# 2013 Third Quarter Earnings Conference Call

November 12, 2013

**Jeffrey T. Gill**
*President & CEO*

**Brian A. Lutes**
*Vice President & CFO*

**Anthony C. Allen**
*Vice President & Treasurer*

# Safe Harbor Disclosure

***Non-GAAP Financial Measures***
*Any non-GAAP measures, and their related reconciliation to GAAP measures, are provided and available on the company's website: www.sypris.com*

***This press release contains "forward-looking" statements within the meaning of the federal securities laws. Each forward-looking statement herein is subject to risks and uncertainties, as detailed in our most recent Form 10-K and Form 10-Q and other SEC filings.*** *Briefly, we currently believe that such risks also include the following: declining revenues and backlog in our aerospace and defense business lines as we attempt to transition from legacy products and services into new market segments and technologies; reliance on major customers or suppliers, especially in the automotive or aerospace and defense electronics sectors, including the risk of potentially adverse outcomes in ongoing contract renewal negotiations with Dana Holding Corporation and Meritor Inc.; our ability to successfully develop, launch or sustain new products and programs within the Electronics Group; dependence on, retention or recruitment of key employees especially in challenging markets; adverse impacts of new technologies or other competitive pressures which increase our costs or erode our margins; the costs of compliance with our auditing, regulatory or contractual obligations; potential impairments, non-recoverability or write-offs of assets or deferred costs; inventory valuation risks including excessive or obsolescent valuations; volatility of our customers' forecasts, production levels, financial conditions, market shares, product requirements or scheduling demands; the cost, quality, timeliness, efficiency and yield of our operations and capital investments, including working capital, production schedules, cycle times, scrap rates, injuries, wages, overtime costs, freight or expediting costs; regulatory actions or sanctions (including FCPA, OSHA and Federal Acquisition Regulations, among others); potential weaknesses in internal controls over financial reporting and enterprise risk management; the costs and supply of, or access to, debt, equity capital, or insurance; fees, costs or other dilutive effects of refinancing, or compliance with covenants; disputes or litigation involving customer, supplier, employee, lessor, landlord, creditor, stockholder, product liability or environmental claims; U.S. government spending on products and services that our Electronics Group provides, including the timing of budgetary decisions; changes in licenses, security clearances, or other legal rights to operate, manage our work force or import and export as needed; breakdowns, relocations or major repairs of machinery and equipment; pension valuation, health care or other benefit costs; labor relations; strikes; union negotiations; cyber security threats and disruptions; changes or delays in customer budgets, funding or programs; cost and availability of raw materials such as steel, component parts, natural gas or utilities; failure to adequately insure or to identify environmental or other insurable risks; revised contract prices or estimates of major contract costs; risks of foreign operations; currency exchange rates; war, terrorism, or political uncertainty; unanticipated or uninsured disasters, losses or business risks; inaccurate data about markets, customers or business conditions; or unknown risks and uncertainties. There can be no assurance that our expectations, projections or views expressed in any forward-looking statements will come to pass, and undue reliance should not be placed on these forward-looking statements. We undertake no obligation to update these statements, except as required by law.*

# Table of Contents

- Overview
- Segment Review
  - Aerospace & Defense
  - Industrial
- Financial Review
- Summary
- Q&A Session

# Overview

## Q3 Highlights

- Quarter remained mostly stable for both segments
  - Heavy truck demand slowed from the prior quarter; however global oil and gas markets remained solid
  - Improved visibility within A&D
- Revenue decreased slightly quarter-over-quarter
  - Sales declined to $76.3 million, down 7% from the prior quarter due to lower Industrial Group sales
  - A&D revenues showed a 24% improvement from Q2
- Gross profit decreased to $7.3 million
  - Gross margin of 9.5%
- EPS impacted by A&D volume and mix
  - ($0.10) loss for the quarter

