



Sparton Corporation Second Quarter 2017 Financial Results

February 8, 2017

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.

- Second Quarter 2017 Financial Results
 - ❖ Consolidated
 - ❖ MDS Segment
 - ❖ ECP Segment
 - ❖ Liquidity & Capital Resources
- Other Second Quarter Highlights and Outlook
- Q & A

Consolidated Financial Results



SELECTED FINANCIAL DATA

For the Quarters Ended,

	Q2 FY17		Q1 FY17		Q2 FY16		
	<i>(Dollars in thousands, except per share data)</i>						
Net sales	\$	97,399	\$	100,367	\$	103,529	
Gross profit		15,898	16.3%	17,285	17.2%	18,521	17.9%
Selling and administrative expenses		12,953	13.3%	13,383	13.3%	14,340	13.9%
Adjusted selling and administrative expenses (<i>non-GAAP</i>)		12,258	12.6%	12,620	12.6%	13,409	13.0%
Operating income		221	0.2%	1,332	1.3%	454	0.4%
Adjusted operating income (<i>non-GAAP</i>)		3,107	3.2%	4,314	4.3%	4,674	4.5%
Earnings (loss) per share		(0.09)		0.01		0.03	
Adjusted earnings per share (<i>non-GAAP</i>)		0.10		0.20		0.25	
Free cash flow		10,008		2,093		6,893	
Depreciation and amortization		3,680		3,719		4,274	

EBITDA: non-GAAP

EBITDA, unadjusted	\$	3,890	4.0%	\$	5,071	5.1%	\$	4,762	4.6%
Adjustments to EBITDA:									
Costs related to the potential sale of the Company		695		663		-			
Stock-based compensation		968		309		438			
Other nonrecurring costs		-		100		1,761			
Adjusted EBITDA	\$	<u>5,553</u>	5.7%	<u>6,143</u>	6.1%	<u>6,961</u>		6.7%	

MDS Segment Financial Results



SELECTED FINANCIAL DATA

	For the Quarters Ended,						
	Q2 FY17		Q1 FY17		Q2 FY16		
	<i>(Dollars in thousands)</i>						
Gross sales	\$	67,382	\$	65,002	\$	67,586	
Intercompany sales		(2,333)		(2,200)		(4,640)	
Net sales		65,049		62,802		62,946	
Gross profit		8,357	12.4%	7,294	11.2%	6,989	10.3%
Segment selling and administrative expenses		3,384	5.0%	3,508	5.4%	4,128	6.1%
Allocation of corporate expenses		2,177	3.2%	2,468	3.8%	2,518	3.7%
Total selling and administrative expenses		5,561	8.2%	5,976	9.2%	6,646	9.8%
Amortization of intangible assets		1,810	2.7%	1,832	2.8%	2,037	3.0%
Operating income (loss)		986	1.5%	(514)	-0.8%	(2,524)	-3.7%
<i>Depreciation included in SG&A above</i>		839		842		1,300	

EBITDA: non-GAAP

Segment EBITDA, unadjusted	\$	5,824	8.6%	\$	4,657	7.2%	\$	3,354	5.0%
Adjustments to EBITDA:									
Costs related to the potential sale of the Company		51			34			-	
Other nonrecurring costs		-			-			830	
Adjusted EBITDA, before corporate allocation		5,875			4,691			4,184	
Corporate allocation		(2,177)			(2,468)			(2,518)	
Adjusted EBITDA, after corporate allocation	\$	3,698	5.5%	\$	2,223	3.4%	\$	1,666	2.5%

