Standex

September 11, 2019

Dear Fellow Shareholders,

In fiscal 2019, we continued to make progress transforming Standex into a more focused industrial company through scaling our growth businesses, proactively managing our portfolio transformation and further leveraging our Value Creation System operating model. As a result, the Company is very well-positioned and capitalized for higher growth and profitability.

Financial Highlights

We reported revenue growth of 2.7% for fiscal 2019 when compared to the prior year. Sales from recent acquisitions contributed 3.8%, complemented by a 0.5% organic revenue increase. This was balanced with a foreign exchange decline of 1.6%. We delivered organic sales increases in Scientific, Engineering Technologies and Hydraulics. Our other businesses experienced end market softness including global auto and European and Asian industrial markets.

Adjusted operating income decreased 7.6% year-over-year and adjusted EBIT margin was 10.6% compared to 11.8% in fiscal 2018. Headwinds in fiscal 2019 included inflation and tariffs, a lower level of new auto model introductions and a decline in our Refrigeration business. However, the Engineering Technologies and Hydraulics segments benefitted from broad-based end market strength. GAAP EPS was $3.74 compared to $2.45 in fiscal year 2018 with the increase driven primarily by a lower tax rate year-over-year of 24.6%. Adjusted EPS was $4.03 for fiscal 2019 compared to $4.72 in the prior year, which included discrete tax items and higher restructuring and acquisition related costs.

Strategic Highlights

The impact of our growth initiatives was evident on several fronts. The repositioning of Engineering Technologies with expanded aviation market focus contributed to very strong results with record shipments in our fourth quarter of fiscal 2019. Our growth laneways increased 61% year-over-year this past fiscal year and we have a very strong funnel of new business opportunities as we enter fiscal 2020.

As part of our portfolio transformation, we also acquired three excellent businesses, Tenibac, GS Engineering and Agile Magnetics to support and expand our Engraving and Electronics capabilities and customer value proposition. The fiscal 2019 impact of acquisitions we have made since 2014 was $199 million in sales at 22.5% EBITDA, well above our consolidated margins. We also divested our Cooking Solutions Group within our expected timeframe and valuation of $105 million.

Our balance sheet continues to be a source of strength, providing us with a significant level of liquidity. In addition, our working capital initiatives are adding to our consistent free cash flow generation through improvement in cash collections, inventory management and improved terms with suppliers. This financial flexibility positions us well to invest in both high return internal projects and acquisition opportunities. However, we will remain disciplined in allocating our capital. In addition, in fiscal 2019, we declared our 220th consecutive dividend as a public company.

From an operational perspective, we implemented several cost savings initiatives this past fiscal year to better align our resources. As we enter fiscal 2020 we have also identified a significant number of additional opportunities to further drive efficiencies. These opportunities will be complemented by an active calendar of Company events focused on enhancing our productivity and output capabilities. At the same time, we will continue to monitor international trade tensions and external market conditions, and our businesses are ready to implement appropriate measures to preserve operating margins.

We continue to address end market weakness in our Refrigeration business, but it has taken longer than our initial expectations. At the end of our fiscal year, there was also a fire in a Refrigeration warehouse facility. Thankfully, there were no injuries to the personnel although we did incur approximately $8 million in damages which will be covered by insurance.

Looking Ahead

We enter 2020 with a highly energized team of talented leaders globally. Despite the end market challenges we faced this past year, we made significant progress in positioning the Company for higher margin growth in attractive businesses and expect to further add to this momentum in fiscal 2020.

From an end market perspective, the Company will benefit from scheduled platform rollouts in the automotive OEM market, a robust portfolio of new business opportunities in Electronics and continued growth in Engineering Technologies and Hydraulics. We also have a very strong financial position to pursue new growth laneways and acquisition opportunities.

In closing, as we enter our 50th year as a public company, we have a clear vision for Standex. We are becoming a more focused industrial company with significant runway for higher growth and profitability. I want to thank our employees, customers and shareholders for their continued contributions and support.

Sincerely,

David Dunbar

David Dunbar
President/CEO