# Third Quarter Fiscal 2019 Conference Call

Standex

April 30, 2019





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# 3Q19 Highlights

**SEGMENT TRENDS**

- Strong organic sales in Engineering Technologies, Scientific and Hydraulics; expect continued positive trends in 4Q
- Engraving affected by fewer new model rollouts in the quarter. Expect Engraving demand recovery driven by automotive customer launches in 2H calendar year 2019
- Electronics revenue impacted by lower auto-related sales balanced with growth in industrial and new products; 4Q sales expected to be at similar level along with productivity improvements and expense reductions
- Food Service reflected strength in Scientific balanced with weakness in Refrigeration; expect 4Q seasonal increase

**EXTENDING COMPETITIVE ADVANTAGES**

- Sales from engraving laneways grew 39% YOY including tool finishing, nickel shell, laser engraving and Architexture.
- Announced GS Engineering acquisition; strong strategic fit with global Engraving capabilities
- Launched electronics production in new India facility strengthening global engineering and manufacturing footprint

**STRENGTHENING FINANCIAL FLEXIBILITY**

- Completed Cooking Solutions Group divestiture for $105 million in proceeds on April 1; in line with expected timeframe and price range
- Pro forma net debt to EBITDA of 1.1x; $282 million of available liquidity.
- Free cash flow of $9.5M benefitted from improved working capital efficiency; expect FCF to build for remainder of FY19

**IMPELEMENTING PRODUCTIVITY INITIATIVES**

- In 3Q19 incurred $0.5M of restructuring expenses, primarily related to headcount reductions, facility rationalization and productivity improvements in the Electronics and Engraving segments
- Expect productivity initiatives to be completed by 2Q20
- $3.8M in annual savings at completion

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# 3Q19 Financial Summary

| ($ in M's) | | 3Q19 | 3Q18 | YOY | Comments |
|---|---|---|---|---|---|
| **Revenue** | | $193.8 | $192.1 | 0.8% | **Components of revenue increase:**<br>Organic -0.9%<br>Acquisitions +4%<br>F/X impact of -2.3% |
| **Gross Margin** | | 31.9% | 34.4% | -250 bps | |
| **GAAP Operating Income** | | $15.0 | $18.8 | -20.0% | Margins impacted by several factors including delays in auto programs, material and wage inflation and weather |
| | *Margin %* | 7.8% | 9.8% | -200 bps | |
| **Adj. Operating Income** | | $16.4 | $21.1 | -22.4% | |
| | *Margin %* | 8.5% | 11.0% | -250 bps | |
| **Reported EBITDA** | | $22.3 | $24.6 | -9.1% | |
| | *Margin %* | 11.5% | 12.8% | -130 bps | |
| **Adj. EBITDA** | | $23.7 | $26.9 | -11.9% | |
| | *Margin %* | 12.2% | 14.0% | -180 bps | |
| **Net, Interest Expense** | | 3.2 | 2.3 | 39.1% | Increase reflects borrowings on acquisitions |
| | *Pro Forma Tax Rate %* | 30.8% | 26.6% | +420 bps | Higher tax rate due to U.S./foreign income mix |
| **GAAP EPS** | | $0.58 | $0.92 | -37.0% | |
| **Adj. EPS** | | $0.65 | $1.01 | -35.6% | |
| **Free Cash Flow** | | $9.5 | ($3.5) | NM | Improved working capital efficiency |
| **Pro forma Net Debt to EBITDA** | | 1.1x | 1.8x | -38.6% | Reflects sale of CSG |

# GS Engineering Acquisition Details

**OVERVIEW**

- Acquired privately-held Genius Solutions (GS) Engineering Company
- Leading provider of cutting-edge, proprietary technology for soft touch tooling primarily in automotive market in vehicle interiors
- Creates IMG nickel shell tools that are higher-fidelity, more durable, and faster to design and produce than competitor offerings

**TERMS/IMPACT**

- Purchase price of $30 million in cash and five-year earnout
- Immediately EPS accretive excluding purchase accounting adjustments
- GS management team will join Standex Engraving business unit post-closing

**COMPANY BACKGROUND**

- Incorporated in 2004
- Based in Maumee, Ohio with 40 employees
- Supply tools for interior automotive components to leading Auto OEMs in North America, Europe and Asia

