

# Driving Change

## Third Quarter 2012 Earnings Conference Call

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Jeffrey T. Gill  
*President & CEO*

Brian A. Lutes  
*Vice President & CFO*

Anthony C. Allen  
*Vice President & Treasurer*



# 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 serious risks and should not be relied upon, as detailed in our most recent Form 10-K and Form 10-Q and subsequent SEC filings.** Briefly, we currently believe that such risks also include: declining revenues and backlog in our aerospace and defense business lines as we attempt to transition from legacy products and services into new market segments and technologies; potential impairments, non-recoverability or write-offs of goodwill, assets or deferred costs, including capitalized pre-contract costs related to the development of a replacement for certain aerospace and defense products; dependence on, recruitment or retention of key employees; reliance on major customers or suppliers, especially in the automotive or aerospace and defense electronics sectors including Dana Holding Corporation, Meritor, Sistemas, Eaton, and the Australian government; U.S. government spending on products and services that our Electronics Group provides, including the timing of budgetary decisions; our ability to develop new products and programs within the Electronics Group especially in new market segments and technologies; volatility of our customers' forecasts, financial conditions, market shares, product requirements or scheduling demands; cyber security threats and disruptions; our ability to adequately finance current operations, future growth or expenses and potential acquisitions due to the cost and availability of debt, equity capital, or insurance; regulatory actions or sanctions (in each case including FCPA, OSHA and Federal Acquisition Regulations, among others); product liability and warranty expenses caused by our inability to effectively limit contractual obligations or defects in products or services; inventory valuation risks including obsolescence, shrinkage, theft, overstocking or underbilling; our inability to successfully launch or sustain new or next generation programs or product features, especially in accordance with budgets or committed delivery schedules; the costs of compliance with our auditing, regulatory or contractual obligations; breakdowns, relocations or major repairs of machinery and equipment; pension valuation, health care or other benefit costs; labor relations; strikes; union negotiations; changes in licenses, security clearances, or other legal rights to operate, manage our work force or import and export as needed; changes or delays in government or other customer budgets, funding or programs; potential weaknesses in internal controls over financial reporting and enterprise risk management; the cost, efficiency and yield of our operations and capital investments, including working capital, production schedules, cycle times, scrap rates, injuries, wages, overtime costs, freight or expediting costs; disputes or litigation involving customer, supplier, lessor, landlord, creditor, stockholder, product liability or environmental claims; fees, costs or other dilutive effects of refinancing; compliance with covenants; cost and availability of raw materials such as steel, component parts, natural gas or utilities; adverse impacts of new technologies or other competitive pressures which increase our costs or erode our margins; failure to adequately insure against or to identify environmental or other insurable risks; revised contract prices or estimates of major contract costs; risks of foreign operations; currency exchange rates; war, terrorism, or political uncertainty; unanticipated or uninsured disasters, losses or business risks; inaccurate data about markets, customers or business conditions; other unknown risks and uncertainties.

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# Overview

## 3Q12 HIGHLIGHTS

- Sales of \$78.8 million
  - Decelerating commercial vehicle demand
  - Delayed funding for A&D customers
- Gross Profit of \$9.4 million
  - 60 basis point margin expansion to 11.9%
- EPS<sup>1</sup> of \$0.03 per diluted share
  - Expanding margins; disciplined cost containment
- Positive Free Cash Flow<sup>2</sup>
  - \$0.22 per diluted share

(1) **EPS** – Earnings per share from continuing operations.

(2) **Free Cash Flow** – Please refer to the Company's website regarding the presentation of this non-GAAP measure.

# Overview

## YTD12 HIGHLIGHTS

- Sales of \$274.1 million
  - 8.8% increase
  - \$29.5 million growth of Industrial sales
- Gross Profit of \$35.1 million
  - 32.4% increase
  - 230 basis point margin expansion to 12.8%
- EPS<sup>1</sup> of \$0.55 per diluted share
  - Up 57% on sales growth and margin expansion
- Strong Balance Sheet
  - Liquidity and credit available to fund opportunities

(1) *EPS* – Earnings per share from continuing operations.

