# 2013 Fourth Quarter and Full Year Earnings Conference Call

March 11, 2014

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

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# 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: 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 disputes and negotiations with Dana Holding Corporation and Meritor Inc.; 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; our ability to successfully develop, launch or sustain new products and programs; dependence on, retention or recruitment of key employees especially in challenging markets; inventory valuation risks including excessive or obsolescent valuations; 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; cost and availability of raw materials such as steel, component parts, natural gas or utilities; 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; 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

## 2013 Highlights

- Revenue, gross profit and earnings declined from the prior year as a result of events impacting our A&D segment
  - Reported a loss of $0.51 per share, $0.36 of which was the result of goodwill impairment
- Cash flow from operations approximated breakeven, driven by strong working capital management
- The balance sheet remains an important source of strength, with net debt to total capital of 8.6%
- Process improvements and initial results from our TPS[1] activities resulted in savings exceeding $3 million
- Gary L. Convis elected to the Board, former Chairman of the Board of Toyota Motor Manufacturing Kentucky, and Executive Vice President of Toyota Motor Engineering and Manufacturing North America

(1) Toyota Production System

## Aerospace & Defense

### 2013 Highlights

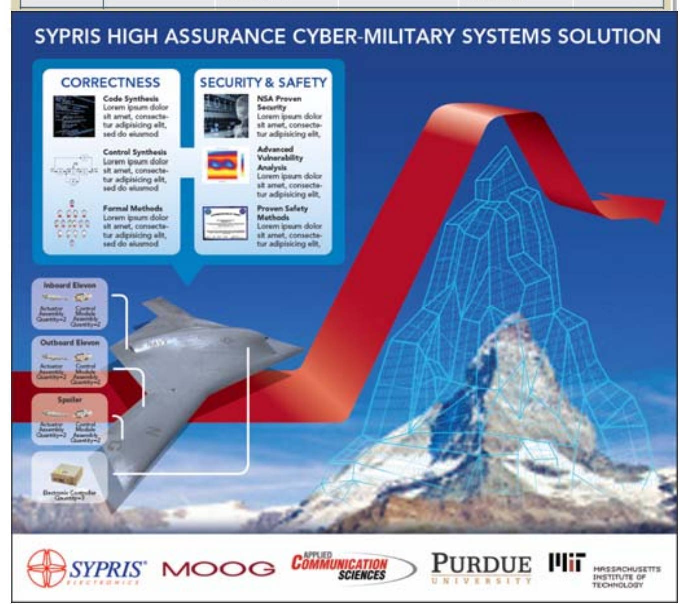
- Sequestration and associated program funding delays impacted planned shipments and the financial results
  - Goodwill from 1990s acquisition written off
- Continued critical R&D investments, advancing new core technologies to the demonstration stage
  - Booked a program that provides customer funding to accelerate and extend development efforts
  - Two additional programs under review for customer funding
- Successfully demonstrated proof of concept for new $SiO_2$Metrics™ product, a breakthrough technology that utilizes identity authentication within the silicon wafer
  - When combined with Sypris' FPGA SYPHER™ chip, the chip set is less vulnerable to cyber attack
  - Streamlines the need for key management


# Aerospace & Defense

## 2013 Highlights

- Global demand for the Sypris Cyber Range continued to build important momentum
  - Provides the critical platform for organizations to train their personnel to expertly identify, prioritize and respond to the inevitable infiltration from today's increasingly complex cyber threats
  - Subsequent to year-end, our teaming partner received an award from a foreign nation state for our product
  - New business funnel now exceeds $25 million
- Several new business wins were successfully on-boarded, while the pipeline continued to increase for 2014
  - ITT – (3) different programs
  - Northrop Grumman
  - Goodrich


| | E | D | C | B | A |
|---|---|---|---|---|---|
| Maturity Level | Reactive & Manual | Tools Level | Integrated Picture | Dynamic Defence | Resilient Enterprise |
| Training *Instruction* | Knowledge Base *Classroom Based* | Security Challenges *Hands-on-Lab* | Dynamic Exercises *Facilitated* | Modeling & Simulation | Advanced Simulation |
| Competency | Basic | Intermediate | Advanced (Custom) | Advanced (Scenario Based) | Expert |
| Proficiency | Baseline | Individual | Team | Organizational | Mastery |
| Environment | Standard | Standard/ Customized | Customized | Customized/ RealWorld | RealWorld |



# Aerospace & Defense

## 2014 Outlook

- US defense industry challenges are likely to continue
  - We remain committed to improving our portfolio through diversification, achieving a better hardware/software balance
- Key Areas of Focus
  - Secure customer funding to integrate new, demonstrated technologies, such as Keystone™ and $SiO_2$Metrics™
  - Convert on global demand for resilient threat response training through the Sypris Cyber Range
  - Further expand secure communications product sales in Canada, Norway and Germany
  - Continue to expand EMS sales in severe environment markets
  - Pursue synergistic acquisitions



