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MOHAWK INDUSTRIES (MHK)

Best Ideas 2020

MOI Global

January 2020

Triad Investment Management, LLC

www.triadim.com

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ABOUT TRIAD

- **Founded 2008 in Newport Beach, California**
- **Equity and balanced portfolio management**
- **Concentrated portfolios of our best ideas**
- **Focus on Business, People, Value**
- **AUM \$122 million as of December 31, 2019**

ABOUT MOHAWK

- **World's leading flooring manufacturer**
- **Market leadership across categories**
- **3 segments**
 - **Global Ceramic**
 - **Flooring North America**
 - **Flooring Rest of World**
- **Globally positioned**
- **Vertically integrated**
- **Managed in decentralized manner by a true "Owner-Operator" with 14% ownership = \$1B+**

MOHAWK BY THE NUMBERS



\$10B

2018 Worldwide
Sales



\$1.7B

2018 Adjusted
EBITDA



\$8.2B

CapEx & Acquisition
Investments (2013-18)



44

Acquisitions
Since 1992



19

Countries
Manufacturing



42,000+

Employees
Worldwide



170+

Countries
Sales



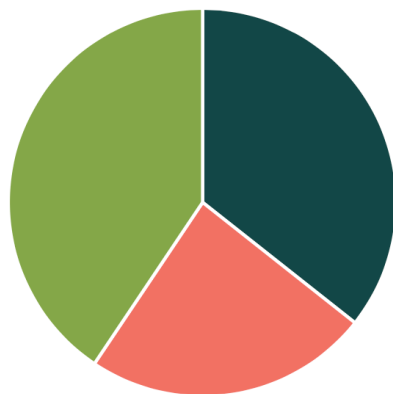
25,000+

Customers
Worldwide

Source: Mohawk Presentation July 2019

PRODUCT & SALES MIX

SEGMENT

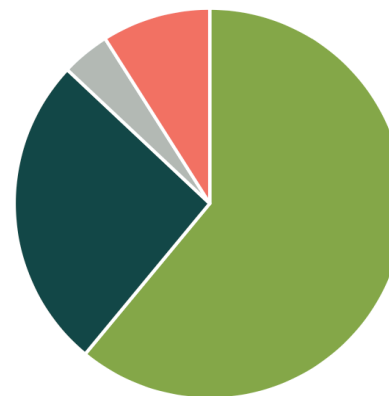


40% Flooring NA

36% Global Ceramic

24% Flooring ROW

GEOGRAPHY



61% United States

26% Europe

4% Russia

9% Other

2018 Data - Source: Mohawk Presentation July 2019

M&A STRATEGY



GEOGRAPHY

- Strategic fit
- Leverage strengths in existing locations
- Enter markets with significant growth potential



PRODUCTS

- Focus on flooring
- New product categories
- Synergies with existing businesses
- Leverage existing assets to expand distribution



MANAGEMENT

- Proven management teams
- Deep bench strength
- Shared values
- Improve entire business with best practices



RETURNS

- Best possible valuation
- Potential for significant ROI
- Good short- and long-term opportunity
- Mitigate risks

Source: Mohawk Presentation July 2019

M&A & CAPEX - WORLDWIDE

Since 2013, Mohawk's acquisitions and internal investments have driven sales and profitability to record levels.

United States

- N** **FIRST U.S. LVT PLANT**
Capitalize on fast-growing U.S. LVT market
- N** **U.S. CERAMIC**
Build upon leading U.S. ceramic market share and expand high-end porcelain collection
- N** **SECOND U.S. LVT PLANT**
Capitalize on explosive LVT growth through addition of rigid product line
- N** **U.S. QUARTZ COUNTERTOPS**
Replace sourced product with internally manufactured product to build competitive strength
- X** **U.S. LAMINATE**
Drive growth in premium laminate market through proprietary waterproof product
- X** **U.S. CARPET**
Capitalize on market shift toward polyester carpet with unique Continuum™ technology
- A** **TALC MINE**
Improved vertical integration of ceramic manufacturing with raw material asset purchase
- A** **FIBER POLYMERIZATION PLANT**
Strengthened vertical integration in carpet manufacturing with plant that processes multiple fibers

Mexico

- N** **MEXICALI, MX CARPET CUSHION PLANT**
Increase share of cushion sales on the West Coast of the U.S.
- X** **MEXICAN CERAMIC**
Capture share in fast-growing Mexican market and expand exports to South America
- A** **MEXICALI, MX CERAMIC FACILITY**
Added only West Coast ceramic plant in North America to improve distribution

