

# Third Quarter Financial Results Conference Call



sparton

May 7, 2014

*Empowering your Vision*

# Safe Harbor Statement



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.

Adjusted EBITDA and related reconciliation presented here represents earnings before interest, taxes, depreciation and amortization as adjusted for restructuring/impairment charges, gross profit effects of capitalized profit in inventory from acquisition and acquisition contingency settlement, and gain on sale of investment. The Company believes Adjusted EBITDA is 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, Adjusted EBITDA an alternative to 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 Adjusted EBITDA as defined by other companies. Accordingly, the measurement has limitations depending on its use.

# Today's Agenda

- 3<sup>rd</sup> Quarter Highlights
- 3<sup>rd</sup> Quarter Segmented Operating Results
- Liquidity & Capital Resources
- Acquisition Update
- Fiscal 2014 Outlook
- Investor Activities
- Q & A

# 3<sup>rd</sup> Quarter Highlights



- Quarterly revenue grew 29% to \$84 million as compared to the same quarter of the prior year
  - Organic growth, net of acquisitions, was 11% from the same quarter of the prior year.
- Adjusted EBITDA grew 120% in the quarter and 73% YTD as compared to the prior year periods
- 20 new business programs awarded with potential annualized sales of \$6.1 million
- Completed the acquisition of Aubrey Group, Inc.

# Consolidated Financial Results

## Fiscal 2014 YTD



	(Reported) 9 months ended Mar 31,		(Adjusted) 9 months ended Mar 31,		(Adjusted) Total YoY Variance
	2014	2013	2014	2013	
Net Sales	\$ 242,691	\$ 183,203	\$ 242,691	\$ 183,203	\$ 59,488
Gross Profit	43,597 18.0%	30,220 16.5%	43,853 18.1%	30,786 16.8%	13,067
Selling and Administrative Expense	25,139 10.4%	19,650 10.7%	25,139 10.4%	19,650 10.7%	(5,489)
Internal R&D Expense	1,004	889	1,004	889	(115)
Amortization of intangible assets	2,323	984	2,323	984	(1,339)
Restructuring/impairment charges	188	-	-	-	-
Other operating expense, net	(14)	16	(14)	16	30
Operating Income	14,957 6.2%	8,681 4.7%	15,401 6.3%	9,247 5.0%	6,154
Income Before Provision For Income Tax	14,873	8,665	15,317	9,231	6,086
Provision For Income Taxes	4,857	831	5,002	3,086	(1,916)
Net Income	\$ 10,016 4.1%	\$ 7,834 4.3%	\$ 10,315 4.3%	\$ 6,145 3.4%	\$ 4,170
Income per Share (Basic)	\$ 0.99	\$ 0.77	\$ 1.02	\$ 0.60	\$ 0.42
Income per Share (Diluted)	\$ 0.99	\$ 0.77	\$ 1.02	\$ 0.60	\$ 0.42

(\$ in 000's, except per share)

(adjusted removes certain gains and charges)

# Consolidated Financial Results

## Adjusted EBITDA



	3 months ended Mar 31,		9 months ended Mar 31,		
	2014	2013	2014	2013	Variance
Net Income	\$ 4,246	\$ 1,536	\$ 10,016	\$ 7,834	\$ 2,182
Interest expense	187	136	547	390	157
Interest income	-	(48)	(2)	(99)	97
Provision for income taxes	2,014	832	4,857	831	4,026
Depreciation and amortization	2,270	1,564	5,910	3,036	2,874
Restructuring/impairment charges	-	-	188	-	188
Capitalized profit in inventory from acquisition	148	-	256	566	(310)
Adjusted EBITDA	\$ 8,865	\$ 4,020	\$ 21,772	\$ 12,558	\$ 9,214
	10.6%	6.2%	9.0%	6.9%	

# Operating Results

## Revenue & Gross Profit



### REVENUE

SEGMENT	3 months ended Mar 31,				9 months ended Mar 31,			
	2014	% of Total	2013	% Change	2014	% of Total	2013	% Change
Medical	\$ 37,215	44%	\$ 39,139	-5%	\$ 123,539	51%	\$ 102,002	21%
Complex Systems	23,563	28%	16,482	43%	60,132	25%	42,888	40%
DSS	28,853	34%	14,186	103%	72,824	30%	51,850	40%
Inter-company	(5,700)	-6%	(4,659)	22%	(13,804)	-6%	(13,537)	2%
Totals	<u>\$ 83,931</u>	100%	<u>\$ 65,148</u>	29%	<u>\$ 242,691</u>	100%	<u>\$ 183,203</u>	32%

