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# Sparton Corporation Fiscal 2016 Third Quarter Financial Results

May 4, 2016

**Conquering Complexity™**

Certain statements herein constitute forward-looking statements within the meaning of the Securities Act of 1933, as amended and the Securities Exchange Act of 1934, as amended. When used herein, words such as “believe,” “expect,” “anticipate,” “project,” “plan,” “estimate,” “will” or “intend” and similar words or expressions as they relate to the Company or its management constitute forward-looking statements. These forward-looking statements reflect our current views with respect to future events and are based on currently available financial, economic and competitive data and our current business plans. The Company is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements whether as a result of such changes, new information, subsequent events or otherwise. Actual results could vary materially depending on risks and uncertainties that may affect our operations, markets, prices and other factors. Important factors that could cause actual results to differ materially from those forward-looking statements include those contained under the heading of risk factors and in the management’s discussion and analysis contained from time-to-time in the Company’s filings with the Securities and Exchange Commission.

When we calculate adjusted earnings per share, adjusted EBITDA and other adjustments to the statements of income, we exclude certain expenses and income, including discrete tax benefits, because we believe that they are not related directly to the underlying performance of our fundamental business operations. We exclude these measures when reviewing financial results and for business planning. Although these events are reflected in our GAAP financial statements, these transactions may limit the comparability of our fundamental operations with prior and future periods. We believe EBITDA and adjusted EBITDA are commonly used by financial analysts and others in the industries in which the Company operates and, thus, provides useful information to investors. The Company does not intend, nor should the reader consider, EBITDA or adjusted EBITDA to be an alternative to operating income, net income, net cash provided by operating activities or any other items calculated in accordance with GAAP. The Company’s definition of adjusted EBITDA may not be comparable with other companies. Accordingly, the measurement has limitations depending on its use.

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# Consolidated Financial Results



	<u>Current Quarter</u> <u>Quarter Ended</u> <u>March 27, 2016</u>		<u>Prior Quarter</u> <u>Quarter Ended</u> <u>December 31, 2015</u>		<u>Prior Year Quarter</u> <u>Quarter Ended</u> <u>March 31, 2015</u>	
	<i>(Dollars in Thousands, except per share amounts)</i>					
Net sales	\$ 102,175		\$ 103,529		\$ 93,065	
Cost of Goods Sold	<u>83,108</u>		<u>85,008</u>		<u>74,400</u>	
Gross profit	19,067	18.7%	18,521	17.9%	18,665	20.1%
Operating expense:						
Selling and administrative	13,727	13.4%	14,340	13.9%	11,873	12.8%
Internal research & development	561	0.6%	438	0.4%	418	0.4%
Amortization of intangible assets	2,361	2.3%	2,459	2.4%	1,492	1.6%
Restructuring charges	(258)	-0.2%	2,360	2.3%	-	0.0%
Reversal of accrued contingent consideration	-	0.0%	(1,530)	-1.5%	-	0.0%
Total operating expense, net	<u>16,391</u>	<u>16.1%</u>	<u>18,067</u>	<u>17.5%</u>	<u>13,783</u>	<u>14.8%</u>
Operating income	2,676	2.6%	454	0.4%	4,882	5.3%
Other income (expense):						
Interest expense, net	(956)		(900)		(458)	
Other, net	<u>28</u>		<u>34</u>		<u>27</u>	
Total other income (expense)	<u>(928)</u>		<u>(866)</u>		<u>(431)</u>	
Income before income taxes	1,748		(412)		4,451	
Income taxes	<u>612</u>		<u>(680)</u>		<u>318</u>	
Net income	<u>\$ 1,136</u>	<u>1.1%</u>	<u>\$ 268</u>	<u>0.3%</u>	<u>\$ 4,133</u>	<u>4.4%</u>
EPS, as reported	\$ 0.12		\$ 0.03		\$ 0.42	
EPS, adjusted for nonrecurring items	0.18		0.09		0.33	
EPS, adjusted for nonrecurring items and amortization of intangibles	0.34		0.25		0.44	

# Consolidated Financial Results – Adjusted EBITDA



	<u>Current Quarter</u> <u>Quarter Ended</u> <u>March 27, 2016</u>	<u>Prior Quarter</u> <u>Quarter Ended</u> <u>December 31, 2015</u>	<u>Prior Year Quarter</u> <u>Quarter Ended</u> <u>March 31, 2015</u>
	<i>(Dollars in Thousands)</i>		
<b>Net Income</b>	\$ 1,136	\$ 268	\$ 4,133
Interest expense	956	900	458
Income taxes	612	(680)	318
Depreciation and amortization	3,842	4,274	2,631
<b>EBITDA</b>	6,546 6.4%	4,762 4.6%	7,540 8.1%
Restructuring charges	(258)	2,360	-
Reversal of accrued contingent purchase consideration	-	(1,530)	-
Other nonrecurring costs	1,265 (1)	931 (2)	77
Stock compensation	365	438	500
Total EBITDA Adjustments	1,372	2,199	577
<b>Adjusted EBITDA</b>	<u>\$ 7,918 7.7%</u>	<u>\$ 6,961 6.7%</u>	<u>\$ 8,117 8.7%</u>

(1) Includes costs related to executive separations, strategic alternatives review and sales process, corporate headcount reduction and nonrecurring legal and consulting costs.

