

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): July 28, 2020

KADANT INC.

(Exact name of registrant as specified in its charter)

Commission file number 001-11406

Delaware

(State or other jurisdiction of incorporation or organization)

52-1762325

(I.R.S. Employer Identification No.)

**One Technology Park Drive
Westford, Massachusetts 01886**

(Address of principal executive offices, including zip code)

(978) 776-2000

(Registrant's telephone number, including area code)

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))

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class
Common Stock, \$.01 par value

Trading Symbol(s)
KAI

Name of each exchange on which registered
New York Stock Exchange

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.

Item 2.02 Results of Operations and Financial Condition.

On July 28, 2020, Kadant Inc. (the “Company”) announced its financial results for the fiscal quarter ended June 27, 2020. 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 7.01 Regulation FD Disclosure.

On July 29, 2020, the Company will hold a webcast and conference call to discuss its financial results for the fiscal quarter ended June 27, 2020. 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 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, as amended (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 July 28, 2020 announcing its financial results.
99.2	Slides to be presented by the Company on July 29, 2020.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

KADANT INC.

SIGNATURE

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

KADANT INC.

Date: July 28, 2020

By /s/ Michael J. McKenney

Michael J. McKenney
Executive Vice President and Chief Financial Officer

3

KADANT

KADANT INC.
One Technology Park Drive
Westford, MA 01886

NEWS

Kadant Reports Second Quarter 2020 Results

WESTFORD, Mass., July 28, 2020 - Kadant Inc. (NYSE: KAI) reported its financial results for the second quarter ended June 27, 2020.

Second Quarter 2020 Financial Highlights

- Bookings decreased 24% to \$133 million.
- Revenue decreased 14% to \$153 million.
- GAAP diluted EPS decreased 30% to \$1.00.
- Adjusted diluted EPS decreased 25% to \$1.06.
- Net income decreased 29% to \$12 million.
- Adjusted EBITDA decreased 19% to \$27 million and represented 17.4% of revenue.
- Operating cash flow was \$22 million.
- Our balance sheet remains healthy and our liquidity position is solid.

Note: Adjusted diluted EPS, adjusted EBITDA, adjusted EBITDA margin, free cash flow, and changes in organic revenue 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

"Despite challenging circumstances, our workforce around the world continues to perform exceptionally well to meet the needs and expectations of our customers," said Jeffrey L. Powell, president and chief executive officer of Kadant. "While second quarter revenue was weaker year-over-year, especially given a difficult comparable period and pandemic-related challenges, our cash flow and healthy balance sheet continue to be a source of strength. Our operating cash flow was \$22 million for the second quarter, down three percent from the prior year, while our free cash flow increased to \$21 million.

"Our parts and consumables revenue made up 64 percent of our second quarter revenue and that aspect of our business continues to provide a relatively stable revenue stream. Our parts and consumables support the production of essential items found in health care facilities and grocery stores and in packaging shipped directly to consumers and businesses. They also support the requirements of critical infrastructure such as housing, highway construction and road repair, and other basic societal needs.

"Strategic acquisitions continue to be an important part of our growth strategy and today we announced our acquisition of a leading North American industrial automation and controls solution provider completed in the second quarter. This acquisition will help us enhance and expand our smart connected product offerings around the world."

Second Quarter 2020 compared to 2019

Revenue decreased 14 percent to \$152.9 million compared to \$177.2 million in 2019. Organic revenue was down 12 percent, which excludes an acquisition and a two percent decrease from the unfavorable effect of foreign currency translation. Gross margin was 43.5 percent compared to 42.0 percent in 2019.

GAAP diluted earnings per share (EPS) decreased 30 percent to \$1.00 compared to \$1.42 in 2019. Adjusted diluted EPS decreased 25 percent to \$1.06 compared to \$1.42 in 2019. Adjusted diluted EPS in 2020 excludes \$0.03 of restructuring costs and \$0.03 of acquisition costs. Adjusted diluted EPS in 2019 excludes \$0.10 of amortization expense from acquired profit in inventory and backlog and an \$0.11 discrete tax benefit related to the exercise of employee stock options. Adjusted EBITDA decreased 19 percent to \$26.6 million compared to \$32.7 million in 2019. Cash flow from operations decreased three percent to \$22.0 million compared to \$22.6 million in 2019.

