



sparton

Fiscal 2015 1st Quarter Financial Results

November 5, 2014

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.

- Consolidated Results
- New Segment Reporting
- MDS Segment Results
- ECP Segment Results
- Liquidity & Capital Resources
- 1st Quarter Business Review
- 2020 Vision
- Outlook
- Q & A

Consolidated Financial Results

Fiscal 2015 1st Quarter



	(Reported) Quarter ended Sept 30,		(Adjusted) Quarter ended Sept 30,		(Adjusted)	
	2014	2013	2014	2013	Total YoY Variance (\$)	Total YoY Variance (%)
Net Sales	\$ 77,025	\$ 74,301	\$ 77,025	\$ 74,301	\$ 2,724	4%
Legacy	62,077	73,120	62,077	73,120	\$ (11,043)	-15%
Acquisition	14,948	1,181	14,948	1,181	\$ 13,767	1166%
Gross Profit	12,814	12,297	12,912	12,297	615	5%
	16.6%	16.6%	16.8%	16.6%		
Selling and Administrative Expense	10,599	7,645	10,017	7,645	(2,372)	-31%
	13.8%	10.3%	13.0%	10.3%		
Internal R&D Expense	100	389	100	389	289	
Amortization of intangible assets	1,301	598	1,301	598	(703)	
Restructuring/impairment charges	-	188	-	-	-	
Other operating expense, net	(15)	(3)	(15)	(3)	12	
Operating Income	829	3,480	1,509	3,668	(2,159)	-59%
	1.1%	4.7%	2.0%	4.9%		
Interest expense	(746)	(158)	(325)	(158)	167	
Interest income and other, net	148	71	148	71	(77)	
Income Before Provision For Income Tax	231	3,393	1,332	3,581	(2,249)	
Provision For Income Taxes	35	1,107	406	1,169	763	
Net Income	\$ 196	\$ 2,286	\$ 926	\$ 2,412	\$ (1,486)	-62%
	0.3%	3.1%	1.2%	3.2%		
Income per Share (Basic)	\$ 0.02	\$ 0.23	\$ 0.09	\$ 0.24	\$ (0.15)	-63%
Income per Share (Diluted)	\$ 0.02	\$ 0.23	\$ 0.09	\$ 0.24	\$ (0.15)	-63%

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

(adjusted removes certain gains and charges)

Consolidated Financial Results

Adjusted EBITDA



	3 months ended Sept 30,	
	2014	2013
Net Income	\$ 196	\$ 2,286
Interest expense	746 (a)	158
Interest income	(2)	(2)
Provision for income taxes	35	1,107
Depreciation and amortization	2,458	1,721
Restructuring/impairment charges	-	188
Capitalized profit in inventory from acquisition	98	-
Success based acquisition finders fee	430	-
Finance function reorganization	152	-
Adjusted EBITDA	\$ 4,113 5.3%	\$ 5,458 7.3%

(a) Accelerated recognition of \$421k unamortized debt financing costs from prior credit facility due to refinancing

Manufacturing & Design Services (MDS)

- Manufacturing & Design Services represents the Company's contract manufacturing and design services where the customer owns the related intellectual property.
- This segment consists of the two previous operating segments of Complex Systems - Brooksville, Vietnam, Plaistow, Irvine/eMT and Medical – Strongsville, Frederick, Watertown, Plymouth, and Irvine/Aubrey facilities.
- This segment serves the Medical, Military & Aerospace and Industrial & Instrumentation markets.