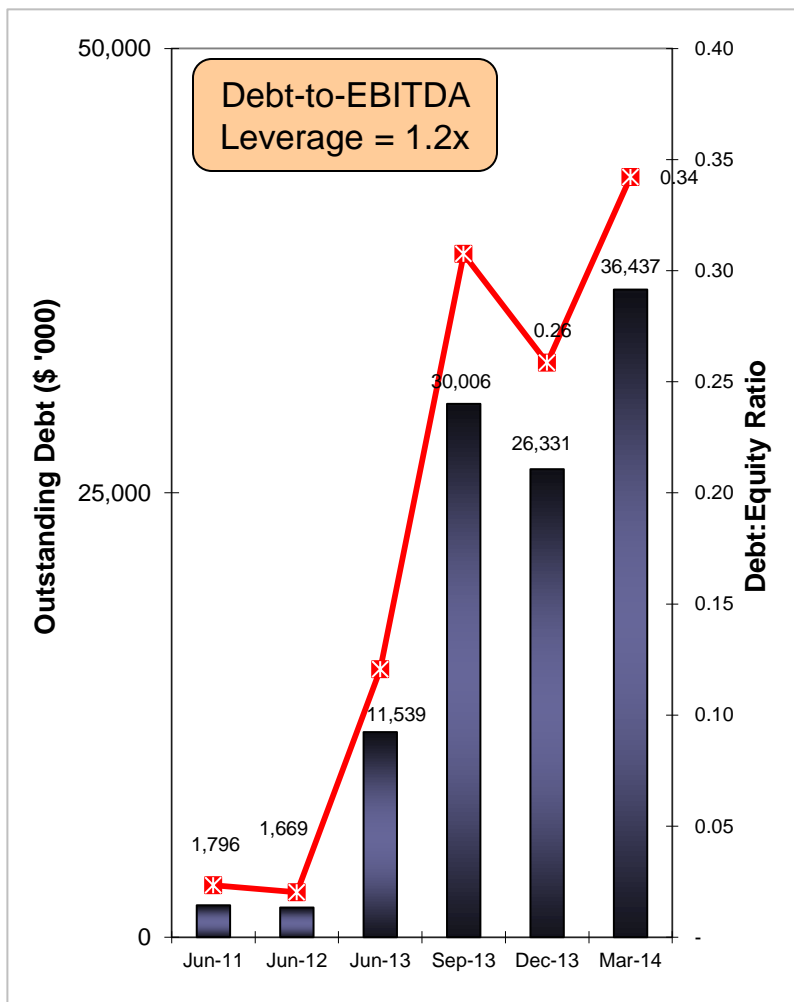
### ADJUSTED GROSS PROFIT

SEGMENT	3 months ended Mar 31,				9 months ended Mar 31,			
	2014	GP %	2013	GP %	2014	GP %	2013	GP %
Medical	\$ 5,332	14.3%	\$ 5,339	13.6%	\$ 19,134	15.5%	\$ 14,443	14.2%
Complex Systems	2,555	10.8%	1,890	11.5%	6,367	10.6%	4,414	10.3%
DSS	8,687	30.1%	2,896	20.4%	18,352	25.2%	11,929	23.0%
Totals	<u>\$ 16,574</u>	19.7%	<u>\$ 10,125</u>	15.5%	<u>\$ 43,853</u>	18.1%	<u>\$ 30,786</u>	16.8%

(\$ in 000's)



# Liquidity & Capital Resources



Cash Availability					
(\$ in '000)	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14
Cash and equivalents	4,358	6,085	2,719	1,009	7,502
LOC Availability*	87,000	90,000	71,000	75,000	65,000
<b>Total</b>	<b>91,358</b>	<b>96,085</b>	<b>73,719</b>	<b>76,009</b>	<b>72,502</b>

\* Includes a \$35 million accordion feature as part of the existing credit facility.

Debt					
(\$ in '000)	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14
Credit Revolver	13,000	10,000	28,500	25,000	35,000
IRB (Ohio)	1,572	1,539	1,506	1,472	1,437
<b>Total</b>	<b>14,572</b>	<b>11,539</b>	<b>30,006</b>	<b>26,472</b>	<b>36,437</b>

Inventory					
(\$ in '000)	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14
Net Inventory	46,928	46,334	55,658	52,393	51,466



- Aubrey Group
  - Closed transaction on March 17, 2014
  - Located in Irvine, CA
  - Design and contract manufacturing company using state-of-the-art technologies to develop new products for OEMs in the Medical and Biotechnological markets
  - Over 20 years of experience and expertise in a number of core platforms: Medical Device Controllers, RF Generation, and Pumps and Disposables
  - \$8 million of revenue
  - Financials reported within Medical segment
  - Minimal integration activities required
  - Accretive to earnings within 12 months

- Implementation of the strategic growth plan
  - Continue to grow organically
  - Maintain our level of investment in internal research & development to commercially extend our product lines
  - Continue to enable our engineering workforce to develop new and innovative proprietary solutions for our end markets
  - Continue to seek out complementary and compatible acquisitions
  - Further leverage Viet Nam as a low cost country alternative and in-region provider
- Focus on sustained profitability
  - Continue margin improvements across the entire company
  - Increase capacity utilization
  - Continue additional improvements in operating performance through lean and quality efforts
- Complete the integration of Beckwood Services & Aubrey Group

- Sidoti Conference in NYC on May 9<sup>th</sup>
- B. Riley Investor Conference in Santa Monica on May 19<sup>th</sup>-21<sup>st</sup>
- Barrington's Spring Investor Day in Chicago on May 22<sup>nd</sup> in Chicago
- KeyBanc Capital Markets Conference in Boston on May 27<sup>th</sup> -28<sup>th</sup>
- East Coast Ideas Conference in Boston on June 5<sup>th</sup>
- CJS New Ideas Conference in July
- Midwest Ideas Conference in Chicago from August 26<sup>th</sup>-27<sup>th</sup>
- Sparton Investor Day in Orlando on October 8<sup>th</sup>
  - Progress to the 2015 Vision
  - Communicate our new 2020 Vision
  - Provide access to senior management
  - Tour our DSS operation in DeLeon Springs, FL.

# Q & A