



# **Fiscal 2022 Second Quarter Earnings**

**March 23, 2022**

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All estimates of future performance are as of March 23, 2022. Enerpac Tool Group’s inclusion of these estimates or targets in the presentation is not an update, confirmation, affirmation or disavowal of the estimates or targets.

In this presentation certain non-GAAP financial measures may be used. Please see the supplemental financial schedules at the end of this presentation or accompanying the Q2 Fiscal 2022 earnings press release for a reconciliation to the appropriate GAAP measure.



## ASCEND Transformation Program

- Completed a deep-dive review of the business and markets, where we looked at all aspects of our business
  - Spent the last several months evaluating commercial opportunities, operations and footprint, support functions and organizational structure
- Identified meaningful opportunities to meet or exceed our 25% EBITDA margin target
- Announced ASCEND program focused on driving accelerated growth and EBITDA
  - Expect total incremental annualized adjusted EBITDA of \$40-50 million
  - Run-rate expected to be achieved by Fiscal 2025
- Expect to invest \$60-\$65 million over the program period
- Continuing to pursue key initiatives in addition to ASCEND to drive growth and efficiency

**ASCEND**

ASCEND has three key broad initiatives:

## **1 Accelerating organic growth go-to-market strategies**

- Improved commercial effectiveness
- Vertical market-specific commercial and product strategies
- Channel optimization using 80/20 approach
- Strategic pricing optimization
- Selective innovation to meet broader and emerging market demands

## **2 Improving operational excellence and production efficiency by utilizing a Lean approach**

- Business simplification through further footprint optimization
- Accelerating global strategic sourcing and indirect spend optimization
- Rationalizing SKU's using 80/20 approach

## **3 Driving greater efficiency and productivity in SG&A by better leveraging resources to create a more efficient and agile organization**

- Optimize General & Administrative costs through consolidation and additional shared services implementation
- Strengthen salesforce effectiveness by enhancing sales and channel coverage and flattening structure – being closer to our customers
- Legal entity rationalization

In addition to the ASCEND program, we will continue to focus on several key organic growth initiatives

- Enhanced New Product Development
- Digital and IOT enablement in products, services and go-to-market strategy
- Stronger regional growth strategies in developing markets

And we intend to continue to pursue inorganic growth opportunities to enhance growth

**ASCEND**  




## Share Repurchase Program

- Board of Directors has approved a new share repurchase program of up to 10 million shares, which replaces the previous program that was paused during COVID-19
- Reauthorization and intent to repurchase shares remains an important part of capital allocation
- Reflects Board's confidence in our strong financial position and cash generating abilities as we embark on our ASCEND program
- We expect that our available cash, existing credit facilities and access to capital markets will also support a disciplined M&A strategy as we continue to identify complementary additions to the Enerpac Tool Group portfolio



## Overview

- Strong top line, breaking our typical Q2 seasonality driven by broad based improvement in demand
- Continued to actively manage supply chain and logistics challenges
- Took previously announced pricing actions in January to offset on-going inflationary pressures
- COVID challenges did impact the quarter and vary by region but in general have improved in recent weeks, which we expect to continue in the back half of the fiscal year
- Crisis in Russia/Ukraine has caused caution amongst some distributors and created additional supply chain challenges



## IT&S Regional Core Sales

- Middle East growth: ~mid 20%
- Americas growth: ~low 20%
- Asia Pacific growth: ~high single digits%
- Europe growth: ~low single digits%



## Americas / Europe

- Another quarter of solid year-over-year core growth in the Americas
- Modest year-over-year core sales growth in Europe
- Key Verticals
  - General industrial markets showed solid signs of activity in North America; Power Generation and Rail were also favorable
  - Infrastructure was strong in Europe
  - Mining (copper) and Oil & Gas were positive in Latin America
- Distribution
  - Dealer sentiment in the Americas is cautiously optimistic given overall economic activity but inflation and supply chain continue to be a concern
  - Dealer sentiment in much of Europe is generally favorable with some variation by region, with Central and Eastern Europe recently more cautious due to the crisis in Ukraine



