

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of report (Date of earliest event reported): October 29, 2018

KADANT INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction
of Incorporation)

001-11406
(Commission File Number)

52-1762325
(IRS Employer
Identification No.)

One Technology Park Drive
Westford, Massachusetts
(Address of Principal Executive Offices)

01886
(Zip Code)

(978) 776-2000
Registrant's telephone number, including area code

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter). Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

KADANT INC.

Item 2.02 Results of Operations and Financial Condition.

On October 29, 2018, Kadant Inc. (the "Company") announced its financial results for the fiscal quarter ended September 29, 2018. The full text of the press release issued in connection with the announcement is furnished as Exhibit 99.1 to this Current Report on Form 8-K.

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On October 29, 2018, the Board of Directors (the "Board") of the Company approved the amendment of the Kadant Inc. Retirement Plan (the "Pension Plan"). The amendment provides that the Pension Plan shall freeze and terminate, effective as of December 29, 2018 (the "Plan Termination Date"). In connection with the freeze and termination, the amendment further provides for a benefit enhancement to eligible Pension Plan participants as of October 29, 2018, such that each participant is provided with whichever of the following benefits produces the greater benefit to such participant: (i) credit of up to two additional years of service (up to a maximum of 30 years); or (ii) the calculation of the participant's average monthly earnings (for purposes of determining such participant's benefits under the Pension Plan) using up to two additional years of compensation for 2018 (which shall be pro-rated if the participant is retiring prior to the Plan Termination Date).

On October 29, 2018, the Compensation Committee of the Board approved the amendment of the Kadant Inc. Restoration Plan (the "SERP"). The amendment provides that the SERP shall freeze and terminate, effective as of the Plan Termination Date. For any participant enjoying a benefit enhancement under the Pension Plan, the benefits under the SERP will be computed taking into account such additional benefits as provided in the amendment to the Pension Plan.

Additional information regarding the Pension Plan and the SERP can be found in the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2017, filed with the Securities and Exchange Commission.

Item 7.01 Regulation FD Disclosure.

On October 30, 2018, the Company will hold a webcast and conference call to discuss its financial results for the fiscal quarter ended September 29, 2018. A copy of the slides that will be presented on the webcast and discussed in the conference call is furnished as Exhibit 99.2 to this Current Report on Form 8-K.

The information contained in Item 2.02 and Item 7.01 of this Form 8-K (including Exhibits 99.1 and 99.2) shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act") or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, except as expressly set forth by specific reference in such a filing.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

The following exhibits relating to Item 2.02 and Item 7.01 shall be deemed to be furnished and not filed.

Exhibit No.	Description of Exhibits
99.1	Press Release issued by the Company on October 29, 2018.
99.2	Slides to be presented by the Company on October 30, 2018.

KADANT INC.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

KADANT INC.

Date: October 29, 2018

By /s/ Michael J. McKenney

Michael J. McKenney
Executive Vice President and Chief Financial Officer

KADANT

KADANT INC.
One Technology Park Drive
Westford, MA 01886

NEWS

Kadant Reports 2018 Third Quarter Results Reports Record Revenue and Diluted EPS

WESTFORD, Mass. - October 29, 2018 - Kadant Inc. (NYSE: KAI) reported its financial results for the third quarter ended September 29, 2018.

Third Quarter 2018 Highlights

- Revenue increased 8% to a record \$166 million
- GAAP diluted EPS increased 40% to a record \$1.64
- Adjusted diluted EPS increased 3% to a record \$1.53
- Net income increased 41% to \$19 million
- Adjusted EBITDA increased 11% to a record \$34 million and represented 20% of revenue
- Gross margin was 44.1%
- Bookings increased 22% to \$165 million
- Backlog was \$192 million
- Cash flow from operations was \$17 million

Note: Adjusted diluted EPS, adjusted EBITDA, and adjusted EBITDA margin are non-GAAP financial measures that exclude certain items as detailed later in this press release under the heading "Use of Non-GAAP Financial Measures."

Management Commentary

"The record-setting pace we set in the first half of 2018 continued into the third quarter," said Jonathan Painter, president and chief executive officer. "Strong internal growth and excellent execution led to record revenue and diluted EPS. Capacity build-outs at mills in Asia and strong demand in North America, particularly for our Fluid-Handling and Stock-Preparation product lines, led this growth. Our bookings increased 22 percent due almost entirely to internal growth, contributing to our near-record backlog of \$192 million at the end of the third quarter. Our operating units executed extremely well this quarter resulting in record adjusted EBITDA, representing 20 percent of revenue."

Third Quarter 2018 Results

Revenue increased eight percent to a record \$165.7 million compared to the third quarter of 2017, including \$0.9 million from an acquisition and a \$3.8 million decrease from the unfavorable effect of foreign currency translation. Excluding the impact of the acquisition and foreign currency translation, revenue increased 10 percent compared to the third quarter of 2017. Gross margin was 44.1 percent. Net income increased 41 percent to \$18.8 million, or \$1.64 per diluted share, compared to \$13.3 million, or \$1.17 per diluted share, in the third quarter of 2017. Adjusted diluted EPS increased three percent to \$1.53 compared to \$1.49 in the third quarter of 2017. Adjusted diluted EPS excludes a \$0.14 discrete tax benefit and \$0.03 of restructuring costs in the third quarter of 2018 and \$0.32 of acquisition-related costs in the third quarter of 2017.

Adjusted EBITDA increased 11 percent to a record \$33.5 million compared to \$30.1 million in the third quarter of 2017. Adjusted EBITDA excludes \$0.4 million of restructuring costs in the third quarter of 2018 and \$4.9 million of acquisition-related costs in the third quarter of 2017. Cash flows from operations increased 144 percent to \$17.0 million compared to \$7.0 million in the third quarter of 2017. Bookings increased 22 percent to \$165.0 million compared to \$135.5 million in the third quarter of 2017, including \$1.2 million from an acquisition and a \$3.8 million decrease from the unfavorable effect of foreign currency translation. Excluding the impact of the acquisition and foreign currency translation, bookings increased 24 percent compared to the third quarter of 2017.

Summary and Outlook

"Our strong performance in the first three quarters of 2018 has positioned us for another record year of financial performance," Mr. Painter continued. "However, the timing of capital bookings and shipments as well as some modest currency headwinds have caused us to revise our previous guidance.

"For 2018, we now expect to report full year revenue of \$628 to \$632 million, revised from our previous guidance of \$630 to \$638 million. We expect to achieve GAAP diluted EPS of \$4.93 to \$4.98 in 2018, revised from our previous guidance of \$4.89 to \$4.99. The revised 2018 guidance includes a pre-tax curtailment loss of \$1.4 million, or \$0.09 per diluted share, related to the termination of defined benefit plans at one of our U.S. operations. The revised 2018 guidance also includes pre-tax restructuring costs of \$1.7 million, or \$0.11 per diluted share, pre-tax amortization expense associated with acquired backlog of \$0.3 million, or \$0.02 per diluted share, and a discrete tax benefit of \$1.7 million, or \$0.15 per diluted share. Excluding these items, we expect adjusted diluted EPS of \$5.00 to \$5.05 for 2018, revised from our previous guidance of \$5.00 to \$5.10.

