



Sparton Corporation First Quarter 2017 Financial Results

November 9, 2016

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 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.

- First Quarter 2017 Financial Results
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 - ❖ MDS Segment
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 - ❖ Liquidity & Capital Resources
- Other First Quarter Highlights and Outlook
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Consolidated Financial Results



SELECTED FINANCIAL DATA

	For the Quarter Ended,						
	Q1 FY17		Q4 FY16		Q1 FY16		
	<i>(Dollars in thousands, except per share data)</i>						
Net sales	\$	100,367		\$	106,967	\$	106,691
Gross profit		17,285	17.2%		21,422	20.0%	21,138 19.8%
Selling and administrative expenses		13,383	13.3%		13,460	12.6%	13,624 12.8%
Adjusted selling and administrative expenses <i>(non-GAAP)</i>		12,620	12.6%		12,446	11.6%	13,624 12.8%
Operating income (loss)		1,332	1.4%		(59,417)	-55.5%	4,498 4.2%
Adjusted operating income <i>(non-GAAP)</i>		2,095	2.1%		5,875	5.5%	4,498 4.2%
Earnings (loss) per share		0.01			(4.30)		0.24
Adjusted earnings per share <i>(non-GAAP)</i>		0.20			0.50		0.41
Free cash flow		2,093			25,953		2,953
<i>Depreciation and amortization included in SG&A above</i>		3,719			3,865		3,695

EBITDA: non-GAAP

EBITDA, unadjusted	\$	5,071	5.1%	\$	(55,594)	-52.0%	\$	8,261	7.7%
Adjustments to EBITDA:									
Costs related to the potential sale of the Company		663			671			-	
Stock-based compensation		309			321			432	
Other nonrecurring costs		100			64,621			-	
Adjusted EBITDA	\$	6,143	6.1%	\$	10,019	9.4%	\$	8,693	8.1%

MDS Segment Financial Results



SELECTED FINANCIAL DATA

	For the Quarters Ended								
	Q1 FY17		Q4 FY16		Q1 FY16				
	<i>(Dollars in thousands)</i>								
Gross sales	\$	65,002		\$	72,346	\$	73,957		
Intercompany sales		(2,200)			(3,627)		(5,229)		
Net sales		62,802			68,719		68,728		
Gross profit		7,294	11.6%		9,732	14.2%	10,296	15.0%	
Segment selling and administrative expenses		3,508	5.6%		3,155	4.6%	3,730	5.4%	
Allocation of corporate expenses		2,468	3.9%		2,281	3.3%	2,151	3.1%	
Total selling and administrative expenses		5,976	9.5%		5,436	7.9%	5,881	8.6%	
Amortization of intangible assets		1,832			1,879		2,074		
Operating income (loss)		(514)	-0.8%		(61,861)	-90.0%	2,341	3.4%	
<i>Depreciation included in SG&A above</i>		842			968		741		
EBITDA: non-GAAP									
Segment EBITDA, unadjusted	\$	4,657	7.4%		(56,681)	-82.5%	7,410	10.8%	
Adjustments to EBITDA:									
Costs related to the potential sale of the Company		34			-		-		
Other nonrecurring costs		100			64,278		-		
Adjusted EBITDA, before corporate allocation		4,791			7,597		7,410		
Corporate allocation		(2,468)			(2,281)		(2,151)		
Adjusted EBITDA, after corporate allocation	\$	2,323	3.7%	\$	5,316	7.7%	\$	5,259	7.7%