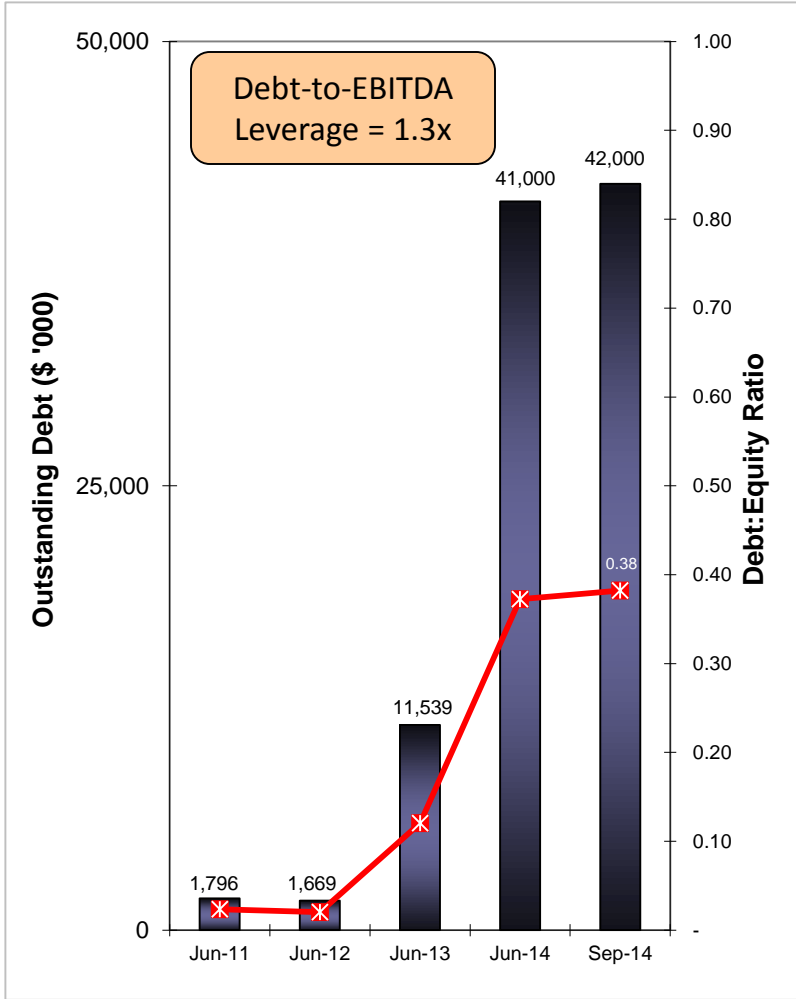
Engineered Components & Products (ECP)

- Engineered Components & Products represents the Company's manufacturing and design services where the Company owns the related intellectual property.
- This segment is the same as the old DSS operating segment, includes the DeLeon Springs and Birdsboro facilities.
- This segment serves the Military & Aerospace and Industrial & Instrumentation markets.

	3 months ended Sept 30,					
	2014	% of Sales	2013	% of Sales	Chg (\$)	Chg (%)
Sales						
Legacy	\$ 42,380	75.3%	\$ 56,411	94.6%	\$ (14,031)	-24.9%
Acquisitions	11,621	20.7%	-	0.0%	11,621	
Intercompany	2,250	4.0%	3,206	5.4%	(956)	-29.8%
Total Sales	56,251	100.0%	59,617	100.0%	(3,366)	-5.6%
Gross Profit	7,086	12.6%	8,949	15.0%	(1,863)	-20.8%
Selling and administrative expenses	3,729	6.6%	3,234	5.4%	495	15.3%
Amortization of intangible assets	1,251	2.2%	598	1.0%	653	109.2%
Restructuring charges	-	0.0%	188	0.3%	(188)	-100.0%
Operating income	\$ 2,106	3.7%	\$ 4,929	8.3%	\$ (2,823)	-57.3%

	3 months ended Sept 30,					
	2014	% of Sales	2013	% of Sales	Chg (\$)	Chg (%)
Sales						
Legacy	\$ 19,697	85.4%	\$ 16,709	93.4%	\$ 2,988	17.9%
Acquisitions	3,327	14.4%	1,181	6.6%	2,146	181.7%
Intercompany	45	0.2%	3	0.0%	42	1400.0%
Total Sales	<u>23,069</u>	100.0%	<u>17,893</u>	100.0%	<u>5,176</u>	<u>28.9%</u>
Gross Profit	5,728	24.8%	3,348	18.7%	2,380	71.1%
Selling and administrative expenses	2,312	10.0%	1,675	9.4%	637	38.0%
Amortization of intangible assets	50	0.2%	-	0.0%	50	
Restructuring charges	100	0.4%	389	2.2%	(289)	-74.3%
Operating income	<u>\$ 3,266</u>	14.2%	<u>\$ 1,284</u>	7.2%	<u>\$ 1,982</u>	<u>154.4%</u>

Liquidity & Capital Resources



Cash Availability

(\$ in '000)	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14
Cash and equivalents	2,719	1,009	7,502	8,028	6,546
Credit Availability	36,000	40,000	30,000	59,000	158,000
Total	38,719	41,009	37,502	67,028	164,546

Debt

(\$ in '000)	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14
Credit Revolver	28,500	25,000	35,000	41,000	42,000
IRB (Ohio)	1,506	1,472	1,437	-	-
Total	30,006	26,472	36,437	41,000	42,000