"For the fourth quarter of 2018, we expect GAAP diluted EPS of \$1.24 to \$1.29 on revenue of \$158 to \$162 million. The fourth quarter guidance includes the pre-tax curtailment loss of \$1.4 million, or \$0.09 per diluted share. Excluding the curtailment loss, we expect adjusted diluted EPS of \$1.33 to \$1.38 in the fourth quarter of 2018."

Conference Call

Kadant will hold a webcast with a slide presentation for investors on Tuesday, October 30, 2018, at 11:00 a.m. eastern time to discuss its third quarter performance, as well as future expectations. To access the webcast, including the slideshow and accompanying audio, go to www.kadant.com and click on "Investors." To listen to the webcast via teleconference, call 888-326-8410 within the U.S., or +1-704-385-4884 outside the U.S. and reference participant passcode 8097465. Prior to the call, our earnings release and the slides used in the webcast presentation will be filed with the Securities and Exchange Commission and will be available at www.sec.gov. An archive of the webcast presentation will be available on our website until November 30, 2018.

Shortly after the webcast, Kadant will post its updated general investor presentation incorporating the third quarter results on its website at www.kadant.com under the "Investors" section.

Use of Non-GAAP Financial Measures

In addition to the financial measures prepared in accordance with generally accepted accounting principles (GAAP), we use certain non-GAAP financial measures, including increases or decreases in revenue excluding the effect of acquisitions and foreign currency translation, adjusted operating income, adjusted net income, adjusted diluted earnings per share (EPS), earnings before interest, taxes, depreciation, and amortization (EBITDA), adjusted EBITDA, and adjusted EBITDA margin.

We believe these non-GAAP financial measures, when taken together with the corresponding GAAP financial measures, provide meaningful supplemental information regarding our performance by excluding certain items that may not be indicative of our core business, operating results, or future outlook. We believe that the inclusion of such measures helps investors gain an understanding of our underlying operating performance and future prospects, consistent with how management measures and forecasts our performance, especially when comparing such results to previous periods or forecasts and to the performance of our competitors. Such measures are also used by us in our financial and operating decision-making and for compensation purposes. We also believe this information is responsive to investors' requests and gives them an additional measure of our performance.

The non-GAAP financial measures included in this press release are not meant to be considered superior to or a substitute for the results of operations prepared in accordance with GAAP. In addition, the non-GAAP financial measures included in this press release have limitations associated with their use as compared to the most directly comparable GAAP measures, in that they may be different from, and therefore not comparable to, similar measures used by other companies.

Revenue included \$0.9 million and \$64.6 million from acquisitions in the third quarter and first nine months of 2018, respectively. Revenue also included \$3.8 million of unfavorable and \$7.6 million of favorable foreign currency translation effect in the third quarter and first nine months of 2018, respectively. We present increases or decreases in revenue excluding the effect of acquisitions and foreign currency translation to provide investors insight into underlying revenue trends.

Our non-GAAP financial measures exclude restructuring costs, acquisition costs, amortization expense related to acquired backlog and profit in inventory and a discrete tax benefit. These items are excluded as they are not indicative of our core operating results and are not comparable to other periods, which have differing levels of incremental costs or income or none at all.

Third Quarter

Adjusted operating income, adjusted EBITDA, and adjusted EBITDA margin exclude:

- Pre-tax restructuring costs of \$0.4 million in 2018.
- Pre-tax acquisition costs of \$0.6 million in 2017.
- Pre-tax expense related to acquired profit in inventory and backlog of \$4.3 million in 2017.

Adjusted net income and adjusted diluted EPS exclude:

- After-tax restructuring costs of \$0.3 million (\$0.4 million net of tax of \$0.1 million) in 2018.
- A discrete tax benefit of \$1.5 million in 2018 related to the reversal of tax reserves associated with uncertain tax positions covering multiple tax years.
- After-tax acquisition costs of \$0.4 million (\$0.6 million net of tax of \$0.2 million) in 2017.
- After-tax expense related to acquired profit in inventory and backlog of \$3.2 million (\$4.3 million net of tax of \$1.1 million) in 2017.

First Nine Months

Adjusted operating income, adjusted EBITDA, and adjusted EBITDA margin exclude:

- Pre-tax restructuring costs of \$1.7 million in 2018.
- Pre-tax expense related to acquired backlog of \$0.3 million in 2018.
- Pre-tax acquisition costs of \$5.0 million in 2017.
- Pre-tax expense related to acquired profit in inventory and backlog of \$4.3 million in 2017.

Adjusted net income and adjusted diluted EPS exclude:

- After-tax restructuring costs of \$1.3 million (\$1.7 million net of tax of \$0.4 million) in 2018.
- After-tax expense related to acquired backlog of \$0.2 million (\$0.3 million net of tax of \$0.1 million) in 2018.
- A discrete tax benefit of \$1.7 million in 2018.
- After-tax acquisition costs of \$4.3 million (\$5.0 million net of tax of \$0.7 million) in 2017.
- After-tax expense related to acquired profit in inventory and backlog of \$3.2 million (\$4.3 million net of tax of \$1.1 million) in 2017.

Reconciliations of the non-GAAP financial measures to the most directly comparable GAAP financial measures are set forth in this press release.

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Financial Highlights (unaudited)

(In thousands, except per share amounts and percentages)