Europe

- N** **PORCELAIN COUNTERTOP**
Introduce European and U.S. market to new category that offers alternative surface to natural stone
- N** **EUROPEAN CARPET TILE**
Introduce new category to thriving European flooring market
- N** **FIRST EUROPEAN LVT PLANT**
Enter fast-growing LVT market in Europe
- N** **THIRD EUROPEAN LVT PLANT**
Capitalize on LVT market growth through addition of both flexible and rigid product lines
- U** **PHASE 1 EUROPEAN CERAMIC**
Increase capabilities to produce decorative, less commoditized tiles to command higher margins
- U** **PHASE 2 EUROPEAN CERAMIC**
Increase production of premium-value tiles through more efficient operations to further drive margin
- X** **EUROPEAN LAMINATE**
Expand presence in premium laminate market to generate higher margins
- A** **MARAZZI**
Established leading ceramic positions in Europe and Russia; extended leadership in North America
- A** **PERGO**
Added the most widely recognized laminate brand to U.S. and European product portfolios
- A** **SPANO**
Increased European board leadership
- A** **CZECH WOOD BUSINESS**
Optimized value of acquisition by leveraging well-known Mohawk brands and distribution relationships
- A** **IVC**
Assumed U.S. and European LVT/sheet vinyl leadership positions
- A** **KAI**
Established leading Eastern European ceramic position
- A** **XTRATHERM**
Extended leadership in insulation boards to Ireland and UK
- A** **EMIL CERAMICA**
Bolstered European ceramic holdings with acquisition of design innovator
- A** **POLISH CERAMIC BUSINESS**
Extended European manufacturing presence to grow share in northern and central Europe

Russia

- N** **RUSSIAN LAMINATE**
Expand production capacity to meet market demand
- N** **RUSSIAN SHEET VINYL**
Introduce superior product to capture share in large category of Russian flooring market
- U** **RUSSIAN CERAMIC**
Expand capabilities and capacity in growing Russian market
- X** **RUSSIAN CERAMIC**
Pursue greater share of commercial tile market

Australia/ New Zealand

- A** **NEW ZEALAND FLOORING DISTRIBUTOR**
Complemented Australian distribution of hard surface products
- P** **GODFREY HIRST**
When approved, adds largest flooring manufacturer in region, which has synergies with our existing distributor businesses in both countries
- N** **New Plant**
- U** **Upgrading of existing assets**
- X** **Expansion**
- A** **Acquisitions**
- P** **Pending**

Source: Mohawk 2017 Annual Report

GLOBAL CERAMIC

Overview

- Floor tile, wall tile, mosaic tile, outdoor floor, wall tile, exterior porcelain cladding, countertops (in stone, quartz and porcelain)

Advantages

- Leading brands including Daltile, Marazzi, Eliane & American Olean
- Worldwide ceramic leader, #1 in North America, Brazil, Europe & Russia
- Strong distribution particularly in North America & Russia
- Product innovation