**Strengthening Our Engraving Portfolio**

# GS Engineering Acquisition Rationale

**STRATEGIC FIT**

- Combination creates comprehensive offering in soft surface tool market segment which can be leveraged globally across Standex Engraving network
- GS In Mold Graining shells are produced more quickly than time required by other industry providers
- Capabilities will allow Standex Engraving to produce in-house source a portion of production currently sourced externally improving company cost position

**WELL-POSITIONED WITH INDUSTRY TRENDS**

- **Enhanced focus on interior comfort of vehicles:** skins have superior aesthetic and tactile properties compared to hard molded plastic components
- **Recyclability of materials:** certain skin materials are more environmentally friendly compared to hard components
- **Fuel economy requirements:** soft components are typically lighter than hard components

**GROWING ADDRESABLE MARKET**

- Soft Surface tooling is an approximately $200M global market, growing at an estimated 11% CAGR; fastest growing market in Standex served markets
- Acquisition allows Standex to participate in In Mold Graining, a sub-segment growing at 16% annually

# Engraving

| $ in 000's | 3Q19 | 3Q18 | % Change |
|---|---|---|---|
| Revenues | $37,135 | $33,749 | 10.0% |
| Operating Income | $4,485 | $7,195 | -37.7% |
| OI Margin | 12.1% | 21.3% | |

***Continue to be the preferred choice of luxury automakers for chemical etching, laser, nickel shell and finishing***

**Q3 Summary**

- Sales growth driven by Tenibac acquisition and sales increases in Asia Pacific region partially offset by foreign exchange
- Laneway growth of nickel shell, laser and finishing grew 39% in Q3 YOY to $9.9M

- Lower volume in more profitable programs resulted in significant deleverage in North America. Uncertainty in Europe and tariffs in China also impacted overall volume and profitability.
- Launched restructuring programs during 3Q19; anticipated spending of $3.6M with an annual run rate savings of $2.7M to be completed by 2Q20
    1. Organize North American sites into focused centers of excellence to improve efficiencies and customer service
    2. Close down marginally profitable sites

**Outlook**

- Execute Tenibac productivity improvements
- Anticipate sequential improvement over Q3; expect strong1Q20 and 2Q20.
- Continued growth of our new offerings

# Electronics

| $ in 000's | 3Q19 | 3Q18 | % Change |
|---|---|---|---|
| Revenues | $50,197 | $51,213 | -2.0% |
| Operating Income | $9,418 | $11,221 | -16.1% |
| OI Margin | 18.8% | 21.9% | |

Isolation Measurement

Smart Grid Monitoring

Industrial Level Sensor

Charger Plug Sensor

## Q3 Summary

- Sales were flat in North America and declined in Europe and Asia YOY
- Lower automotive component sales and China tariff impact decreased volume in the quarter
- Profitability was impacted in the quarter by lower volume, material and wage inflation
- Action plans are in place to counter these market and cost headwinds with Price increases, cost containment and restructuring programs

## Outlook

- Significant funnel of new large business opportunities and growth laneways in automotive, industrial and telecom markets
- Ramp up production from new India facility
- Productivity projects and restructuring will begin to flow through in all regions

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# Engineering Technologies

| $ in 000s | 3Q19 | 3Q18 | % Change |
|---|---|---|---|
| Revenues | $27,467 | $23,426 | +17.3% |
| Operating Income | $2,800 | $1,155 | +142.4% |
| OI Margin | 10.2% | 4.9% | |


***ETG specializes in mission critical components for a variety of aircraft***

## Q3 Summary

- Positive trends across all end markets: Aviation +6.6% , Space +5.5%, Defense +49.8% and Oil and Gas up over 100%
- Backlog to be delivered in under one year continued to increase, (+15.4%), Orders increased by 54.5% to $42.1M versus prior year quarter
- Product mix weighted towards higher margin production programs versus development programs
- Aviation volume is moved toward higher margin nacelle structures from engine components

## Outlook

- Expect very strong 4Q19 due to positive trends in Aviation, Space and Defense
- Continuing to benefit from A320 ramp
- Defense markets are picking up mission critical components such as nosecones, seals and particle separators
- Have won content in most next-gen launch vehicles in National Security, International Space Station (ISS), Low Earth Orbit (LEO) and Deep Space Exploration

# Hydraulics

| $ in 000s | 3Q19 | 3Q18 | % Change |
|---|---|---|---|
| Revenues | $15,106 | $12,878 | +17.3% |
| Operating Income | $2,242 | $1,749 | +28.2% |
| OI Margin | 14.8% | 13.6% | |