## Asia Pacific

- Year-over-year core growth
- COVID impacts vary by country within the region with overall stability and easing travel restrictions
- Key Verticals
  - Majority of verticals continue to be stable or improving
  - Mining driven by ore pricing and coal demand
  - 7 ▪ Both Power Generation and Oil & Gas were favorable due to high energy demand



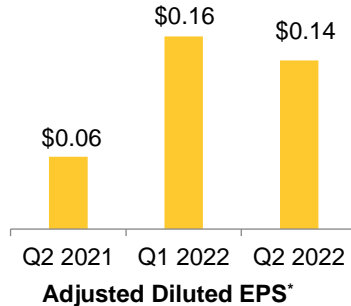
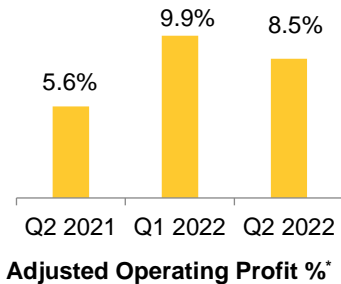
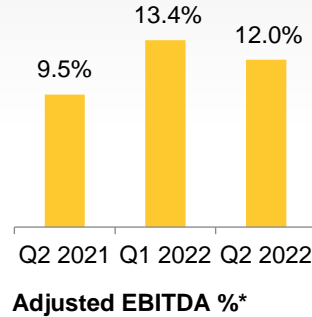
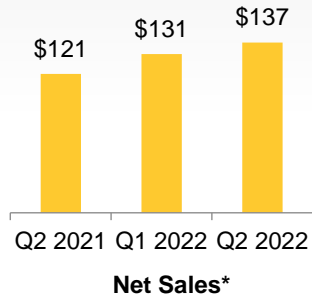
## Middle East/North Africa/Caspian (MENAC)

- Solid year-over-year core growth
- Spike in oil & gas activity due to underinvestment the past few years
- Maintenance work on certain sites is being pushed out to leverage the high oil prices
- COVID related travel restrictions remain in some countries but has improved
- Seeing an increase in retail demand and overall dealer sentiment is positive due to easing COVID restrictions and increased oil prices
- Key Verticals
  - Oil & Gas picked up including new projects/expansions and major shutdowns (maintenance work)
  - Power Generation and Infrastructure were strong in the quarter



# Second Quarter 2022 Comparable Results

(US\$ in millions except EPS)



\*Adjusted Operating Margin, EBITDA Margin and EPS excludes restructuring, impairment and other charges identified in the accompanying reconciliations to GAAP measures. In addition, see reconciliation of net sales to core sales in the appendix.

## NET SALES

- Core sales growth of 16%
- IT&S product sales 15%
- Other product 35%
- Service 13%
- Unfavorable impact of FX ~\$3M

## ADJUSTED EBITDA\*

- Incremental margins of ~28%, excluding the impact of currency, and ~45% excluding the impact of receivable reserves