(2) Costs related to corporate headcount reduction and legal settlement.

# MDS Segment Financial Results



	<u>Current Quarter</u> <u>Quarter Ended</u> <u>March 27, 2016</u>		<u>Prior Quarter</u> <u>Quarter Ended</u> <u>December 31, 2015</u>		<u>Prior Year Quarter</u> <u>Quarter Ended</u> <u>March 31, 2015</u>	
	<i>(Dollars in Thousands)</i>					
Gross sales	\$ 68,187		\$ 67,586		\$ 62,150	
Intercompany sales	(3,533)		(4,640)		(4,986)	
Net sales	64,654		62,946		57,164	
Cost of goods sold	56,883		55,957		49,091	
Gross profit	7,771	12.0%	6,989	11.1%	8,073	14.1%
Operating expense:						
Selling and administrative	5,850	9.0%	6,646	10.6%	4,623	8.1%
Amortization of intangible assets	1,948	3.0%	2,037	3.2%	1,357	2.4%
Restructuring charges	(258)	-0.3%	2,360	3.7%	-	0.0%
Reversal of accrued contingent consideration	-	0.0%	(1,530)	-2.4%	-	0.0%
Total operating expense, net	7,540	11.7%	9,513	15.1%	5,980	10.5%
Segment operating income (loss)	\$ 231	0.3%	\$ (2,524)	-4.0%	\$ 2,093	3.6%
Operating income (loss), <i>adjusted for nonrecurring expenses</i>	\$ 173	0.3%	\$ (1,694)	-2.7%	\$ 2,093	3.6%
Operating income (loss), <i>adjusted for nonrecurring expenses and amortization of intangible assets</i>	\$ 2,121	3.3%	\$ 343	0.5%	\$ 3,450	6.0%

