# First Quarter Fiscal 2016 Conference Call



October 29, 2015













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Statements in this presentation include, or may be based upon, management's current expectations, estimates and/or projections about Standex's markets and industries. These statements are forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Actual results may materially differ from those indicated by such forward-looking statements as a result of certain risks, uncertainties and assumptions that are difficult to predict. Among the factors that could cause actual results to differ materially from those currently expected or desired. These factors include, but are not limited to: material adverse or unforeseen legal judgments, fines, penalties or settlements; conditions in the financial and banking markets, including fluctuations in the exchange rates and the inability to repatriate foreign cash; general and international recessionary economic conditions, including the impact, length and degree of the current recessionary conditions on the customers and markets we serve and more specifically conditions in the food service equipment, automotive, construction, aerospace, energy, transportation and general industrial markets; lower-cost competition; the relative mix of products which impact margins and operating efficiencies, both domestic and foreign, in certain of our businesses; the impact of higher raw material and component costs, particularly steel, petroleum based products and refrigeration components; an inability to realize the expected cost savings from restructuring activities, effective completion of plant consolidations, cost reduction efforts, restructuring including procurement savings and productivity enhancements, capital management improvements, strategic capital expenditures, and the implementation of lean enterprise manufacturing techniques; the inability to achieve the savings expected from the sourcing of raw materials from and diversification efforts in emerging markets; the inability to attain expected benefits from strategic alliances or acquisitions, the inability to achieve synergies contemplated by the Company; other factors discussed in the Annual Report of Standex on Form 10-K for the fiscal year ending June 30, 2015, which is on file with the Securities and Exchange Commission, and any subsequent periodic reports filed by the company with the Securities and Exchange Commission.

In addition, any forward-looking statements represent management's estimates only as of the day made and should not be relied upon as representing management's estimates as of any subsequent date. While the company may elect to update forward-looking statements at some point in the future, the company and management specifically disclaim any obligation to do so, even if management's estimates change.



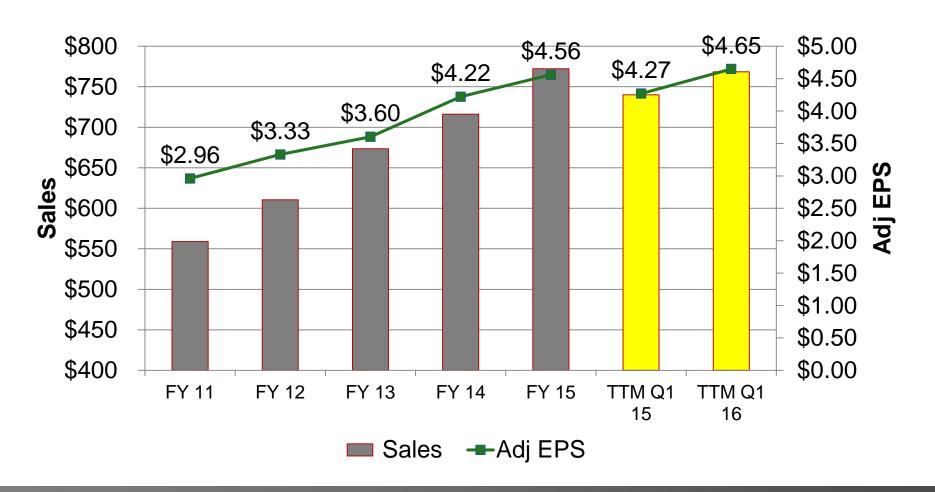
### First Quarter 2016 Overview

- YOY sales were down by -1.8% to \$198.4M
  - Organic sales -0.8%
  - Acquisitions +2.0%
  - FX impact of -3.0%
- Q1 non-GAAP operating income +7.6% and non-GAAP
   EPS of \$1.34 share, up 7.2% from prior year
- Net debt position of \$9.0M at end of Q1
- Making progress executing on Value Creation System
  - Four pillars are in place and being used in our businesses
  - Investing in talent to drive improvement across organization. New Corporate Leaders added this calendar year for Operational Excellence, Business Development, and Human Resources