# Aerospace & Defense

## MARKET OVERVIEW

- **UNCERTAINTY REMAINS**

- Continuing resolution and fiscal cliff impacting funding
- Prime contractors are preparing for extensive layoffs
- Future budget reductions raise questions about strategic priorities
  - Exception is Cyber and Information Security

- **OPPORTUNITY EXISTS**

- Rightsizing of primes may lead to outsourcing to “Trusted Sources”
- International markets need US military-grade solutions and services
- Reduced budgets will drive use of common platforms and technology
- Acute Cyber threat is driving a wide range of initiatives
  - Critical infrastructure protection
  - Identity/asset authentication
  - Resiliency testing; threat training; system verification

# Aerospace & Defense

## EXECUTING STRATEGY

- **MANUFACTURING SERVICES**

- Expanding high-reliability space applications (satellite)
- Growing severe environment (deep sea telecom)
- Utilizing “Trusted Source” certification to expand customer base

- **INFORMATION SECURITY AND ENCRYPTION KEY MANAGEMENT PRODUCTS**

- Increasing international sales to meet demand and diversify risk
- Developing common technology to use across multiple platforms

- **CYBER SECURITY**

- Targeting to ship first Cyber Range in Q4
- Partnering to apply high-assurance technologies to non DoD applications
- Developing a patent for embedding identity authentication in silicon

# Industrial

## MARKET OVERVIEW

- **ORDER ACTIVITY REFLECTS ECONOMY'S UNCERTAIN FUTURE COURSE**
  - Events in Europe and the looming fiscal cliff are causing delays in orders
  - OEMs are scaling back production and taking weeks out of schedules
  - Production of heavy-duty trucks dropped an estimated 21% sequentially in Q3
  - Growth of medium-duty trucks and trailers has flattened
- **SHORT-TERM REBALANCING IN ORDER**
  - Inventory to sales ratio rose to 2.9 months in September; OEMs prefer 1.5-2.0
  - 1Q13 currently expected to be production trough, absent further surprises
- **POSITIVE LONG-TERM MARKET FORCES INTACT**
  - Freight growth, record fleet age, trucker profitability, fuel prices and tight capacity suggest a healthy floor for equipment demand and positive long-term growth
  - Production of more fuel efficient MY2014 trucks begins in March
  - Outlook for housing and automotive demand remains positive



# Industrial

## EXECUTING STRATEGY

- **ELIMINATE WASTE**

- Maintain strict cost containment during short-term trough
- Partner with Toyota to accelerate shop floor continuous improvement activities
- Work closely with customers to reduce cycle times and improve responsiveness

- **INVEST TO DRIVE EFFICIENCY**

- Utilize automation extensively to increase efficiency, quality and reliability
- Increase preventive maintenance to reduce expensive downtime and repairs
- Expand employee training and education
- Drive extensive process improvements

- **EXPAND MARKET AND CUSTOMER SHARE**

- Evaluate opportunities to selectively acquire complementary capacity
- Pursue strategic joint venture opportunities in developing countries

# Financial Results

(\$ in thousands)

<b>Aerospace &amp; Defense</b>	<b>3Q12</b>	<b>3Q11</b>	<b>Δ</b>
Revenue	13,587	18,530	(4,943)
Gross Profit	2,800	3,332	(532)
Gross Margin	20.6%	18.0%	260 bps

## Industrial Group

Revenue	65,176	72,647	(7,471)
Gross Profit	6,574	6,931	(357)
Gross Margin	10.1%	9.5%	60 bps

## Consolidated

Revenue	78,763	91,177	(12,414)
Gross Profit	9,374	10,263	(889)
Gross Margin	11.9%	11.3%	60 bps

# Financial Results

(\$ in thousands)

<b>Aerospace &amp; Defense</b>	<b>YTD 2012</b>	<b>YTD 2011</b>	<b>Δ</b>
Revenue	43,590	50,963	(7,373)
Gross Profit	9,709	7,379	2,330
Gross Margin	22.3%	14.5%	780 bps

## Industrial Group

Revenue	230,548	201,082	29,466
Gross Profit	25,402	19,143	6,259
Gross Margin	11.0%	9.5%	150 bps

## Consolidated

Revenue	274,138	252,045	22,093
Gross Profit	35,111	26,522	8,589
Gross Margin	12.8%	10.5%	230 bps

# Summary

- **MAINTAINING STRONG OPERATIONAL PERFORMANCE**
  - Third quarter gross margin expands 60 basis points despite softening revenue, driven by a 260 basis point increase for A&D
  - Free cash flow for the quarter increased sequentially to \$0.22 per share
  - Year-to-date gross profit has increased 32%, while gross margins are up 780 basis points for A&D; 150 basis points for Industrial
- **LONG-TERM FUNDAMENTALS REMAIN POSITIVE**
  - An estimated 70% of Class 8 trucks were placed in service prior to 2004, thereby creating a future demand for replacement vehicles for years to come
  - The increasing and persistent Cyber threat will create significant opportunities for companies that can provide timely, cost-effective solutions
- **STRONG BALANCE SHEET A REAL ASSET**
  - Provides the important ability to maintain internal investments in process improvements, automation and R&D during period of short-term headwinds
  - We will evaluate opportunities to selectively expand our strategic footprint to increase customer and market share

# Earnings Conference Call

## Q & A Session