Bookings decreased 24 percent to \$133.0 million compared to \$174.0 million in 2019. Organic bookings were down 21 percent, which excludes an acquisition and a two percent decrease from the unfavorable effect of foreign currency translation.

Summary and Outlook

"Our decentralized structure and global footprint combined with our strong aftermarket business have provided stability in this environment," Mr. Powell continued. "We were pleased with the solid execution by our divisions, resulting in \$21 million of free cash flow for the second quarter further strengthening our liquidity position. Looking ahead, we expect the third quarter will be our weakest quarter of the year and are anticipating an improvement in business activity in the fourth quarter assuming economies continue to re-open and consumer demand strengthens. However, given the current uncertainty surrounding the timing of the recovery in markets around the world, we will not be providing guidance at this time. Despite this, the underlying fundamentals of our markets and our business remain strong."

Conference Call

Kadant will hold a webcast with a slide presentation for investors on Wednesday, July 29, 2020, at 11:00 a.m. eastern time to discuss its second 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 4880692. 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 August 28, 2020.

Shortly after the webcast, Kadant will post its updated general investor presentation incorporating the second 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 (organic revenue), adjusted operating income, adjusted net income, adjusted diluted EPS, earnings before interest, taxes, depreciation, and amortization (EBITDA), adjusted EBITDA, adjusted EBITDA margin, and free cash flow.

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 in the second quarter of 2020 included a \$4.0 million unfavorable foreign currency translation effect and \$0.2 million from an acquisition. Revenue in the first six months of 2020 included a \$6.5 million unfavorable foreign currency translation effect and \$0.2 million from an acquisition. We present increases or decreases in organic revenue, which excludes 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 profit in inventory and backlog, and discrete tax items. 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 none at all.

Second Quarter

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

- Pre-tax acquisition costs of \$0.4 million in 2020.
- Pre-tax restructuring costs of \$0.5 million in 2020.
- Pre-tax expense related to amortization of acquired profit in inventory and backlog of \$1.5 million in 2019.

Adjusted net income and adjusted diluted EPS exclude:

- After-tax acquisition costs of \$0.3 million (\$0.4 million net of tax of \$0.1 million) in 2020.
- After-tax restructuring costs of \$0.3 million (\$0.5 million net of tax of \$0.2 million) in 2020.
- After-tax expense related to amortization of acquired profit in inventory and backlog of \$1.2 million (\$1.5 million net of tax of \$0.3 million) in 2019.
- A discrete tax benefit of \$1.2 million in 2019.

Free cash flow is calculated as cash flow from operations less:

- Capital expenditures of \$0.9 million in 2020 and \$2.0 million in 2019.

First Six Months

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

- Pre-tax acquisition costs of \$0.4 million in 2020 and \$0.8 million in 2019.
- Pre-tax restructuring costs of \$0.5 million in 2020.
- Pre-tax expense related to amortization of acquired profit in inventory and backlog of \$4.8 million in 2019.

Adjusted net income and adjusted diluted EPS exclude:

- After-tax acquisition costs of \$0.3 million (\$0.4 million net of tax of \$0.1 million) in 2020 and \$0.7 million (\$0.8 million net of tax of \$0.1 million) in 2019.
- After-tax restructuring costs of \$0.3 million (\$0.5 million net of tax of \$0.2 million) in 2020.
- After-tax expense related to amortization of acquired profit in inventory and backlog of \$3.7 million (\$4.8 million net of tax of \$1.1 million) in 2019.
- A discrete tax benefit of \$1.2 million in 2019.

Free cash flow is calculated as cash flow from operations less:

- Capital expenditures of \$3.6 million in 2020 and \$4.1 million in 2019.