Non-GAAP EPS up year over year despite currency and oil headwinds



# Non-GAAP Earnings Per Share Trend



TTM Sales and Adj. EPS up 3.8% and 8.9% YOY, respectively, on a non-GAAP basis



## Revenue Changes

Q1 2016 YOY Change %	Food Service	Engraving	Engineering Technologies	Electronics	Hydraulics	Total
Organic	-5.1%	30.8%	-26.6%	1.5%	4.4%	-0.8%
Acquisitions	0.0%	0.0%	20.6%	0.0%	0.0%	2.0%
Currency	-0.7%	-11.5%	-1.0%	-6.5%	-0.1%	-3.0%
Total	-5.8%	19.3%	-7.0%	-5.0%	4.3%	-1.8%

- As anticipated, revenue impacted by:
  - Lower Oil and Gas sales into Engineering Technologies Segment
  - Foreign Currency headwinds primarily in Engraving and Electronics Segments



# **Quarter Financials**

(In thousands, except percentages, per share data and bps)	Q1 Y16	Q1 <u>Y15</u>	Delta
Sales	\$ 198.398	\$ 202.027	-1.8%
Operating Income	\$ 23.103	\$ 21.237	8.8%
Operating Income Margin	11.64%	10.51%	113 bps
Operating Income excl Special Items	\$ 24.622	\$ 22.884	7.6%
Operating Income Margin excl Special Items	 12.41%	11.33%	108 bps
EBITDA	\$ 27.707	\$ 25.513	8.6%
EBITDA %	13.97%	12.63%	134 bps
EBITDA w/o Special Items	\$ 29.226	\$ 27.160	7.6%
EBITDA % w/o Special Items	 14.73%	 13.44%	129 bps
EPS Continuing Ops	\$ 1.26	\$ 1.16	8.6%
EPS Continuing Ops w/o Special Items	\$ 1.34	\$ 1.25	7.2%



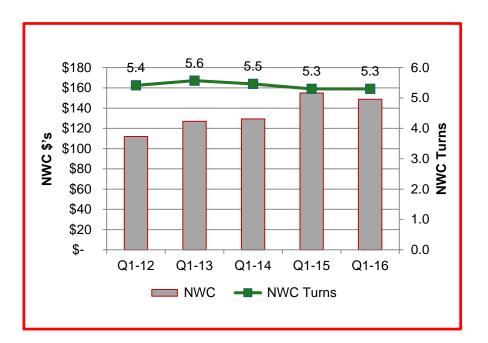
# Quarter Bridge

	Q1	TTM Net Income			Q1 TTM EPS	
(In thousands, except percentages and per share data)	FY16	FY15%	<u>Change</u>	FY16	FY15	% Change
Net Income Continuing Operations	\$ 56,458	\$ 52,326	7.9%	\$ 4.42	\$ 4.08	8.3%
Add:						
Restructuring Charges	\$ 2,964	\$ 5,090		\$ 0.23	\$ 0.40	
Management Transition - Non cash stock comp	\$ -	\$ 1,208		\$ -	\$ 0.08	
Management Transition	\$ -	\$ 1,495		\$ -	\$ 0.12	
Acquisition-related costs	\$ 672	\$ 605		\$ 0.05	\$ 0.05	
Discrete Tax Items	\$ -	\$ -		\$ -	\$ -	
Less:						
Life Insurance Benefit	\$ -	\$ (3,353)		\$ -	\$ (0.26)	
Non Monetary Conversion	\$ (361)	\$ (2,476)		\$ (0.03)	\$ (0.19)	
Discrete Tax Items	\$ (239)	\$ (139)		\$ (0.02)	\$ (0.01)	
Non-GAAP Net Income from Continuing Operations	\$ 59,494	\$ 54,756	8.7%	\$ 4.65	\$ 4.27	<u>8.9%</u>

GAAP Net Income Continuing Operations increased by 7.9% and EPS by 8.3% Non-GAAP Net Income from Continuing Operations increases by 8.7% and EPS by 8.9%