## ADJUSTED OPERATING PROFIT\*

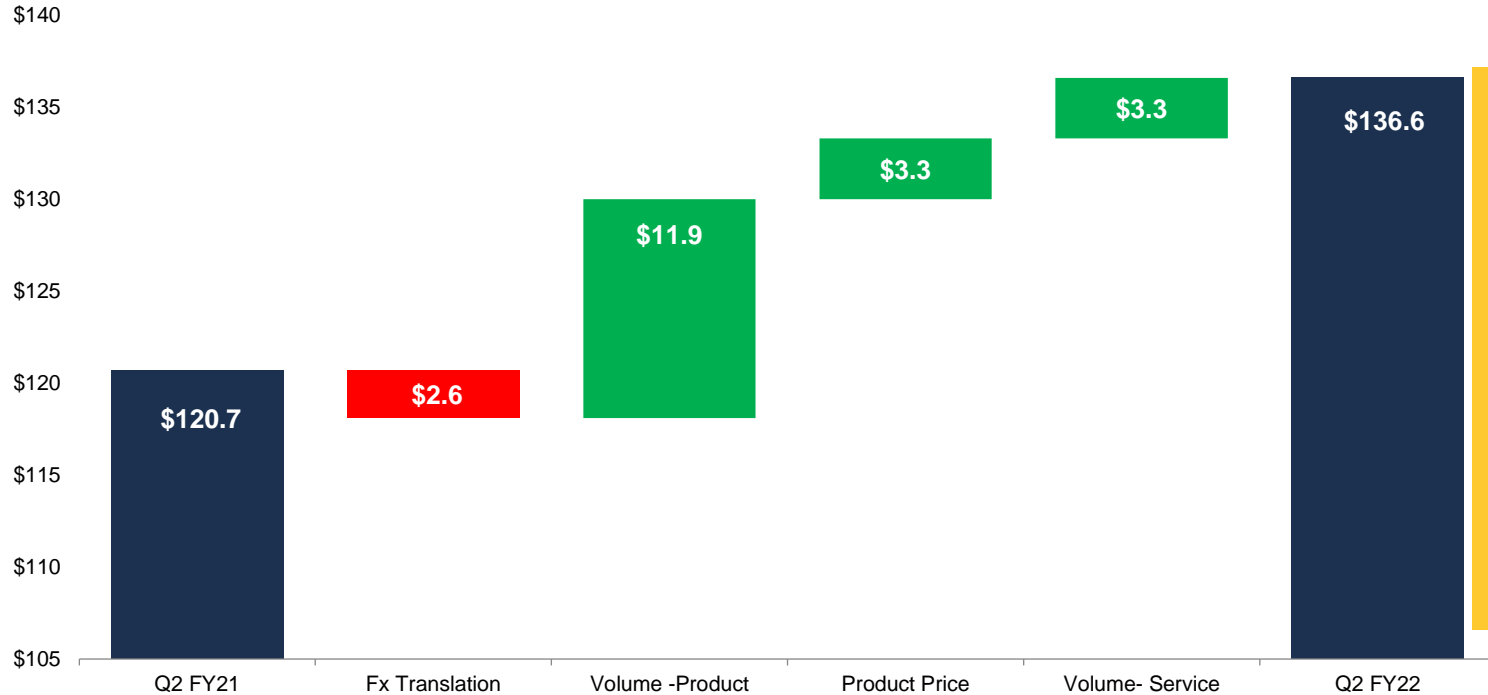
- Year-over-year increase is primarily due to increased volume, price/mix/cost and lower SG&A partially offset by lower service mix/utilization and higher receivable reserves

## ADJUSTED DILUTED EPS\*

- Year-over-year increase is due to operating margin increase, and interest savings offset by the higher effective tax rate
- Adjusted effective tax rate for the quarter ~18% vs ~16% in the prior year

# Net Sales Waterfall\*

(US\$ in millions)

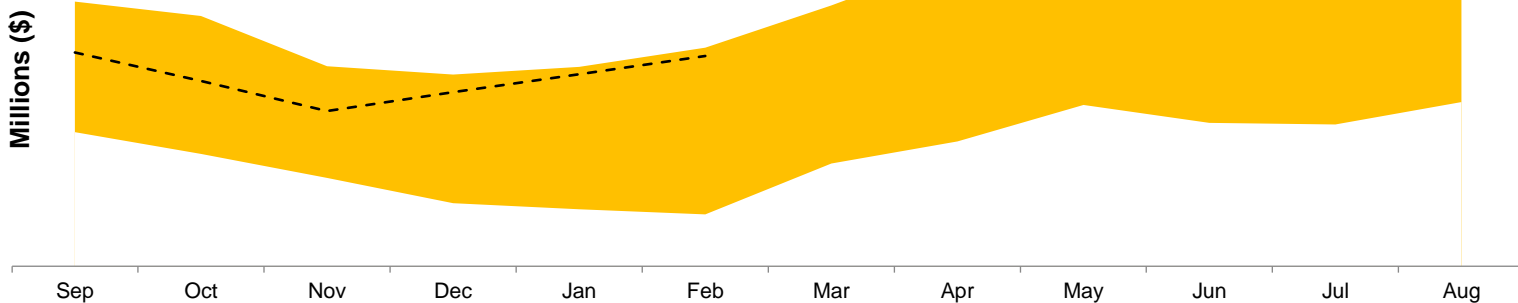


**We remain encouraged by the level of product volume that we saw during the quarter as our end markets continue to recover, despite on-going supply chain and logistical challenges**

\* See the reconciliation of net sales to core sales in the appendix.

