Standex

Third Quarter Fiscal 2020 Conference Call

May 8, 2020

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Key Messages

RESPONSE TO COVID-19	• Deemed an essential business in most plants and have had limited facility shutdowns • Focus on safety and health of employees, customers and suppliers • China plants closed for a portion of 3Q20 and now fully operational; provided actionable playbook • Actions include working remotely, changing work space configurations and revising shift schedules when appropriate
STRENGTHENING FINANCIAL FLEXIBILITY	• ~ $220M of available liquidity; 0.95x TTM net debt to adjusted EBITDA • Generated $7.3M FCF in 3Q20; 0.1x year-over-year increase in WC turns • Swapped variable to fixed rate debt, ~$1M annual interest savings; ~10x interest coverage ratio • Decreased CAPEX to $19M-$21M in FY20; focus on maintenance, safety and high priority growth initiatives • Repatriated ~$20M from foreign subsidiaries YTD; expect to repatriate ~$35M in FY20
IMPLEMENTING ADDITIONAL EFFICIENCY INITIATIVES	• Initiated additional cost reduction efforts; ~$4M expense savings in 4Q20 • Announced closing of a Procon plant in Ireland in 3Q20; ~$1M annualized savings • Addressing Electronics materials inflation; changes in reed switch production and material substitution • Hired VP of Ops in February; early innings to further improve processes and productivity
POSITIONING FOR HIGHER GROWTH & MARGIN	• Divested Refrigerated Solutions Group; ~200 basis point pro forma increase in adj. operating margin on a YTD basis • Healthy funnel of new product organic growth opportunities including adjacent end markets and new technologies • Active acquisition pipeline with disciplined capital allocation
OUTLOOK	• Sequential decline in revenue with continued COVID-19 economic impact, moderate decrease in operating margin • Building our higher growth and margin businesses into more significant platforms • Competing on customer intimacy and leveraging competitive advantages including deep technical/application expertise • Financial flexibility to opportunistically pursue internal projects and inorganic growth opportunities with attractive returns

Electronics

$ in 000's	3Q20	3Q19	% Change
Revenue	$48,069	$50,197	-4.2%
Operating Income	$8,017	$9,418	-14.9%
OI Margin	16.7%	18.8%	

- Traditional reed switch technology could not solve a level measurement application for new customer
- In collaboration with customer, we developed a new capacitive level sensor, applying technology from high performance race cars
- Successful development lead to other new applications with the same customer

3Q Summary

- Sales decreased YOY reflecting COVID-19 impact (reduced capacity in China plants and shutdowns at certain European automotive clients)
- Positive trends in magnetics (e.g., military, sensors in home appliances) and new sensor, switch and relay applications used in electric vehicles and security markets
- Operating margin decreased YOY primarily due to the impact of lower volumes, raw material price increases, and plant closings due to COVID-19, partially offset by cost savings initiatives

4Q Outlook

- Sequentially, expect slight decline in revenue and moderate decrease in operating margin
- Anticipated margin decrease reflects a combination of higher raw material costs in the reed switch business and expenses associated with the partial Mexico plant shutdown
- NBO funnel has increased 10% YTD in FY20 to over $55M
- Continued focus on productivity and cost reduction initiatives; e.g., material inflation in the reed switch business

Engraving

$ in 000's	3Q20	3Q19	% Change
Revenue	$35,431	$37,135	-4.6%
Operating Income	$4,472	$4,485	-0.3%
OI Margin	12.6%	12.1%	

New Land Rover Defender

Full scope of Standex Engraving :

- Architexture design studio developed new textures
- Nickel shell soft trim tool
- Laser engraving and traditional etching
- Project managed execution in UK, Portugal, China, France, Germany, Czech Republic, and Italy

<u>3Q Summary</u>

- Sales decreased YOY reflecting COVID-19 related delays both in the receipt of tools from customers and shipment of the segment's completed product
- Operating income flat YOY as operational improvements were offset by COVID-19 related volume declines and associated expenses
- Laneway growth of 15% YTD to $32M including nickel shell, laser and tool finishing
- China facilities fully reopened by mid-March

<u>4Q Outlook</u>

- Expect slight sequential decline in revenue and flat operating margin performance
- Continued growth for new technology laneways such as soft trims, laser engraving and tool finishing
- Emphasis on operational execution in all regions

Engineering Technologies

$ in 000s	3Q20	3Q19	% Change
Revenue	$26,730	$27,467	-2.7%
Operating Income	$3,098	$2,800	+10.6%
OI Margin	11.6%	10.2%	

- Intensely collaborative co-development projects to support new platforms
- Standex proprietary spin forming process reduces material inputs and machining processes for fuel tank domes and nose cones

