

# Second Quarter Financial Results Conference Call



sparton

February 4, 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

- 2<sup>nd</sup> Quarter Highlights
- 2<sup>nd</sup> Quarter Segmented Operating Results
- Liquidity & Capital Resources
- Acquisition Update
- Fiscal 2014 Outlook
- Q & A

# 2<sup>nd</sup> Quarter Highlights



- Quarterly revenue grew 26% to \$85 million as compared to the same quarter of the prior year
  - Organic growth, net of acquisitions, increased 5% from the same quarter of the prior year
- Adjusted EBITDA grew 28% in the quarter and 51% YTD as compared to the prior year periods
- 17 new business programs awarded with potential annualized sales of \$7.4 million
- Completed the acquisition of Beckwood Services, Inc.

# Consolidated Financial Results

## Fiscal 2014 YTD



	(Reported)		(Adjusted)		(Adjusted) Total YoY Variance
	6 months ended Dec 31,		6 months ended Dec 31,		
	2013	2012	2013	2012	
Net Sales	\$ 158,760	\$ 118,055	\$ 158,760	\$ 118,055	\$ 40,705
Gross Profit	27,171 17.1%	20,095 17.0%	27,279 17.2%	20,661 17.5%	6,618
Selling and Administrative Expense	16,332 10.3%	12,847 10.9%	16,332 10.3%	12,847 10.9%	(3,485)
Internal R&D Expense	791	548	791	548	(243)
Amortization of intangible assets	1,234	375	1,234	375	(859)
Restructuring/impairment charges	188	-	-	-	-
Other operating expense, net	(8)	(6)	(8)	(6)	2
Operating Income	8,634 5.4%	6,331 5.4%	8,930 5.6%	6,897 5.8%	2,033
Income Before Provision For Income Tax	8,613	6,297	8,909	6,863	2,046
Provision For (Benefit From) Income Taxes	2,843	(1)	2,941	2,254	(687)
Net Income	\$ 5,770 3.6%	\$ 6,298 5.3%	\$ 5,968 3.8%	\$ 4,609 3.9%	\$ 1,359
Income per Share (Basic)	\$ 0.57	\$ 0.62	\$ 0.59	\$ 0.45	\$ 0.14
Income per Share (Diluted)	\$ 0.57	\$ 0.62	\$ 0.59	\$ 0.45	\$ 0.14

(\$ in 000's, except per share)  
(adjusted removes certain gains and charges)

# Consolidated Financial Results

## Adjusted EBITDA



	3 months ended Dec 31,		6 months ended Dec 31,		
	2013	2012	2013	2012	Variance
Net Income	\$ 3,484	\$ 4,841	\$ 5,770	\$ 6,298	\$ (528)
Interest expense	202	173	360	254	106
Interest income	-	(23)	(2)	(51)	49
Provision for (benefit from) income taxes	1,736	(732)	2,843	(1)	2,844
Depreciation and amortization	1,919	993	3,640	1,472	2,168
Restructuring/impairment charges	-	-	188	-	188
Capitalized profit in inventory from acquisition	108	566	108	566	(458)
Adjusted EBITDA	\$ 7,449	\$ 5,818	\$ 12,907	\$ 8,538	\$ 4,369
	8.8%	8.7%	8.1%	7.2%	

# Operating Results

## Revenue & Gross Profit



### REVENUE

SEGMENT	3 months ended Dec 31,				6 months ended Dec 31,			
	2013	% of Total	2012	% Change	2013	% of Total	2012	% Change
Medical	\$ 44,316	52%	\$ 34,804	27%	\$ 86,324	54%	\$ 62,863	37%
Complex Systems	18,304	22%	14,059	30%	36,569	23%	26,406	38%
DSS	26,078	31%	22,677	15%	43,971	28%	37,664	17%
Inter-company	(4,136)	-5%	(4,286)	-3%	(8,104)	-5%	(8,878)	-9%
Totals	<u>\$ 84,562</u>	100%	<u>\$ 67,254</u>	26%	<u>\$ 158,760</u>	100%	<u>\$ 118,055</u>	34%