**IT&S Total Product Net Sales (including Acquisitions from date of purchase)  
(excluding Strategic Exits)**

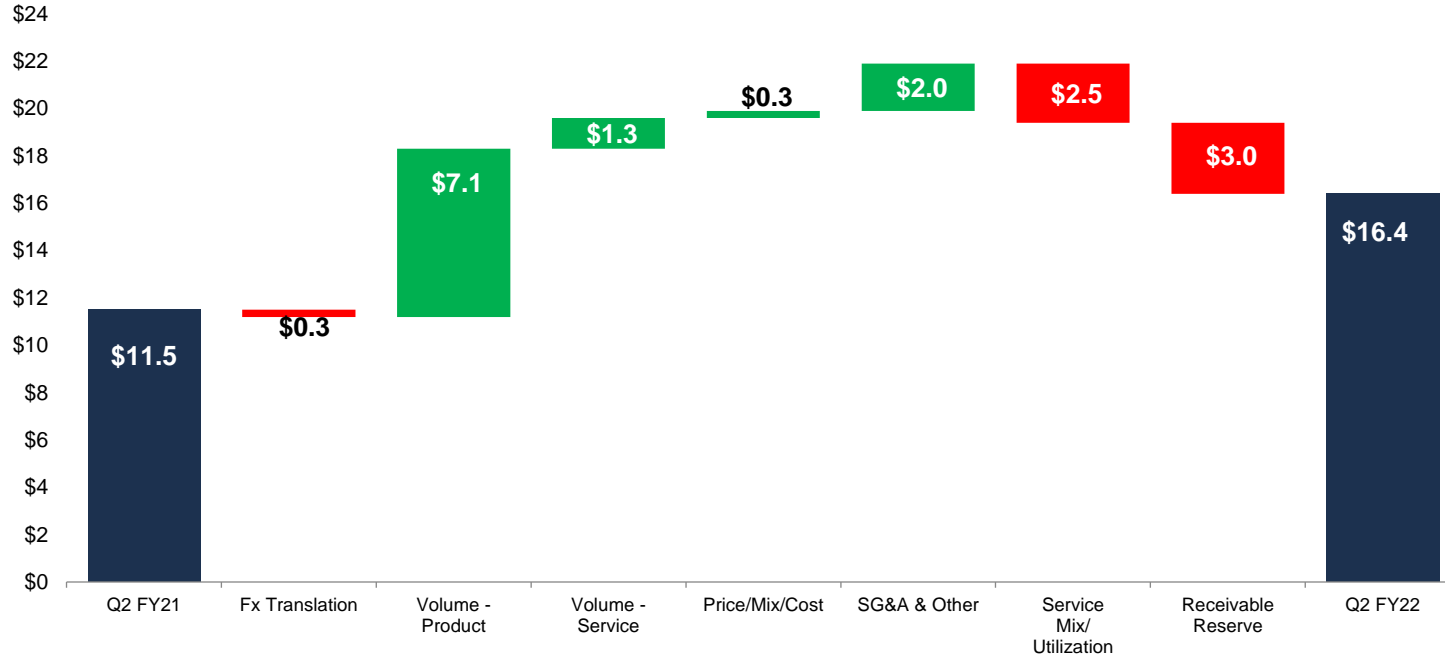
2015-2019 (pre-COVID)    - - - - 2022 Actual



**With continued strong demand, we broke our normal Q2 seasonal trend this quarter, with Q2 net sales exceeding Q1**

# Adjusted EBITDA Waterfall\*

(US\$ in millions)