# Aerospace & Defense

## Q3 Highlights

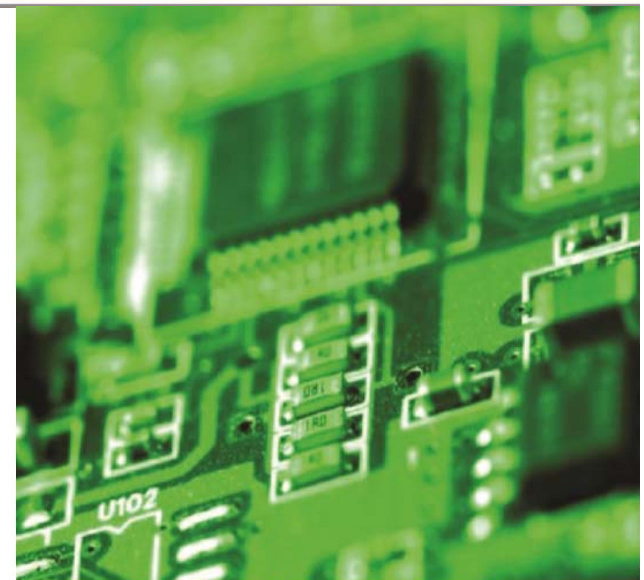
- Business Results
  - Q3 sales of $9.6 million, up 24% sequentially, but still well below desired levels
  - Revenue with certain established programs incurred continued delays
  - Supported significant “Bid & Proposal” efforts relative to core technologies and Cyber offerings
  - Booked additional EDMS programs with established customers
- Continued R&D technology investment during Q3
  - Booked program that provides customer-funding to accelerate and extend development efforts
  - Balancing short-term needs with long-term goals

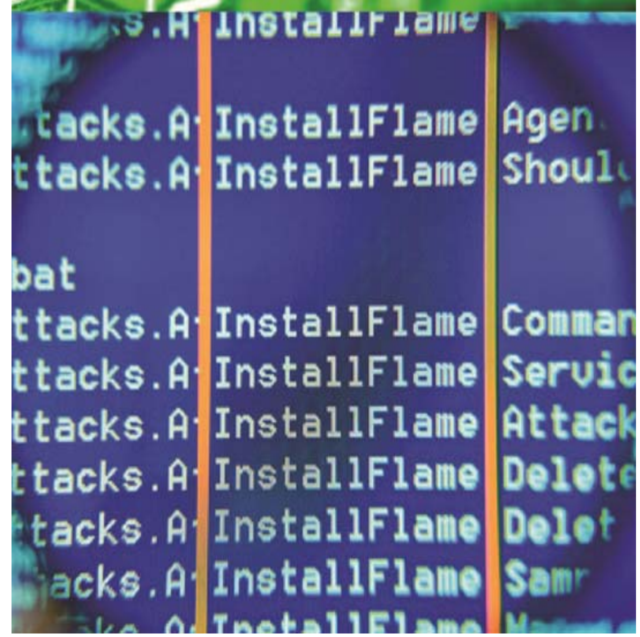

# Aerospace & Defense

SYPRIS® SOLUTIONS

## Outlook

- US defense industry challenges are likely to continue
  - We remain committed to improving our portfolio through diversification
- Procured a customer-funded development program within our core technologies; additional such opportunities are underway and promising
- Working aggressively to expand EDMS opportunities
  - Increase share with ITT, Northrop Grumman, L3
  - “Trusted Source” certification a differentiator
- Opportunities exist for international sales of our communication devices: NATO, Japan and India
- Funding other growth platforms is essential
  - Convert on global Cyber opportunities
  - Pursue synergistic acquisitions

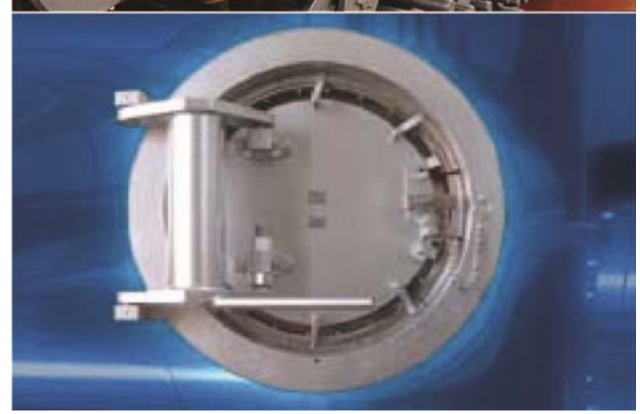


# Industrial

## Q3 Highlights

- Business Results
  - Q3 sales of $66.7 million, up 2% from 3Q12
  - Q3 gross profit of $7.4 million, up 13% from 3Q12
- Quality and delivery continue at world class levels
- TPS[1] activities showing progress at each site
- The combination of process improvements and the TPS implementation has contributed to over $2M of YTD savings across our sites
- Global oil and gas markets supported continued growth for our branded closures, joints and other products that are used in a wide variety of petrochemical applications
- Filed patent applications for new drive train components that have the potential to reduce weight by 16% or more