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	Three Months Ended		Six Months Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Revenue	\$ 152,860	\$ 177,165	\$ 311,987	\$ 348,481
Costs and Operating Expenses:				
Cost of revenue	86,412	102,794	177,216	203,595
Selling, general, and administrative expenses	45,073	48,467	90,665	97,786
Research and development expenses	2,798	2,762	5,874	5,383
Restructuring costs	456	—	456	—
	134,739	154,023	274,211	306,764
Operating Income	18,121	23,142	37,776	41,717
Interest Income	37	59	88	115
Interest Expense	(1,931)	(3,573)	(4,390)	(7,077)
Other Expense, Net	(31)	(99)	(63)	(198)
Income Before Provision for Income Taxes	16,196	19,529	33,411	34,557
Provision for Income Taxes	4,474	3,128	9,033	7,091
Net Income	11,722	16,401	24,378	27,466
Net Income Attributable to Noncontrolling Interest	(115)	(97)	(240)	(262)
Net Income Attributable to Kadant	\$ 11,607	\$ 16,304	\$ 24,138	\$ 27,204
Earnings per Share Attributable to Kadant:				
Basic	\$ 1.01	\$ 1.46	\$ 2.11	\$ 2.44
Diluted	\$ 1.00	\$ 1.42	\$ 2.09	\$ 2.38
Weighted Average Shares:				
Basic	11,482	11,194	11,457	11,164
Diluted	11,552	11,448	11,530	11,416

Adjusted Net Income and Adjusted Diluted EPS (a)	Three Months Ended		Three Months Ended	
	June 27, 2020	June 27, 2020	June 29, 2019	June 29, 2019
Net Income and Diluted EPS Attributable to Kadant, as Reported	\$ 11,607	\$ 1.00	\$ 16,304	\$ 1.42
Adjustments for the Following:				
Restructuring Costs, Net of Tax	332	0.03	—	—
Acquisition Costs, Net of Tax	297	0.03	—	—
Amortization of Acquired Profit in Inventory and Backlog, Net of Tax (f,g)	20	—	1,158	0.10
Discrete Tax Items	—	—	(1,235)	(0.11)
Adjusted Net Income and Adjusted Diluted EPS (a)	\$ 12,256	\$ 1.06	\$ 16,227	\$ 1.42

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	Six Months Ended		Six Months Ended	
	June 27, 2020	June 27, 2020	June 29, 2019	June 29, 2019
Net Income and Diluted EPS Attributable to Kadant, as Reported	\$ 24,138	\$ 2.09	\$ 27,204	\$ 2.38
Adjustments for the Following:				
Restructuring Costs, Net of Tax	332	0.03	—	—
Acquisition Costs, Net of Tax	297	0.03	699	0.06
Amortization of Acquired Profit in Inventory and Backlog, Net of Tax (f,g)	26	—	3,671	0.32
Discrete Tax Items	—	—	(1,235)	(0.11)
Adjusted Net Income and Adjusted Diluted EPS (a)	\$ 24,793	\$ 2.15	\$ 30,339	\$ 2.66

Revenue by Segment (b)	Three Months Ended		Increase (Decrease)	Increase (Decrease) Excluding Acquisition and FX (a,c)
	June 27, 2020	June 29, 2019		
Flow Control	\$ 51,365	\$ 65,273	\$ (13,908)	\$ (11,784)
Industrial Processing	65,673	76,396	(10,723)	(9,387)
Material Handling	35,822	35,496	326	641
	\$ 152,860	\$ 177,165	\$ (24,305)	\$ (20,530)

	Six Months Ended		Decrease	Increase (Decrease) Excluding Acquisition and FX (a,c)
	June 27, 2020	June 29, 2019		
Flow Control	\$ 108,514	\$ 126,417	\$ (17,903)	\$ (14,469)
Industrial Processing	130,382	148,670	(18,288)	(16,069)
Material Handling	73,091	73,394	(303)	373
	\$ 311,987	\$ 348,481	\$ (36,494)	\$ (30,165)

