

September 29, 2017

Dear clients and colleagues,

Construction data continues to see positive momentum. The recovery remains positive in France, but is also increasingly strong in Scandinavia and Eastern Europe. In addition, commercial construction surveys in the US suggest strong optimism about future prospects for the industry. Tarkett, a company we recently added to our portfolios, should benefit from this trend.

Tarkett is the world's third-largest player in the flooring and sports surfaces market, offering integrated solutions for professionals and consumers in the residential and commercial markets. The company is particularly active in the flexible vinyl or linoleum flooring market (48% of sales), carpets (20%), parquet and laminate flooring (7%), rubber (8%) and sports surfaces (17%). Its products are intended for customers in a wide range of industries, including housing, health care, education, office, retail, hotel and sports industries. Tarkett sells an average of 1.3M square metres of flooring per day, supplied from 34 plants located in more than 15 countries. The company is well-balanced geographically with 44% of sales coming from North America, 36% from Europe and 20% from the rest of the world. For its fiscal year 2016, Tarkett reported sales of €2,739M and EBITDA of €330M. The Deconinck family owns 50% of the company.

Market size

- The world flooring market is estimated at 12.5 billion square metres. This market is expected to grow in line with global GDP.
- Parquet and laminate flooring, flexible flooring and commercial carpets represent approximately 3.125 billion square metres.

Growth strategy

- Focus on R&D as a key factor of success in all markets. Tarkett has a network of local consultants that adapt its products to the prevailing trends in each region.
- Tarkett will continue to acquire niche businesses in order to increase its product diversification or access to certain markets.
- Optimization of its industrial capabilities in North America in order to drive margins in line with the most profitable region, Europe.

Strengths

- Well-established player with significant market position in the flooring industry and approximately 25% of global market volumes.
- Broad product offering with significant presence in four of the five major flooring products (vinyl, carpet, laminate, rubber).
- Diversified geographic exposure equally spread across Europe, North America and rest of the world.
- Tarkett's business is relatively resilient with a less volatile renovation market compared to construction.

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may buy, sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Performance figures are stated in Canadian dollars and are net of trading costs and gross of operating expenses and management fees. Further information about the Global Small Cap Composite is available by contacting the firm. Global Alpha Capital Management Ltd. (Global Alpha) claims compliance with the Global Investment Performance Standards (GIPS[®]) and has prepared and presented this report in compliance with the GIPS. Global Alpha has not been independently verified.

- Customer base is well-balanced between residential and commercial.
- Focus on innovation to maintain relative pricing power.
- Barriers to entry in production and distribution.

Opportunities

- The overall trend for infrastructure, construction and renovation spending is positive.
- Strategic M&A can be an interesting growth driver for the company since it operates in a fragmented market with many small local players.
- Urbanization in emerging markets and recovery in Russia.
- Good track record in acquisitions and the ability to gain market share.
- Replenishment cycle and new investment in sports surfaces such as artificial or synthetic turf.

Risks

- Exposure to cyclical construction end markets.
- Competition coming from low-cost production countries.
- Raw material price fluctuations.
- Some exposure to government spending on public projects.

Have a good weekend.

The Global Alpha Team

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may buy, sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Performance figures are stated in Canadian dollars and are net of trading costs and gross of operating expenses and management fees. Further information about the Global Small Cap Composite is available by contacting the firm. Global Alpha Capital Management Ltd. (Global Alpha) claims compliance with the Global Investment Performance Standards (GIPS[®]) and has prepared and presented this report in compliance with the GIPS. Global Alpha has not been independently verified.