

# First Quarter Fiscal 2020 Conference Call



November 6, 2019



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# 1Q20 Highlights

## SEGMENT PERFORMANCE

- Engraving: significant sequential margin increase from 4Q19 on a modest sales gain; improved N.A. performance
- Electronics: results impacted by lower demand and material inflation, primarily in Asia
- Engineering Technologies: continued strength in Aviation, Space and Defense
- Hydraulics: positive results in both refuse market and new applications, e.g., pack eject cylinder
- Food Service: strong Scientific and Merchandising performance; Refrigeration sales flat

## POSITIONING PORTFOLIO FOR HIGHER GROWTH & MARGIN

- 1Q20 laneway revenues were \$16.6M; 12% increase over 1Q19
- GS Engineering successfully integrated within Engraving segment; off to a solid start
- Electronics NBO funnel continues to strengthen, especially in magnetics
- Growth in high margin Scientific business due to higher demand from pharmacy and retail markets; leveraging our deep technical and application expertise

## PRODUCTIVITY INITIATIVES CONTINUE

- Cost restructuring programs in Engraving and Electronics on track to deliver \$3.8 million in annual cost savings by end of Q2
- Addressing material inflation in Electronics through changes in reed switch production
- Continued focus on productivity initiatives in Refrigeration, N.A. Engraving and Engineering Technologies

## FINANCIAL FLEXIBILITY

- TTM net debt to Adjusted EBITDA of 0.9x; ~\$250 million of available liquidity
- Working capital turns increased 90 basis points year-over year to 5.4x
- Generated free cash flow of \$1.3 million in 1Q20 which historically has been a negative FCF quarter
- Repatriated \$9.2 million from foreign subsidiaries

# Engraving

\$ in 000's	1Q20	1Q19	% Change
Revenue	\$38,431	\$35,979	6.8%
Adj. Operating Income*	\$6,537	\$8,003	-18.3%
OI Margin	17.0%	22.2%	

\* 1Q19 excludes \$0.5 million of purchase accounting expenses



*New facility in Dongguan will increase capacity in China and allow for growth laneway expansion*

## 1Q Summary

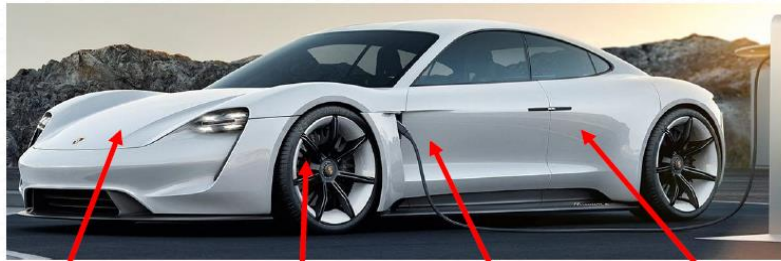
- Sales growth driven by GS and Tenibac acquisitions partially offset by lower organic sales and currency headwinds
- Sequentially, ~300 basis point margin improvement reflecting favorable trends in N.A. and restructuring actions announced in 3Q19
- Laneway growth of 20% YOY to \$11.4M including nickel shell, laser and tool finishing
- Opened new facility in Dongguan, China.

## Outlook

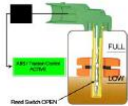
- Expect year-over-year improvement in 2Q20 as new global automotive model roll-outs increase
- Restructuring on track for annual cost savings of \$2.7M by end of 2Q20
- Focus on new technologies such as soft trims, laser engraving and tool finishing

# Electronics

\$ in 000's	1Q20	1Q19	% Change
Revenue	\$46,617	\$51,450	-9.4%
Operating Income	\$8,099	\$12,787	-36.7%
OI Margin	17.4%	24.9%	