Inventory

(\$ in '000)	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14
Net Inventory	55,658	52,393	51,466	53,372	57,201

- Fenwal impact was \$8 million; Other customer orders planned in Q1 were pushed into future quarters
 - Maintain guidance of 3-5% full-year revenue growth target, net of acquisitions
- A number of charges related to our strategic initiatives
- Entered into new \$200 million credit facility with \$100 million accordion feature.
- 10 new business programs awarded with potential annualized sales of \$7.9 million.
- Completed the acquisition of Electronic Manufacturing Technology, LLC.
- Awarded \$90.5 million subcontract to a \$166 million U.S. Navy Sonobuoy contract with the Company's ERAPSCO joint venture.
 - The Navy award is the first award of a five year Indefinite Delivery Indefinite Quantity ("IDIQ") contract that has a maximum value of \$810 million.
- Backlog increased to \$242 million

“Reach \$1 billion by 2020, expanding our manufacturing and design services while providing more engineered components and products to meet the needs of our customers and markets”

Mission:
Sparton provides engineered products and related services to businesses, governments, and institutions serving regulated and demanding environments.

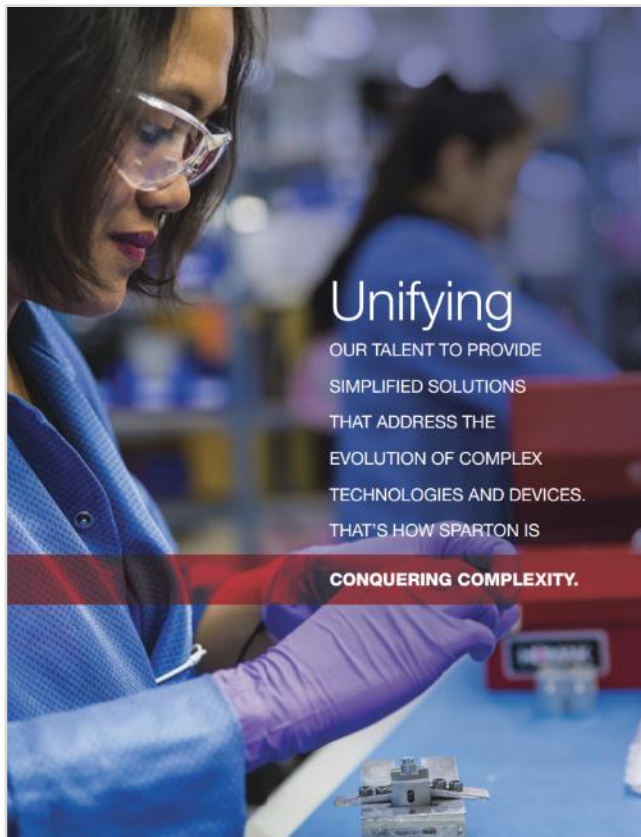
Vision:
Sparton will exceed \$1 billion of revenue by fiscal year 2020 and deliver above average shareholder returns by significantly expanding our differentiated product and service offerings and applying our business systems, resources, and talents to address the unique needs of our customers and markets.

Strategy I:
Maintain focus on regulated & demanding environments

Strategy II:
Pivot the business model to include a higher concentration of differentiated offerings

Strategy III:
Apply the Sparton Business System (SBS) to unlock value

- Maintain guidance of 3-5% full-year revenue growth target, net of acquisitions
 - Orders in Q1 pushed into future quarters
 - As in years past, we expect a huge 2nd half of the year
- The first quarter also had a number of non-reoccurring charges related to our strategic initiatives and will continue as needed to execute our 2020 Vision
- Gross margin targets have not changed since last quarter
 - ECP: 25% – 30%
 - MDS: 12% – 15%
- Executing to our 2020 Vision
- Upcoming investor relations events
 - Non deal road show in San Diego on November 17th
 - Ideas Southwest Conference in Dallas on November 19th
 - Furey Research Conference in NY on November 20th
 - Singular Research Conference in NY on November 20th
 - Non deal road show in Portland on December 1st
 - Non deal road show in Los Angeles on December 2nd
 - Non deal road show in Toronto and Montreal on December 8th and 9th



**“Reach \$1 billion by 2020,
expanding our manufacturing and
design services while providing
more engineered components and
products to meet the needs of our
customers and markets”**