***Cylinders for Roll Off Applications drove growth for Custom Hoist in Q3 FY 19***

## Q3 Summary

- Demand continued to be robust as sales and backlog all increased
- Refuse sale increased 62% YOY driven by roll-off's and pack eject applications
- Dump Body and Dump Trailer declined YOY in 3Q; however, backlog remains strong
- Tariffs were cancelled on our telescopic cylinders out of China; although tariffs continue to be a cost increase on components and pumps out of China

## Outlook

- Demand expected to remain solid in 4Q as backlog is 41% over prior year
- Continue to pursue attractive new business opportunities in Refuse, Dump Truck, Dump Trailer and Export markets
- Delivering prototype refuse cylinders to several key customers

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# Food Service Equipment Group

| $ in 000s | 3Q19 | 3Q18 | % Change |
|---|---|---|---|
| Revenues | $63,866 | $70,881 | -9.9% |
| Operating Income | $3,559 | $5,546 | -35.8% |
| OI Margin | 5.6% | 7.8% | |

Procon Pump developed a new pump for Nitro Coffee

## Q3 Summary

- Scientific sales increased 13% but offset by Refrigeration sales decline of 17.3% YOY
- Scientific sales increased in upright refrigeration, under-counters and Cryo tanks
- Refrigeration and Display Merchandising revenue were weaker due to market conditions in the dealer network, weather related delays and lower sales to large chains
- Profitability was impacted by lower volume and higher mix of lower margin dealer business

## Outlook

- Continue to promote Scientific new Black Diamond and White Diamond offerings
- Capitalize on new pump business opportunities with nitro coffee and eSyruPro pumps
- Pursue several large opportunities in Refrigeration and continue to work on productivity measures to improve the bottom line.
- Display merchandising new hybrid products should support sales and profits recovery in 2H calendar 2019

# Revenue Changes

| Q3 2019 YOY Change % | Food Service (Excludes Cooking) * | Engraving | Engineering Technologies | Electronics | Hydraulics | Total * |
|---|---|---|---|---|---|---|
| Organic | -9.4% | +3.0% | 18.0% | -4.8% | 17.3% | -0.9% |
| Acquisitions | 0.0% | 13.6% | 0.0% | 6.0% | 0.0% | 4.0% |
| Currency | -0.5% | -6.6% | -0.7% | -3.2% | 0.0% | -2.3% |
| Total | -9.9% | 10.0% | 17.3% | -2.0% | 17.3% | 0.8% |

| YTD 2019 YOY Change % | Food Service (Excludes Cooking) * | Engraving | Engineering Technologies | Electronics | Hydraulics | Total * |
|---|---|---|---|---|---|---|
| Organic | -7.4% | 1.6% | 9.9% | 4.8% | 13.7% | 0.6% |
| Acquisitions | 0.0% | 14.1% | 0.0% | 4.3% | 0.0% | 3.6% |
| Currency | -0.2% | -4.6% | -0.4% | -2.0% | 0.0% | -1.5% |
| Total | -7.6% | 11.1% | 9.5% | 7.1% | 13.7% | 2.7% |

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* Restated - excludes Cooking Solutions