# **Net Working Capital**



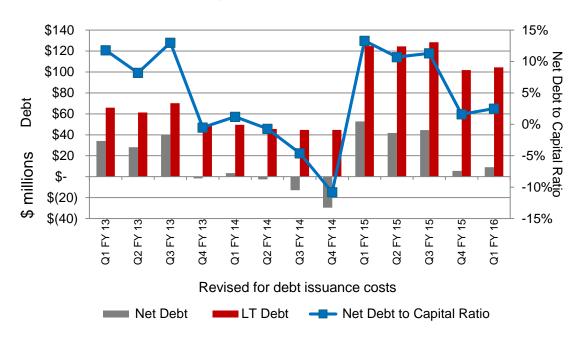
(In thousands, except DSO, Turns and DPO)	9/30/15	9/30/14
A/R	106,263	114,459
DSO	49	50
Inventory	113,021	111,491
Inventory Turns	4.7	5.2
A/P	(70,579)	(70,998)
DPO	39	39
Net Working Capital	148,705	154,952
W/Cap Turns	5.3	5.3

### Working Capital decreased due to:

- ✓ Currency impact
- ✓ Partially offset by inventory increases due to:
  - ✓ Lower sales in Engineering Technologies from oil and gas
  - ✓ Lower sales from Refrigeration from large chain customers



### Debt Management



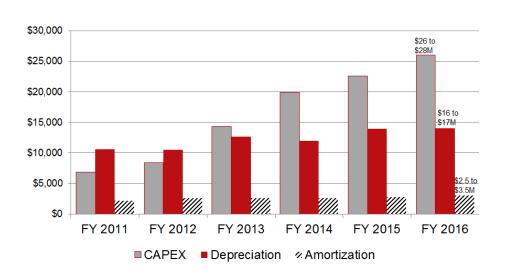
(In thousands, except	
percentages and ratios)	9/30/2015
Funded Debt	105,530
Issuance Costs	(1,184)
Long Term Debt	104,346
Cash	95,325
Net Debt	9,021
Shareholders Equity	358,603
Letters of Credit	7,687
EBITDA per Credit Agreement	103,091
Net Debt to Capital Ratio	2.5%
Long Term Debt to Capital	22.5%
EBITDA to Funded Debt (Includes Letters of Credit)	1.10
Maximum Leverage Per Agreement	3.5

- Net debt to capital at 2.5% as of September 30, 2015
- Net debt position of \$9,021 as of September 30, 2015

Strong Balance Sheet with ability to make strategic capital expenditures and bolt-on acquisitions



# Capital Spending



(In millions)	 Q1 FY16
Food Service Equipment	1.4
Engraving	0.6
Engineering Technologies	2.1
Electronics	0.7
Hydraulics	0.5
HQ	 0.0
Total CAPEX	\$ 5.3

- FY 16 capital spending is estimated to be between \$26-\$28M
- Capital spending includes +\$6.0M of capital dedicated to a new facility to support aviation for Engineering Technologies



### Non-GAAP FCF Per Share Trend

(In thousands, except percentages and per share data)	Q1 FY	Q1 FY
Free operating cash flow (continuing ops):	2016	2015
Net cash provided by operating activities,		
as reported	\$ 7,873	\$(10,959)
Less: Capital Expenditures	(5,337)_	(7,199)
Free operating cash flow	\$ 2,536	\$(18,158)
Net Income	16,141	14,927
Conversion of free operating cash flow	15.7%	-121.6%
Shares	12,763	12,833
FCF Per Share	\$ 0.20	\$ (1.41)



### First Quarter FY 2016

**Operational Segment Review** 



### Food Service Equipment Group

Q1 FY 2016 ('000s)	\$	Delta YOY
Revenues	\$107,213	-5.8%
Operating Income	\$14,024	+20.1%
OI Margin	13.1%	



### **Q1 Summary**

- Raised group margins to 13.1%
- Sales decrease driven by lower volume at refrigeration
- Refrigeration sales to large, national chains and dollar stores declined
- Cooking Solutions sales increase primarily driven by grocery
- Transitional costs from last year's plant move continue to decline
- OpEx initiatives at Cooking Solutions having positive results

- Continue transformation of the business
- Investments in plants for efficiency and productivity
- Product line reviews and strategic planning