Consolidated Statement of Income (a)	Three Months Ended		Nine Months Ended	
	Sept. 29, 2018	Sept. 30, 2017	Sept. 29, 2018	Sept. 30, 2017
Revenues	\$ 165,745	\$ 152,794	\$ 469,851	\$ 365,893
Costs and Operating Expenses:				
Cost of revenues	92,652	88,139	262,515	199,369
Selling, general, and administrative expenses	42,888	42,346	133,796	115,936
Research and development expenses	2,452	2,635	8,049	7,004
Restructuring costs	378	—	1,717	—
	<u>138,370</u>	<u>133,120</u>	<u>406,077</u>	<u>322,309</u>
Operating Income	27,375	19,674	63,774	43,584
Interest Income	30	94	335	300
Interest Expense	(1,738)	(1,282)	(5,320)	(2,022)
Other Expense, Net	(245)	(216)	(736)	(637)
	<u>25,422</u>	<u>18,270</u>	<u>58,053</u>	<u>41,225</u>
Income Before Provision for Income Taxes	25,422	18,270	58,053	41,225
Provision for Income Taxes	6,443	4,860	15,575	10,550
Net Income	18,979	13,410	42,478	30,675
Net Income Attributable to Noncontrolling Interest	(195)	(125)	(487)	(343)
Net Income Attributable to Kadant	<u>\$ 18,784</u>	<u>\$ 13,285</u>	<u>\$ 41,991</u>	<u>\$ 30,332</u>
Earnings per Share Attributable to Kadant:				
Basic	<u>\$ 1.69</u>	<u>\$ 1.21</u>	<u>\$ 3.79</u>	<u>\$ 2.76</u>
Diluted	<u>\$ 1.64</u>	<u>\$ 1.17</u>	<u>\$ 3.69</u>	<u>\$ 2.69</u>
Weighted Average Shares:				
Basic	<u>11,101</u>	<u>11,004</u>	<u>11,078</u>	<u>10,986</u>
Diluted	<u>11,421</u>	<u>11,344</u>	<u>11,388</u>	<u>11,282</u>
Adjusted Net Income and Adjusted Diluted EPS (b)				
	Sept. 29, 2018	Sept. 29, 2018	Sept. 30, 2017	Sept. 30, 2017
Net Income and Diluted EPS Attributable to Kadant, as Reported	\$ 18,784	\$ 1.64	\$ 13,285	\$ 1.17
Adjustments for the Following:				
Restructuring Costs, Net of Tax	287	0.03	—	—
Acquisition Costs, Net of Tax	—	—	441	0.04
Amortization of Acquired Profit in Inventory and Backlog, Net of Tax	—	—	3,191	0.28
Discrete Tax Items	(1,542)	(0.14)	—	—
Adjusted Net Income and Adjusted Diluted EPS	<u>\$ 17,529</u>	<u>\$ 1.53</u>	<u>\$ 16,917</u>	<u>\$ 1.49</u>

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	Nine Months Ended		Nine Months Ended	
	Sept. 29, 2018	Sept. 29, 2018	Sept. 30, 2017	Sept. 30, 2017
Net Income and Diluted EPS Attributable to Kadant, as Reported	\$ 41,991	\$ 3.69	\$ 30,332	\$ 2.69
Adjustments for the Following:				
Restructuring Costs, Net of Tax	1,308	0.11	—	—
Acquisition Costs, Net of Tax	—	—	4,274	0.38
Amortization of Acquired Profit in Inventory and Backlog, Net of Tax	189	0.02	3,191	0.28
Discrete Tax Items	(1,672)	(0.15)	—	—
Adjusted Net Income and Adjusted Diluted EPS	<u>\$ 41,816</u>	<u>\$ 3.67</u>	<u>\$ 37,797</u>	<u>\$ 3.35</u>

Revenues by Product Line	Three Months Ended		Increase (Decrease)	Increase (Decrease) Excluding Acquisitions and FX (b,c)
	Sept. 29, 2018	Sept. 30, 2017		
Stock-Preparation	\$ 62,983	\$ 52,065	\$ 10,918	\$ 11,603
Fluid-Handling	33,083	28,532	4,551	4,451
Doctoring, Cleaning, & Filtration	30,704	30,538	166	1,059
Papermaking Systems	126,770	111,135	15,635	17,113
Wood Processing Systems	37,042	39,714	(2,672)	(1,295)
Fiber-Based Products	1,933	1,945	(12)	(12)
	<u>\$ 165,745</u>	<u>\$ 152,794</u>	<u>\$ 12,951</u>	<u>\$ 15,806</u>

	Nine Months Ended		Increase	Increase (Decrease) Excluding Acquisitions and FX (b,c)
	Sept. 29, 2018	Sept. 30, 2017		
Stock-Preparation	\$ 164,842	\$ 139,396	\$ 25,446	\$ 19,732
Fluid-Handling	98,500	73,099	25,401	11,614
Doctoring, Cleaning, & Filtration	87,469	82,921	4,548	3,679
Papermaking Systems	350,811	295,416	55,395	35,025
Wood Processing Systems	109,335	61,050	48,285	(3,513)
Fiber-Based Products	9,705	9,427	278	278
	<u>\$ 469,851</u>	<u>\$ 365,893</u>	<u>\$ 103,958</u>	<u>\$ 31,790</u>

Revenues by Geography (d)	Three Months Ended		Increase (Decrease)	Increase (Decrease) Excluding Acquisitions and FX (b,c)
	Sept. 29, 2018	Sept. 30, 2017		
North America	\$ 74,089	\$ 68,369	\$ 5,720	\$ 5,867
Europe	44,912	46,475	(1,563)	(639)
Asia	32,887	25,215	7,672	8,359
Rest of World	13,857	12,735	1,122	2,219
	<u>\$ 165,745</u>	<u>\$ 152,794</u>	<u>\$ 12,951</u>	<u>\$ 15,806</u>

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	Nine Months Ended			Increase	Increase (Decrease) Excluding Acquisitions and FX (b,c)
	Sept. 29, 2018	Sept. 30, 2017			
	North America	\$ 227,080	\$ 170,092		
Europe	131,437	113,178	18,259	523	
Asia	78,537	53,658	24,879	21,649	
Rest of World	32,797	28,965	3,832	(513)	
	<u>\$ 469,851</u>	<u>\$ 365,893</u>	<u>\$ 103,958</u>	<u>\$ 31,790</u>	

Bookings by Product Line	Three Months Ended			Increase	Increase Excluding Acquisitions and FX (c)
	Sept. 29, 2018	Sept. 30, 2017			
	Stock-Preparation	\$ 69,341	\$ 50,797		
Fluid-Handling	29,671	28,426	1,245	732	
Doctoring, Cleaning, & Filtration	27,788	27,656	132	967	
Papermaking Systems	126,800	106,879	19,921	21,047	
Wood Processing Systems	36,080	26,548	9,532	11,022	
Fiber-Based Products	2,120	2,030	90	90	
	<u>\$ 165,000</u>	<u>\$ 135,457</u>	<u>\$ 29,543</u>	<u>\$ 32,159</u>	

	Nine Months Ended			Increase	Increase (Decrease) Excluding Acquisitions and FX (c)
	Sept. 29, 2018	Sept. 30, 2017			
	Stock-Preparation	\$ 187,073	\$ 149,285		
Fluid-Handling	107,363	79,752	27,611	11,581	
Doctoring, Cleaning, & Filtration	86,603	86,354	249	(780)	
Papermaking Systems	381,039	315,391	65,648	41,828	
Wood Processing Systems	133,213	50,172	83,041	18,489	
Fiber-Based Products	9,088	8,999	89	89	
	<u>\$ 523,340</u>	<u>\$ 374,562</u>	<u>\$ 148,778</u>	<u>\$ 60,406</u>	