# Q3 2019 Quarter Financials

| | Q3 FY19 | | | Q3 FY18 | | | YOY Change | |
|---|---|---|---|---|---|---|---|---|
| | GAAP Reported | Adjustments | Non-GAAP Adjusted | GAAP Reported | Adjustments | Non-GAAP Adjusted | GAAP Reported | Non-GAAP Adjusted |
| Net Revenues | **$ 193.8** | **$ -** | **$ 193.8** | **$ 192.1** | **$ -** | **$ 192.1** | **$ 1.7** | **$ 1.7** |
| % Change | | | | | | | 0.8% | 0.8% |
| Gross Profit | **61.8** | **-** | **61.8** | **66.1** | **-** | **66.1** | | |
| % | 31.9% | | 31.9% | 34.4% | | 34.4% | -250 bps | -250 bps |
| Operating Income | **15.0** | **1.4** | **16.4** | **18.8** | **2.3** | **21.1** | -20.0% | -22.4% |
| % | 7.8% | | 8.5% | 9.8% | | 11.0% | -200 bps | -250 bps |
| Net Interest (Expense) | (3.2) | - | (3.2) | (2.3) | - | (2.3) | | |
| Other Income (Expense) | (0.7) | - | (0.7) | (1.0) | - | (1.0) | | |
| Pre-Tax Income | 11.1 | 1.4 | 12.5 | 15.5 | 2.3 | 17.8 | -28.3% | -30.0% |
| Provision for Income Taxes | 3.8 | 0.4 | 4.3 | 3.7 | 1.1 | 4.8 | | |
| Net Income Continuing Operation | **$ 7.3** | **$ 0.9** | **$ 8.2** | **$ 11.8** | **$ 1.3** | **$ 13.1** | **$ (4.5)** | **$ (4.9)** |
| % | 3.8% | | 4.3% | 6.2% | | 6.8% | -240 bps | -250 bps |
| Tax Rate | 30.8% | | 30.8% | 26.1% | | 26.1% | | |
| Diluted EPS | $ 0.58 | $ 0.07 | $ 0.65 | $ 0.92 | $ 0.09 | $ 1.01 | -37.0% | -35.6% |
| Weighted Avg Diluted Shares | 12.6 | 12.6 | 12.6 | 12.8 | 12.8 | 12.8 | | |
| EBITDA | | | **$ 23.7** | | | **$ 26.9** | | **$ (3.2)** |
| % | | | 12.2% | | | 14.0% | | -180 bps |

✓ EPS headwinds included:

1. Gross Profit Margins down impacted by weather, material and wage inflation along with business mix
2. Higher Interest Expense from borrowing on acquisitions
3. Higher tax rate due to US/Foreign Income mix

Third quarter of fiscal 2018 results have been recast to reflect announced disposition of the Cooking Solutions Group and reclass of $0.6 million of defined benefit pension expense in connection with the adoption of ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost.

* Totals or subtotals may not foot due to rounding

**GAAP Operating Margin at 7.8% in Q3 FY 19 versus 9.8% in Q3 FY 18**
**Non-GAAP Operating Margin at 8.5% in Q3 FY 19 versus 11.0% in Q3 FY 18**

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# Q3 FY 19 Quarter Bridge

| | Q3 FY19 | | | | Q3 FY18 | | | | % Change | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Pre-tax Income | Tax | Net Income | EPS | Pre-tax Income | Tax | Net Income | EPS | Pre-tax Income | Net Income | EPS |
| **Reported - GAAP** | **$ 11.1** | **$ (3.8)** | **$ 7.3** | **$ 0.58** | **$ 15.5** | **$ (3.7)** | **$ 11.8** | **$ 0.92** | **-28.1%** | **-38.2%** | **-37.0%** |
| **Add:** | | | | | | | | | | | |
| Restructuring Charges | 0.5 | (0.2) | 0.4 | 0.03 | 1.1 | (0.3) | 0.8 | 0.06 | | | |
| Acquisition-related costs | 0.8 | (0.2) | 0.6 | 0.04 | 1.3 | (0.4) | 0.9 | 0.07 | | | |
| **Less:** | | | | | | | | | | | |
| Discrete Tax Items | - | - | - | - | - | (0.5) | (0.5) | (0.04) | | | |
| **Adjusted** | **$ 12.5** | **$ (4.3)** | **$ 8.2** | **$ 0.65** | **$ 17.9** | **$ (4.8)** | **$ 13.1** | **$ 1.01** | **-30.2%** | **-36.9%** | **-35.6%** |
| Diluted Shares | | | | 12,574 | | | | 12,797 | | | |

Third quarter of fiscal 2018 results have been recast to reflect announced disposition of the Cooking Solutions Group and reclass of $0.6 million of defined benefit pension expense in connection with the adoption of ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost.

**GAAP 3rd Quarter Net Income $7.3M versus Prior Year at $11.8M**
**Non-GAAP 3rd Quarter Net Income $8.2M versus Prior Year at $13.1M**