Isolation Measurement



Brake Float Level Sensor



Charger Plug Sensor



Door Sensor

***Multiple sensors in new electric auto program. Delivered innovative technology to meet customer needs***

## 1Q Summary

- Sales decline impacted primarily by weaker end markets in Asia
- Operating income declined mostly due to the impact of volume deleveraging and material inflation in Asia reed switch operation
- High reliability magnetics business is growing driven by military/aerospace end markets and conversion of NBO funnel

## Outlook

- Electronics sales volume in 2Q20 similar to 1Q20
- \$1.1 million annualized savings run rate from restructuring
- Addressing material inflation in Electronics through changes in reed switch production
- Strong NBO funnel; new opportunities created by investments in sales force and field application engineers

# Engineering Technologies

\$ in 000s	1Q20	1Q19	% Change
Revenue	\$24,644	\$20,784	+18.6%
Operating Income	\$3,359	\$1,775	+89.2%
OI Margin	13.6%	8.5%	



*ETG received new award to produce the C919 - GE LEAP-1C with first deliveries in FY20*

## 1Q Summary

- Volume leverage associated with core markets of Aviation, Space and Defense
- Backlog to be delivered in under one year increased 7% YOY
- Delivering continued productivity improvements in manufacturing processes; e.g. reducing level of scrap/rework material as well as increased machine utilization levels

## Outlook

- Expect YOY sales growth to continue in 2Q20 as end markets remain favorable and recent wins continue to ramp
- Continue to drive productivity and efficiency improvements
- Continue pursuit of pipeline of new business opportunities

# Hydraulics

\$ in 000s	1Q20	1Q19	% Change
Revenue	\$13,749	\$12,536	+9.7%
Operating Income	\$2,527	\$1,583	+59.6%
OI Margin	18.4%	12.6%	



*Expanding offerings in “Roll Off” and Dump Trailer applications*

## 1Q Summary

- Strong demand in NA refuse and construction markets
- New applications, such as the new pack eject cylinder continued ramp to full volume
- YOY margin increase reflected higher volume, slightly lower material costs and ongoing efficiency initiatives

## Outlook

- In 2Q20, we expect flat revenue performance and slight improvement in operating income
- Redeploying capacity to higher margin opportunities
- Continue to pursue attractive NBO's

# Food Service Equipment Group

\$ in 000s	1Q20	1Q19	% Change
Revenue	\$72,997	\$72,331	0.9%
Operating Income	\$8,372	\$6,668	25.6%
OI Margin	11.5%	9.2%	

## 1Q Summary

- Scientific double digit growth and strength in Merchandising; Refrigeration results flat YOY
- Operating income increase reflected higher product volume in Scientific and favorable margin product mix at Merchandising

## Outlook

- Expect 2Q20 Food Service Group sales to be slightly down YOY
- Continued strength in Scientific and Merchandising end markets
- Refrigeration Group sales will decline YOY in 2Q20 primarily due to fire related customer order cancellations
- Continue to pursue productivity improvements in commercial refrigeration; e.g.; LEAN initiatives focused on labor efficiencies



*Nor-Lake Scientific Black Diamond Refrigerators used in medical, laboratory and research applications for critical storage of specimens*



# 1Q20 Financial Summary

(\$ in M's)	1Q20	1Q19	YOY	Comments
<b>Revenue</b>	\$196.4	\$193.1	1.7%	<b>Components of revenue increase:</b> Organic -1.7% Acquisitions +4.4% F/X impact of -1.0%
<b>Gross Margin</b>	34.8%	35.9%	-110 bps	
<b>Adj. Gross Margin</b>	34.8%	36.1%	-130 bps	Volume deleverage / materials inflation at Electronics Asia Timing of Engraving automotive roll-outs
<b>Adj. Operating Income</b>	\$19.6	\$24.2	-19.1%	Increased YOY corporate expense
<i>Margin %</i>	10.0%	12.6%	-260 bps	
<b>Adj. EBITDA</b>	\$27.6	\$30.7	-10.1%	
<i>Margin %</i>	14.1%	15.9%	-180 bps	
<b>Net, Interest Expense</b>	\$2.1	\$2.2	-4.5%	
<i>Tax Rate %</i>	29.8%	28.9%	-90 bps	
<b>Adj. Net Income</b>	\$12.0	\$15.5	-22.6%	
<i>Margin %</i>	6.1%	8.0%	-190 bps	
<b>Adj. EPS</b>	\$0.97	\$1.21	-19.8%	Flow through of margin decline