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Business Segment Information (a)	Three Months Ended		Nine Months Ended	
	Sept. 29, 2018	Sept. 30, 2017	Sept. 29, 2018	Sept. 30, 2017
Gross Margin:				
Papermaking Systems	44.6%	45.6%	45.1%	47.1%
Wood Processing Systems	42.6%	33.5%	40.4%	37.1%
Fiber-Based Products	36.6%	35.7%	50.1%	50.1%
	<u>44.1%</u>	<u>42.3%</u>	<u>44.1%</u>	<u>45.5%</u>
Operating Income:				
Papermaking Systems	\$ 25,919	\$ 21,684	\$ 61,402	\$ 53,247
Wood Processing Systems	8,704	4,418	21,380	6,511
Corporate and Other	(7,248)	(6,428)	(19,008)	(16,174)
	<u>\$ 27,375</u>	<u>\$ 19,674</u>	<u>\$ 63,774</u>	<u>\$ 43,584</u>
Adjusted Operating Income (b, e):				
Papermaking Systems	\$ 26,297	\$ 21,962	\$ 63,119	\$ 53,840
Wood Processing Systems	8,704	9,043	21,632	15,238
Corporate and Other	(7,248)	(6,428)	(19,008)	(16,174)
	<u>\$ 27,753</u>	<u>\$ 24,577</u>	<u>\$ 65,743</u>	<u>\$ 52,904</u>
Capital Expenditures:				
Papermaking Systems	\$ 1,348	\$ 3,790	\$ 9,837	\$ 6,567
Wood Processing Systems	1,026	1,358	2,586	1,649
Corporate and Other	232	135	394	502
	<u>\$ 2,606</u>	<u>\$ 5,283</u>	<u>\$ 12,817</u>	<u>\$ 8,718</u>

Cash Flow and Other Data	Three Months Ended		Nine Months Ended	
	Sept. 29, 2018	Sept. 30, 2017	Sept. 29, 2018	Sept. 30, 2017
Cash Provided by Operations	\$ 16,979	\$ 6,952	\$ 52,550	\$ 32,328
Depreciation and Amortization Expense	5,796	6,525	17,739	13,056

Balance Sheet Data	Sept. 29, 2018		Dec. 30, 2017	
	Assets			
Cash, Cash Equivalents, and Restricted Cash	\$ 58,059	\$ 76,846		
Accounts Receivable, net	96,326	89,624		
Inventories	91,736	84,933		
Unbilled Revenues	8,315	2,374		
Property, Plant and Equipment, net	79,458	79,723		
Intangible Assets	119,246	133,036		
Goodwill	262,081	268,001		
Other Assets	26,541	26,557		
	<u>\$ 741,762</u>	<u>\$ 761,094</u>		
Liabilities and Stockholders' Equity				
Accounts Payable	\$ 34,761	\$ 35,461		
Debt Obligations	189,052	237,011		
Capital Lease Obligations	4,563	5,069		
Other Liabilities	154,947	151,049		
Total Liabilities	383,323	428,590		
Stockholders' Equity	358,439	332,504		
	<u>\$ 741,762</u>	<u>\$ 761,094</u>		

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Adjusted Operating Income and Adjusted EBITDA

Reconciliation (a, b)	Three Months Ended		Nine Months Ended	
	Sept. 29, 2018	Sept. 30, 2017	Sept. 29, 2018	Sept. 30, 2017
Consolidated				
Net Income Attributable to Kadant	\$ 18,784	\$ 13,285	\$ 41,991	\$ 30,332
Net Income Attributable to Noncontrolling Interest	195	125	487	343
Provision for Income Taxes	6,443	4,860	15,575	10,550
Interest Expense, Net	1,708	1,188	4,985	1,722
Other Expense, Net	245	216	736	637
Operating Income	27,375	19,674	63,774	43,584
Restructuring Costs	378	—	1,717	—
Acquisition Costs	—	585	—	5,002
Acquired Backlog Amortization (f)	—	958	252	958
Acquired Profit in Inventory (g)	—	3,360	—	3,360
Adjusted Operating Income (b)	27,753	24,577	65,743	52,904
Depreciation and Amortization	5,796	5,567	17,487	12,098
Adjusted EBITDA (b)	\$ 33,549	\$ 30,144	\$ 83,230	\$ 65,002
Adjusted EBITDA Margin (b, h)	20.2%	19.7%	17.7%	17.8%
Papermaking Systems				
Operating Income	\$ 25,919	\$ 21,684	\$ 61,402	\$ 53,247
Restructuring costs	378	—	1,717	—
Acquisition Costs	—	172	—	487
Acquired Profit in Inventory (g)	—	106	—	106
Adjusted Operating Income (b)	26,297	21,962	63,119	53,840
Depreciation and Amortization	3,132	2,894	9,407	8,105
Adjusted EBITDA (b)	\$ 29,429	\$ 24,856	\$ 72,526	\$ 61,945
Wood Processing Systems				
Operating Income	\$ 8,704	\$ 4,418	\$ 21,380	\$ 6,511
Acquisition Costs	—	413	—	4,515
Acquired Backlog Amortization (f)	—	958	252	958
Acquired Profit in Inventory (g)	—	3,254	—	3,254
Adjusted Operating Income (b)	8,704	9,043	21,632	15,238
Depreciation and Amortization	2,505	2,527	7,585	3,547
Adjusted EBITDA (b)	\$ 11,209	\$ 11,570	\$ 29,217	\$ 18,785
Corporate and Other				
Operating Loss	\$ (7,248)	\$ (6,428)	\$ (19,008)	\$ (16,174)
Depreciation and Amortization	159	146	495	446
EBITDA (b)	\$ (7,089)	\$ (6,282)	\$ (18,513)	\$ (15,728)

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- (a) Prior period amounts have been restated to conform to the current period presentation as a result of the adoption of the Financial Accounting Standards Board's Accounting Standards Update No. 2017-07.
- (b) Represents a non-GAAP financial measure.
- (c) Represents the increase (decrease) resulting from the exclusion of acquisitions and from the conversion of current period amounts reported in local currencies into U.S. dollars at the exchange rate of the prior period compared to the U.S. dollar amount reported in the prior period.
- (d) Geographic revenues are attributed to regions based on customer location.
- (e) See reconciliation to the most directly comparable GAAP financial measure under "Adjusted Operating Income and Adjusted EBITDA Reconciliation."
- (f) Represents intangible amortization expense associated with acquired backlog.
- (g) Represents expense within cost of revenues associated with acquired profit in inventory.
- (h) Calculated as adjusted EBITDA divided by revenue in each period.

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About Kadant

Kadant Inc. is a global supplier of high-value, critical components and engineered systems used in process industries worldwide. The Company's products, technologies, and services play an integral role in enhancing process efficiency, optimizing energy utilization, and maximizing productivity in resource-intensive industries. Kadant is based in Westford, Massachusetts, with 2,500 employees in 20 countries worldwide. For more information, visit www.kadant.com.