Revenue by Geography (d)	Three Months Ended		Decrease	Increase (Decrease) Excluding Acquisition and FX (a,c)
	June 27, 2020	June 29, 2019		
North America	\$ 88,718	\$ 98,667	\$ (9,949)	\$ (9,082)
Europe	37,916	43,813	(5,897)	(4,890)
Asia	16,237	23,696	(7,459)	(6,845)
Rest of World	9,989	10,989	(1,000)	287
	\$ 152,860	\$ 177,165	\$ (24,305)	\$ (20,530)

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	Six Months Ended			Decrease	Increase (Decrease) Excluding Acquisition and FX (a,c)
	June 27, 2020	June 29, 2019			
North America	\$ 182,541	\$ 199,543	\$ (17,002)	\$ (16,040)	
Europe	73,930	82,798	(8,868)	(6,779)	
Asia	32,145	40,774	(8,629)	(7,500)	
Rest of World	23,371	25,366	(1,995)	154	
	<u>\$ 311,987</u>	<u>\$ 348,481</u>	<u>\$ (36,494)</u>	<u>\$ (30,165)</u>	

Bookings by Segment (b)	Three Months Ended			Decrease	Decrease Excluding Acquisition and FX (c)
	June 27, 2020	June 29, 2019			
Flow Control	\$ 49,361	\$ 60,694	\$ (11,333)	\$ (9,287)	
Industrial Processing	53,144	75,008	(21,864)	(20,604)	
Material Handling	30,471	38,258	(7,787)	(7,504)	
	<u>\$ 132,976</u>	<u>\$ 173,960</u>	<u>\$ (40,984)</u>	<u>\$ (37,395)</u>	

	Six Months Ended			Decrease	Decrease Excluding Acquisition and FX (c)
	June 27, 2020	June 29, 2019			
Flow Control	\$ 117,105	\$ 125,429	\$ (8,324)	\$ (4,759)	
Industrial Processing	118,982	154,079	(35,097)	(33,077)	
Material Handling	72,506	78,064	(5,558)	(4,948)	
	<u>\$ 308,593</u>	<u>\$ 357,572</u>	<u>\$ (48,979)</u>	<u>\$ (42,784)</u>	

Business Segment Information (b)	Three Months Ended		Six Months Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Gross Margin:				
Flow Control	53.5%	51.0%	53.2%	51.0%
Industrial Processing	40.9%	39.4%	39.7%	39.2%
Material Handling	33.8%	30.9%	34.7%	30.1%
	<u>43.5%</u>	<u>42.0%</u>	<u>43.2%</u>	<u>41.6%</u>

Operating Income:				
Flow Control	\$ 10,260	\$ 15,133	\$ 23,590	\$ 28,117
Industrial Processing	10,639	13,869	20,075	25,723
Material Handling	3,593	1,259	7,727	1,990
Corporate	(6,371)	(7,119)	(13,616)	(14,113)
	<u>\$ 18,121</u>	<u>\$ 23,142</u>	<u>\$ 37,776</u>	<u>\$ 41,717</u>

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Adjusted Operating Income (a,e):								
Flow Control	\$	10,716	\$	15,133	\$	24,046	\$	28,117
Industrial Processing		11,074		13,869		20,510		25,723
Material Handling		3,593		2,782		7,735		7,664
Corporate		(6,371)		(7,119)		(13,616)		(14,113)
	\$	19,012	\$	24,665	\$	38,675	\$	47,391

Capital Expenditures:								
Flow Control	\$	337	\$	707	\$	1,158	\$	1,178
Industrial Processing		211		807		1,675		2,170
Material Handling		283		415		681		748
Corporate		80		46		83		47
	\$	911	\$	1,975	\$	3,597	\$	4,143

Cash Flow and Other Data	Three Months Ended		Six Months Ended					
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019				
Cash Provided by Operations	\$	22,039	\$	22,612	\$	28,208	\$	32,488
Less: Capital Expenditures		(911)		(1,975)		(3,597)		(4,143)
Free Cash Flow (a)	\$	21,128	\$	20,637	\$	24,611	\$	28,345
Depreciation and Amortization Expense	\$	7,576	\$	8,310	\$	15,174	\$	16,541

