2)
<b>EBT</b>	<b>\$191</b>	<b>\$180</b>	<b>\$11</b>
Tax (Expense) Benefit	(56)	(77)	21
<b>Net Income</b>	<b>\$135</b>	<b>\$103</b>	<b>\$32</b>



## Adjusted Operating Income to Free Cash Flow

	2012 Estimate Range		
<b>Adjusted Operating Income</b>	285	to	315
D&A		100	
<b>Adjusted EBITDA</b>	385	to	415
Changes in Working Capital	5	to	(15)
Capex	(210)	to	(230)
Pension Credit		(12)	
Interest Expense	(50)	to	(55)
Cash Taxes	(10)	to	(20)
Other, including cash payments for restructuring and one-time items		(25)	
<b>Free Cash Flow</b>	50	to	80



## Consolidated Results

### Third Quarter

	2012 Reported	Comparability <sup>(1)</sup> Adjustments	FX <sup>(2)</sup> Adj	2012 Adjusted	2011 Reported	Comparability <sup>(1)</sup> Adjustments	FX <sup>(2)</sup> Adj	2011 Adjusted
<b>Net Sales</b>	695	-	3	698	734	-	(20)	714
<b>Operating Income</b>	109	1	-	110	91	6	(2)	95
<b>EPS</b>	\$1.24	(\$0.27)	\$-	\$0.97	\$0.88	(\$0.02)	(\$ 0.01)	\$0.85

### YTD

	2012 Reported	Comparability <sup>(1)</sup> Adjustments	FX <sup>(2)</sup> Adj	2012 Adjusted	2011 Reported	Comparability <sup>(1)</sup> Adjustments	FX <sup>(2)</sup> Adj	2011 Adjusted
<b>Net Sales</b>	2,006	-	(4)	2,002	2,100	-	(48)	2,052
<b>Operating Income</b>	229	25	-	254	216	31	(3)	244
<b>EPS</b>	\$2.26	(\$0.09)	-	\$2.17	\$1.74	\$0.34	(\$0.03)	\$2.05

(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)

Third Quarter						
	2012 Reported	Comparability <sup>(1)</sup> Adjustments	2012 Adjusted	2011 Reported	Comparability <sup>(1)</sup> Adjustments	2011 Adjusted
Building Products	81	-	81	72	1	73
Resilient Flooring	25	2	27	11	4	15
Wood Flooring	14	(1)	13	17	-	17
Unallocated Corporate (Expense) Income	(11)	-	(11)	(9)	(1)	(10)

YTD						
	2012 Reported	Comparability <sup>(1)</sup> Adjustments	2012 Adjusted	2011 Reported	Comparability <sup>(1)</sup> Adjustments	2011 Adjusted
Building Products	178	22	200	191	11	202
Resilient Flooring	58	2	60	21	18	39
Wood Flooring	30	-	30	34	(1)	33
Unallocated Corporate (Expense) Income	(37)	1	(36)	(30)	-	(30)

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



## Cash Flow

(\$ millions)	Third Quarter		YTD	
	2012	2011	2012	2011
<b>Net cash from operations</b>	112	98	141	130
Net cash (used for) investing	(20)	(20)	(61)	(42)
Add back (subtract) adjustments to reconcile to free cash flow				
Restricted cash	-	(5)	(2)	(8)
Acquisition/ (Divestiture)	(14)	-	(14)	-
<b>Free Cash Flow</b>	78	73	64	80

Cash flow information includes cash flows attributable to Cabinets