Safe Harbor Statement

The following constitutes a "Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995: This press release contains forward-looking statements that involve a number of risks and uncertainties, including forward-looking statements about our future financial and operating performance, demand for our products, and economic and industry outlook. These forward-looking statements represent Kadant's expectations as of the date of this press release. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events, or otherwise. These forward-looking statements are subject to known and unknown risks and uncertainties that may cause our actual results to differ materially from these forward-looking statements as a result of various important factors, including those set forth under the heading "Risk Factors" in Kadant's annual report on Form 10-K for the year ended December 30, 2017 and subsequent filings with the Securities and Exchange Commission. These include risks and uncertainties relating to adverse changes in global and local economic conditions; the variability and difficulty in accurately predicting revenues from large capital equipment and systems projects; our customers' ability to obtain financing for capital equipment projects; the variability and uncertainties in sales of capital equipment in China; international sales and operations; the oriented strand board market and levels of residential construction activity; development and use of digital media; currency fluctuations; price increases or shortages of raw materials; dependence on certain suppliers; our acquisition strategy; failure of our information systems or breaches of data security; changes in government regulations and policies and compliance with laws; our internal growth strategy; competition; soundness of suppliers and customers; changes in our tax provision or exposure to additional tax liabilities; our ability to successfully manage our manufacturing operations; disruption in production; future restructurings; economic conditions and regulatory changes caused by the United Kingdom's likely exit from the European Union; our debt obligations; restrictions in our credit agreement; loss of key personnel; protection of patents and proprietary rights; fluctuations in our share price; soundness of financial institutions; environmental laws and regulations; anti-takeover provisions; and reliance on third-party research.

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THIRD QUARTER 2018 BUSINESS REVIEW

Jonathan W. Painter, President & CEO

Michael J. McKenney, Executive Vice President & CFO

KADANT

Forward-Looking Statements

The following constitutes a "Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995: This presentation contains forward-looking statements that involve a number of risks and uncertainties, including forward-looking statements about our future financial and operating performance, demand for our products, and economic and industry outlook. These forward-looking statements represent Kadant's expectations as of the date of this presentation. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events, or otherwise. These forward-looking statements are subject to known and unknown risks and uncertainties that may cause our actual results to differ materially from these forward-looking statements as a result of various important factors, including those set forth under the heading "Risk Factors" in Kadant's annual report on Form 10-K for the year ended December 30, 2017 and subsequent filings with the Securities and Exchange Commission. These include risks and uncertainties relating to adverse changes in global and local economic conditions; the variability and difficulty in accurately predicting revenues from large capital equipment and systems projects; our customers' ability to obtain financing for capital equipment projects; the variability and uncertainties in sales of capital equipment in China; international sales and operations; the oriented strand board market and levels of residential construction activity; development and use of digital media; currency fluctuations; price increases or shortages of raw materials; dependence on certain suppliers; our acquisition strategy; failure of our information systems or breaches of data security; changes in government regulations and policies and compliance with laws; our internal growth strategy; competition; soundness of suppliers and customers; changes in our tax provision or exposure to additional tax liabilities; our ability to successfully manage our manufacturing operations; disruption in production; future restructurings; economic conditions and regulatory changes caused by the United Kingdom's likely exit from the European Union; our debt obligations; restrictions in our credit agreement; loss of key personnel; protection of patents and proprietary rights; fluctuations in our share price; soundness of financial institutions; environmental laws and regulations; anti-takeover provisions; and reliance on third-party research.

Use of Non-GAAP Financial Measures

In addition to the financial measures prepared in accordance with U.S. generally accepted accounting principles (GAAP), we use certain non-GAAP financial measures, including increases or decreases in revenues that exclude the effect of acquisitions and foreign currency translation, adjusted operating income, adjusted diluted EPS, adjusted earnings before interest, taxes, depreciation, and amortization (adjusted EBITDA), and adjusted EBITDA margin.

A reconciliation of those numbers to the most directly comparable GAAP financial measures is shown in our 2018 third quarter earnings press release issued October 29, 2018, which is available in the Investors section of our website at www.kadant.com under the heading Press Releases.

We believe these non-GAAP financial measures, when taken together with the corresponding GAAP financial measures, provide meaningful supplemental information regarding our performance by excluding certain items that may not be indicative of our core business, operating results, or future outlook. We believe the inclusion of such measures helps investors gain an understanding of our underlying operating performance and future prospects, consistent with how management measures and forecasts our performance, especially when comparing such results to previous periods or forecasts and to the performance of our competitors. Such measures are also used by us in our financial and operating decision-making and for compensation purposes. We also believe this information is responsive to investors' requests and gives them an additional measure of our performance.

The non-GAAP financial measures included in this presentation are not meant to be considered superior to or a substitute for the results of operations prepared in accordance with GAAP. In addition, the non-GAAP financial measures included in this presentation have limitations associated with their use as compared to the most directly comparable GAAP measures, in that they may be different from, and therefore not comparable to, similar measures used by other companies.

BUSINESS REVIEW

Jonathan W. Painter
President & CEO

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Q3 2018 Financial Highlights

(\$ Millions, except per share amounts)	Q3 2018	Q3 2017	% CHANGE ²
Bookings	\$165.0	\$135.5	21.8%
Revenue	\$165.7	\$152.8	8.5%
Gross Margin	44.1%	42.3%	n.m.
Operating Income	\$27.4	\$19.7	39.1%
Adjusted Operating Income ¹	\$27.8	\$24.6	12.9%
Net Income	\$18.8	\$13.3	41.4%
Adjusted EBITDA ¹	\$33.5	\$30.1	11.3%
Adjusted EBITDA Margin ¹	20.2%	19.7%	n.m.
Diluted EPS	\$1.64	\$1.17	40.2%
Adjusted Diluted EPS ¹	\$1.53	\$1.49	2.7%
Cash Flow from Operations	\$17.0	\$7.0	144.2%

¹ Adjusted operating income, adjusted EBITDA, adjusted EBITDA/revenue (margin), and adjusted diluted EPS are non-GAAP financial measures that exclude certain items as detailed in our press release dated October 29, 2018.

² Percent change calculated using actual numbers reported in our press release dated October 29, 2018.

FX Translation and Acquisition Impact

Q3 2018, \$ in millions	Revenue	Bookings	Parts & Consumables Revenue	Parts & Consumables Bookings
As Reported	\$165.7	\$165.0	\$92.7	\$90.7
Growth ¹	8.5%	21.8%	10.7%	11.8%
Growth excluding FX ²	10.9%	24.6%	13.5%	14.7%
Growth excluding FX and Acquisitions ³	10.3%	23.7%	12.4%	13.2%

¹ Growth is the year-over-year percent change between the current period and the comparable prior period.

² Represents the year-over-year percent change excluding the impact of current period versus prior period exchange rates.