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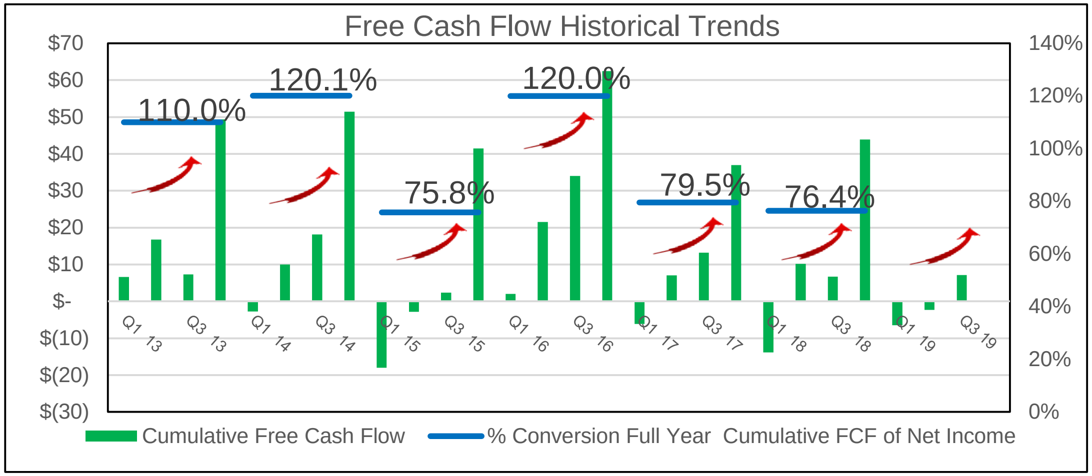
# Non-GAAP Conversion Chart




***Key Comments:***

- ***Following typical seasonal cash flow pattern***
- ***Target continues to be FCF 100% of Net Income***

Free Cash Flow adjusted for Voluntary Pension and Discrete Tax Items related to US tax law changes
Includes Cooking in all years

| *Free operating cash flow (continuing ops):* | **Q3 FY 2019** | **Q3 FY 2018** | **YTD FY 19** | **YTD FY 18** |
|---|---|---|---|---|
| **Net cash provided by operating activities, as reported** | $ 13,253 | 1,983 | $ 24,960 | 26,890 |
| Less: Capital Expenditures | (3,795) | (5,483) | (17,844) | (20,207) |
| **Free operating cash flow** | $ 9,458 | $ (3,500) | $ 7,116 | $ 6,683 |
| | | | | |
| Net Income | $ 7,304 | 11,823 | $ 34,071 | 20,054 |
| Discrete Tax Item - Tax on Foreign Cash | - | (456) | (778) | 14,559 |
| Adjusted Net Income | 7,304 | 11,367 | 33,293 | 34,613 |
| **Conversion of free operating cash flow** | 129.5% | NM | 21.4% | 19.3% |

**Standex free cash flow should build throughout the remainder of the fiscal year**

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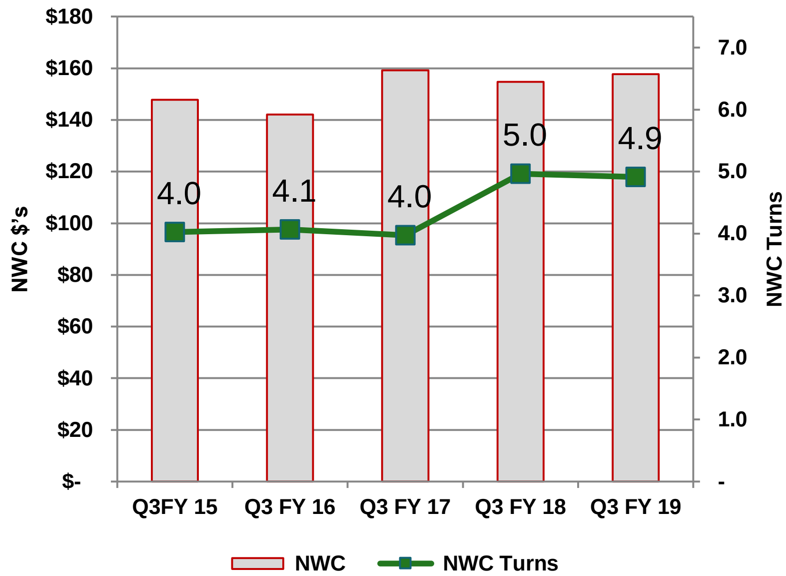
# Net Working Capital




| (Total Consolidated) | Q3 FY 19<br>3/31/19 | Q3 FY18<br>3/31/18 |
|---|---|---|
| A/R | 115,741 | 120,284 |
| DSO | 53 | 53 |
| Inventory | 103,383 | 107,138 |
| Inventory Turns | 4.9 | 4.7 |
| A/P | (61,359) | (72,684) |
| DPO | 38 | 45 |
| Net Working Capital | 157,765 | 154,738 |
| W/Cap Turns | 4.9 | 5.0 |