Balance Sheet Data	June 27, 2020	December 28, 2019		
Assets				
Cash, Cash Equivalents, and Restricted Cash	\$	60,949	\$	68,273
Accounts Receivable, net		89,393		95,740
Inventories		109,663		102,715
Unbilled Revenue		10,444		13,162
Property, Plant, and Equipment, net		82,242		86,032
Intangible Assets		167,314		173,896
Goodwill		337,993		336,032
Other Assets		57,294		63,537
	\$	915,292	\$	939,387
Liabilities and Stockholders' Equity				
Accounts Payable	\$	39,922	\$	45,852
Debt Obligations		277,525		294,717
Other Borrowings		5,622		6,308
Other Liabilities		151,864		165,431
Total Liabilities		474,933		512,308
Stockholders' Equity		440,359		427,079
	\$	915,292	\$	939,387

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Adjusted Operating Income and Adjusted EBITDA Reconciliation (a,b)	Three Months Ended		Six Months Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Consolidated				
Net Income Attributable to Kadant	\$ 11,607	\$ 16,304	\$ 24,138	\$ 27,204
Net Income Attributable to Noncontrolling Interest	115	97	240	262
Provision for Income Taxes	4,474	3,128	9,033	7,091
Interest Expense, Net	1,894	3,514	4,302	6,962
Other Expense, Net	31	99	63	198
Operating Income	18,121	23,142	37,776	41,717
Restructuring Costs	456	—	456	—
Acquisition Costs	407	—	407	843
Acquired Backlog Amortization (f)	28	284	36	1,282
Acquired Profit in Inventory (g)	—	1,239	—	3,549
Adjusted Operating Income (a)	19,012	24,665	38,675	47,391
Depreciation and Amortization	7,548	8,026	15,138	15,259
Adjusted EBITDA (a)	\$ 26,560	\$ 32,691	\$ 53,813	\$ 62,650
Adjusted EBITDA Margin (a,h)	17.4%	18.5%	17.2%	18.0%
Flow Control				
Operating Income	\$ 10,260	\$ 15,133	\$ 23,590	\$ 28,117
Restructuring Costs	456	—	456	—
Adjusted Operating Income (a)	10,716	15,133	24,046	28,117
Depreciation and Amortization	1,579	1,608	3,165	3,194
Adjusted EBITDA (a)	\$ 12,295	\$ 16,741	\$ 27,211	\$ 31,311
Adjusted EBITDA Margin (a,h)	23.9%	25.6%	25.1%	24.8%
Industrial Processing				
Operating Income	\$ 10,639	\$ 13,869	\$ 20,075	\$ 25,723
Acquisition Costs	407	—	407	—
Acquired Backlog Amortization (f)	28	—	28	—
Adjusted Operating Income (a)	11,074	13,869	20,510	25,723
Depreciation and Amortization	3,126	3,238	6,287	6,482
Adjusted EBITDA (a)	\$ 14,200	\$ 17,107	\$ 26,797	\$ 32,205
Adjusted EBITDA Margin (a,h)	21.6%	22.4%	20.6%	21.7%

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Material Handling

Operating Income	\$	3,593	\$	1,259	\$	7,727	\$	1,990
Acquisition Costs		—		—		—		843
Acquired Backlog Amortization (f)		—		284		8		1,282
Acquired Profit in Inventory (g)		—		1,239		—		3,549
Adjusted Operating Income (a)		3,593		2,782		7,735		7,664
Depreciation and Amortization		2,795		3,115		5,592		5,458
Adjusted EBITDA (a)	\$	6,388	\$	5,897	\$	13,327	\$	13,122
Adjusted EBITDA Margin (a,h)		17.8%		16.6%		18.2%		17.9%

Corporate

Operating Loss	\$	(6,371)	\$	(7,119)	\$	(13,616)	\$	(14,113)
Depreciation and Amortization		48		65		94		125
EBITDA (a)	\$	(6,323)	\$	(7,054)	\$	(13,522)	\$	(13,988)

(a) Represents a non-GAAP financial measure.