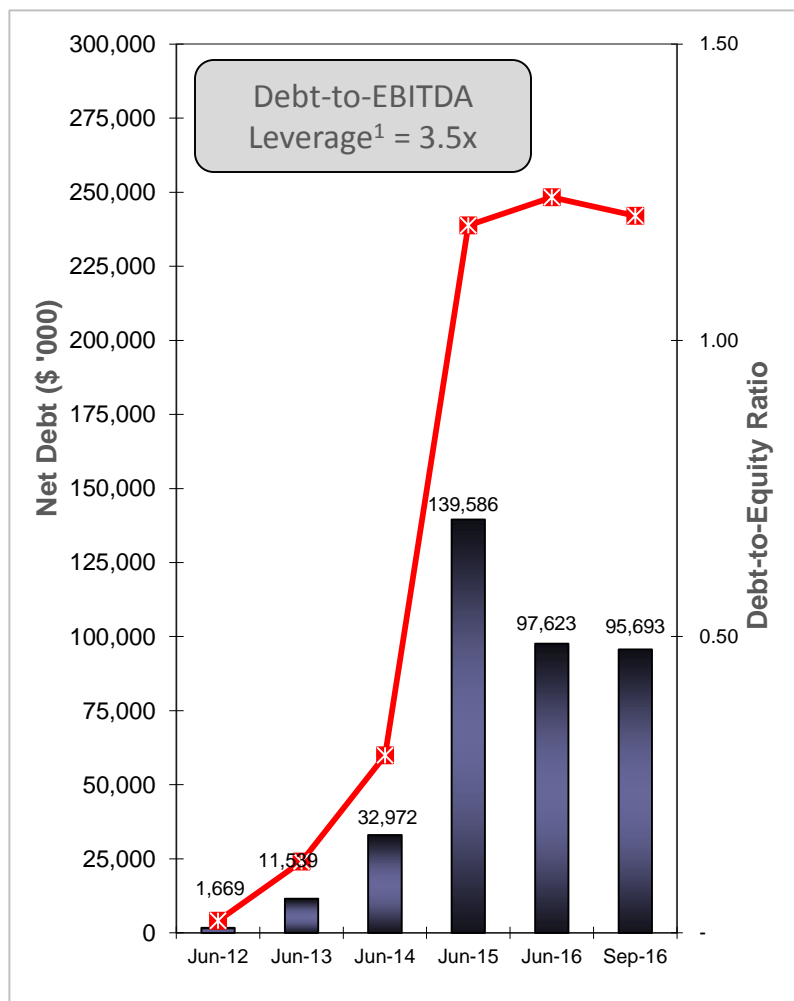
ECP Segment Financial Results



SELECTED FINANCIAL DATA

	For the Quarters Ended						
	Q1 FY17		Q4 FY16		Q1 FY16		
	<i>(Dollars in thousands)</i>						
Gross sales:							
Domestic sonobuoys	\$	17,627	\$	20,753	\$	18,327	
Foreign sonobuoys		8,649		5,811		4,359	
Engineering		2,363		2,764		6,142	
Rugged and other		8,953		8,934		9,261	
Gross sales		37,592		38,262		38,089	
Intercompany sales		(27)		(14)		(126)	
Net sales		37,565		38,248		37,963	
Gross profit		9,991	26.6%	11,690	30.6%	10,842	28.6%
Segment selling and administrative expenses		2,624	7.0%	3,115	8.1%	2,555	6.7%
Allocation of corporate expenses		1,200	3.2%	1,168	3.1%	1,042	2.7%
Total selling and administrative expenses		3,824	10.2%	4,283	11.2%	3,597	9.5%
Amortization of intangible assets		387		390		429	
Operating income		5,429	14.5%	6,196	16.2%	6,303	16.6%
<i>Depreciation included in SG&A above</i>		220		226		235	
EBITDA: non-GAAP							
Segment EBITDA, unadjusted	\$	7,228	19.2%	8,009	20.9%	7,982	21.0%
Adjustments to EBITDA:							
Other nonrecurring costs		-		275		-	
Adjusted EBITDA, before corporate allocation		7,228		8,284		7,982	
Corporate allocation		(1,200)		(1,168)		(1,042)	
Adjusted EBITDA, after corporate allocation	\$	6,028	16.0%	7,116	18.6%	6,940	18.3%

Liquidity & Capital Resources



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

Cash Availability					
(\$ in '000)	FY16Q1	FY16Q2	FY16Q3	FY16Q4	FY17Q1
Cash and equivalents	2,187	4,830	834	132	718
Credit Availability*	135,800	140,700	150,700	76,939	77,702
Total	137,987	145,530	151,534	77,071	78,420

Debt					
(\$ in '000)	FY16Q1	FY16Q2	FY16Q3	FY16Q4	FY17Q1
Credit Revolver	138,800	133,800	123,400	97,206	95,775
Lease Obligations	-	-	604	549	636

Inventory					
(\$ in '000)	FY16Q1	FY16Q2	FY16Q3	FY16Q4	FY17Q1
Net Inventory	86,589	76,717	79,959	77,871	67,771
Net Inventory Turns	4.6	4.5	4.4	4.2	4.5

* As of June 2015, includes Letters of Credit.

- 64 Manufacturing & Design Service Segment new program wins with expected annual revenue of \$12.2 million when fully ramped into production
- Trailing four quarter Manufacturing & Design Service Segment wins total approximating \$62 million when fully ramped into production
- Backlog of:
 - \$125 million in the Manufacturing & Design Segment
 - \$119 million in the ECP Segment principally including:
 - \$98 million in domestic sonobuoys
 - \$6 million in foreign sonobuoys
 - \$11 million in rugged displays
- Q2 FY17 Guidance:
 - Revenues of \$97 to \$101 million
 - Gross profit margin of approximately 18%



Unifying

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

Conquering Complexity.