# 1Q20 Revenue Drivers

Q1 2020 YOY Change %	Food Service	Engraving	Engineering Technologies	Electronics	Hydraulics	Total
Organic	1.1%	-5.5%	19.1%	-14.0%	9.7%	-1.7%
Acquisitions	0.0%	14.8%	0.0%	6.0%	0.0%	4.4%
Currency	-0.2%	-2.4%	-0.5%	-1.5%	0.0%	-1.0%
Total	0.9%	6.8%	18.6%	-9.4%	9.7%	1.7%

Strength at Engineering, Hydraulics and Scientific  
Electronics Impacted by Asia Market Slowdown

# 1Q20 GAAP to Non-GAAP Bridge

	Q1 FY20				Q1 FY19			
	Pre-tax Income	Tax	Net Income	EPS	Pre-tax Income	Tax	Net Income	EPS
<b>Reported - GAAP (\$M)</b>	\$ 17.2	\$ (4.8)	\$ 12.5	\$ 1.00	\$ 20.1	\$ (5.8)	\$ 14.4	\$ 1.12
<b>Add:</b>								
Restructuring Charges	\$ 1.5	\$ (0.4)	\$ 1.1	\$ 0.09	\$ 0.4	\$ (0.1)	\$ 0.3	\$ 0.02
Purchase Accounting	\$ -	\$ -	\$ -	\$ -	\$ 0.5	\$ (0.2)	\$ 0.3	\$ 0.03
Acquisition-related costs	\$ 0.7	\$ (0.2)	\$ 0.5	\$ 0.04	\$ 0.7	\$ (0.2)	\$ 0.5	\$ 0.04
<b>Less:</b>								
Life Insurance Benefit	\$ (1.3)	\$ -	\$ (1.3)	\$ (0.10)	\$ -	\$ -	\$ -	\$ -
Insurance Proceeds	\$ (1.0)	\$ 0.3	\$ (0.8)	\$ (0.06)	\$ -	\$ -	\$ -	\$ -
<b>Adjusted</b>	<b>\$ 17.1</b>	<b>\$ (5.1)</b>	<b>\$ 12.0</b>	<b>\$ 0.97</b>	<b>\$ 21.7</b>	<b>\$ (6.3)</b>	<b>\$ 15.5</b>	<b>\$ 1.21</b>
Diluted Shares				12,403				12,808

GAAP 1st Quarter Net Income \$12.5M versus Prior Year at \$14.4M  
 Non-GAAP Net Income \$12.0M versus Prior Year at \$15.5M