# Industrial

## 2013 Highlights

- Revenue declined 3% to $276 million, while gross profit increased 2% to $32 million, or 11.5% of sales, up 70 basis points from 2012
  - EBITDA was $32 million, or 11.7% of sales
  - Free cash flow increased 46% to $16 million
  - Return on net assets[1] was 40.0%
- The combination of process improvements and the TPS[2] implementation contributed to over $3 million of savings across our sites for the year
- 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
- We expanded safety training at our sites using the DuPont STOP Behavior Safety Program

(1) Annualized
(2) Toyota Production System

# Industrial

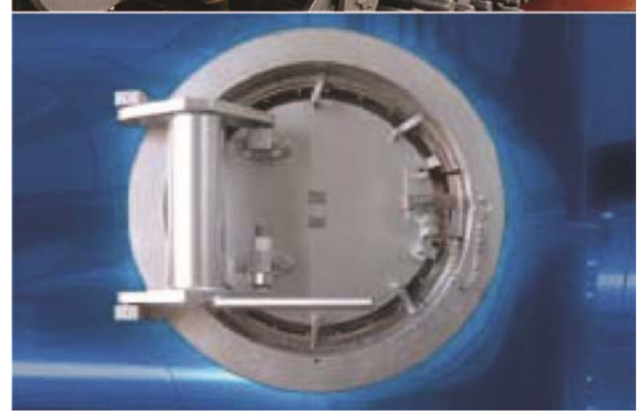
## 2013 Highlights

- Quality and delivery performance remained at world class levels
- Made investments to support future growth opportunities
  - Invested in additional production technology
  - Increased investment in product engineering
  - Filed patent applications for new drive train components that have the potential to reduce weight by more than 16%
- New business development continued at a brisk pace
  - Quotation activity with both existing and new customers in North and South America
  - Aggregate contract potential ranging from $85 million to $110 million per year, depending upon volume
- Evaluated opportunities to expand through joint ventures in North America and in Developing Markets

# Industrial

## 2014 Outlook

- Market Outlooks are Positive
  - Near-term heavy-duty truck market tracking above 4Q actuals. December through February orders highest in eight years: 95,455 units
  - 2014 Class 5-8 production expected to be up 9% versus 2013 (ACT Research, February 10, 2014)
  - Light truck and trailer remain positive
  - Oil and gas outlook remains upbeat
- Drive Margin Expansion through Efficiencies
  - Partner with Toyota to accelerate Lean conversion
  - Work closely with customers to reduce waste
- Invest to Expand Market and Customer Share
  - Evaluate opportunities to acquire unique capacity
  - Pursue joint ventures in developing countries



# Financial Review
# 2013 Fourth Quarter and Full Year

March 11, 2014

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

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# Q4 Consolidated Financial Results

SYPRIS SOLUTIONS

**Quarter-Over-Quarter Results**

($ in thousands, except EPS)

| | 4Q12 | 4Q13 | |
|---|---|---|---|
| Revenue | $ 67,466 | $ 73,859 | Driven by 15% increase in SIG revenue |
| Gross Profit | 8,638 | 6,380 | 30% SIG increase offset by lower A&D revenue and changing product mix |
| Gross Margin | 12.8% | 8.6% | Strength of SIG helped partially offset A&D's challenges |
| EPS* | $ (0.05) | $ 0.00 | 4Q13 includes $2.4 million non-cash tax benefit |

***** EPS – Diluted earnings per share

# 2014 Consolidated Financial Results

SYPRIS SOLUTIONS

| ($ in thousands, except EPS) | Year-Over-Year Results | |
|---|---|---|
| | **2012** | **2013** |
| Revenue | $ 341,604 | $ 310,714 |
| Gross Profit | 43,749 | 30,053 |
| Gross Margin | 12.8% | 9.7% |
| EPS | $ 0.13 | $ (0.51) |

- YOY decrease mostly driven by A&D
- Gross profit negatively impacted by much lower A&D revenue and product mix
- SIG's efforts with Continuous Improvement and TPS[1] helped stabilize gross margin
- EPS reflects impact of A&D issues, including goodwill impairment of $0.36 per share