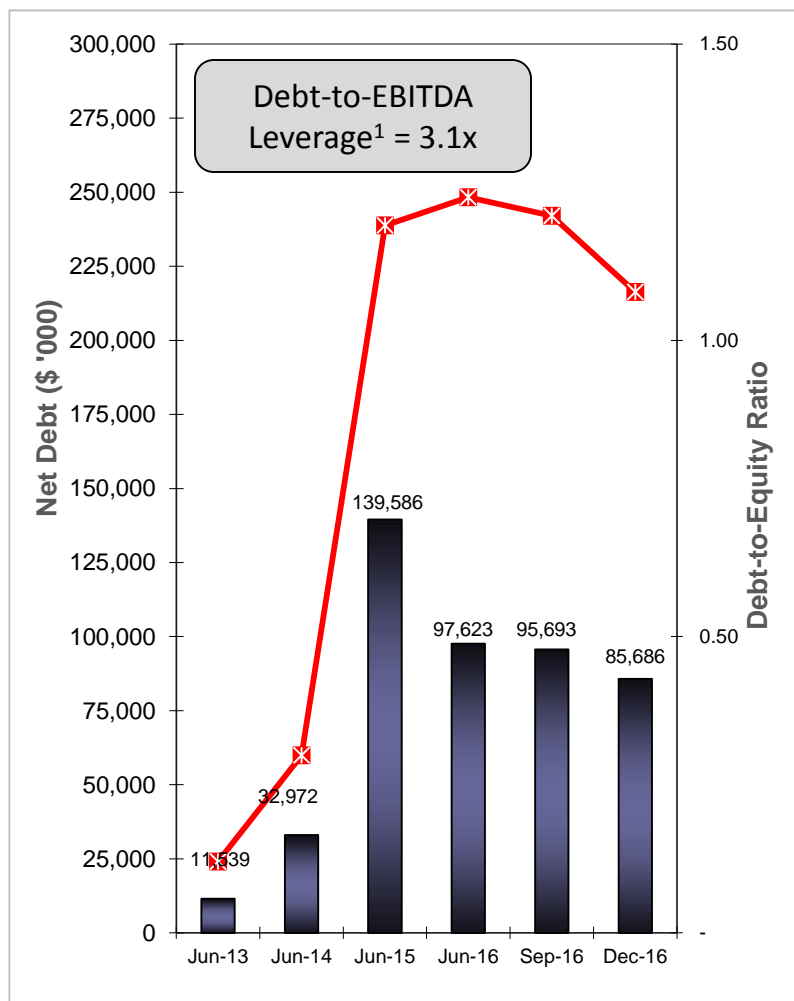
ECP Segment Financial Results



SELECTED FINANCIAL DATA

	For the Quarters Ended,								
	Q2 FY17		Q1 FY17		Q2 FY16				
	<i>(Dollars in thousands)</i>								
Domestic sonobuoys	\$	20,829	\$	17,627	\$	17,373			
Foreign sonobuoys		2,304		8,649		9,357			
Subtotal		23,133		26,276		26,730			
Engineering		1,262		2,363		4,691			
Rugged and other		7,955		8,926		9,162			
Net sales		32,350		37,565		40,583			
Gross profit		7,541	23.3%	9,991	26.6%	11,532	28.4%		
Segment selling and administrative expenses		2,550	7.9%	2,624	7.0%	2,653	6.5%		
Allocation of corporate expenses		995	3.1%	1,200	3.2%	1,062	2.6%		
Total selling and administrative expenses		3,545	11.0%	3,824	10.2%	3,715	9.1%		
Amortization of intangible assets		381	1.2%	387	1.0%	422	1.0%		
Operating income		3,082	9.5%	5,429	14.5%	6,957	17.1%		
<i>Depreciation included in SG&A above</i>		204		220		241			
EBITDA: non-GAAP									
Segment EBITDA, unadjusted	\$	4,646	14.4%	\$	7,228	19.2%	\$	8,690	21.4%
Corporate allocation		(995)			(1,200)			(1,062)	
Adjusted EBITDA, after corporate allocation	\$	3,651	11.3%	\$	6,028	16.0%	\$	7,628	18.8%

Liquidity & Capital Resources



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

Cash Availability					
(\$ in '000)	FY16Q2	FY16Q3	FY16Q4	FY17Q1	FY17Q2
Cash and equivalents	4,830	834	132	718	589
Credit Availability	140,700	150,700	76,939	77,702	84,163
Total	145,530	151,534	77,071	78,420	84,752

Debt					
(\$ in '000)	FY16Q2	FY16Q3	FY16Q4	FY17Q1	FY17Q2
Credit Revolver	133,800	123,400	97,206	95,775	85,706
Lease Obligations	-	604	549	636	569

Inventory					
(\$ in '000)	FY16Q2	FY16Q3	FY16Q4	FY17Q1	FY17Q2
Net Inventory	76,717	79,959	77,871	67,771	59,871
Net Inventory Turns	4.5	4.4	4.2	4.5	4.7

- New program wins for MDS in Q2 have expected revenue of \$14.5 million when fully ramped up into production
- Trailing four quarter MDS wins total approximating \$59 million when fully ramped into production
- Backlog of:
 - \$123 million in the MDS Segment
 - \$113 million in the ECP Segment principally including:
 - \$89 million in domestic sonobuoys
 - \$11 million in foreign sonobuoys
 - \$9 million in rugged displays
- Q3 FY17 Guidance:
 - Revenues of \$97 to \$101 million
 - Gross profit margin of approximately 18.5%



Unifying

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

Conquering Complexity.