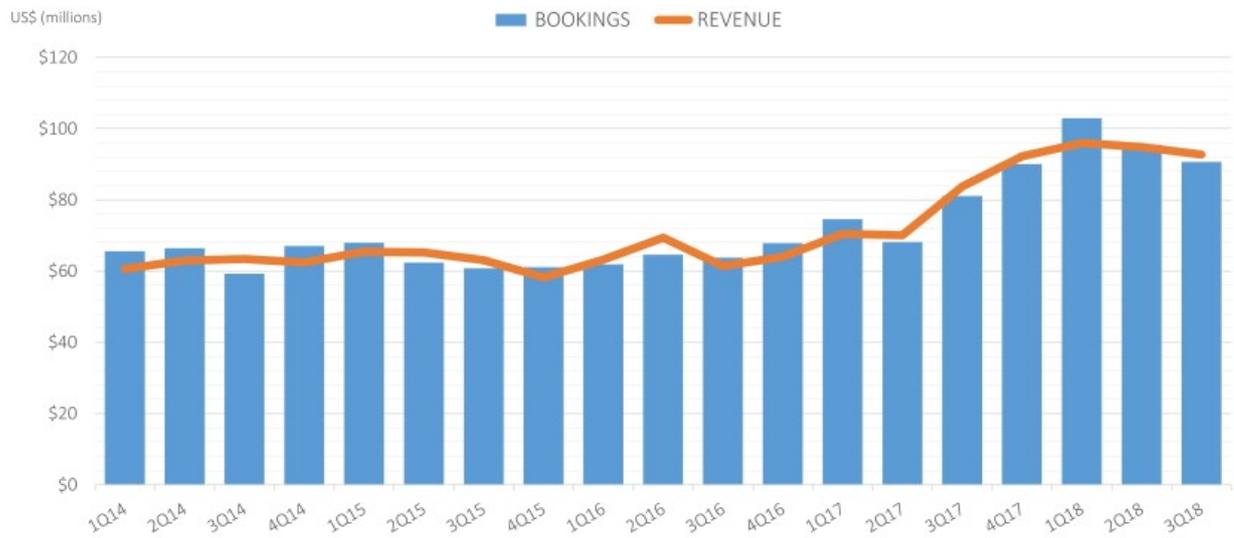
³ Represents the year-over-year percent change excluding the impact of acquisitions and current period versus prior period exchange rates. Acquired businesses are classified above as Acquisitions for the first four quarters after acquisition.

Bookings and Revenue

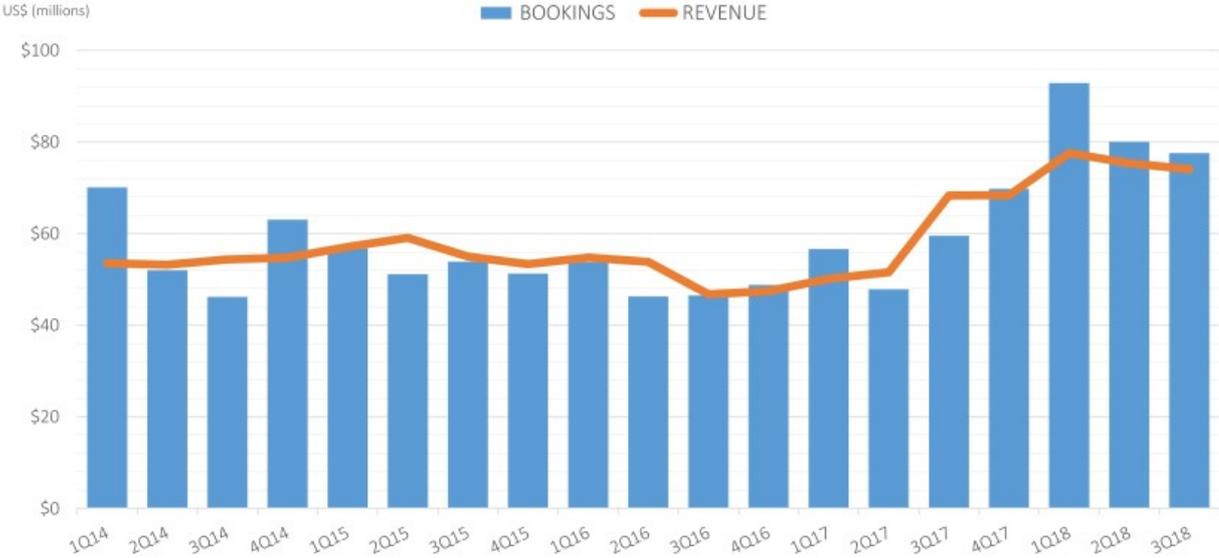


¹ Reported Q415 bookings were \$76 million, which included new orders of \$92 million and a booking reversal of \$16 million.

Parts and Consumables Bookings and Revenue



North America Bookings and Revenue



Europe Bookings and Revenue



Asia Bookings and Revenue



Rest-of-World Bookings and Revenue



Guidance

- FY 2018 GAAP diluted EPS of \$4.93 to \$4.98
- FY 2018 adjusted diluted EPS* of \$5.00 to \$5.05
- FY 2018 revenue of \$628 to \$632 million

- Q4 2018 GAAP diluted EPS of \$1.24 to \$1.29
- Q4 2018 adjusted diluted EPS* of \$1.33 to \$1.38
- Q4 2018 revenue of \$158 to \$162 million

* Adjusted diluted EPS is a non-GAAP financial measure that excludes certain items as detailed in our press release dated October 29, 2018.