(1) Toyota Production System

# Industrial

## Outlook

- Markets are stable to positive
  - Near term heavy truck market tracking near 3Q levels with some upside potential as customers' inventory reductions appear to be complete
  - 2014 Class 5-8 production expected to be up 9% to 10% versus 2013 (ACT Research, November 11, 2013)
  - Trailer forecasts appear stable
  - Oil and gas outlook remains upbeat
- Capture new programs and customers
  - Significant quotations still in process that will help diversify customer base within the commercial vehicle product family
  - Expanding geographic sales coverage for our oil and gas products
  - Developing new ultra high pressure products

# Financial Review
# Third Quarter 2013

November 12, 2013

**Brian A. Lutes**
*Vice President & CFO*

# Consolidated Financial Results

| ($ in thousands, except EPS) | Year-Over-Year Results | |
|---|---|---|
| | 3Q12 | 3Q13 |
| Revenue | $ 78,763 | $ 76,278 |
| Gross Profit | 9,374 | 7,261 |
| Gross Margin | 11.9% | 9.5% |
| EPS* | $ (0.29) | $ (0.10) |

- SIG revenue remained stable while A&D declined
- Lower revenue and changing product mix within A&D
- Strength of SIG's performance helped partially offset A&D's challenges
- PY included a loss of $0.32 per diluted share from discontinued operations; lower revenue and unfavorable mix impact earnings

***** EPS – Diluted earnings per share

# Consolidated Financial Results

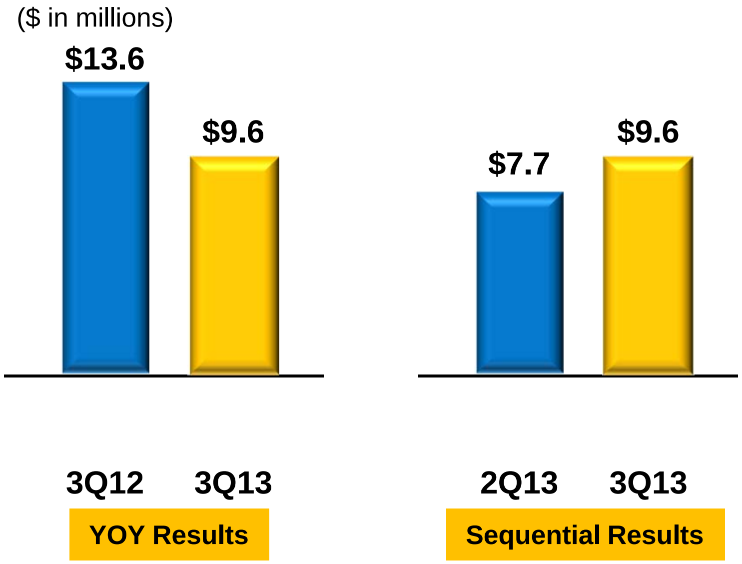
| ($ in thousands, except EPS) | Sequential Results | |
|---|---|---|
| | **2Q13** | **3Q13** |
| Revenue | $ 82,166 | $ 76,278 |
| Gross Profit | 8,336 | 7,261 |
| Gross Margin | 10.1% | 9.5% |
| EPS | $ (0.08) | $ (0.10) |

- Sequential increase in A&D revenue; insufficient to offset market softening in SIG
- Lower revenue drives reduction; offset by ongoing CI, Lean programs and TPS[(1)]
- A&D's challenges impact margin
- EPS reflects impact of lower revenue