3Q Summary

- Sales decreased YOY reflecting lower aviation-related sales offset partially by increased sales in the space end market
- Operating income increased YOY as a result of cost-related actions including lower SG&A and manufacturing efficiencies

4Q Outlook

- Expect moderate sequential revenue decline in the aviation end market due to COVID-19 related customer pushouts
- Defense markets are anticipated to remain stable
- Expect sequentially flat operating income performance
- Focus on cost reduction in the aviation-related part of the business to offset anticipated slow down in this end market

Hydraulics

$ in 000s	3Q20	3Q19	% Change
Revenue	$13,549	$15,106	-10.3%
Operating Income	$2,354	$2,242	5.0%
OI Margin	17.4%	14.8%	

Aftermarket Service Initiative

- SXI growth development process Identified aftermarket was underserved
- Created plan to reallocate capacity and build high-runner Kanban to serve quick lead time aftermarket orders

3Q Summary

- Sales decreased YOY primarily due to a slowdown in the dump market and inventory destocking at selected customers in the refuse market
- Operating income increased YOY reflecting improved contribution from aftermarket sales and solid expense management

4Q Outlook

- Expect moderate sequential revenue decline due to COVID-19 impact on customer production levels along with continued imposition of tariffs on rod cylinders
- Impact from lower volume and tariffs will be partially offset by focus on aftermarket presence and continued expense actions

Food Service Equipment Group

$ in 000s	3Q20	3Q19	% Change
Revenue	$31,695	$30,550	3.7%
Operating Income	$5,729	$5,361	6.9%
OI Margin	18.1%	17.5%	

Note : Restated to exclude disposal of RSG business

Developed using
Standex GDP+ growth process

- Only Freezer in its class with controlled auto defrost
- Patent pending innovation from Standex Scientific, product of our Growth Discipline Processes
- Ideal for storage of frozen vaccines

3Q Summary

- Sales increased YOY reflecting growth in Scientific, particularly in the retail drug sector balanced with relatively flat demand in Merchandising and lower sales in the Pumps business
- Increase in operating margin was primarily due to increased margin at both Scientific and Merchandising as a result of favorable product mix and expense control

4Q Outlook

- Expect lower Display Merchandising and Pump revenue due to COVID-19 impact on the restaurant sector
- Scientific business expected to be moderately impacted by the short-term customer focus on supplying personal protective equipment for health care workers in lieu of capital equipment
- Segment has begun implementing rolling furloughs, temporary plant shutdowns and headcount reductions.

3Q20 Financial Summary

($ in M's)		3Q20	3Q19	YOY	Comments
Revenue		$155.5	$160.5	-3.1%	**Decrease reflects economic impact of COVID-19** Organic revenue: -3.2% YOY Acquisition-related impact :+0.9% F/X impact of -0.8%
Gross Margin		33.8%	34.3%	-50 bps	Reflects volume decline, material costs at Electronics
Adj. Operating Income		$17.6	$18.2	-3.2%	Impact of COVID-19 on sales offset
	Margin %	11.3%	11.3%		by cost containment actions
Adj. EBITDA		$26.1	$25.1	4.0%	
	Margin %	16.8%	15.6%	+120 bps	
Net, Interest Expense		$1.8	$3.2	-45.0%	Lower borrowings and interest rate
	Tax Rate %	26.1%	30.8%	-470 bps	
Adj. Net Income		$11.9	$9.6	23.9%	
	Margin %	7.6%	6.0%	+160 bps	
Adj. EPS		$0.96	$0.76	26.3%	
Shares Outstanding		12.4	12.6	-1.4%	129,000 shares repurchased in 3Q20

3Q20 Free Cash Flow

AS REPORTED ($M)	Q3 FY 2020	Q3 FY 2019
Net cash provided by operating activities, as reported	$ 12.8	$ 14.4
Less: Capital Expenditures	(5.5)	(3.1)
Free operating cash flow	$ 7.3	$ 11.3

Free cash flow reflects:

- Increased tax payments in 3Q20, pension contribution payments and higher capital expenditures
- Working capital turns improved to 4.7x, which is a 0.1 improvement YOY
- Continued focus on collections and accounts payable management

Consistent Free Cash Flow Generation

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3Q20 Capitalization

Favorable Liquidity Profile

- Net debt to adj. EBITDA of 0.95x
- Net debt to total capital of 17.9%
- ~10x interest coverage ratio
- ~$220M of available liquidity

Capital Spending

- $5.5M of CAPEX in 3Q20 compared to $3.1M in 3Q19
- Reduced estimated FY20 CAPEX to $19M - $21M from $30M - $32M
- Depreciation of $23M - $24M in FY20
- Amortization expected to be $8.5M - $9.5M