Adjusted EBITDA benefited primarily from higher volume, price/mix/cost and lower SG&A partially offset by the year-over-year decrease in service mix/utilization and an increase in receivable reserves



## **Supply Chain**

- Supply chain challenges continued during the second quarter; prior to crisis in Ukraine, saw some signs of improvement
- Russia/Ukraine conflict has created incremental supply chain concerns
- Electrical component shortages continued and expected to remain a large factor in our past due backlog
- Remain focused on controlling inventory levels in anticipation of a US west coast port union strike
- Expect supply chain challenges through the back half of fiscal 2022

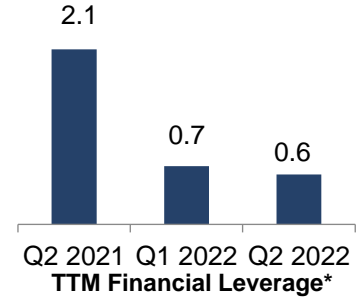
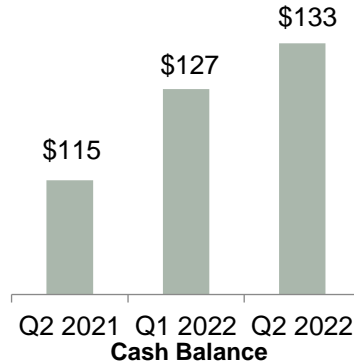
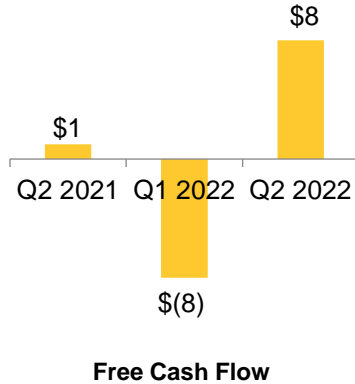


## **Logistics & Commodity Costs**

- Logistic constraints and inflationary costs continued during the second quarter
- Freight costs remained high
- Experienced significant commodity price increases within the first 10 days of Russia/Ukraine conflict; costs remain significantly elevated and are expected to continue to increase over the coming months
- Seeing cost increases on almost all categories we purchase
- US and European inflationary pressures are expected to continue
- Took additional pricing effective January 1 as previously announced
- Additional pricing actions forthcoming along with surcharges
- Expect margin compression until inflationary costs subside

# Liquidity – Positioned for Success

(US\$ in millions)



## Free Cash Flow (FCF)

- Increase in select inventory planned to get ahead of supply chain shortages, increased demand and future logistics concerns

## Leverage

- Well below target range of 1.5-2.5x

# Expectations for Fiscal 2022



## Updating our Fiscal 2022 Full Year Guidance:

- **Net Sales in the range of \$560 million to \$580 million**
  - Nearly half of the change due to the strengthening of the US Dollar
  - Challenging macroeconomic environment creating heightened uncertainty
- **Projected year-over-year core growth by category**
  - IT&S Product ~ low teens%
  - IT&S Service ~ low single digits%
  - Other ~ low to mid 20%
- **Incremental EBITDA margins of 35%-45%, excluding the impact of currency**
  - Incremental margins calculated using FX adjusted Fiscal 2021 sales of ~\$515 million



## Fiscal 2022 Annual Modeling Assumptions:

- Tax Rate: ~20%-25%
- Depreciation/Amortization: ~\$20-\$22 million
- Interest Expense: ~\$3-\$4 million
- Capital Expenditures: ~\$8-\$10 million
- Cash Taxes: ~\$8-\$12 million
- 100% Free Cash Flow conversion
- Key FX rates :
  - \$1.09/1€, previously \$1.16/1€
  - \$1.30/1£, previously \$1.37/1£

We continue to be cautious as we enter the back half of fiscal 2022 but are closely monitoring headwinds and tailwinds.