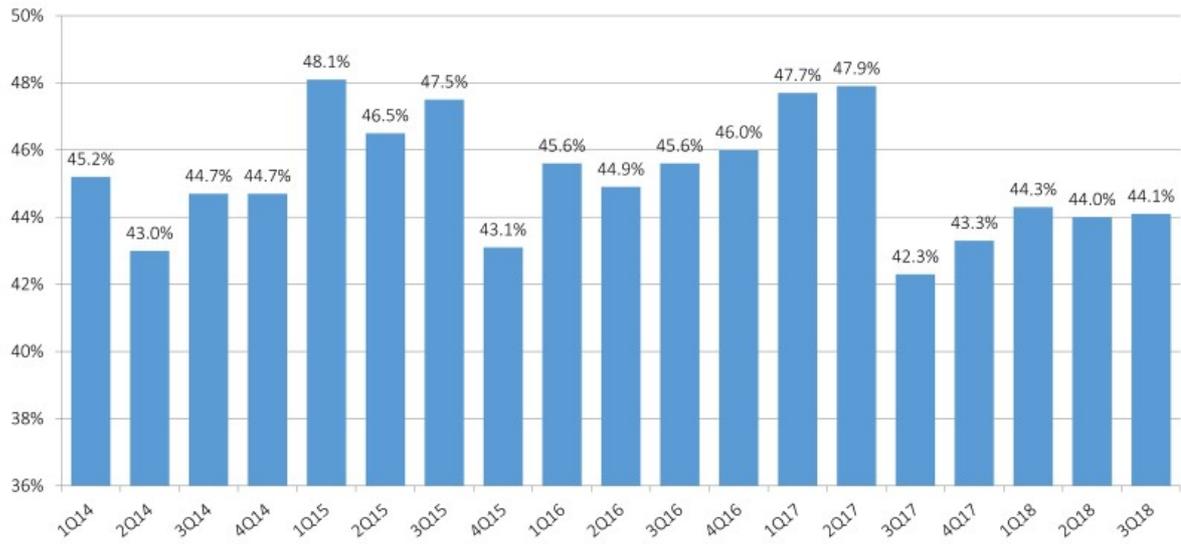
FINANCIAL REVIEW

Michael J. McKenney

Executive Vice President & CFO

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Gross Margin



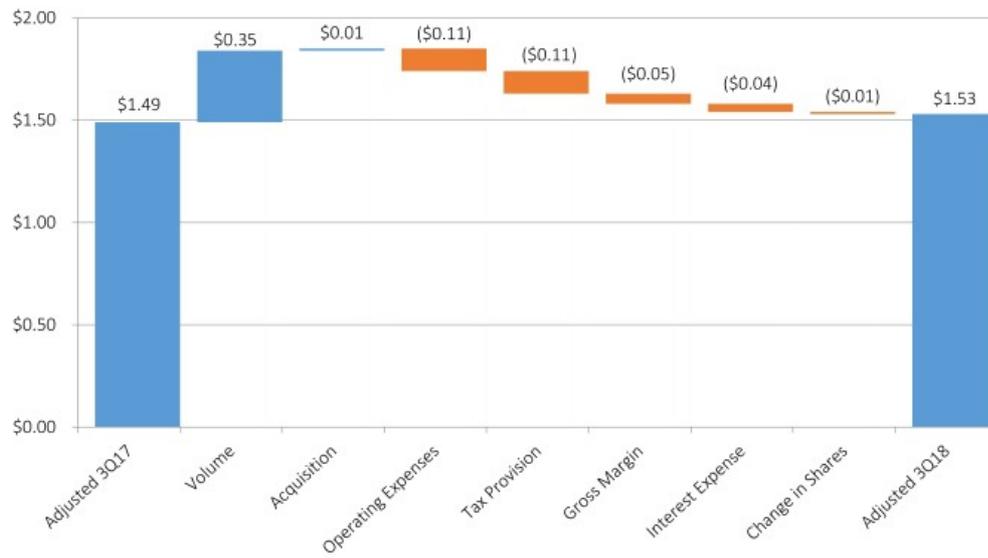
All data for 2017 and 2018 is presented in conformity with the Financial Accounting Standards Board's Accounting Standards Update No. 2017-07. Prior period amounts have not been restated.

SG&A



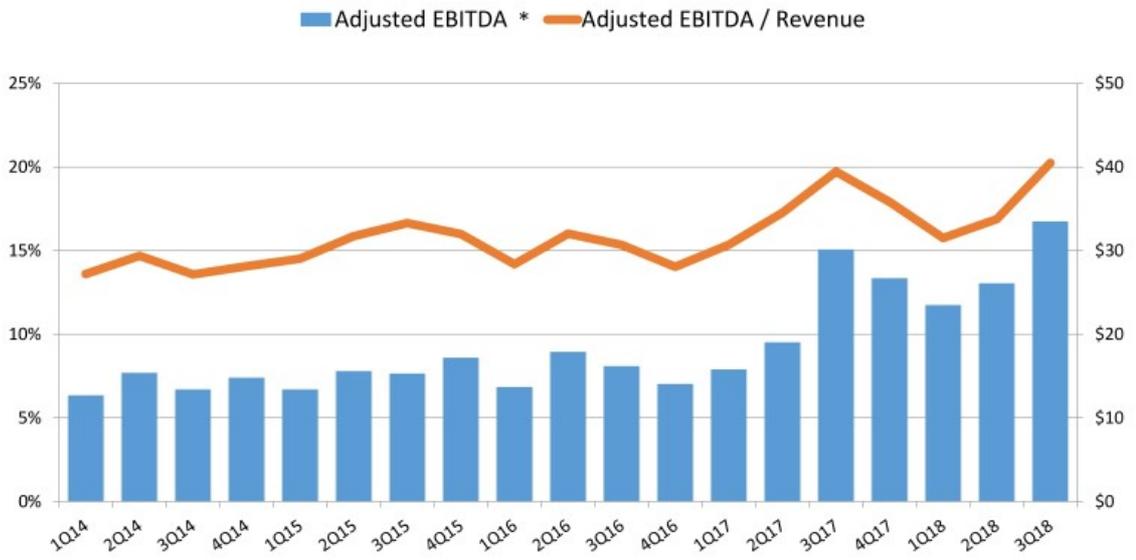
All data for 2017 and 2018 is presented in conformity with the Financial Accounting Standards Board's Accounting Standards Update No. 2017-07. Prior period amounts have not been restated.

3Q17 to 3Q18 Adjusted Diluted EPS*



* Adjusted diluted EPS is a non-GAAP financial measure that excludes certain items as detailed in our press release dated October 29, 2018.

Adjusted EBITDA*



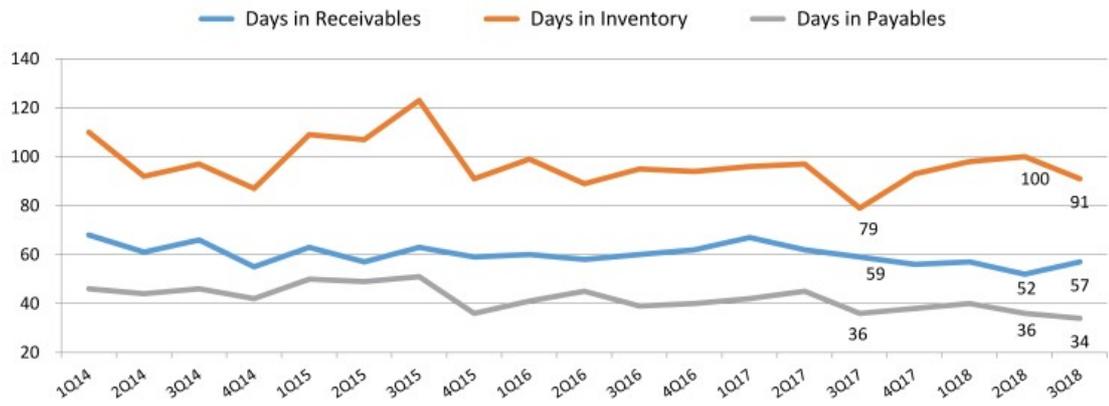
* Adjusted EBITDA is a non-GAAP financial measure that excludes certain items as detailed in our press release dated October 29, 2018.

