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Sparton Corporation Third Quarter 2017 Financial Results

May 10, 2017

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 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.

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

Consolidated Financial Results



SELECTED FINANCIAL DATA

	For the Quarter Ended,						
	Q3 FY17		Q2 FY17		Q3 FY16		
	<i>(Dollars in thousands, except per share data)</i>						
Net sales	\$	95,410		\$	97,399	\$	102,175
Gross profit		16,915	17.7%		15,898	16.3%	19,067 18.7%
Selling and administrative expenses		12,862	13.5%		12,953	13.3%	13,727 13.4%
Adjusted selling and administrative expenses <i>(non-GAAP)</i>		12,227	12.8%		12,258	12.6%	12,605 12.3%
Operating income		1,530	1.6%		221	0.2%	2,676 2.6%
Adjusted operating income <i>(non-GAAP)</i>		4,264	4.5%		3,107	3.2%	6,101 6.0%
Earnings (loss) per share		0.04			(0.09)		0.12
Adjusted earnings per share <i>(non-GAAP)</i>		0.22			0.10		0.34
Free cash flow		(1,424)			10,008		6,235
<i>Depreciation and amortization</i>		3,585			3,680		3,842

EBITDA: non-GAAP

EBITDA, unadjusted	\$	5,135	5.4%	\$	3,890	4.0%	\$	6,546	6.4%
Adjustments to EBITDA:									
Restructuring charges		-			-			113	
Costs related to the potential sale of the Company		635			695			430	
Stock-based compensation		(452)			968			255	
Other nonrecurring costs		-			-			521	
Adjusted EBITDA	\$	<u>5,318</u>	5.6%	\$	<u>5,553</u>	5.7%	\$	<u>7,865</u>	7.7%

MDS Segment Financial Results



SELECTED FINANCIAL DATA

For the Quarters Ended,

	Q3 FY17		Q2 FY17		Q3 FY16				
	<i>(Dollars in thousands)</i>								
Gross sales	\$	61,084	\$	67,382	\$	68,187			
Intercompany sales		(2,654)		(2,333)		(3,533)			
Net sales		58,430		65,049		64,654			
Gross profit		6,690	11.0%	8,357	12.4%	7,771	11.4%		
Segment selling and administrative expenses		3,207	5.3%	3,384	5.0%	3,608	5.3%		
Allocation of corporate expenses		2,477	4.0%	2,177	3.2%	2,242	3.3%		
Total selling and administrative expenses		5,684	9.3%	5,561	8.2%	5,850	8.6%		
Amortization of intangible assets		1,728	2.9%	1,810	2.7%	1,948	2.9%		
Operating income (loss)		(722)	-1.2%	986	1.5%	231	0.3%		
<i>Depreciation included in SG&A above</i>		849		839		879			
EBITDA: non-GAAP									
Segment EBITDA, unadjusted	\$	4,343	7.1%	\$	5,824	8.6%	\$	5,295	7.8%
Adjustments to EBITDA:									
Restructuring charges		-		-		(258)			
Costs related to the potential sale of the Company		-		51		-			
Other nonrecurring costs		-		-		200			
Adjusted EBITDA, before corporate allocation		4,343		5,875		5,237			
Corporate allocation		(2,477)		(2,177)		(2,242)			
Adjusted EBITDA, after corporate allocation	\$	1,866	3.1%	\$	3,698	5.5%	\$	2,995	4.4%