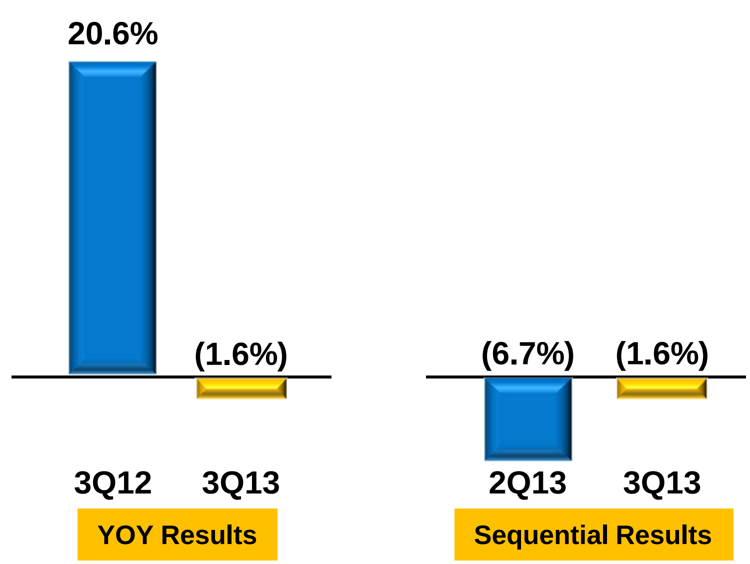
(1) Toyota Production System

# A&D Financial Results

## Revenue




## Gross Margin



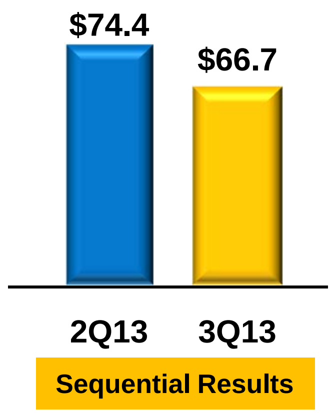

- Defense budget cuts and program delays continued to impact Q3 revenue
  - YOY revenue decreased 29% and increased 24% on a sequential basis
- Program delays/losses are slowly being offset by new wins; timing differences resulting in short-term revenue gaps

- Gross margin was a loss for 3Q13, negatively impacted by lower YOY revenue and different product mix
- Revenue and margins improved slightly from Q2

# Industrial Financial Results

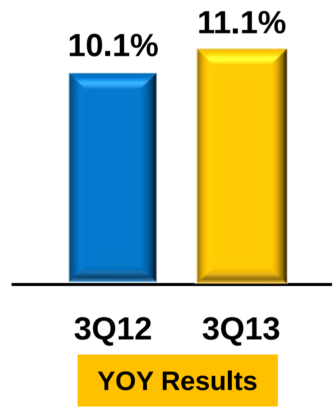
## Revenue

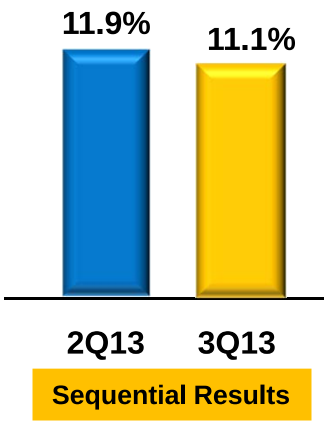
($ in millions)


- Demand remained stable; inventory rebalancing impacted sequential results
  - YOY revenue increased 2% and decreased 10% on a sequential basis
- Driving efforts to diversify our customer base; expanding our oil and gas product offerings as well

## Gross Margin




- Gross margins increased by 100 bps on a 2% YOY increase in revenue, reflecting strong operational execution
- Gross margins decreased slightly on a sequential basis, due to normal inventory rebalancing
- Prior CI, Lean efforts and our newly adopted journey with TPS[1] drive favorable impact on earnings

(1) Toyota Production System

# Summary

- Commercial vehicle demand was relatively stable, with inventory rebalancing driving lower shipments in the quarter; demand for our products serving the oil and gas markets remain very strong
  - Industrial revenue increased 2% YOY and decreased 10% on a sequential basis
  - Industrial gross margin improved 100 bps YOY to 11.1%
  - Our TPS(1) implementation is having a positive impact and is expected to drive a meaningful improvement on our future earnings
- Well positioned for a strong start and further improvement in 2014
  - Truck and trailer demand expected to strengthen in 2014; demand within the oil and gas markets remains strong, positioning SIG for another solid year
  - Funding continues across a number of A&D's key R&D platforms as a means to both reinvigorate and replenish our product offerings
- Strong balance sheet remains a real asset
  - Remain focused on opportunities that will diversify and grow earnings and cash flow
  - Maintaining critical R&D investments within A&D despite continued defense spending uncertainty and resulting headwinds

(1) Toyota Production System

# Question and Answer Session
# Q3 Earnings Conference Call

November 12, 2013


**Jeffrey T. Gill**
*President & CEO*

**Brian A. Lutes**
*Vice President & CFO*