



# 2023 First Quarter Earnings Conference Call

May 16, 2023

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*Vice President & CFO*

# Safe Harbor Disclosure



## **Non-GAAP Financial Measures**

Any non-GAAP measures, and their related reconciliation to GAAP measures, are provided and available on the company's website: [www.sypris.com](http://www.sypris.com)

**Each forward-looking statement herein is subject to risks and uncertainties, as detailed in our most recent Form 10-K and Form 10-Q and other SEC filings.** Briefly, we currently believe that such risks also include the following: our failure to achieve and maintain profitability on a timely basis by steadily increasing our revenues from profitable contracts with a diversified group of customers, which would cause us to continue to use existing cash resources or require us to sell assets to fund operating losses; cost, quality and availability or lead times of raw materials such as steel, component parts (especially electronic components), natural gas or utilities including increased cost relating to inflation; the cost, quality, timeliness, efficiency and yield of our operations and capital investments, including the impact of inflation, tariffs, product recalls or related liabilities, employee training, working capital, production schedules, cycle times, scrap rates, injuries, wages, overtime costs, freight or expediting costs; risks of foreign operations, including foreign currency exchange rate risk exposure, which could impact our operating results; dependence on, retention or recruitment of key employees and highly skilled personnel and distribution of our human capital; volatility of our customers' forecasts and our contractual obligations to meet current scheduling demands and production levels, which may negatively impact our operational capacity and our effectiveness to integrate new customers or suppliers, and in turn cause increases in our inventory and working capital levels; our failure to successfully complete final contract negotiations with regard to our announced contract "orders", "wins" or "awards"; significant delays or reductions due to a prolonged continuing resolution or U.S. government shut down reducing the spending on products and services that Sypris Electronics provides; adverse impacts of new technologies or other competitive pressures which increase our costs or erode our margins; breakdowns, relocations or major repairs of machinery and equipment, especially in our Toluca Plant; the fees, costs and supply of, or access to, debt, equity capital, or other sources of liquidity; the termination or non-renewal of existing contracts by customers; the costs and supply of insurance on acceptable terms and with adequate coverage; our reliance on revenues from customers in the oil and gas and automotive markets, with increasing consumer pressure for reductions in environmental impacts attributed to greenhouse gas emissions and increased vehicle fuel economy; the impact of COVID-19 and economic conditions on our future operations; possible public policy response to the pandemic, including U. S or foreign government legislation or restrictions that may impact our operations or supply chain; our failure to successfully win new business or develop new or improved products or new markets for our products; war, geopolitical conflict, terrorism, or political uncertainty, including disruptions resulting from the Russia-Ukraine war arising out of international sanctions, foreign currency fluctuations and other economic impacts; our reliance on a few key customers, third party vendors and sub-suppliers; inventory valuation risks including excessive or obsolescent valuations or price erosions of raw materials or component parts on hand or other potential impairments, non-recoverability or write-offs of assets or deferred costs; disputes or litigation involving governmental, supplier, customer, employee, creditor, stockholder, product liability, warranty or environmental claims; failure to adequately insure or to identify product liability, environmental or other insurable risks; unanticipated or uninsured product liability claims, disasters, public health crises, losses or business risks; the costs of compliance with our auditing, regulatory or contractual obligations; labor relations; strikes; union negotiations; costs associated with environmental claims relating to properties previously owned; pension valuation, health care or other benefit costs; our inability to patent or otherwise protect our inventions or other intellectual property rights from potential competitors or fully exploit such rights which could materially affect our ability to compete in our chosen markets; changes in licenses, security clearances, or other legal rights to operate, manage our work force or import and export as needed; cyber security threats and disruptions, including ransomware attacks on our systems and the systems of third-party vendors and other parties with which we conduct business, all of which may become more pronounced in the event of geopolitical conflicts and other uncertainties, such as the conflict in Ukraine; our ability to maintain compliance with the Nasdaq listing standards minimum closing bid price; risks related to owning our common stock, including increased volatility; or unknown risks and uncertainties. We undertake no obligation to update our forward-looking statements, except as may be required by law.

