# 2018 Third Quarter Earnings Conference Call

November 13, 2018

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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*

***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: our failure to achieve targeted gains and cash proceeds from the anticipated sale of certain equipment; our failure to return to profitability on a timely basis, which would cause us to continue to use existing cash resources or other assets to fund operating losses; the cost, quality, timeliness, efficiency and yield of our operations and capital investments, including the impact of tariffs, product recalls or related liabilities, working capital, production schedules, cycle times, scrap rates, injuries, wages, overtime costs, freight or expediting costs; cost, quality and availability of raw materials such as steel, component parts (especially electronic components), natural gas or utilities; inventory valuation risks including excessive or obsolescent valuations or price erosions of raw materials or component parts on hand or other potential impairments, non-recoverability or write-offs of assets or deferred costs; potential weaknesses in internal controls over financial reporting and enterprise risk management; breakdowns, relocations or major repairs of machinery and equipment, especially in our Toluca Plant; our failure to successfully complete final contract negotiations with regard to our announced contract "orders", "wins" or "awards"; dependence on, retention or recruitment of key employees; disputes or litigation involving governmental, supplier, customer, employee, creditor, stockholder, product liability or environmental claims; volatility of our customers' forecasts, scheduling demands and production levels which negatively impact our operational capacity and our effectiveness to integrate new customers or suppliers, and in turn cause increases in our inventory and working capital levels; the fees, costs and supply of, or access to, debt, equity capital, or other sources of liquidity; the costs of compliance with our auditing, regulatory or contractual obligations; changes in licenses, security clearances, or other legal rights to operate, manage our work force or import and export as needed; labor relations; strikes; union negotiations; pension valuation, health care or other benefit costs; our inability to patent or otherwise protect our inventions or other intellectual property from potential competitors; our reliance on third party vendors and sub-suppliers; adverse impacts of new technologies or other competitive pressures which increase our costs or erode our margins; U.S. government spending on products and services that Sypris Electronics provides, including the timing of budgetary decisions; risks of foreign operations; currency exchange rates; war, terrorism, or political uncertainty; cyber security threats and disruptions; failure to adequately insure or to identify environmental or other insurable risks; 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
- Outlook
- Financial Review
- Key Takeaways
- Q&A Session

# Overview

## 3Q18 Highlights

- Revenue relatively even with that of the prior year
  - Automotive and commercial vehicle shipments up 17%
  - Production and supply chain challenges dampened growth during 3Q for energy and electronics
  - Backlog in place to support rebound in shipments
- Gross margin expanded to 5.7% for 3Q 2018
  - Up from 3.5% last year; increased 220 bps YOY
  - Shipment constraints contributed to margin pressure
  - Expect to resume trend of sequential quarterly margin improvements in 4Q
- Orders for energy-related products up 50%
  - Shipments expected to increase in 4Q
- SG&A expense down 6% from prior year

# Overview

## 3Q18 Highlights

- The heavy-duty truck market is showing considerable strength
  - N.A. Class 8 orders surpassed 43,000 units for the eighth month in a row
- Executed new long-term agreements with Sisamex
  - Expanded product lines with various driveline components
  - Diversified end-use applications in the commercial vehicle, agricultural and all-terrain markets
- The light vehicle market continues to be positively supported by a strong North America economic climate
- Launching new products for customers in automotive, off-road ATV and refrigeration markets which are expected to fuel top line growth beginning in 2019

# Overview

## 3Q18 Highlights

- Energy markets are expanding
  - US oil and natural gas production are at record levels
  - WTI crude oil prices at approximately $60 per barrel after peaking at nearly $77 per barrel
  - US LNG exports for August YTD 2018 – up 66% over prior year
- Oil production in the Permian Basin exceeds current pipeline capacity, creating immediate demand for new pipelines
- Growth in pipeline gathering systems creating increased demand for closures, insulated joints and other Sypris products
- Aging energy transportation infrastructure provides product maintenance and replacement opportunities

# Overview

## 3Q18 Highlights

- DoD and Aerospace & Defense spending trends remain positive
  - US military spending is expanding significantly
  - Well positioned with top-tier DoD prime contractors on targeted programs
- Sypris Electronics revenue and gross margin affected by the availability of electronic components and program delays
  - Engaged with customers to mitigate component shortages
  - Customer product designs are being tested and finalized, causing a shift in production
  - Expect program launch and improved material flow to drive shipments higher in Q4

# Outlook

- New contract awards, positive market conditions and lower costs align for positive year
- Growth, mix and operational performance expected to support positive margin expansion
- Both business units expected to be solidly profitable
- Guidance

| Guidance | 4Q18 | 2019 |
|---|---|---|
| – Revenue | $24.0-$26.0 | $105.0-$110.0 |
| – Gross margin | 13.0%-15.0% | 15.0%-17.0% |

- Material availability will remain a focus, but otherwise all of the prerequisites for a very positive year are in place
- We look forward to the new chapter in our journey