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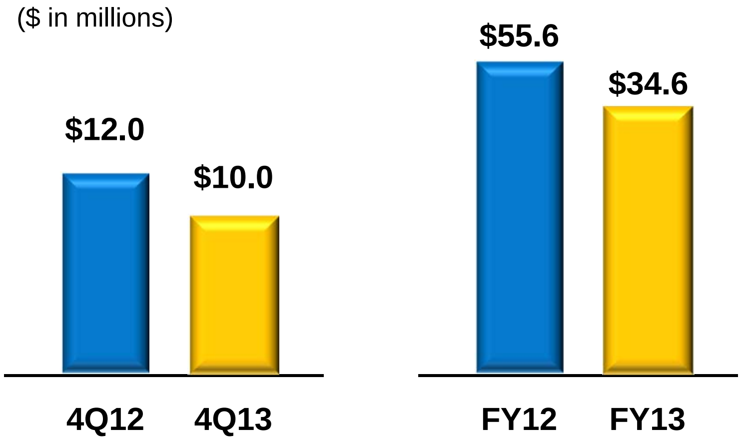
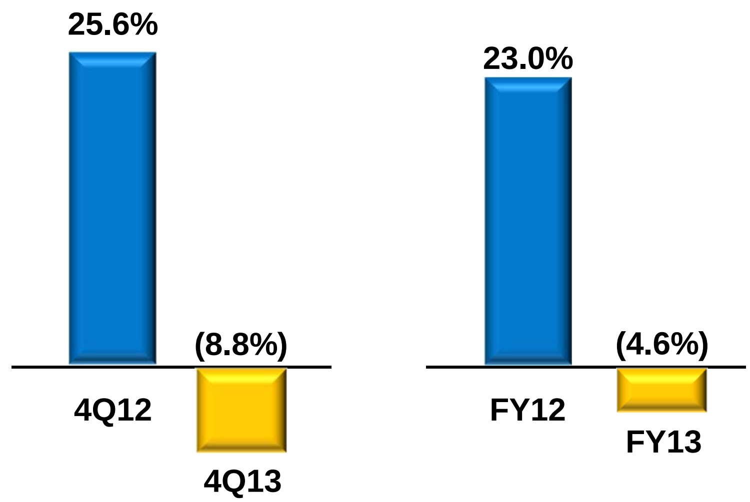
# A&D Financial Results

## Revenue




- Defense budget cuts and repositioning of the product portfolio impacted results
  - Q4 revenue decreased 17%
  - Full year revenue decreased 38%
- Program delays/losses are slowly being offset by new wins; timing differences resulting in short-term revenue gaps

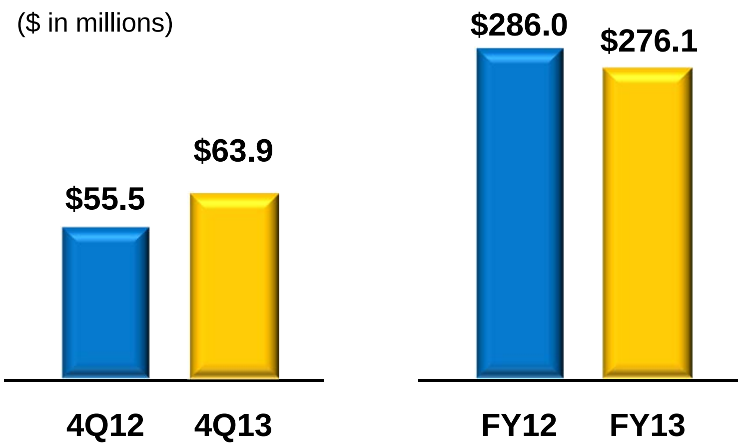
## Gross Margin



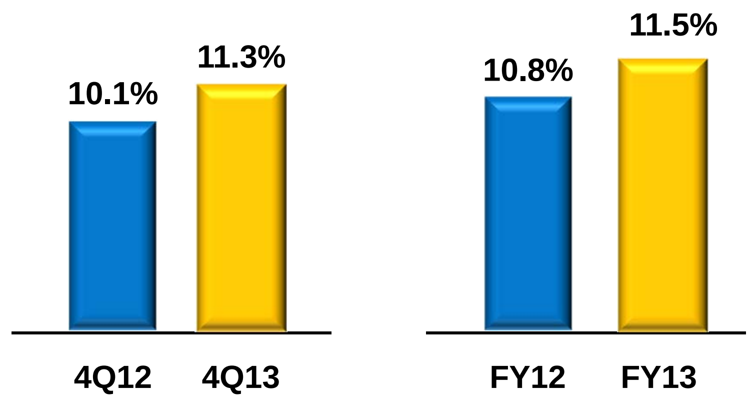

- Gross margin negatively impacted by lower YOY revenue and change in product mix
- Margins expected to improve with addition of new programs

# Industrial Financial Results

## Revenue




## Gross Margin




- Q4 performance improved over the prior year period, lower 1H demand resulted in lower YOY revenue:
  - Q4 revenue increased 15%
  - YOY revenue decreased 3%
- Driving efforts to diversify our customer base; expanding our oil and gas product offerings as well

- Gross margins for the full year increased by 70 bps, despite a $9.9 million revenue decline from the prior year reflecting improved efficiencies
- Full year gross profit up $0.7 million
- Continuous Improvement, Lean practices and our journey with TPS[(1)] drive favorable impact on earnings

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# Summary

- US defense industry dynamics not likely to change in the near term
  - Several new customers were successfully on-boarded and the funnel of prospects remain promising
  - We will leverage our High Assurance Technology and seek to grow our position in the Cyber Security segment
- Well positioned for a strong start and further improvement in 2014
  - Commercial vehicle demand within Class 5-8 expected to be up 9%
  - Trailer demand expected to also strengthen in 2014
  - Our Industrial Group TPS(1) implementation is expected to drive continued margin expansion through efficiencies
  - Demand within the oil and gas markets remains strong, positioning SIG for another solid year
- Strong balance sheet remains a real asset
  - Remain focused on opportunities that will diversify and grow earnings and cash flow
  - Committed to reinvigorating our A&D portfolio through diversification and reduced dependency on government funding

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# Question and Answer Session
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