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# Overview



## 1Q23 Highlights

- Revenue increased 23.4% from the prior year period
  - Up 42.0% for Sypris Electronics
  - Up 13.7% for Sypris Technologies
- Orders rose 73.6% year-over-year
  - Up 91.4% for Sypris Electronics
  - Up 25.7% for the energy products of Sypris Technologies
  - Demand from transportation customers remained solid
- Backlog increased 121.0% on a consolidated basis, reflecting positive demand across both segments
  - Up \$73.1 million or 125.0% to \$131.6 million for Sypris Electronics
  - Up 61.0% for the energy products of Sypris Technologies
- The pace of conversion of backlog to revenue is expected to continue to accelerate during the balance of the year



# Overview



## 1Q23 Highlights

- Important Public News Releases
  - Sypris Electronics
    - Announced an award to produce and test electronic interface modules for a U.S. Department of Defense weapons system
      - Part of an ongoing modernization program to increase strategic and tactical capabilities
      - To be incorporated into a variety of aircraft
      - Shipments to begin in 2023
    - Shortly after quarter end, announced new releases under a multi-year production contract to produce and test power supply modules for a large, mission-critical U.S. Navy electronic warfare program
      - Upgrade to precision-guided anti-ship missile system
      - Shipments to begin in 2023



# Overview



## 1Q23 Highlights

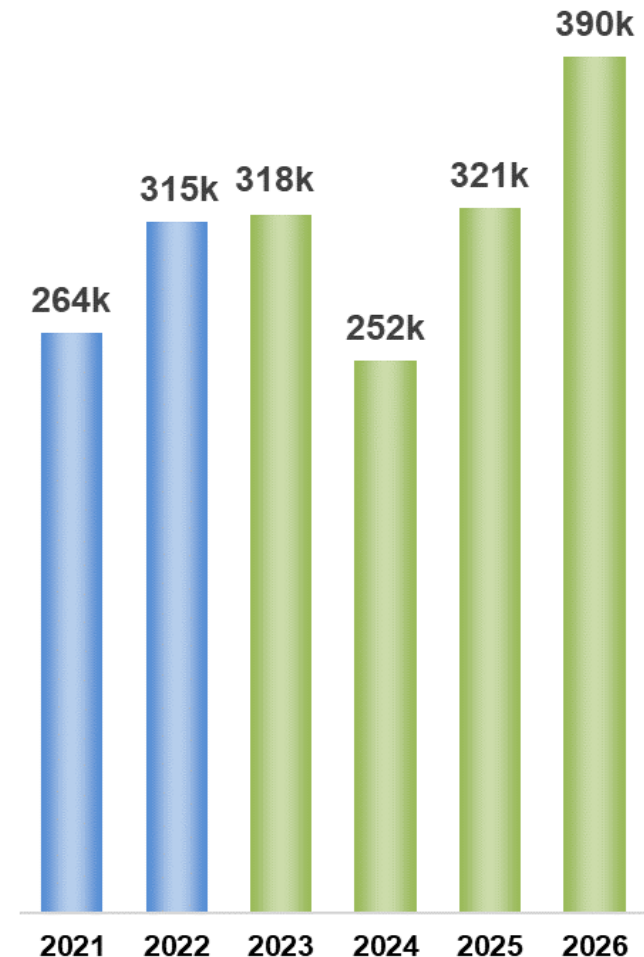
- Important Public News Releases
  - Sypris Technologies
    - Announced an amendment to expand an existing supply agreement with Detroit Diesel Corporation, a subsidiary of Daimler Truck North America
      - Drivetrain components for use in Freightliner's heavy-duty trucks
      - Shipments to begin in 2023
    - Announced a new program in early April to supply drivetrain components for use in the production of a new model of side-by-side utility-terrain vehicles with production to begin in 2024
- Outlook
  - Confirmed 25%-30% revenue growth; adjusted gross margin guidance to 150-200 basis point increase; strong cash flow



## Commercial Vehicle

- Class 8 demand expected to increase slightly in 2023
  - Continued pent-up demand
  - Large backlog supporting 2023 levels
- Long-term contract extensions and expansions provide opportunities to grow through market cycles
- The current outlook for 2023 indicates some softening in demand starting in the second half of the year and into 2024 before rebounding in 2025
- All-time peak of build and sales forecast to be reached in 2026