(in $M)	Q3 20 3/31/2020		Q2 20 12/31/2019	
Funded Debt	212,065		186,980	
Cash	109,297		98,919	
Net Debt	102,768		88,061	
Net Debt to Capital Ratio	17.9%		15.1%	
Funded Debt to Capital	31.3%		27.6%	
EBITDA to Funded Debt (Includes Letters of Credit)	1.49	x	1.22	x
Net Debt	102,768		87,041	
Adjusted EBITDA to Net Debt	0.95	x	0.80	x

- Net debt to capital at 17.9% vs prior quarter of 15.1%
- Repatriated $8.4M in 3Q20 and $20.3M FY20 YTD; expect to repatriate $35M in FY20
- Capital spending focus on safety, maintenance, & highest priority growth activities

Strong Balance Sheet With Significant Liquidity

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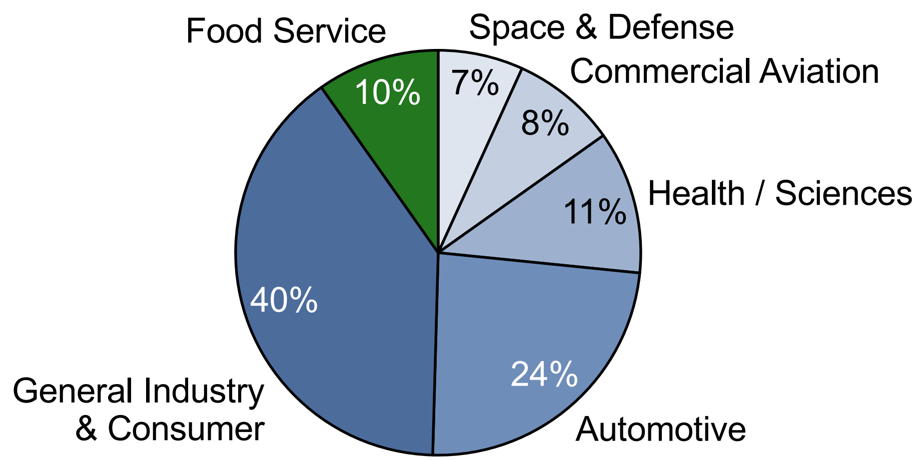
Scaling Our Higher Margin Growth Businesses

- **Common competitive positioning**
  - Leading positions in high value markets with recognized brands
  - Partnering with customers to solve application needs with custom, differentiated solutions
  - Leveraging deep technical and applications expertise and manufacturing know-how for competitive advantage
- **Improved margin profile post RSG**
  - ~200 bps operating income margin increase
  - ~300 bps adj. EBITDA margin increase

FY19 Revenue by End Market Pro Forma post - RSG Divestiture



Estimated based on FY19 results by customer and product category

Intense management focus on growing and improving strong businesses

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Key Takeaways

1. Rapidly deployed an effective playbook in response to COVID-19; plants have had limited shutdowns

2. In 4Q20, expect all segments to experience sequential revenue decline due to COVID-19 economic impact. Electronics, Engraving and Engineering Technologies slight to moderate sequential revenue decline with Food Service more significantly impacted

3. Expect to maintain significant financial flexibility complemented by consistent free cash flow generation

4. Emphasis on process improvement and cost structure efficiencies

5. Building our higher margin growth businesses into more significant platforms; active pipeline of organic and inorganic growth opportunities

Q&A

APPENDIX

3Q20 GAAP to Non-GAAP Bridge

	Q3 FY20				Q3 FY19				% Change		
	Pre-tax Income	Tax	Net Income	EPS	Pre-tax Income	Tax	Net Income	EPS	Pre-tax Income	Net Income	EPS
Reported - GAAP	**$ 15.4**	**$ (3.3)**	**$ 12.1**	**$ 0.97**	**$ 12.9**	**$ (4.3)**	**$ 8.7**	**$ 0.69**	**18.8%**	**39.2%**	**40.6%**
Add:											
Restructuring Charges	0.6	(0.2)	0.4	0.04	0.5	(0.2)	0.4	0.03			
Acquisition-related costs	0.1	(0.0)	0.1	0.01	0.8	(0.2)	0.6	0.04			
Less:											
Discrete Tax Items	-	(0.7)	(0.7)	(0.06)	-	-	-	-			
Adjusted	**$ 16.1**	**$ (4.2)**	**$ 11.9**	**$ 0.96**	**$ 14.3**	**$ (4.7)**	**$ 9.6**	**$ 0.76**	**12.5%**	**23.9%**	**26.3%**
Diluted Shares				12,397				12,574			

GAAP 3rd Quarter Net Income $12.1M versus Prior Year at $8.7M
Non-GAAP Net Income $11.9M versus Prior Year at $9.6M
GAAP EPS increased 40.6%; Non-GAAP EPS up 26.3%

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