ECP Segment Financial Results



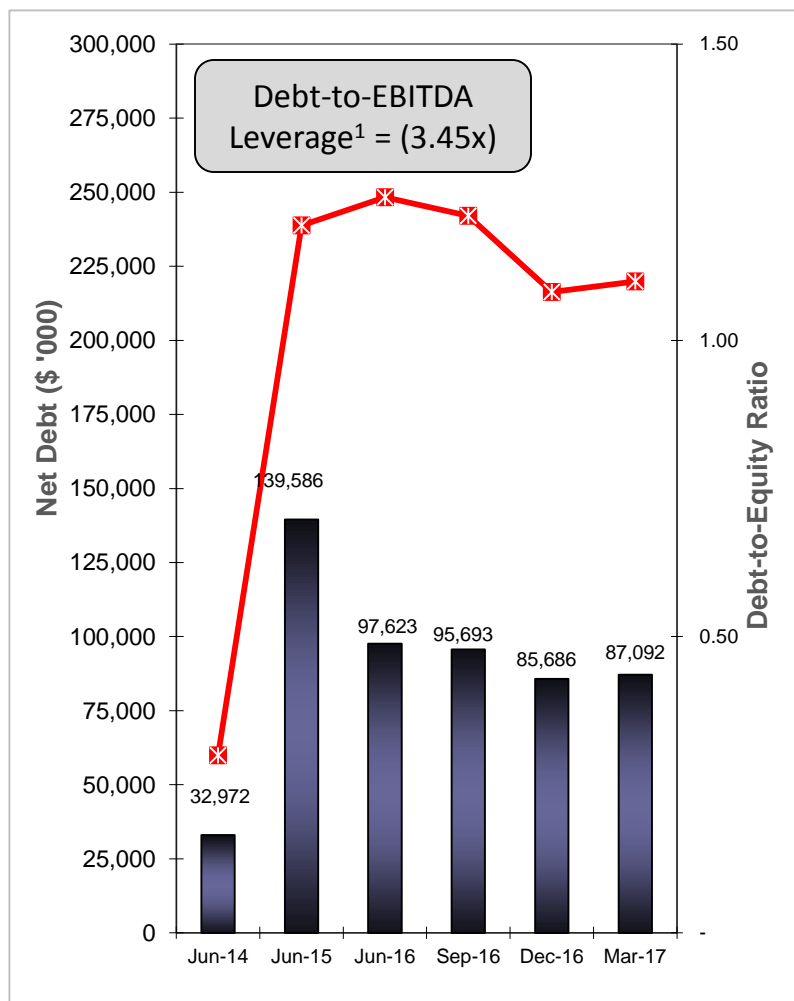
SELECTED FINANCIAL DATA

	For the Quarters Ended,						
	Q3 FY17		Q2 FY17		Q3 FY16		
	<i>(Dollars in thousands)</i>						
Domestic sonobuoys	\$	18,607	\$	20,829	\$	19,639	
Foreign sonobuoys		9,687		2,304		6,313	
Subtotal		28,294		23,133		25,952	
Engineering		1,080		1,262		3,760	
Rugged and other		7,606		7,955		7,809	
Net sales		36,980		32,350		37,521	
Gross profit		10,225	27.6%	7,541	23.3%	11,296	30.1%
Segment selling and administrative expenses		2,922	7.9%	2,550	7.9%	2,837	7.6%
Allocation of corporate expenses		1,238	3.3%	995	3.1%	1,061	2.8%
Total selling and administrative expenses		4,160	11.2%	3,545	11.0%	3,898	10.4%
Amortization of intangible assets		371	1.0%	381	1.2%	413	1.1%
Operating income		5,270	14.2%	3,082	9.5%	6,424	17.1%
<i>Depreciation included in SG&A above</i>		192		204		218	

EBITDA: non-GAAP

Segment EBITDA, unadjusted	\$	7,072	19.1%	\$	4,646	14.4%	\$	8,141	21.7%
Corporate allocation		(1,238)			(995)			(1,061)	
Adjusted EBITDA, after corporate allocation	\$	5,834	15.8%	\$	3,651	11.3%	\$	7,080	18.9%

Liquidity & Capital Resources



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

Cash Availability

(\$ in '000)	FY16Q3	FY16Q4	FY17Q1	FY17Q2	FY17Q3
Cash and equivalents	834	132	718	589	1,032
Credit Availability	150,700	76,939	77,702	84,163	82,166
Total	151,534	77,071	78,420	84,752	83,198

Debt

(\$ in '000)	FY16Q3	FY16Q4	FY17Q1	FY17Q2	FY17Q3
Credit Revolver	123,400	97,206	95,775	85,707	87,622
Lease Obligations	604	549	636	569	502

Inventory

(\$ in '000)	FY16Q3	FY16Q4	FY17Q1	FY17Q2	FY17Q3
Net Inventory	79,959	77,871	67,771	59,871	64,966
Net Inventory Turns	4.4	4.2	4.5	4.7	4.9

- New program wins for MDS in Q3 have expected revenue of \$12.5 million when fully ramped up into production
- Trailing four quarter MDS wins total approximating \$54.3 million when fully ramped into production
- Backlog of:
 - \$118 million in the MDS Segment
 - \$124 million in the ECP Segment principally including:
 - \$105 million in domestic sonobuoys
 - \$7 million in foreign sonobuoys
 - \$12 million in rugged electronics and other
- Q4 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.