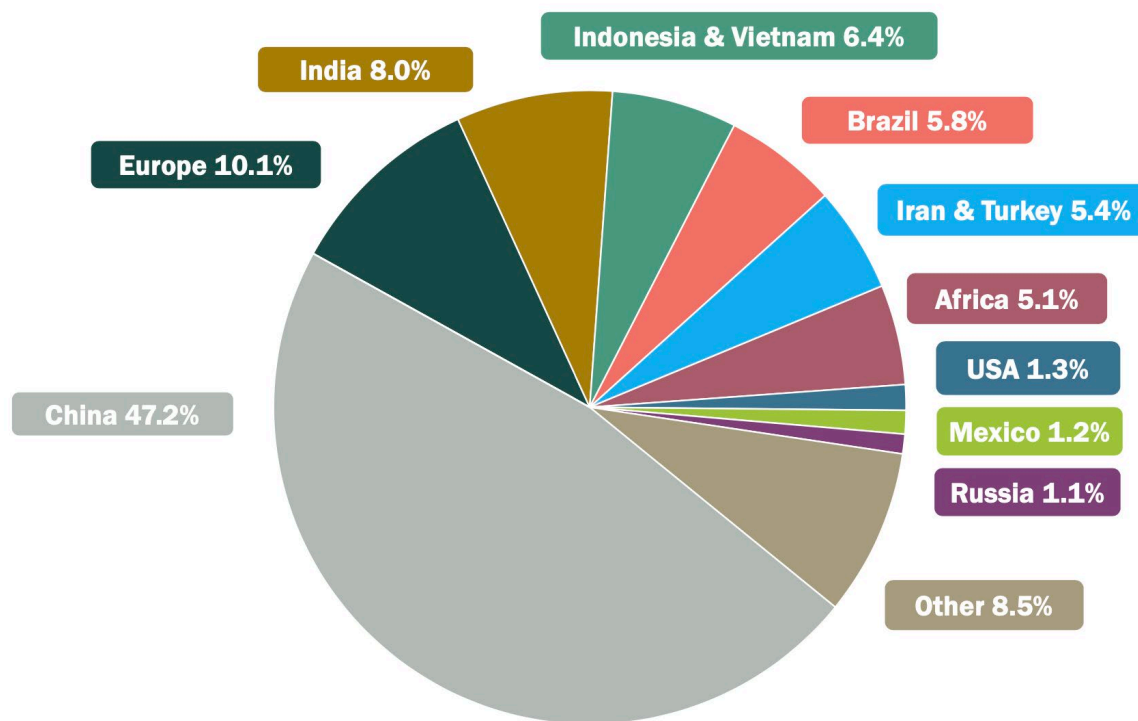
GLOBAL CERAMIC



Optimizing worldwide product development and distribution to meet market demands in different regions

Source: Mohawk Presentation July 2019

GLOBAL TILE MARKET



Source: Mohawk Presentation July 2019

FLOORING NORTH AMERICA

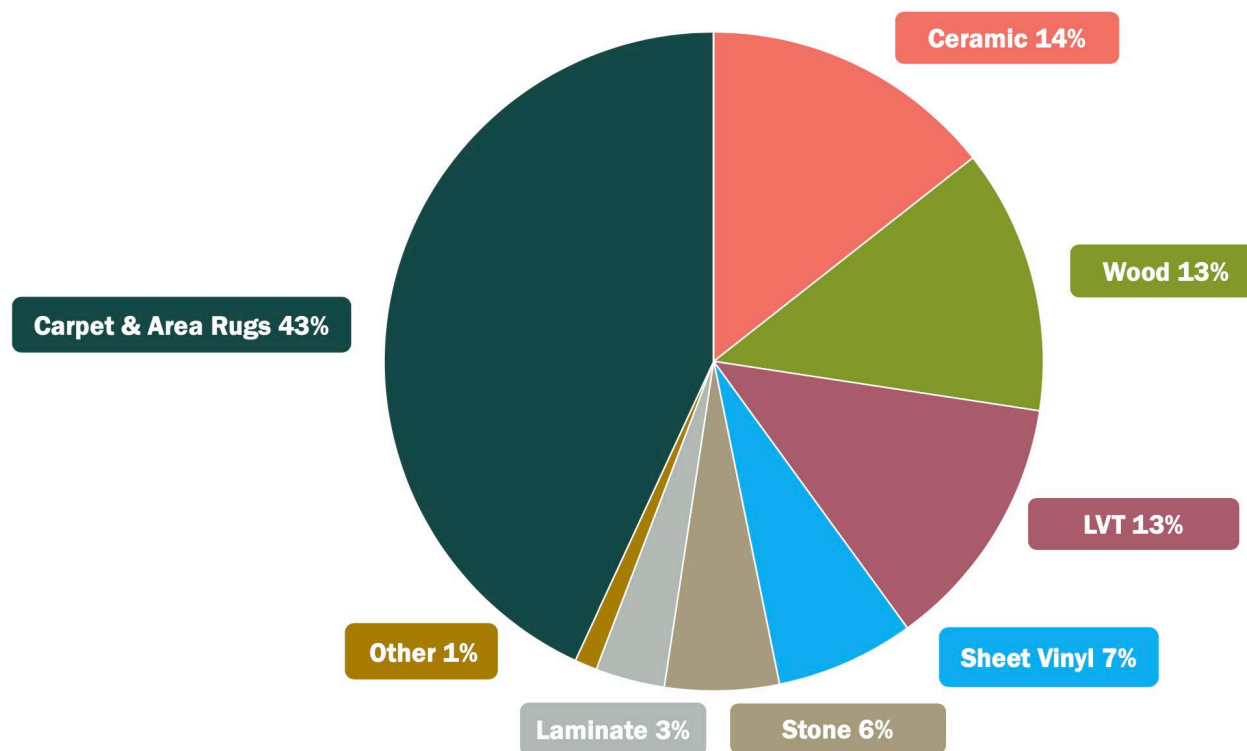
Overview

- Residential Carpet, Bath & Area Rugs, Commercial Carpet and Hard Surfaces

Advantages

- Leadership in all channels
- Leading brands: Mohawk, Karastan, Godfrey Hirst, Pergo, Quick Step & IVC
- Low-cost, integrated manufacturing
- Product innovation

U.S. FLOORING



Source: Mohawk Presentation July 2019

FLOORING REST OF WORLD (ROW)

Overview

- Laminate, LVT, Sheet Vinyl, Carpet, Wood, Panels

Advantages

- Brands – Pergo, Quick Step, Balterio, IVC
- Expansion into new markets particularly for manufacturing
- Market leader in mid to high end across retail, distribution channels

