

TENNANT[®]
COMPANY



Earnings Release Call Second Quarter 2021

Tuesday, August 3, 2021

On the Call Today



Dave Huml
President and CEO



Fay West
SVP and CFO



Dan Glusick
SVP, Global Operations

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 certain items. Our 2021 second-quarter earnings release includes the comparable GAAP measures and a reconciliation of these non-GAAP measures to our GAAP results.

Tennant Company

Financial Results Conference Call
Second Quarter 2021

Second Quarter 2021

- Strong second quarter results across geographic markets
 - Customer demand exceeded internal expectations
- Widespread global supply-chain constraints and commodity inflation did impact the quarter
 - Headwinds included parts availability, material inflation, freight costs, and labor shortages
 - Parts availability and labor shortages did impact ability to meet Q2 customer demand
- Strategic improvements we've made to our operating model, as part of our enterprise strategy, are helping against macro-level headwinds



Addressing Macro-challenges

Parts Availability

Actions

- Leveraging our strategic partnerships to manage component and material availability
- Developing design alternatives and identifying additional sources for parts
- Designing more robust sales and inventory operations plans to better align our supply and demand
- Providing longer-term demand forecasts to our suppliers to secure the parts we'll need

Maintaining strict product quality controls



Addressing Macro-challenges

Material Inflation

Actions

- Working diligently to find additional partners and, where possible, consolidating vendors to drive leverage and scale
- Value engineering to help reduce the parts and material that go into each machine

Expect pressures to persist for foreseeable future



Addressing Macro-challenges

Freight Costs and Labor Shortages

Actions

- Leveraging work completed for enterprise strategy to prioritize local-for-local and region-for-region manufacturing to help reduce freight costs
- Adjusting wages in our manufacturing areas
- Investing in our equipment, processes and systems to drive increased productivity

Making every effort to ensure that our manufacturing lines remain up and running



Addressing Macro-challenges

Other Levers

Actions

- Carefully and thoughtfully managing our S&A:
 - Still investing in the business, servicing customers and executing on our enterprise strategy
- Implementing price increases, where appropriate, to help offset some of the costs that we're not able to absorb internally
- Enterprise growth strategy has helped manage recent market challenges

Maintaining ability to meet our full-year financial targets, while meeting the needs of our customers

Financial Review

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Second Quarter 2021 – Sales

Enterprise Q2 '21 Organic Increase of +27.5%

Americas

- Sales increased +22.7%
 - Reflects divestiture of Coatings business and positive impact of FX (-3.8% and +1.1%, respectively)
- Organic growth of +25.4%
 - Growth across all channels and product categories in North America and Latin America
 - Results lapping large AMR robotic order in Q2 2020
- Higher-than-normal backlog

EMEA

- Sales increased +55.5%
 - FX impact of +15.3%
- Organic growth of +40.2%
 - Growth across all countries and product categories, as pandemic-related restrictions eased

APAC

- Sales increased +16.6%
 - FX impact of +7.0%
- Organic growth of +9.6%
 - Growth driven by Australia
- China Q2 2021 organic results are flat due to limited parts availability

Second Quarter 2021 – Sales | Adjusted Gross Margin

	Q2 '21	Q2 '20	CHANGE
Sales	\$279.1 M	\$214.0 M	+30.4%
Gross Margin (% of sales) Adjusted*	41.2%	41.8%	-60 bps

- Gross margin decline reflects:
 - the impact of temporary government credits received, and cost-saving measures taken in response to the pandemic, in the prior-year quarter
 - increased costs related to freight, materials and labor in Q2 2021
- Decline was partially offset by pricing and cost-saving initiatives
- Headwinds are expected to continue for foreseeable future, specifically Q3

Second Quarter 2021 – Sales | Adjusted S&A Expense

	Q2 '21	Q2 '20	CHANGE
Sales	\$279.1 M	\$214.0 M	+30.4 %
S&A Expense (% of sales) Adjusted*	30.3%	28.0%	+230 bps

- YOY deleverage due to cost-savings actions we implemented in response to the pandemic in the second quarter of last year, including:
 - Furloughs/reduced work schedules
 - Adjustments to management incentives
 - Government credits
 - Tighter project and travel spending

Second Quarter 2021 – Adjusted EPS/EBITDA

	Q2 '21	Q2 '20	CHANGE
Adjusted EPS*	\$1.18	\$0.96	+22.9%
Adjusted EBITDA*	\$35.1 M	\$35.3 M	-0.6%
Adjusted EBITDA Margin*	12.6%	16.5%	-390 bps

- Results reflect savings in Q2 2020 of approximately \$15 million due to:
 - Furloughs/reduced work schedules
 - Adjustments to management incentives
 - Government credits
 - Tighter project and travel spending

Second Quarter 2021 – Other Financial Metrics

- Adjusted effective tax rate of 4.0% vs. 20.4% last year, driven by:
 - Discrete tax benefit for a valuation allowance release as the result of a recent law change impacting Dutch tax loss carryovers
- Cash from operations generation of \$19.4 million and \$135.1 million in cash and cash equivalents
 - Managing within the stated leverage guidance of 1.5 to 2.5 times
- In April 2021, company restructured its credit agreements to optimize debt structure:
 - Enhances flexibility with minimal covenants and no pre-payment penalties
 - Reduces future interest expense by approximately \$1 million per month

2021 Guidance – Affirmed

	<u>Guidance</u>
Revenue	\$1.09B to \$1.11B
Organic %	9.0% to 11.0%
GAAP EPS	\$3.45 to \$3.85
Adjusted EPS*	\$4.10 to \$4.50
Adjusted EBITDA*	\$140M to \$150M
Capital Expenditures	Approximately \$20M
Adj. Effective Tax %*	Approximately 20%

* Excludes certain non-operational items and amortization expense.

Questions?

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Appendix

Enterprise Strategy – Global Positioning Strategy (GPS)



Win where we have a competitive advantage



Reduce complexity & build scalable processes



Innovate for profitable growth



Win where we have a competitive advantage

Focus investments and resources where we can create the most value

Focus Areas





**Reduce
complexity &
build scalable
processes**

Simplify and standardize to gain efficiency and leverage

Focus Areas





**Innovate for
profitable
growth**

Thinking Differently to Maximize Value for Customers and Tennant



Capitalizing on the Strategy: 2024 Growth Targets

2-3%

**Organic
Sales
Annually**

6-10%

**EBITDA
Growth
Annually**

50-100 BPS

**EBITDA
Leverage
Annually**

Consistent and predictable results to drive total shareholder return