Headwinds may include:

- Strengthening of US Dollar
- Inflationary factors
- Continued supply chain/logistic disruptions
- Russia/Ukraine crisis
- COVID related shutdowns

Tailwinds may include:

- Weakening of US Dollar
- Infrastructure bill
- Further recovery in oil & gas due to oil prices
- Stronger growth in areas that haven't fully recovered

**Q&A**



# **Appendix**

# Second Quarter 2022 GAAP vs Non-GAAP Reconciliation

(US\$ in millions except EPS)

	GAAP	Less					Adjusted
		Restructuring Charges	Impairment & Divestiture Charges	Business Review Charges	Senior Leadership Transition Charges	Other Tax Adjustments	
Sales	\$136.6						\$136.6
Operating Profit	\$4.5	(\$1.8)	(\$1.1)	(\$2.5)	(\$1.7)	\$0.0	\$11.7
Income Taxes	\$1.3	(\$0.2)	(\$0.3)	(\$0.2)	(\$0.1)	\$0.2	\$1.9
Net Income	\$2.1	(\$1.7)	(\$0.8)	(\$2.3)	(\$1.6)	(\$0.2)	\$8.7
<i>Effective tax rate</i>	<i>38.7%</i>						<i>18.1%</i>
Diluted EPS	\$0.03	(\$0.03)	(\$0.01)	(\$0.04)	(\$0.03)	\$0.00	\$0.14

Restructuring Charges include:

- \$1.8 million charge related to further actions to flatten and simplify the organizational structure

Impairment & Divestiture Charges include:

- \$1.1 million charge related to intangible assets from historical acquisitions

Business Review Charges include:

- \$2.5 million charge related to external support used for the deep dive business review

Senior Leadership Transition Charges include:

- \$1.7 million charge related to changes made within senior leadership

Other Tax Adjustments include:

- \$0.2 million of expense related to equity compensation deferred tax

# Reconciliation of Non-GAAP Measures

(US\$ in millions)

## Adjusted EBITDA

	Q2 2022	Q2 2021
Net Earnings	\$2	\$4
Net Financing Costs	\$1	\$1
Income Taxes	\$1	\$0
Depreciation & Amortization	\$5	\$6
Restructuring Charges	\$2	\$1
Impairment & Divestiture Charges	\$1	\$0
Business Review	\$3	\$0
Senior Leadership Transition	\$2	\$0
Adjusted EBITDA	<u>\$16</u>	<u>\$11</u>

## Free Cash Flow

	Q2 2022	Q2 2021
Cash From Operations	\$ 9	\$ 5
Capital Expenditures	\$ (2)	\$ (4)
Other	\$ -	\$ -
Free Cash Flow	<u>\$ 8</u>	<u>\$ 1</u>

## Core Sales

	Consolidated			IT&S Segment		
	Q2 2022	Q2 2021	% Change	Q2 2022	Q2 2021	% Change
Net Sales	\$137	\$121	13%	\$126	\$113	12%
Fx Impact	\$0	(\$3)		\$0	(\$3)	
Core Sales	<u>\$137</u>	<u>\$118</u>	<u>16%</u>	<u>\$126</u>	<u>\$110</u>	<u>14%</u>