## NA Class 8 Production

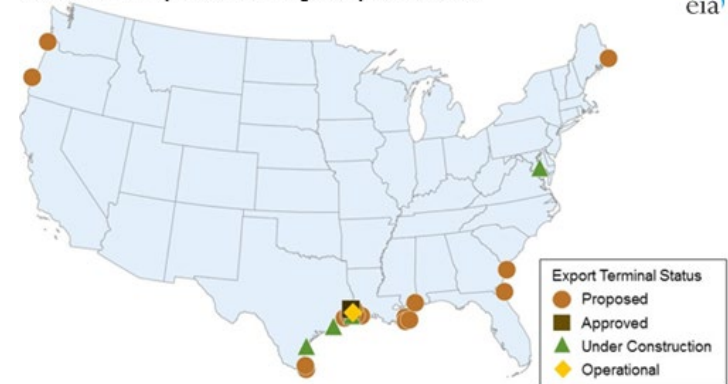


Source: ACT Research Co LLC 5/10/23

## Energy

- European countries boosted LNG imports by 60% in 2022 to make up for declining pipeline gas shipments from Russia
- New LNG terminals could boost the continent's import capacity by one-third by the end of 2024
- With four LNG export facilities in operation, the U.S. became the world's largest exporter in 2022 and has three more under construction to support the rapid growth in LNG demand
- IEEFA anticipates that the global LNG market will see a tidal wave of new projects come online starting in mid-2025. The wave will likely crest in 2026, with the addition of 64 million metric tons of annual liquefaction capacity – a record
- Energy product backlog is up 61.0% YOY, reflecting strong demand in 2023

U.S. Lower 48 liquefied natural gas export facilities



The European LNG Infrastructure

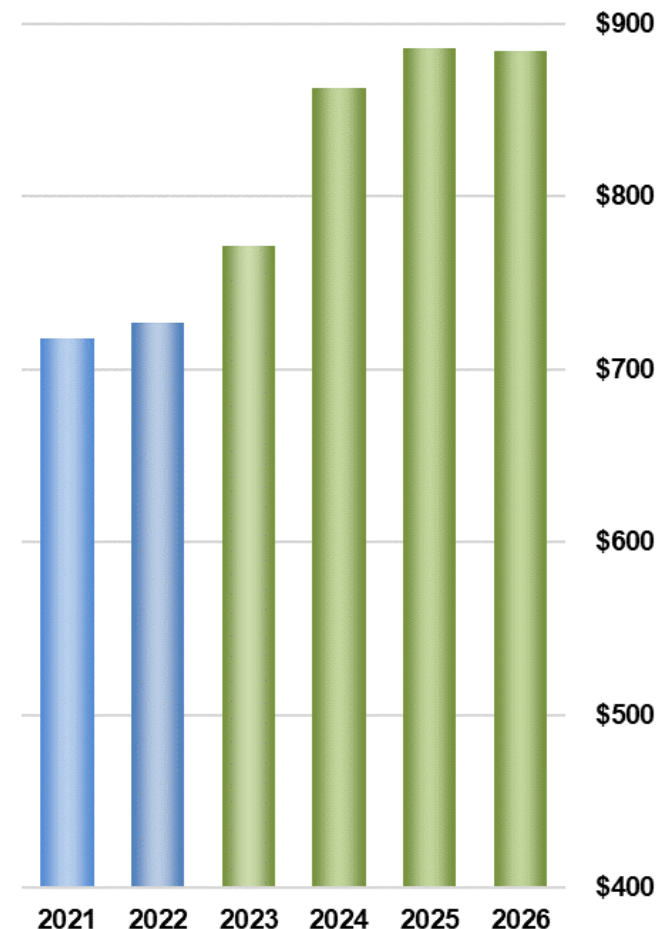




## Defense Electronics

- The long-term outlook for defense spending remains positive
- Technology upgrades to existing strategic platforms will take precedence
  - Naval electronic warfare; surveillance
  - Avionics upgrades; electronic warfare
  - Missile guidance
  - Secure communications
- Deep-sea communications demand remains robust
- Backlog is \$131.6 million, up 125.0% YOY and now extends into 2025
- Very positive momentum for 2023; geopolitical situation may result in additional tailwind