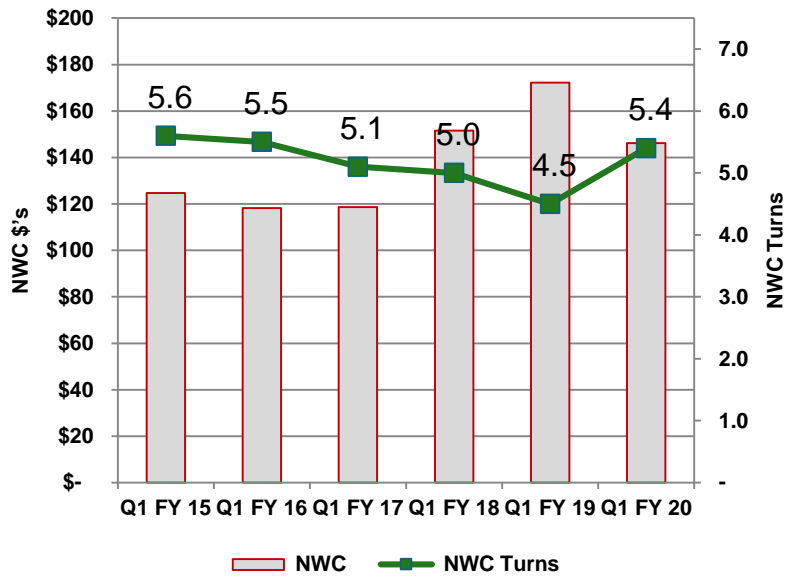
# 1Q20 Free Cash Flow

	<b>Q1</b>	<b>Q1</b>
	<b>FY 2020</b>	<b>FY 2019</b>
<i>Free operating cash flow (continuing ops) in \$M:</i>		
<b>Net cash provided by operating activities, as reported</b>	\$ 8.3	\$ (2.6)
Less: Capital Expenditures	(7.0)	(7.5)
<b>Free operating cash flow</b>	<b>\$ 1.3</b>	<b>\$ (10.0)</b>

- Key working capital metrics all showed year-over-year improvement
- Focused collection efforts, improved inventory turns and accounts payable supplier management all driving cash flow performance

Improved Free Cash Flow Generation

# 1Q20 Working Capital Trends



\*Restated for fire loss

Note: FY 15 excludes divested roll plate business;  
all periods exclude Cooking Solutions

	Q1 FY 20 Actual	Q1 FY 19 Actual
A/R (\$M)	114.4	123.8
DSO	51	55
Inventory (\$M)	98.4	111.7
Inventory Turns	5.4	4.4
A/P (\$M)	(66.7)	(63.2)
DPO	42	40
Net Working Capital (\$M)	146.1	172.3
W/Cap Turns	5.4	4.5

Working capital turns of 5.4x increased from 4.5x a year ago

- Accounts Receivable DSO's improved by 4 days
- Inventory turns increased by full turn to 5.4 times
- DPO increased by 2 days YOY

Operational Execution Driving Working Capital Improvement in All Segments

# 1Q20 Capitalization

## Favorable Liquidity Profile

- Net debt to adj. EBITDA of 0.9x
- Net debt to total capital of 17.3%
- ~\$250M of available liquidity

## Capital Spending

- Approximately \$7.0M of CAPEX in the quarter compared to \$7.5M in 1Q19
- Fine tuning FY20 CAPEX to between \$31M-\$34M compared to prior range of \$33M - \$34M
- Depreciation of \$25.5M - \$26.5M in FY20
- Amortization expected to be \$8.5M - \$9.5M

(in \$M)	1Q20 9/30/2019	4Q19 6/30/2019
Funded Debt (ex-issuance costs)	188.9	197.6
Cash	90.2	93.1
Net Debt	98.7	104.5
Net Debt to Capital Ratio	17.3%	18.4%
Funded Debt to Capital	28.5%	29.9%
EBITDA to Funded Debt	1.21 x	1.27 x
TTM Adjusted EBITDA as Reported	110.1	113.2
Adjusted EBITDA to Net Debt	0.90 x	0.92 x

- Net debt to capital at 17.3% vs prior quarter of 18.4%
- TTM EBITDA to funded debt at 1.21x, Adjusted EBITDA to funded debt at 0.9x
- Repatriated \$9M during the quarter; expect to repatriate \$35M in FY20

Balance Sheet Well Positioned for Organic Growth Investments and Acquisitions

# Key Takeaways

**1**

**Expect second quarter results to be similar to first quarter followed by strengthening in the second half.**

**2**

**Ongoing focus on productivity improvements and cost reduction efforts**

**3**

**Portfolio focused on higher growth and return opportunities**

**4**

**Substantial financial flexibility for disciplined capital allocation**

# Q&A