# Financial Review
# Third Quarter 2018

November 13, 2018

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

# 3Q Financial Results

| *$ millions* | 3Q 2018 | | | 3Q 2017 | |
|---|---|---|---|---|---|
| | **Consolidated** | **ST** | **SE** | **Consolidated** | **Change** |
| Net Revenue | $ 21.1 | $ 14.9 | $ 6.2 | $ 21.4 | $ (0.3) |
| Gross Margin | 5.7% | 8.9% | (2.0)% | 3.5% | 220 bps |
| Adjusted Operating Income | $ (1.7) | $ 0.2 | $ (0.8) | $ (2.4) | $ 0.7 |

- Consolidated revenue down 1.3% while gross margin increased 220 basis points
- ST labor productivity and supplier challenges addressed during 3Q to meet demand from positive market conditions
- Electronic component availability and product design changes contribute to lower than expected SE shipments
- SG&A down $0.2 million to 13.9% of revenue from 14.7% in prior year
- Lower cost structure contributes to $0.7 million operating income improvement

# 3Q YTD Financial Results

| *$ millions* | 3Q 2018 YTD | | | Q3 2017 YTD | |
|---|---|---|---|---|---|
| | **Consolidated** | **ST** | **SE** | **Consolidated** | **Change** |
| Net Revenue | $ 64.0 | $ 44.7 | $ 19.3 | $ 60.8 | $ 3.2 |
| Gross Margin | 9.6% | 12.0% | 4.1% | 3.0% | 660 bps |
| Adjusted Operating Income | $ (3.1) | $ 1.6 | $ (1.2) | $ (8.3) | $ 5.2 |

- Consolidated revenue up 5.3% and gross margin increased 660 basis points
- Favorable market conditions contributing to revenue growth in 2018 expected to drive increased orders for 2019
- Aggressively managing the component availability challenges for SE to achieve more consistent production and shipment schedules
- Cost reductions from the consolidation of ST facilities reflected in margin improvement
- SG&A declines $0.9 million to 14.5% of revenue from 16.6% in prior year

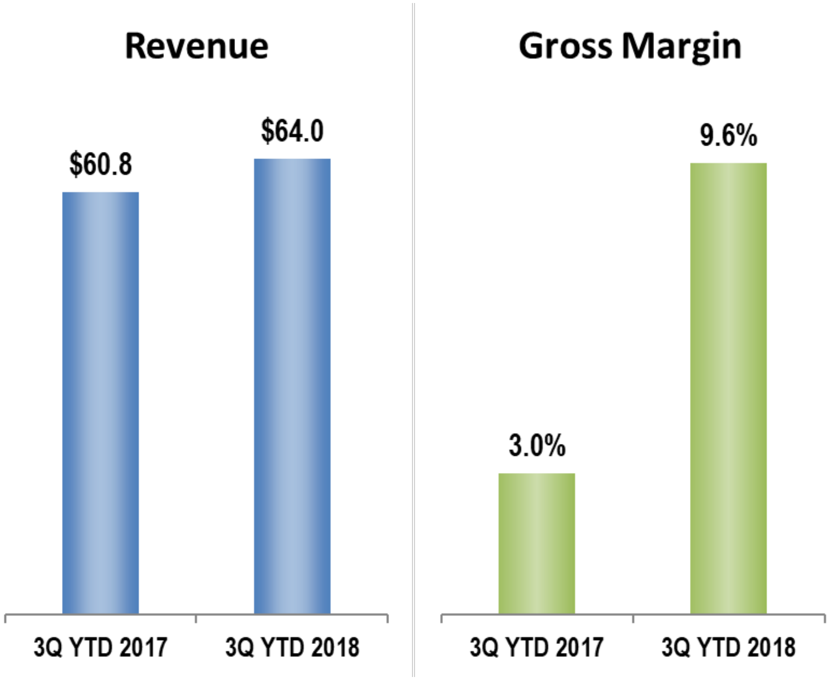
# Outlook Update

| *$ millions* | Outlook 4Q 2018 | Outlook FY 2019 |
|---|---|---|
| Net Revenue | $24 to $26 | $105 to $110 |
| Gross Margin | 13% to 15% | 15% to 17% |
| SG&A | 12% to 13.5% | 11% to 13% |