Cash Flow

US\$ (millions)	Q3 2018	Q3 2017	YTD 2018	YTD 2017
Net Income	\$19.0	\$13.4	\$42.5	\$30.7
Depreciation and Amortization	5.8	6.5	17.7	13.1
Stock-Based Compensation	1.7	1.6	5.3	4.3
Other Items	(2.7)	(3.0)	(3.0)	(1.4)
Change in Current Assets & Liabilities (excl. acquisitions)	(6.8)	(11.5)	(9.9)	(14.4)
Cash Provided by Operating Activities	\$17.0	\$7.0	\$52.6	\$32.3

Key Working Capital Metrics

	Q3 2018	Q2 2018	Q3 2017
Days in Receivables	57	52	59
Days in Inventory	91	100	79
Days in Payables	34	36	36

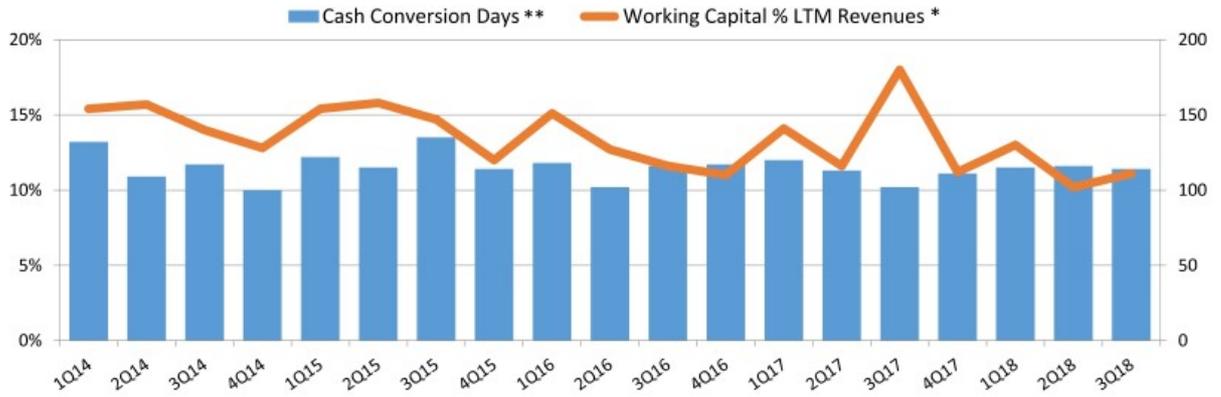


Working Capital and Cash Conversion Days

	Q3 2018	Q2 2018	Q3 2017
Working Capital % LTM Revenues*	11.1%	10.2%	18.0%
Cash Conversion Days**	114 days	116 days	102 days

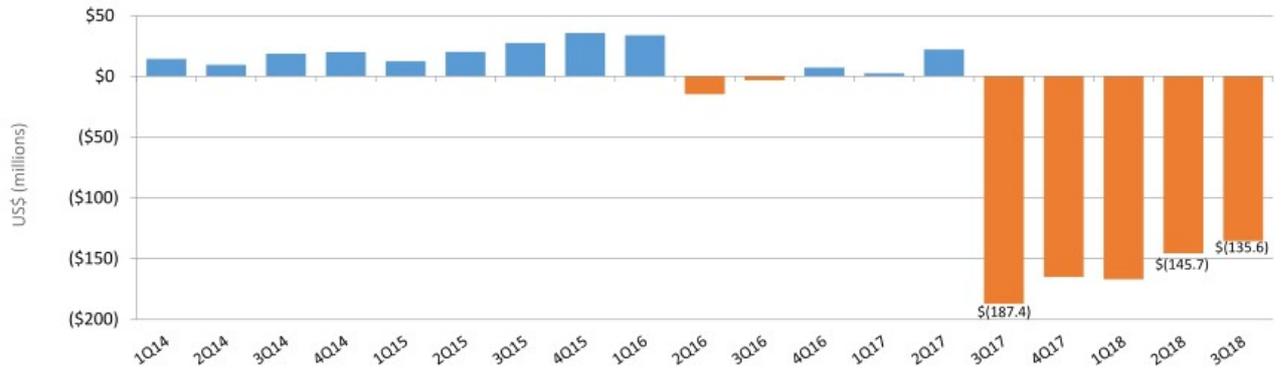
*Working Capital is defined as current assets less current liabilities, excluding cash and debt.

** Based on days in receivables plus days in inventory less days in accounts payable.

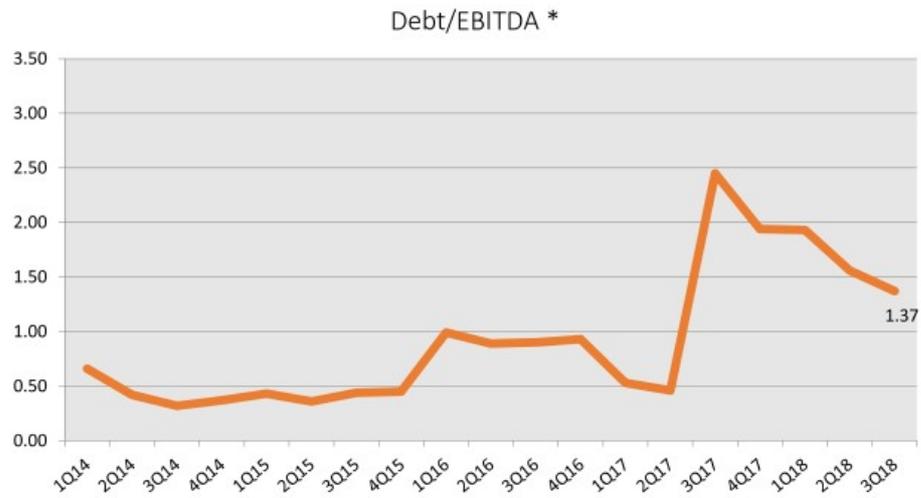


Cash and Debt

US\$ (millions)	Q3 2018	Q2 2018	Q3 2017
Cash, cash equivalents, and restricted cash	\$58.1	\$61.2	\$91.4
Debt	(189.1)	(202.2)	(273.7)
Capital lease obligations	(4.6)	(4.7)	(5.1)
Net debt	\$ (135.6)	\$ (145.7)	\$ (187.4)



Leverage Ratio



*Calculated by adding or subtracting certain items from Adjusted EBITDA, as required by our Credit Facility. Effective March 2, 2017, our amended and restated Credit Facility defined total debt as debt less worldwide cash of up to \$30 million. For periods 1Q14 to 4Q16, total debt is defined as debt less domestic cash of up to \$25 million.

Questions & Answers

To ask a question, please call **888-326-8410** within the U.S. or
+1 704-385-4884 outside the U.S. and reference **809 7465**.

Please mute the audio on your computer.

Key Take-Aways

- Record Q3 revenue, diluted EPS, and adjusted EBITDA
- Strong internal growth in revenue and bookings in Q3
- Pulping and OSB capacity additions in Asia offer growth opportunities
- Expecting record revenue, bookings and diluted EPS in 2018



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