(b) Reflects our new reportable operating segments announced on April 22, 2020. Prior period information has been recast to conform to the current period presentation.

(c) Represents the increase (decrease) resulting from the exclusion of an acquisition 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 amortization of 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 approximately 2,700 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 our 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 28, 2019 and subsequent filings with the Securities and Exchange Commission. These include risks and uncertainties relating to the impact of the COVID-19 pandemic on our operating and financial results; 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; international sales and operations; health epidemics; changes to government regulations and policies around the world; policies of the Chinese government; the variability and uncertainties in sales of capital equipment in China; levels of residential construction activity; reductions by our wood processing customers of their capital spending or production of oriented strand board; changes to the global timber supply; cyclical economic conditions affecting the global mining industry; development and use of digital media; currency fluctuations; demand for coal, including economic and environmental risks associated with coal; price increases or shortages of raw materials; dependence on certain suppliers; our acquisition strategy; failure of our information systems or breaches of data security and cybertheft; compliance with government regulations and policies and compliance with laws; implementation of 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 exit from the European Union; our debt obligations; restrictions in our credit agreement and note purchase agreement; substitution of an alternative index for LIBOR; loss of key personnel and effective succession planning; protection of intellectual property; fluctuations in our share price; soundness of financial institutions; environmental laws and regulations; climate change; environmental, health and safety laws and regulations; adequacy of our insurance coverage; anti-takeover provisions; and reliance on third-party research.

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Second Quarter 2020 Business Review

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July 29, 2020

Forward-Looking Statements

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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 adjusted diluted EPS, adjusted earnings before interest, taxes, depreciation, and amortization (adjusted EBITDA), adjusted EBITDA margin, and free cash flow. **Specific non-GAAP financial measures have been marked with an * (asterisk) within this presentation. A reconciliation of those numbers to the most directly comparable GAAP financial measures is shown in the Appendix and in our second quarter 2020 earnings press release issued July 28, 2020, which is available in the Investors section of our website at investor.kadant.com under the heading News 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

Jeffrey L. Powell | President & CEO

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Operational Highlights

- Our global workforce performed exceptionally well with continued commitment to meet our customers' needs
- Safeguarding our workplaces and protecting the health and safety of our employees remains a core priority
- Our balance sheet remains healthy and our liquidity position remains solid

Q2 2020 Performance

(\$ in millions, except per share amounts)

	Q2 20	Q2 19	Change
Revenue	\$152.9	\$177.2	-13.7%
Net Income	\$11.6	\$16.3	-28.8%
Adjusted EBITDA*	\$26.6	\$32.7	-18.8%
Adjusted EBITDA Margin*	17.4%	18.5%	-110 bps
Diluted EPS	\$1.00	\$1.42	-29.6%
Adjusted Diluted EPS*	\$1.06	\$1.42	-25.4%
Operating Cash Flow	\$22.0	\$22.6	-2.5%
Free Cash Flow*	\$21.1	\$20.6	+2.4%
Bookings	\$133.0	\$174.0	-23.6%

HIGHLIGHTS

- Free cash flow* was strong at \$21 million and increased 2% over Q2 2019
- Parts and consumables revenue was relatively stable and made up 64% of Q2 revenue
- Completed the acquisition of automation and controls solution provider, Cogent Industrial Technologies

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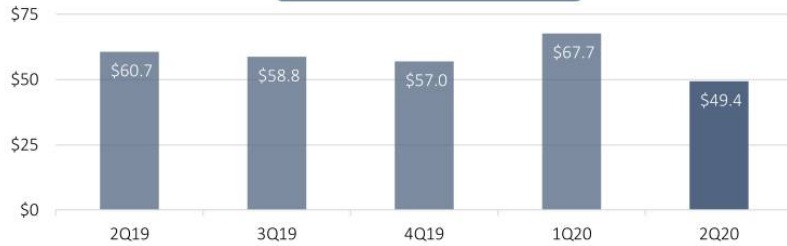
Flow Control

Custom-engineered products, systems, and technologies that control the flow of fluids