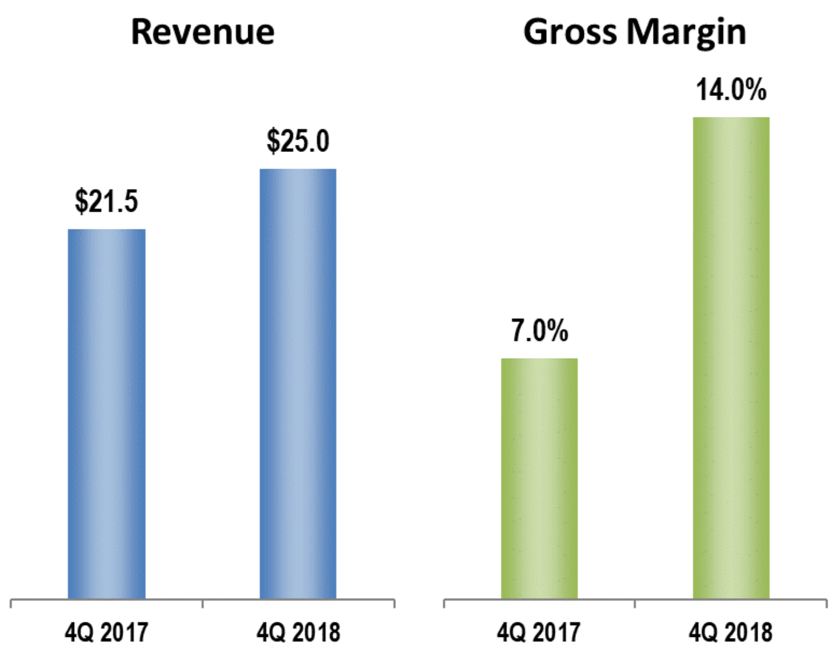
- Revenue outlook reflects solid backlog and strong market conditions
- Gross margin expected to resume trend of improvement in 4Q following the 3Q setback
- Further margin expansion targeted in 2019 as continuous improvement actions yield increases in throughput
- SG&A expected to remain relatively flat in 2019; decline as % of revenue
- Return to profitability expected for 2019

# YOY Revenue and Margin Improvements

## 3Q YTD




## 4Q



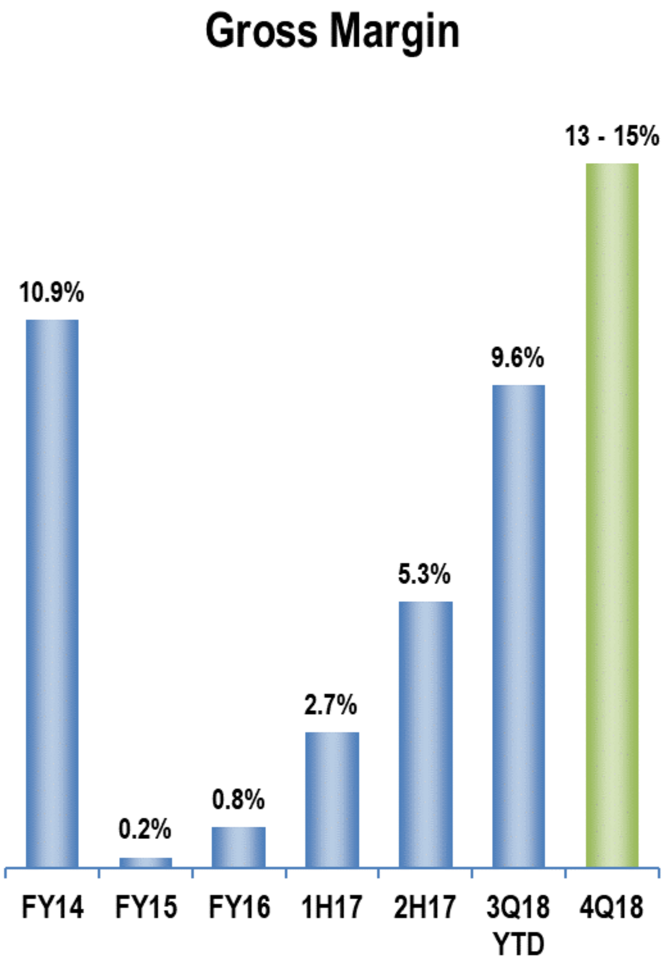

* 4Q 2018 Based on Midpoint of Outlook Range

- Demand from commercial vehicle market drives YTD revenue growth
- Cost reductions from ST plant consolidation reflected in gross margin increase

- Revenue outlook for 4Q includes strong market conditions and improved electronic component availability
- Conversion on revenue growth and productivity improvements fuel margin increase

# Mix + Cost Reductions Drive Margin in 2018

- Cost reductions from closure of ST Broadway Plant expected to provide lift in gross margin for 2018
- Electronic component availability expected to improve during 4Q, supporting a return to higher, historical levels of shipments
- Favorable YOY revenue mix target in both segments contributes to margin improvement throughout 2018
- Consolidated gross margin outlook for 4Q 2018 of 13-15%
- Cost reductions, new business awards and follow-on business create further margin improvement opportunities in 2019



# Key Takeaways

- 3Q revenue relatively flat with prior year period
- Gross margin improved to 5.7% in 3Q, up 220 basis points from prior year
- SG&A expense reduction of $0.2 million or 6.1% in 3Q compared to prior year
- Provided outlook for 4Q 2018 and FY 2019
  - 4Q 2018: Revenue $24-$26 million; Gross margin 13%-15%
  - 2019: Revenue $105-110 million; Gross margin: 15%-17%
- Strong market conditions for heavy truck, energy and aerospace and defense for 2018
- Expect to return to profitability for 2019

# Question and Answer Session
# 3Q Earnings Conference Call

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