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

***Net Working Capital increased by $3.0M***

- ***Accounts Receivable came down despite acquisitions due to collection efforts***
- ***Inventory also was reduced as business units employed "Plan for every Part"***

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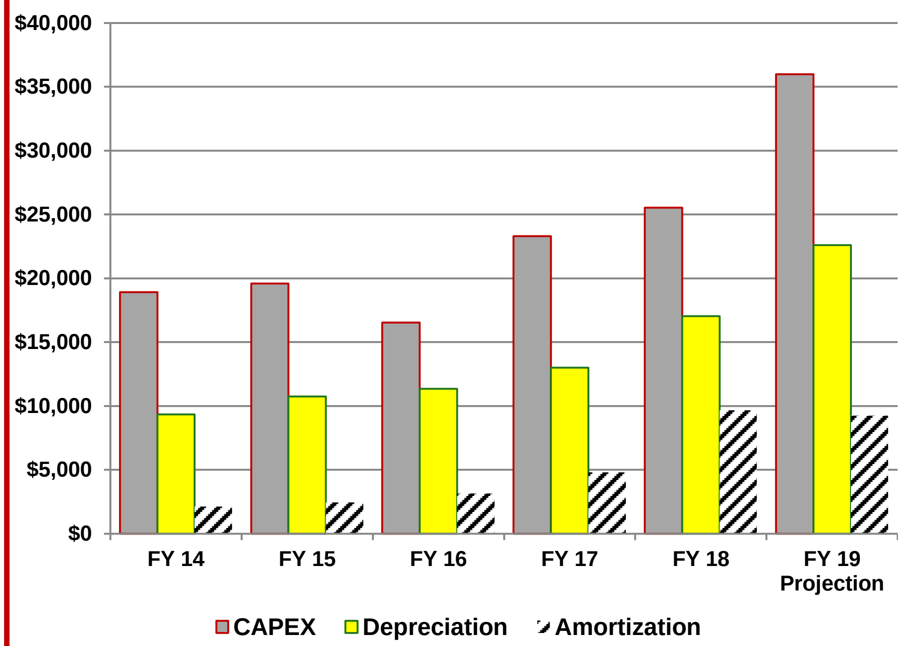
# Capital Spending




**Capital Spending**

| (In thousands, except percentages) | Q3 FY 19 Actl | Q3 FY 18 PY | YTD Mar FY19 | YTD Mar FY18 |
|---|---|---|---|---|
| Food Service Equipment | $ 554 | $ 403 | $ 1,762 | $ 1,857 |
| Engraving | $ 1,435 | $ 1,084 | $ 6,750 | $ 7,089 |
| Engineering Technologies | $ 522 | $ 533 | $ 1,858 | $ 3,194 |
| Electronics | $ 2,490 | $ 3,041 | $ 9,504 | $ 6,218 |
| Hydraulics | $ 37 | $ 40 | $ 920 | $ 1,206 |
| HQ | $ 7 | $ 88 | $ 51 | $ 150 |
| Total CAPEX including AP | $ 5,044 | $ 5,189 | $ 20,847 | $ 19,713 |
| Sales | $ 193,771 | $ 192,147 | $ 582,380 | $ 566,982 |
| CAPEX % of Sales | 2.6% | 2.7% | 3.6% | 3.5% |
| CAPEX in A/P | | | | |
| Net Change CAPEX in A/P | $ (1,249) | $ 294 | $ (3,003) | $ 494 |
| Cash CAPEX | $ 3,795 | $ 5,483 | $ 17,844 | $ 20,207 |
| Cash CAPEX % of Sales | 2.0% | 2.9% | 3.1% | 3.6% |