FLOORING ROW BRANDS & CHANNELS

LAMINATE / WOOD



- Independent Specialty Retail
- Home Centers
- Independent Distribution
- Company-owned Distribution (U.K., Italy, Switzerland, Australia, New Zealand, India)
- Builder
- Multi-family

LVT



- Independent Specialty Retail
- Home Centers
- Company-owned Distribution (U.K., Italy, Switzerland, Australia, New Zealand, India)
- Builder
- Multi-family
- Commercial

CARPET



- Independent Specialty Retail
- Home Centers
- Builder
- Commercial

SHEET VINYL



- Independent Specialty Retail
- Home Centers
- Builder
- Multi-family
- Commercial

Source: Mohawk Presentation July 2019

INVESTMENT THESIS

- **Global leader in growing, fragmented, consolidating industry...Global tile market ~146 Billion SF...MHK as leader still only 2% market share**
- **Vertical integration of manufacturing and distribution leads to low-cost position and better control of destiny**
- **Extensive global distribution network affords prompt service deliveries, important since most retailers carry samples, not inventory...and contractors need quick delivery to jobsites**
- **Strong balance sheet allows for substantial spending on facilities expansion, new products and acquisitions during cyclical downturn, when many competitors are sidelined**
- **Cyclical business near trough with modest multiple on depressed earnings**
- **Buy quality growth cyclicals during downturns, such as now**

COMPETITIVE ADVANTAGES

- Low-cost producer via vertical integration and largest market share
- Brands represent all segments including carpet, ceramic, laminate/wood, LVT...leverages scale in mfg./distribution
- Extensive distribution capabilities...350 distribution points, 1,600 sales reps, 650 trucks in U.S.
- Product lines serve all distribution channels and price points
- Long-term customer relationships
- Financial strength affords continuing internal investment in new manufacturing facilities, new products, expanding distribution and widening moat versus competitors
- Sustainability leadership improves costs and reputation

GROWTH DRIVERS

- **Capital Investment**
- **M&A**
- **Capital Allocation**

CAPITAL INVESTMENT

- Internal investment 2016 – 2018 = \$2.4B
- New manufacturing and distribution facilities
- Geographic expansion internally and via acquisitions
- New product development with differentiated features:
 - Faster, easier installation
 - Waterproofing
 - Improved slip resistance
 - Enhanced looks
 - Improved durability
- Manufacturing process improvement & automation to enhance productivity and increase profitability
- Strengthened logistics to improve customer service levels

ACQUISITION STRATEGY

- **\$4.3B invested in 19 acquisitions since 2013, targeting...**
- **Geographic expansion to enter new markets and build greater scale in existing markets, plus...**
- **Acquire new product categories to expand through global distribution system...also, each acquisition must bring...**
- **Proven management team...operates in decentralized manner**
- **Disciplined acquirer, measures acquisition ROI...hurdle rate depends on perceived risk level**
- **Recent examples:**
 - **Godfrey Hirst...closed 7/18...largest flooring company in Australia/New Zealand...integrating into existing Mohawk business**
 - **Eliane...closed 11/18...leading ceramic tile manufacturer in Brazil...investing capital to improve products and costs**

CAPITAL ALLOCATION

- Estimated free cash flow generation: \$750mm/year
- First priority is to reinvest in business...
- Internal investment \$2.4 B since 2016...then...
- Acquisitions...\$4.3 B since 2013...finally...
- Share repurchase (\$274mm 2019: \$77mm 9 mos. 2019)...careful share repurchase, price-sensitive

RISKS

- Extended recession impacting home remodels and/or new home purchases
- Inability to consummate acquisitions leads to lower growth...but, global flooring market still fragmented...MHK has single digit global flooring share
- Lorberbaum = key person risk
- Emerging markets risks
- Cost increases may not be immediately offset by price increases...historically MHK has been able to recover cost increases through pricing actions

ESTIMATED VALUATION

\$ AND SHARES MM (EXCEPT PER SHARE AMOUNTS)			
	<u>2020E</u>	<u>2024E</u>	<u>NOTES</u>
Sales	10,200	12,398	Assume 5% growth including some acquisitions
EBITDA	1,632	2,294	
EBITDA Margin	16%	18.5%	Moderating cost pressures & price increases/new facilities ramp up
EV/EBITDA Multiple	8	11	
Debt	3,000	1,600	Net of cash
Equity Value	9,936	23,630	
Diluted Shares	72	68	Buyback 4mm shares
Per Share Equity	\$138	\$348	

Source: Triad Investment Management internal estimates

THANK YOU / Q&A

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