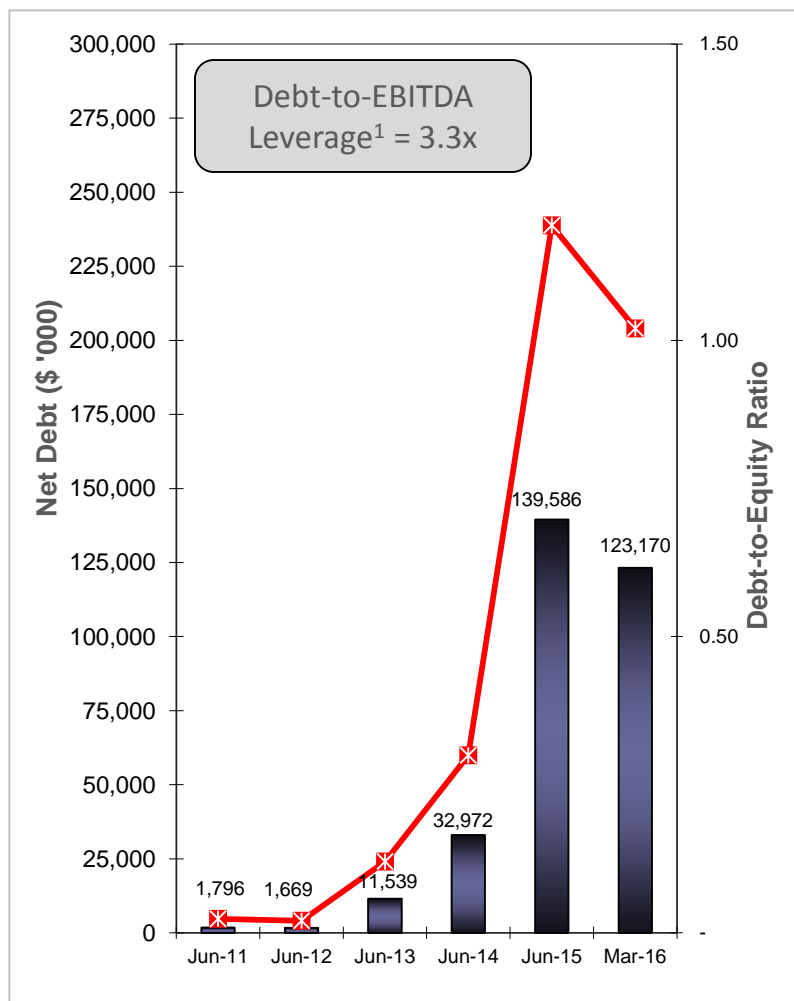
# ECP Segment Financial Results



	<u>Current Quarter</u>		<u>Prior Quarter</u>		<u>Prior Year Quarter</u>		
	<u>Quarter Ended</u>		<u>Quarter Ended</u>		<u>Quarter Ended</u>		
	<u>March 27, 2016</u>		<u>December 31, 2015</u>		<u>March 31, 2015</u>		
	<i>(Dollars in Thousands, except per share amounts)</i>						
Gross sales:							
Domestic sonobuoys	\$	19,639	\$	17,373	\$	21,806	
Foreign sonobuoys		6,313		9,357		3,372	
Engineering		3,760		4,691		3,917	
Other platforms		7,854		9,221		6,927	
Total gross sales		37,566		40,642		36,022	
Intercompany sales		(45)		(59)		(121)	
Net sales		37,521		40,583		35,901	
Cost of goods sold		26,225		29,051		25,309	
Gross profit		11,296	30.1%	11,532	28.4%	10,592	29.5%
Operating expense:							
Selling and administrative		3,898	10.4%	3,715	9.2%	2,831	7.9%
Internal research and development		561	1.5%	438	1.1%	418	1.2%
Amortization of intangible assets		413	1.1%	422	1.0%	135	0.3%
Total operating expense, net		4,872	13.0%	4,575	11.3%	3,384	9.4%
Segment operating income	\$	6,424	17.1%	6,957	17.1%	7,208	20.1%
Operating income, <i>adjusted for nonrecurring expenses</i>	\$	6,745	18.0%	7,091	17.5%	7,208	20.1%
Operating income, <i>adjusted for nonrecurring expenses and amortization of intangible assets</i>	\$	7,158	19.1%	7,513	18.5%	7,343	20.5%



# Liquidity & Capital Resources



(1) – As calculated under the Credit Revolver Agreement.

## Cash Availability

(\$ in '000)	FY15Q3	FY15Q4	FY16Q1	FY16Q2	FY16Q3
Cash and equivalents	5,581	14,914	2,187	4,830	834
Credit Availability*	119,100	119,800	135,800	140,700	150,700
<b>Total</b>	<b>124,681</b>	<b>134,714</b>	<b>137,987</b>	<b>145,530</b>	<b>151,534</b>

## Debt

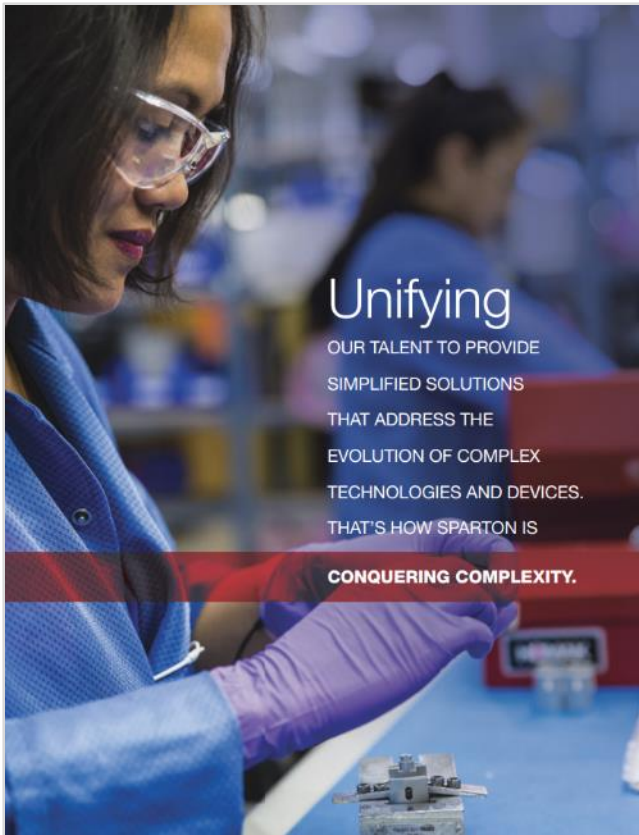
(\$ in '000)	FY15Q3	FY15Q4	FY16Q1	FY16Q2	FY16Q3
Credit Revolver	80,000	154,500	138,800	133,800	123,400
Lease Obligations	-	-	-	-	604

## Inventory

(\$ in '000)	FY15Q3	FY15Q4	FY16Q1	FY16Q2	FY16Q3
Net Inventory	64,340	79,503	86,589	76,717	79,959
Net Inventory Turns	4.9	4.8	4.6	4.5	4.4

\* As of June 2015, includes Letters of Credit.

- Finalized closure of Lawrenceville and consolidation of Irvine facilities
- 77 Manufacturing & Design Service Segment new program wins with expected annual revenue of \$16 million when fully ramped into production
- Trailing four quarter Manufacturing & Design Service Segment wins total approximating \$54 million when fully ramped into production
- \$27.6 million award for the production of domestic sonobuoys
- \$1.3 million award for the production of foreign sonobuoys
- Backlog of:
  - \$160 million in the Manufacturing & Design Segment
  - \$112 million in the ECP Segment principally including:
    - \$80 million in domestic sonobuoys
    - \$10 million in foreign sonobuoys
    - \$17 million in rugged displays
- Q4 Guidance:
  - Revenues of \$100 to \$104 million
  - Gross profit margin of 18% to 19%
  - Segment revenues and margins to provide a similar relationship to Q3 operating results



## Unifying

OUR TALENT TO PROVIDE  
SIMPLIFIED SOLUTIONS  
THAT ADDRESS THE  
EVOLUTION OF COMPLEX  
TECHNOLOGIES AND DEVICES.  
THAT'S HOW SPARTON IS

**CONQUERING COMPLEXITY.**