# TENNANT COMPANY

## Earnings Release Conference Call
## Second Quarter 2018

**Wednesday, July 25, 2018**



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# On the Call Today

**Chris Killingstad**
President and CEO

**Tom Paulson**
Senior VP, CFO

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# 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 second quarter of 2017 and 2018. Our 2018 second quarter earnings release includes a reconciliation of these non-GAAP measures to our GAAP results.



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# Second Quarter

- **Sales Execution**
  - Third consecutive quarter of organic growth across all three geographic regions
  - Strength in direct, distributor and strategic accounts
  - Continued growth in Service, Parts and Consumables

- **Net Sales:**
  - 5.2% Organic (7.9% total growth)
  - $292 million

- **IPC Integration**
  - Expands and diversifies revenue by region, product category and channel
  - Focus on revenue growth opportunities and cost synergies
  - Underlying business solid performance



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# Second Quarter — continued

- **Efficient Operations**
  - – Many of last year challenges resolved
  - – Current market conditions presenting new headwinds to gross margin rates
    - Raw Material and Labor Shortages
    - Implemented Tariffs
    - Robust Strategic Account Growth
  - – Expense leverage of 80 bps (adjusting for amortization YOY)

- **New Product Innovation**
  - – Committed to maintaining our technology leadership
  - – Vitality Index of approximately 35%



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# 2018 Second Quarter

Organic Sales Increase 5.2%

| | Q2'18 | Q2'17 | CHANGE |
|---|---|---|---|
| Sales | $292.2M | $270.8 M | +7.9% |
| Adjusted EPS* | $0.82 | $0.58 | +41.4% |

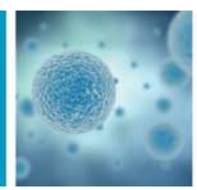
**<u>Q2 2018 Results</u>**

- **Organic results exclude favorable currency of 2.7%**
- **Adjusted results exclude $3.1 million pre-tax charges, or 13 cents per share, primarily acquisition integration efforts related to IPC**
- **Adjusted results <u>include</u> $5.5 million, or 23 cents per share, in amortization expense of the intangible assets related to the IPC acquisition**
- **Discrete tax benefits totaling $3.0 million, or 16 cents per share**



* See the Supplemental Non-GAAP Financial Table within Q2'18 Earnings Release for details.



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# 2018 Second Quarter by Region

## AMERICAS

- **Sales increased 5.7% or 6.0% organically, driven by:**
  - Expansion in our Strategic Accounts in North America
  - Improved sales in our service, parts and consumables business
  - Higher industrial sales in South America and continued broad-based strength in the Brazil economy



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# 2018 Second Quarter by Region

## EMEA

- **Sales increased 13.0% or 3.6% organically**
- **Solid sales performance across region, particularly France and Germany**

## APAC

- **Sales increased 7.2% or 5.1% organically**
- **Organic growth driven by IPC and strategic account channel in Australia**



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# Adjusted Gross Margin

| | Q2'18 | Q2'17 | CHANGE |
|---|---|---|---|
| SALES | **$292.2M** | **$270.8 M** | **+7.9%** |
| *GROSS MARGIN | **40.7%** | **40.9%** | **(20 bps)** |

- **Improvements in prior quarter challenges**

- **20 bps decline:**
  - Labor and raw material shortages
  - Mix impact from strategic accounts
  - Higher freight and logistics cost

    -110 bps
  - Gains in pricing and operational improvements

    +90 bps



* See the Supplemental Non-GAAP Financial Table within Q2'18 Earnings Release for details.

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# Adjusted Gross Margin — continued

- **2018 Full Year Pressures and Impact**
  - Mix impact from strategic accounts ~(20 bps)
  - Recently enacted tariffs ~(20 bps)
  - Labor and raw material shortages ~(10 bps)

- **Will adjust full year guidance**

* See the Supplemental Non-GAAP Financial Table within Q2‘18 Earnings Release for details.



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# Research and Development

| | Q2'18 | Q2'17 | CHANGE |
|---|---|---|---|
| SALES | **$292.2M** | **$270.8 M** | **+7.9%** |
| R&D EXPENSE (% of sales) | **2.7%** | **2.9%** | **(20 bps)** |

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



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## S&A Expense

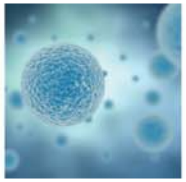
| | Q2'18 | Q2'17 | CHANGE |
|---|---|---|---|
| SALES | $292.2M | $270.8 M | +7.9% |
| *S&A EXPENSE (% of sales) | 30.4% | 30.4% | 0 bps |

- **Results include charges of:**
  - 2018 Q2 of $3.1 million
  - 2017 Q2 of $4.9 million
- **Q2 2018 also <u>includes</u> $5.5 million, or 1.9 percent of sales, in amortization expense of the intangible assets related to the IPC acquisition**
- **Q2 2017 included $3.1 million, or 1.1 percent of sales, in amortization expense**



* See the Supplemental Non-GAAP Financial Table within Q2'18 Earnings Release for details.



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# EBITDA and Operating Profit

| | Q2'18 | Q2'17 | CHANGE |
|---|---|---|---|
| *Adjusted EBITDA | $35.7M | $29.8M | +19.8% |
| *Adjusted EBITDA % | 12.2% | 11.0% | 120 bps |

**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



* See the Supplemental Non-GAAP Financial Table within Q2'18 Earnings Release for details.

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# Other Financial Metrics

| | Q2'18 | Q2'17 | CHANGE |
|---|---|---|---|
| *Adjusted Taxes | 6.8% | 29.1% | (22.3 pps) |
| Capital Expenditures | $4.2M | $4.5M | (5.1%) |

- **Reflects two discrete tax items and lower tax rate due to new tax legislation in the U.S.**
- **Operating cash flow of $20.4 million**
- **Cash dividends of $3.8 million**
- **Reduced debt by $14 million**



* See the Supplemental Non-GAAP Financial Table within Q2'18 Earnings Release for details.

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# 2018 Guidance — Updated

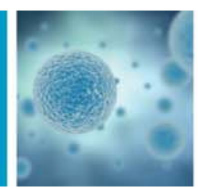
- **Full Year Sales of $1.10 billion to $1.12 billion (4.0% - 4.5% organic)**
  - Reasonable growth in all regions, especially Strategic Accounts in North America
- **Adjusted Earnings per Share of $1.95 to $2.10**
  - Excludes $4.0 million to $5.0 million of anticipated acquisition and integration related costs
  - GAAP Earnings per Share of $1.75 to $1.90
- **Adjusted EBITDA of $117 million to $121 million**
- **Other Key Assumptions**
  - Gross margin performance of approximately 41.0 percent;
  - R&D expense about 3.0 percent of sales;
  - Capital expenditures in the range of $25 million to $30 million; and
  - An effective tax rate of approximately 20 percent.



# QUESTIONS?





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# 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

**Commitment to furthering shareholder value**