

# TENNANT COMPANY

Earnings Release Conference Call  
Third Quarter 2018

Wednesday, October 24, 2018

# On the Call Today



**Chris Killingstad**  
President and  
CEO



**Tom Paulson**  
Senior VP, CFO

# Forward Looking Statements & Non- GAAP Measures

Our remarks this morning and our answers to questions may contain forward-looking statements regarding the company's expectations of future performance. Such statements are subject to risks and uncertainties, and our actual results may differ materially from those contained in the statements. These risks and uncertainties are described in today's news release and the documents we file with the Securities and Exchange Commission. We encourage you to review those documents, particularly our Safe Harbor statement, for a description of the risks and uncertainties that may affect our results.

Additionally, on this conference call we will discuss non-GAAP measures that include or exclude special or non-operational items. For each non-GAAP measure, we also provide the most directly comparable GAAP measure. There were special non-GAAP items in the third quarter of 2017 and 2018. Our 2018 third quarter earnings release includes a reconciliation of these non-GAAP measures to our GAAP results.

# Third Quarter 2018 – Core Strategies

- Strategies
  - Maintaining a robust new-product pipeline
  - Driving operational rigor across our footprint
  - Broadening and diversifying our revenue streams
  - Preserving the financial strength for future growth
- Sales Execution
  - \$273 million
  - 6.1% organic growth (4.3% total growth)
  - Strength in Americas and Asia Pacific region
  - Significant progress in all go-to-market channels, especially Strategic Accounts

# Third Quarter 2018 – IPC and Gaomei

## IPC

- Strong underlying performance
- Integration
  - Finalized structure of future leadership team in EMEA
  - Maintain a combination of IPC and legacy Tennant leaders
  - Continue to focus on capturing synergies

## Gaomei

- Announced agreement to acquire
- Extends ability to serve mid-tier APAC market, especially China
- Expect to complete transaction Q1 2019

# Third Quarter 2018 – Margin and Expense Management

## Margin

- Direct Control
  - Field service and manufacturing operations delivering improved efficiency and performance
- Macro Factors
  - High freight costs and material inflation
  - Labor shortages and Tariffs
  - Reducing full year guidance by 50 bps

## Expense

- Focused on expense management and expense leverage year-over-year

# Third Quarter 2018 – R&D

## Autonomous T7 Scrubber

- First order received
- Delivered on commitment to commercialize by Q4 2018
- Excited by customer interest
- Encouraged by long-term prospects

## Vitality Index

- % of sales from new products introduced in last 3 years
- Well above 30% stated goal

# Third Quarter 2018

## Recap

- Confident in underlying performance
- Strong orders and sales performance
- Actions in motion to address margin headwinds
- Operational improvements and expense management in place
- Confident in ability to drive shareholder value

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# Third Quarter 2018 – Sales | Adjusted EPS

Q3 '18 Organic Growth of 6.1%

	Q3 '18	Q3 '17	CHANGE
<b>SALES</b>	<b>\$273.3 M</b>	<b>\$261.9 M</b>	<b>+4.3%</b>
<b>EPS</b> Adjusted*	<b>\$0.54</b>	<b>\$0.32</b>	<b>+\$0.22</b>

## Q3 2018 Results

- Organic results exclude favorable currency of 1.7%
- Adjusted results exclude \$400,000, or 2 cents per share

# Third Quarter 2018 – Geographies

## The Americas

- Sales increased 8.9% or 10.6% organically, driven by:
  - Expanded Strategic Accounts
  - Strength in Service and Parts and Consumables
  - Higher industrial equipment in South America
  - Broad-based strength in Brazil

# Third Quarter 2018 – Geographies

## EMEA

- Sales decreased 5.8% or 4.5% organically, driven by:
  - Strong prior year Q3 performance of 14.6% organic growth
- IPC integration provides optimism for the region

## APAC

- Sales increased 7.4% or 10.6% organically, driven by:
  - Strong industrial equipment in China
- Excited for legacy Tennant and Gaomei combined product lines