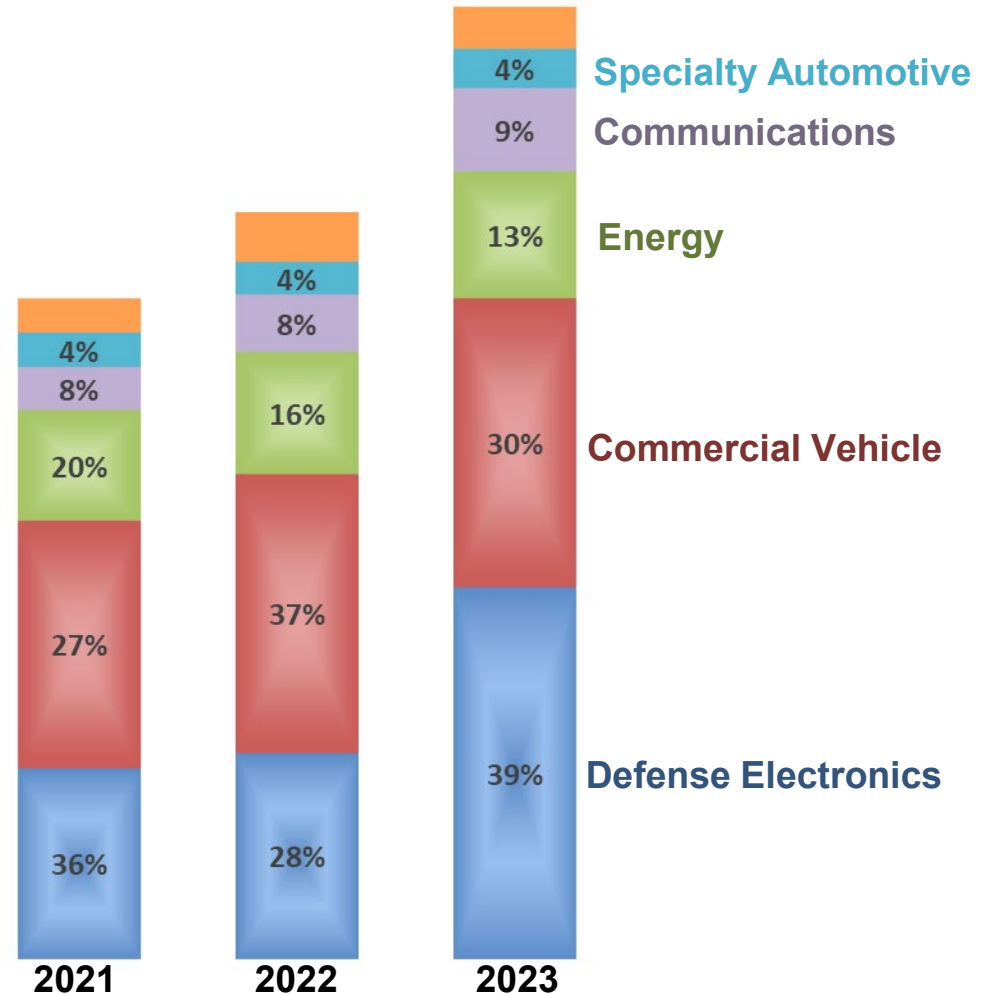
## US Dept of Defense Outlays



Source: Statista.com. 04/04/2023

## Revenue Mix

- Revenue is expected to increase 25%-30% YOY in 2023
- Record backlog of \$131.6 million for Defense Electronics leads to expanded mix in 2023
- New Commercial Vehicle programs drive an increase in volume in 2023, but overall share will decline due to growth of Defense Electronics
- Energy growth expected in 2023, but overall share will decline due to increase in Defense Electronics
- Continue to explore new markets to provide further growth opportunities for both segments



## Summary

- Revenue increased 23.4%
  - Up 42.0% for Sypris Electronics
  - Up 13.7% for Sypris Technologies
- Orders and backlog were strong; up 73.6% and 121.0%, respectively
  - Up 91.4% and 125.0%, respectively, for Sypris Electronics
  - Up 25.7% and 61.0%, respectively, for Sypris Technologies
- Markets dynamics are positive, with a bullish outlook for defense electronics supported by improved supply chain performance
- Outlook for 2023
  - 25%-30% top line growth
  - Gross margin up 150-200 basis points
  - Strong cash flow from operations