CAPEX, Depreciation and Amortization has been restated without Cooking Solutions

**FY19 CAPEX projected to be $35M-$36M**
**Depreciation ~$23M and Amortization ~$9M in FY19**

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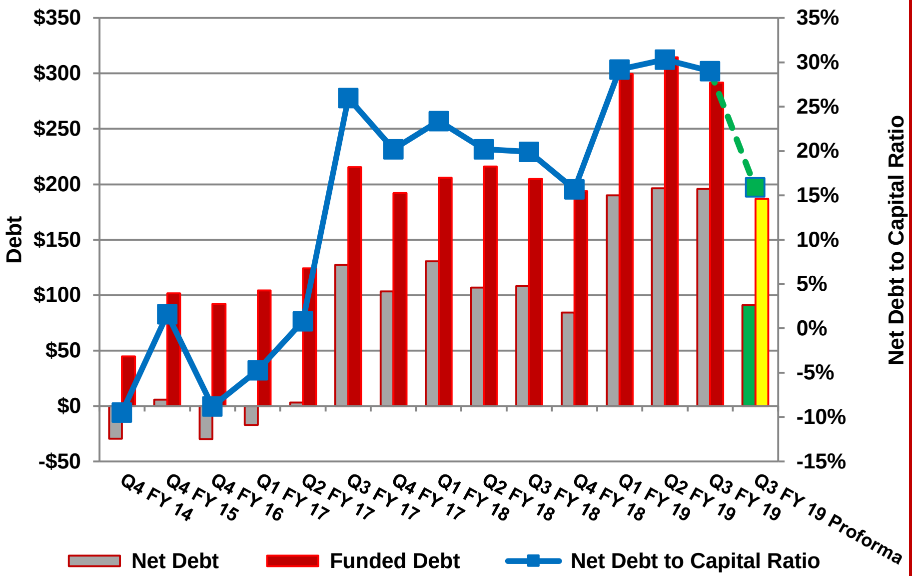
# Capitalization




| | Proforma Q3 FY19 3/31/2019 | | Q3 FY19 3/31/2019 | | Q2 FY19 12/31/2018 | |
|---|---|---|---|---|---|---|
| Short Term Debt | - | | - | | - | |
| Long Term Debt (ex-issuance costs) | 187,000 | | 293,000 | | 316,000 | |
| Funded Debt | 187,000 | | 293,000 | | 316,000 | |
| Cash | 96,041 | | 96,041 | | 118,174 | |
| Net Debt | 90,959 | | 196,959 | | 197,826 | |
| Shareholders Equity | 479,617 | | 479,617 | | 452,826 | |
| Letters of Credit | 7,440 | | 7,440 | | 7,438 | |
| EBITDA per Credit Agreement | 118,981 | | 118,981 | | 131,523 | |
| Net Debt to Capital Ratio | 15.9% | | 29.1% | | 30.4% | |
| Funded Debt to Capital | 28.1% | | 37.9% | | 41.1% | |
| Excluded Cash for Purposes of Leverage Calculation | (60,000) | | (60,000) | | (60,000) | |
| EBITDA to Funded Debt (Includes Letters of Credit) | 1.13 | x | 2.02 | x | 2.00 | x |
| Maximum Leverage Per Agreement | 3.5 | x | 3.5 | x | 3.5 | x |

Proforma includes divestiture cash paid on April 1, 2019

- ✓ ***Proforma included divesture cash of $105M received on April 1st 2019***
- ✓ ***Balance sheet leverage is low, with the ability to invest in key acquisitions and growth investments***

**Net debt to capital at 37.9%, Proforma net debt to capital at 28.1%**
**EBITDA to funded debt at 2.02x, Proforma EBITDA to funded debt at 1.13x**

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# Summary

1

**4Q19 expected to be sequentially stronger than 3Q but below 4Q18**

- Engineering, Hydraulics and Scientific segments remain strong in 4Q
- Engraving revenue increase sequentially in 4Q ramping more sharply in FY20
- Electronics will remain at similar sales levels through the calendar year
- Food Service seasonal sequential revenue increase in 4Q, continued Refrigeration weakness

2

**Executing productivity improvements and cost reduction efforts; expect $3.8M in cost savings on an annual basis**

- Engraving reorganization of select N. American facilities into centers of excellence; converting some small production sites into sales offices
- Electronics G&A expense reduction and productivity improvements
- Restructuring charges of $0.8M in 4Q19 and $2.8M in FY19

3

**Driving portfolio towards higher growth and return opportunities**

- Sales from Engraving growth laneways grew 39.4% YOY in 3Q19
- Very healthy Electronics new business opportunity funnel
- Acquisition of GS Engineering
- India Electronics production launch
- Divestiture of Cooking Solutions Group

4

**Strengthening financial position for disciplined capital allocation**

- Pro forma net debt to EBITDA of 1.1x post CSG divestiture
- FY19 YTD free cash flow of $9.8M; expect FCF to build throughout the remainder of FY19

# Q&A