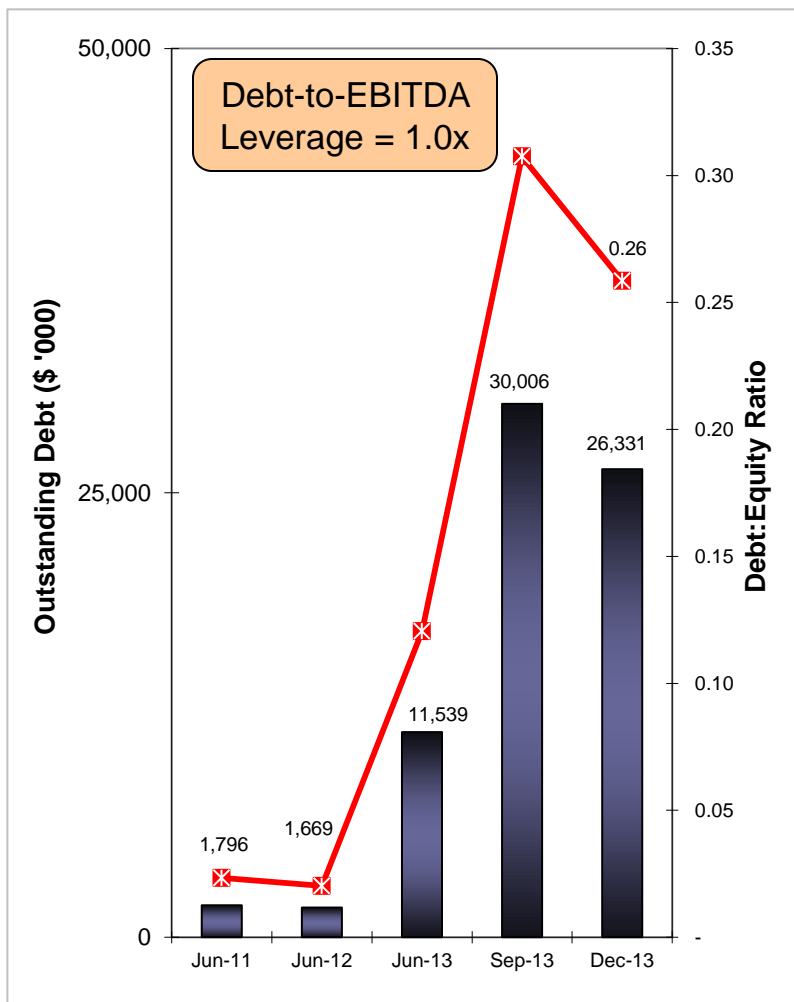
### GROSS PROFIT

SEGMENT	3 months ended Dec 31,				6 months ended Dec 31,			
	2013	GP %	2012	GP %	2013	GP %	2012	GP %
Medical	\$ 6,824	15.4%	\$ 4,344	12.5%	\$ 13,802	16.0%	\$ 8,538	13.6%
Complex Systems	1,944	10.6%	1,428	10.2%	3,812	10.4%	2,524	9.6%
DSS	6,209	23.8%	6,323	27.9%	9,557	21.7%	9,033	24.0%
Totals	<u>\$ 14,977</u>	17.7%	<u>\$ 12,095</u>	18.0%	<u>\$ 27,171</u>	17.1%	<u>\$ 20,095</u>	17.0%

(\$ in 000's)



# Liquidity & Capital Resources



Cash Availability					
(\$ in '000)	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
Cash and equivalents	6,066	4,358	6,085	2,719	1,009
LOC Availability*	86,000	87,000	90,000	71,000	75,000
<b>Total</b>	<b>92,066</b>	<b>91,358</b>	<b>96,085</b>	<b>73,719</b>	<b>76,009</b>

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

Debt					
(\$ in '000)	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
Credit Revolver	14,000	13,000	10,000	28,500	25,000
IRB (Ohio)	1,604	1,572	1,539	1,506	1,472
<b>Total</b>	<b>15,604</b>	<b>14,572</b>	<b>11,539</b>	<b>30,006</b>	<b>26,472</b>

Inventory					
(\$ in '000)	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
Net Inventory	45,367	46,928	46,334	55,658	52,393



- Beckwood Services
  - Closed transaction on December 11, 2013
  - Located in Plaistow, NH (one hour north of Boston)
  - Contract services business of manufacturing electronic or electro-mechanical controls and electronic assemblies
  - Customer profiles includes international Fortune 1000 manufacturers of industrial control systems, analytical instruments, measuring and detecting equipment, and military, defense and Homeland Security equipment
  - \$18 million of revenue
  - Financials reported within Complex Systems 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 Aydin Displays & Beckwood Services

# Q & A