# Third Quarter 2018 – Sales | Adjusted Gross Margin

	Q3 '18	Q3 '17	CHANGE
<b>SALES</b>	\$273.3 M	\$261.9 M	+4.3%
<b>Gross Margin</b> Adjusted*	39.6%	40.8%	(120 bps)

## 2018 Results

- Not satisfied with current gross margin levels
- 180 bps decline
  - Labor and raw material shortages
  - Tariffs
  - Higher freight and logistics costs
  - Mix impact from strategic accounts
- Improvements in field-service and manufacturing operations
- Reducing full year gross margin rates from 41.0% to 40.5%, primarily due to external factors

# Third Quarter 2018 – Sales | Research and Development

	Q3 '18	Q3 '17	CHANGE
<b>SALES</b>	<b>\$273.3 M</b>	<b>\$261.9 M</b>	<b>+4.3%</b>
<b>R&amp;D Expense</b> (% of sales)	<b>2.7%</b>	<b>3.0%</b>	<b>(30 bps)</b>

- Committed to maintaining our technology leadership and robust new product pipeline

# Third Quarter 2018 – Sales | Selling and Administrative

	Q3 '18	Q3 '17	CHANGE
<b>SALES</b>	<b>\$273.3 M</b>	<b>\$261.9 M</b>	<b>+4.3%</b>
<b>S&amp;A Expense</b> (% of sales) - Adjusted*	<b>30.9%</b>	<b>32.4%</b>	<b>(50 bps)</b>

- Q3 2018 includes \$5.4 million, or 2.0 percent of sales, in amortization expense of the intangible assets related to the IPC acquisition
- Q3 2017 included \$7.3 million, or 2.8 percent of sales, in amortization expense

# Third Quarter 2018 – EBITDA

	Q3 '18	Q3 '17	CHANGE
<b>Adjusted EBITDA*</b>	<b>\$29.3M</b>	<b>\$28.0M</b>	<b>+4.7%</b>
<b>Adjusted EBITDA*</b> (% of sales)	<b>10.7%</b>	<b>10.7%</b>	<b>0 bps</b>

Tennant still remains committed to improve profitability:

- Driving organic revenue growth
- Holding fixed costs essentially flat in manufacturing as volume rises
- Striving for zero net inflation at gross profit line
- Standardizing and simplifying processes to improve scalability of business model

# Third Quarter 2018 – Other Financial Metrics

	Q3 '18	Q3 '17	CHANGE
<b>Adjusted Taxes*</b>	<b>5.6%</b>	<b>21.7%</b>	<b>(16.1%)</b>

- Reflects lower tax rate due to new tax legislation in the U.S., discrete tax items and geographic mix of probability
- Updating tax rate guidance to 15.0%
- Operating cash flow of \$17.5 million, YTD of \$43.5 million
- Cash dividends of \$3.8 million
- Reduced debt by \$12.1 million

# 2018 Guidance – Updated

- Full Year Sales of \$1.115 billion to \$1.125 billion (approximate 5% organic)
  - Reasonable growth in all regions, especially Strategic Accounts in North America
- Adjusted Earnings per Share of \$2.05 to \$2.15
  - GAAP Earnings per Share of \$1.75 to \$1.85
- Adjusted EBITDA of \$119 million to \$122 million
- Other Key Assumptions
  - Gross margin performance of approximately 40.5 percent;
  - R&D expense about 3.0 percent of sales;
  - Capital expenditures of approximately \$20 million; and
  - An effective tax rate of approximately 15 percent.

# Questions

# Tennant – Long-term Growth Plan

- Diversifying our revenue streams
- Building on technology leadership and new product pipeline
- Optimizing our cost structure and fueling growth investments
- Strengthening our financial position and maintaining solid capital structure
- Successfully completing the integration of IPC
- Focusing on our organic growth plans
- Being open-minded about the right strategic inorganic growth