



September 14, 2017

Dear Fellow Shareholders,

I am pleased to report to you the highlights of our fiscal year 2017 and the advances Standex is making on our long-term journey. This year, we made significant progress repositioning Standex to be an operating company with higher margin, faster-growing businesses serving differentiated and attractive markets. Electronics, Engineering Technologies and Engraving, in particular, succeeded in growing sales into new segments and applications. The continued implementation of our operating playbook, the Standex Value Creation System, led to increased sales of new product offerings, improvements in our facilities and development of our leaders. Our two acquisitions, a scientific refrigeration business, and the world's leading reed switch manufacturer, fueled a strong fourth quarter, and provide a platform for the future. Unfortunately, a significant setback in our largest business, commercial refrigeration, created a headwind that the rest of the corporation could not overcome.

To briefly summarize our financial results, sales increased 0.5% to \$755.3 million, with acquisitions more than offsetting the negative effect of foreign exchange, divestitures and a slight decrease for the year in organic growth. It is worth noting that organic sales grew in the second half of the year as growth initiatives ramped up and the decline in refrigeration modulated. On the bottom line, operating income was lower by 7.8% and adjusted operating income was down 0.8%, mostly driven by headwinds in commercial refrigeration. GAAP EPS decreased 7.8% to \$3.64 per diluted share, and adjusted EPS was down 1.1% to \$4.54 per share.

Progress in Standex as an Operating Company: The Value Creation System

Implementation of the **Value Creation System** remains paramount to our strategy. In 2017, we made great progress in driving a standard operating model for **Operational Excellence, Talent Development** and **Growth Planning** across the business.

The **Growth Disciplines Process** is our growth planning toolkit. It starts with every business carefully mapping their markets, then identifying attractive adjacencies for growth and conducting market tests to assess the opportunity. When market tests return a positive result, the business launches a growth laneway to enter the new segment with a new product or a new channel strategy. During the year, we conducted 12 market tests and delivered \$26 million of sales from growth laneways, up from \$13 million in fiscal 2016. The positive effect of our Growth Disciplines strategy was notably seen in our Engraving, Electronics and Engineering Technologies businesses, where the growth

generated from our dedicated laneways more than offset the market pressures faced in the rest of the business, delivering organic growth for the corporation in the second half of 2017.

Through our **Operational Excellence** initiatives, we continued to drive important operating improvements in our plants. By focusing on deploying standard LEAN enterprise tools throughout the businesses, we delivered enhanced customer value, eliminated waste and increased efficiency. We also have made significant improvements with our plant safety performance, reducing our 12-month incident rate to its lowest in company history. Providing a safe working environment for our employees is of critical importance, and I'm pleased with the progress we have made on that front. We will continue to emphasize a culture of safety in the months and years ahead.

During the year we also made several important advancements with our **Talent Management** initiatives. We have a special culture at Standex, and we are committed to developing our own talent and promoting from within. Our long-term goal is to fill 80% of our leadership positions internally, and we made great strides toward that goal this year by increasing our internal fill rate of open leadership positions to 48%, up from 36% in 2016. During the year, we were also able to attract talented newcomers to our ranks, bringing valuable skills that complement our current teams.

Successful Acquisitions Delivering Top and Bottom Line Growth

To complement our organic growth, we are making accretive, strategic acquisitions that reposition our businesses toward higher margin and higher growth markets. In fiscal 2017, we built on our track record of M&A success and executed on two exceptional acquisitions - Horizon Scientific and OKI Sensor Device Corporation, now Standex Electronics Japan. We are making excellent progress with the integration of both businesses into our organization. Combined with the other three major acquisitions we made since embarking on our strategy in fiscal 2014 (Northlake, Ultrafryer and Enginetics) -- our acquired businesses delivered nearly \$100 million in sales at an EBIT rate over 15%, well above our corporate average margin rate. We are making the right deals, effectively executing on the integrations, and driving value for shareholders.

While we enjoyed success with our acquisitions and organic growth laneways, significant headwinds continued to impact our largest business, refrigeration, as well as our standard cooking products. Together, they constitute just over half of our Food Service Equipment Group sales, with the remainder coming from differentiated products, which are performing well. These standard products businesses sell into product segments that compete on operational excellence and win on cost, delivery and quality. Combined, these businesses contributed to a sales decline of \$24 million and an EBIT decline of \$11 million, which was a significant drag for the corporation overall. The refrigeration business is facing an industry shift with more volume flowing through distribution channels at lower margins. Further, we experienced productivity issues stemming from a foaming agent change in the third quarter. We are committed to realigning both the refrigeration and the standard cooking products business models to

the new market reality, and plans are underway to restructure these businesses in early fiscal 2018.

Fiscal 2018 Outlook

Looking ahead, in fiscal 2018 our priorities remain to execute on our Value Creation System. We are committed to our leadership development efforts so that we can continue to leverage internal bench strength to achieve our operational improvement targets, deliver organic growth and successfully integrate new businesses. Growth through strategic acquisitions remains a top priority. We have an active and healthy pipeline of opportunities, and our balance sheet positions us to swiftly pursue the right deals. Repositioning the refrigeration and standard cooking products businesses to compete more profitably in their respective markets is also a top priority in 2018.

I want to take this opportunity to thank Roger Fix for his passionate and energetic leadership since joining Standex in 2001. Roger will be retiring from the Board this year. Roger first served as COO, then President/CEO until 2013, when he became chairman of the Board of Directors in January 2014. In his time as CEO, he led the corporation through significant restructuring and divestitures, selling off businesses representing 67% of company sales to make way for acquisitions in support of our five core segments. With a combination of contagious passion, unwavering tenacity and sheer willpower, he led the corporation through the 2008 great recession and positioned it for today's successes. As a board member, he has been a valued and trusted advisor to me and a voice of deep experience and insightful perspective for the Board. Thank you, Roger.

Finally, I also would like to recognize the men and women of Standex worldwide who demonstrate on a daily basis the ability to adapt and grow individually, as well as lead and impact change in our businesses.

We exited 2017 with solid momentum, and we are well positioned to achieve our vision of transforming Standex from its historical business model to an operating company. We are steadfastly committed to delivering continued value to our shareholders, customers and employees in 2018 and beyond. We thank you for your continued support.

With gratitude,



David Dunbar
President/Chief Executive Officer
Chair, Board of Directors