# Financial Review

## First Quarter 2023

May 16, 2023

**Richard L. Davis**

*Vice President & CFO*

# 1Q Financial Results



*\$ millions except per share data*

	1Q 2023			1Q 2022	
	ST	SE	Consolidated	Consolidated	Change
Net Revenue	\$ 19.5	\$ 12.8	\$ 32.3	\$ 26.2	\$ 6.1
Gross Profit	2.6	1.5	4.2	4.5	(0.3)
Gross Margin	13.5%	11.9%	12.9%	17.2%	(430) bps
Operating Income			0.4	1.1	(0.7)
Net (Loss) Income			(0.2)	0.2	(0.4)

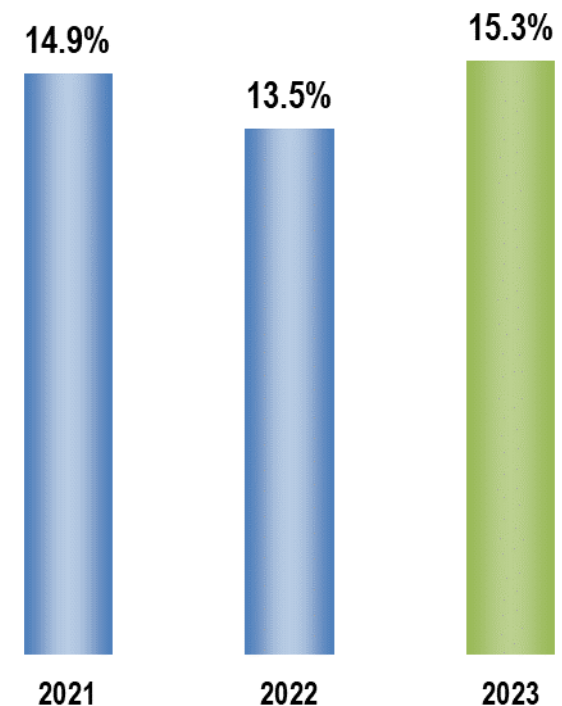
- Consolidated revenue up 23.4%, with SE and ST up 42.0% and 13.7%, respectively
- Revenue mix, production ramp-up costs and inefficiencies at SE, and \$0.4 million of unfavorable foreign exchange impacted gross profit and margin performance in 1Q 2023
- Price adjustments on certain contracts for pass-through of higher steel prices result in higher revenue and preserve gross profit but impact gross margin as a result of the lack of any additional markup on the incremental revenue
- Operating income decreased due to lower gross profit and increases in selling and administrative costs

# Gross Margin Performance



## Gross Margin

- FY 2022 reduced on production
  - Supply chain delays and defects which caused production inefficiencies
  - Material price increase pass-throughs to customers without additional markup
- FY 2023 impacted by unfavorable foreign exchange rates and production ramp up inefficiencies, but FY 2023 reflects positive impact of
  - Improved supply chain performance
  - Higher volumes
  - Improved operating efficiency
  - Improved mix



# Key Takeaways



- Revenue for 1Q 2023 increased 23.4%, with SE up 42.0% and ST up 13.7%
- Backlog increased 121.0% for the period, marking the 11<sup>th</sup> consecutive quarter of year-over-year growth – leading to the ramp-up of new programs, with higher levels of revenue, operating efficiency and margin expected to follow
- Sypris Technologies energy product orders up 25.7% YOY and 12.7% sequentially, driving backlog up 61.0% over the prior year and up 19.6% from year-end
- Class 8 demand expected to increase slightly for full-year 2023, but will begin to taper off in H2 2023; offset by new programs with existing customers
- Gross margin expansion expected in 2023 on higher volume, improved mix and operating efficiencies
- We are pleased to confirm our outlook
  - 25-30% growth in revenue
  - 150-200 bps increase in gross margin
  - Cash flow from operations expected to remain strong on improved profitability
- We look forward to the remainder of 2023 with optimism