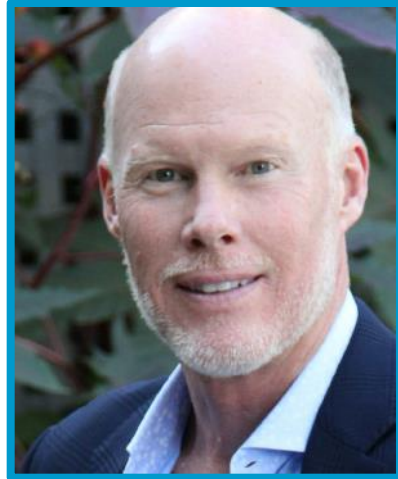


# TENNANT COMPANY

Earnings Release Conference Call  
Fourth Quarter 2018

Thursday, February 21, 2019

# | On the Call Today



**Chris Killingstad**  
President and CEO



**Keith Woodward**  
Senior VP and 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 fourth quarter and full year of 2017 and 2018. Our 2018 fourth quarter earnings release includes a reconciliation of these non-GAAP measures to our GAAP results.

# Fourth Quarter 2018 – Leadership Introductions

- Mary Talbott
  - Started end of January
  - General Counsel
  
- Keith Woodward
  - Started beginning of December
  - Chief Financial Officer

# Full Year 2018 – Highlights

- Full Year Illustrates
  - Strong topline growth
  - Disciplined expense management
  - Improved financial strength
- Key Metrics
  - Net sales of over \$1.1 billion
  - Organic growth across all geographies, which is the first time since 2014
  - Strong improvements in our cash flow
  - Improved S&A leverage
  - Adjusted EBITDA growth of 19% and expansion of 70 basis points

# Fourth Quarter 2018 – Revenue

- Total Organic Growth of 4.3%
  - 6<sup>th</sup> consecutive quarter
  
- Regional Organic Growth:
  - Americas: 5.7%
  - EMEA: 4.3%
  - APAC: (3.4%)

# Fourth Quarter 2018 – Gaomei

- Acquisition Closed January 2019
- Gaomei Products:
  - Single-disk scrubbing machines
  - Vacuum cleaners
  - Carpet extractors
  - Blowers
  - High-pressure washers
  - Sweepers
- Expands both our mid-tier product platform and geographic reach in critical markets

# Fourth Quarter 2018 – Innovation

## T7 Autonomous Machine

- Commercialized in Q4 2018
- Deployed in all geographies
- Operating in high-traffic environments
- Committed to industry-leading technology and innovation



# Fourth Quarter 2018 – Gross Margins and Expense

## Gross Margins

- Raw material inflation
- Tight labor markets
- Higher freight costs
- Tariffs

## Efforts to Offset

- Reduce cost and complexity
- Productivity
- Pricing

## Expenses

- Improved expense leverage
- Continue to invest in growth
- Remains a critical focus in 2019 and beyond

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# Fourth Quarter 2018 – Sales | Adjusted EPS

Q4 '18 Organic Growth of 4.3%

|                      | Q4 '18           | Q4 '17           | CHANGE       |
|----------------------|------------------|------------------|--------------|
| <b>SALES</b>         | <b>\$285.2 M</b> | <b>\$279.3 M</b> | <b>+2.1%</b> |
| <b>EPS</b> Adjusted* | <b>\$0.54</b>    | <b>\$0.34</b>    | <b>+59%</b>  |

## Q4 2018 Results

- Organic results exclude unfavorable currency of 2%
- Adjusted results exclude \$2.3 million, or \$0.12 per diluted share, of non-operational items

# Fourth Quarter 2018 – Geographies

## The Americas

- Sales increased 4.2%, or 5.7% organically, driven by:
  - Expanded Strategic Accounts and Distributor channels
  - Strength in Service and Parts and Consumables
  - Broad-based strength in Latin America, specifically Mexico

# Fourth Quarter 2018 – Geographies

## EMEA

- Sales increased 1.0%, or 4.3% organically, driven by:
  - Germany and France
  - Continued IPC integration

## APAC

- Sales decreased 6.8%, or decreased 3.4% organically, driven by:
  - Strong prior-year Q4 performance of 8.4% organic growth
  - Excited for legacy Tennant and Gaomei combined product lines

# Fourth Quarter 2018 – Sales | Adjusted Gross Margin

|                               | Q4 '18    | Q4 '17    | CHANGE    |
|-------------------------------|-----------|-----------|-----------|
| <b>SALES</b>                  | \$285.2 M | \$279.3 M | +2.1%     |
| <b>Gross Margin</b> Adjusted* | 39.3%     | 40.3%     | (100 bps) |

## 2018 Results

- Accounting reclassification between COGS and S&A (approx. 60 bps impact in 2017 Q4)
  - No impact to Operating Profit or EBITDA
  - Related to the IPC acquisition
- 100 bps decline
  - Labor and raw material shortages
  - Higher freight and logistics costs
  - Tariffs
  - Mix impact from robust strategic account growth

# Fourth Quarter 2018 – Sales | Research and Development

|                                     | Q4 '18           | Q4 '17           | CHANGE          |
|-------------------------------------|------------------|------------------|-----------------|
| <b>SALES</b>                        | <b>\$285.2 M</b> | <b>\$279.3 M</b> | <b>+2.1%</b>    |
| <b>R&amp;D Expense</b> (% of sales) | <b>2.6%</b>      | <b>2.8%</b>      | <b>(20 bps)</b> |

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

# Fourth Quarter 2018 – Sales | Selling and Administrative

|   | Q4 '18    | Q4 '17    | CHANGE   |
|---|-----------|-----------|----------|
| <b>SALES</b>                                    | \$285.2 M | \$279.3 M | +2.1%    |
| <b>S&amp;A Expense</b> (% of sales) - Adjusted* | 30.7%     | 31.0%     | (30 bps) |

- Leverage improvement due to continued tight management of controllable expenses



# Fourth Quarter/Full Year 2018 – EBITDA

|                                  | 2018     | 2017     | CHANGE   |
|----------------------------------|----------|----------|----------|
| Q4 Adjusted EBITDA*              | \$30.3M  | \$30.9M  | (1.9%)   |
| Q4 Adjusted EBITDA* (% of sales) | 10.6%    | 11.1%    | (50 bps) |
| FY Adjusted EBITDA*              | \$120.8M | \$101.6M | +19%     |
| FY Adjusted EBITDA* (% of sales) | 10.8%    | 10.1%    | +70 bps  |

Tennant committed to improve profitability by:

- 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

# Fourth Quarter 2018 – Other Financial Metrics

|                         | 2018    | 2017    | CHANGE |
|-------------------------|---------|---------|--------|
| Q4 Cash from Operations | \$36.5M | \$22.1M | +65%   |
| FY Cash from Operations | \$80.0M | \$54.2M | +48%   |

## Fourth Quarter

- Cash dividends of \$4 million
- Reduced debt by \$8 million

## Full Year

- Cash flow increased by 48% to \$80M
- Reduced debt by \$38.3 million

# 2019 Guidance

- Full Year Sales of \$1.15 billion to \$1.17 billion (2% to 3% organic)
- Adjusted Earnings per Share of \$2.30 to \$2.50
  - GAAP Earnings per Share of \$2.05 to \$2.25
- Adjusted EBITDA of \$129 million to \$133 million
- Other Key Assumptions
  - Capital expenditures of approximately \$40 to \$45 million
  - An effective tax rate of approximately 20%

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# Questions

**Thank You**