## Incremental Margin

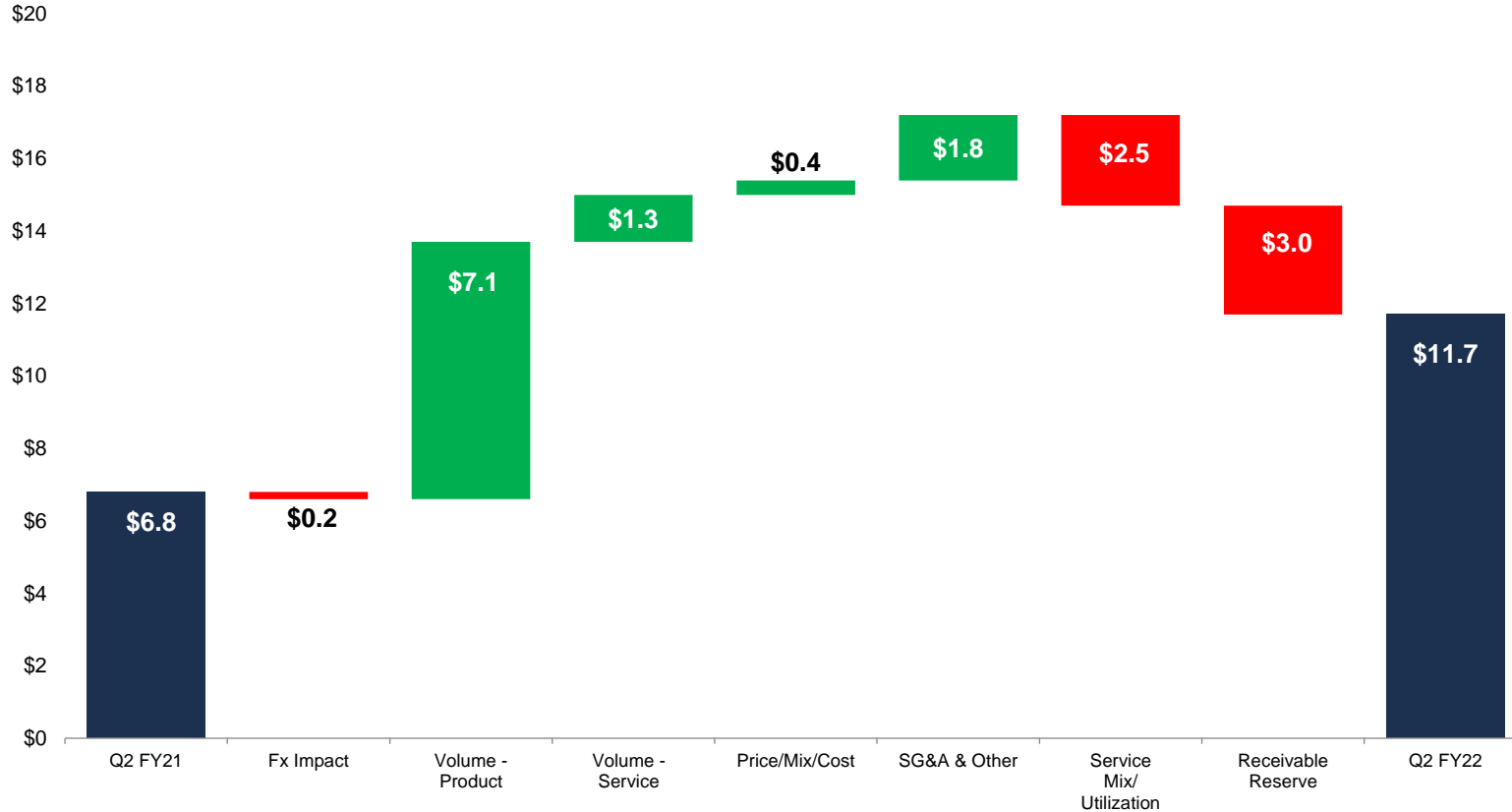
	Consolidated		
	Q2 2022	Q2 2021	% Change
Net Sales	\$137	\$121	
Fx Impact	\$0	(\$3)	
Net Sales adj for Fx	<u>\$137</u>	<u>\$118</u>	\$19
	Q2 2022	Q2 2021	% Change
Adjusted EBITDA	\$16	\$11	
Fx Impact	\$0	\$0	
Adjusted EBITDA adj for Fx	<u>\$16</u>	<u>\$11</u>	\$5
Incremental EBITDA (a)			28%

(a) Change in Fx adjusted EBITDA divided by Change in Fx adjusted Net Sales

- The Enerpac Tool Group fiscal 2022 Q2 earnings release and full GAAP to non-GAAP reconciliation is available online at: <https://www.enerpactoolgroup.com/investors/quarterly-results/>
- The summation of individual components may not equal the total due to rounding

# Adjusted Operating Profit Waterfall\*

(US\$ in millions)



Adjusted Operating Profit primarily benefited from higher volume, price/mix/cost and lower SG&A partially offset by the year-over-year decrease in service mix/utilization and an increase in receivable reserves

\* Includes certain Non-GAAP financial measures. See the accompanying reconciliation tables for additional details.

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