# **Engraving**

Q1 FY 2016 ('000s)	\$	Delta YOY
Revenues	\$33,521	+19.3%
Operating Income	\$9,907	+42.7%
OI Margin	29.6%	





### **Q1 Summary**

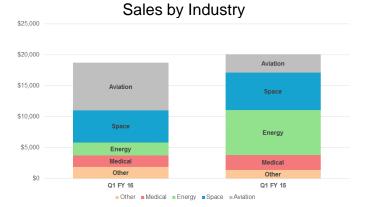
- Record orders, sales and EBIT
- Sales growth and profitability driven by Mold Tech North America and China
- New model launches, project delays from Q4
- Sales also up at Roll, Plate and Machinery and Innovent
- Demand increasing for laser engraving in Mold Tech will require capital investment

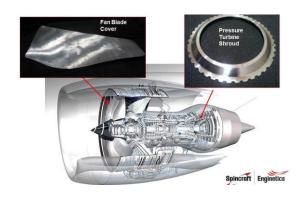
- Delivering on:
  - New model launches
  - Architexture Design Center sales
  - New technology sales in Nickel Shell and Laser
- Ramp up new location in Sweden



## **Engineering Technologies**

Q1 FY 2016 ('000s)	\$	Delta YOY
Revenues	\$18,711	-7.0%
Operating Income	\$675	-69.6%
OI Margin	3.6%	





### **Q1 Summary**

- Organic sales decreased year over year by approximately 27% in legacy business due to lower sales into the Energy (Oil and Gas), Space Medical Industries.
- Aviation sales were up and Enginetics increased year over year
- Profitability affected by lower volume and overhead absorption in Wisconsin and UK factories

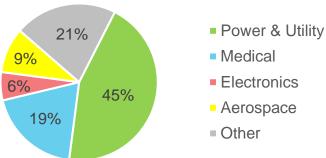
- OpEx focus at Enginetics to support their scheduled volume ramp up
- 1H '16 sales will continue to be affected by lower Oil & Gas
- Rightsize business due to market fall off in Oil & Gas.
- Realigning the business to meet near-term demand



### **Electronics**

Q1 FY 2016 ('000s)	\$	Delta YOY
Revenues	\$27,986	-5.0%
Operating Income	\$5,550	+0.1%
OI Margin	19.8%	





Northlake Sales by Industry Breakdown

### **Q1 Summary**

- Sales decrease due to foreign exchange
- Sales up in Europe and China but down in North America due to temporary destocking
- Backlog was up slightly in all regions
- Operating income was flat to prior year despite sales shortfall. Purchasing cost savings and spending controls offset lower volume
- Industrial and Medical markets were down, Transportation was up
- Northlake Engineering acquisition furthers growth strategy

- Integration of Northlake acquisition sales team, operations and supply management
- Accelerate growth laneways in sensor technologies through market tests
- Continue to roll out OPEX playbook in Europe and China



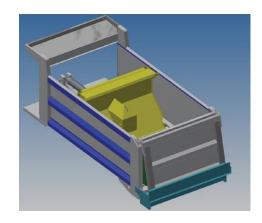
# Hydraulics

Q1 FY 2016 ('000s)	\$	Delta YOY
Revenues	\$10,967	+4.3%
Operating Income	\$1,976	+14.8%
OI Margin	18.0%	



Horizontal Ejector
Trailer
Double Acting
telescopic with
Nitrix coating

Unique design as replaces a dump body



### **Q1 Summary**

- Sales grew primarily due to dump truck and trailer market
- Strong demand continues from refuse market
- Started up robotic welder in Ohio plant
- Tianjin plant continues to increase efficiencies with sharp focus on operational improvements

- Pursue new business opportunities that require robust custom engineering designs
- Complete field test of "press and pack" 4000 series cylinders for the refuse market



## Q1 Summary

- Margin expansion in four businesses
- Adjusted EPS expanded 7.2% from the prior year
- Food Service EBIT margin at 13.1%; Continuing the transformation of the business
- Repositioning Engineering Technologies into aviation
- Record quarter in Engraving
- Continued momentum in Electronics and Hydraulics
- Focused on executing four pillars of Standex Value Creation System
- We continue be cautious about currency expectations, oil and gas markets and regional economic conditions