\$ in millions	Q2 20	Q2 19	Change
Revenue	\$51.4	\$65.3	-21.3%
Bookings	\$49.4	\$60.7	-18.7%
Adjusted EBITDA*	\$12.3	\$16.7	-26.6%
Adjusted EBITDA Margin*	23.9%	25.6%	-170 bps

(\$ in millions)

BOOKINGS



HIGHLIGHTS

- Softness in general industry outside of critical infrastructure manufacturers
- Large capital project activity and service work most impacted
- Parts and consumables revenue made up 72% of total Q2 revenue
- Improved bookings activity in June following a notably weak April/May

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Industrial Processing

Products used to recycle paper and paperboard and to process timber

\$ in millions	Q2 20	Q2 19	Change
Revenue	\$65.7	\$76.4	-14.0%
Bookings	\$53.1	\$75.0	-29.1%
Adjusted EBITDA*	\$14.2	\$17.1	-17.0%
Adjusted EBITDA Margin*	21.6%	22.4%	-80 bps



HIGHLIGHTS

- Strong demand for wood products, lumber prices near all-time high
- U.S. housing starts surprisingly strong
- Parts and consumables revenue made up 62% of total Q2 revenue
- Increasing project activity expected as new inquiries continue to grow

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Material Handling

Products used to handle bulk and discrete materials for secondary processing.

\$ in millions	Q2 20	Q2 19	Change
Revenue	\$35.8	\$35.5	+0.9%
Bookings	\$30.5	\$38.3	-20.4%
Adjusted EBITDA*	\$6.4	\$5.9	+8.3%
Adjusted EBITDA Margin*	17.8%	16.6%	+120 bps

HIGHLIGHTS

- Solid performance in the aggregates and food sectors
- Capital project and service work negatively impacted
- Parts and consumables revenue made up 55% of total Q2 revenue
- Solid execution and product mix led to adjusted EBITDA* increasing 8%



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Business Outlook

- Certain end markets are showing signs of gradual recovery
- Q3 is expected to be the weakest quarter of the year
- Expect increased business activity in Q4
- Our strong cash flow positions us well to navigate through these uncertain times and capitalize on new opportunities



FINANCIAL REVIEW

Michael J. McKenney | EVP & CFO

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Q2 2020 Financial Performance

HIGHLIGHTS

- Adjusted EBITDA margin* of 17.4%
- Operating cash flows of \$22.0 million
- Free cash flow* of \$21.1 million
- Net debt of \$222 million; leverage ratio¹ of 2.01

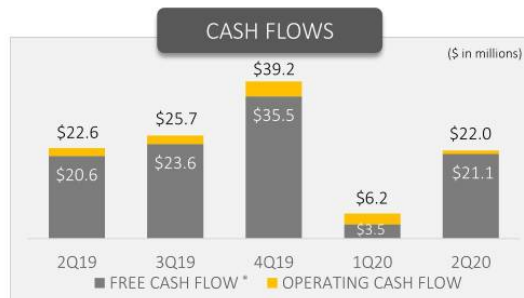
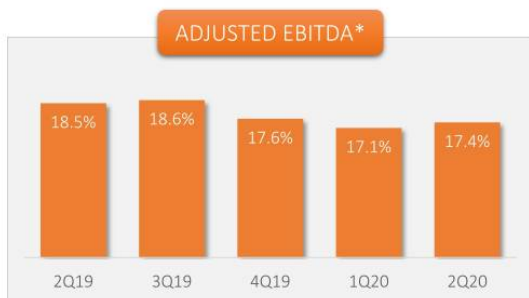
(\$ in millions, except per share amounts)

	Q2 20	Q2 19
Gross Margin	43.5%	42.0%
SG&A % of Revenue	29.5%	27.4%
Operating Income	\$18.1	\$23.1
Net Income	\$11.6	\$16.3
Adjusted EBITDA*	\$26.6	\$32.7
Diluted EPS	\$1.00	\$1.42
Adjusted Diluted EPS*	\$1.06	\$1.42

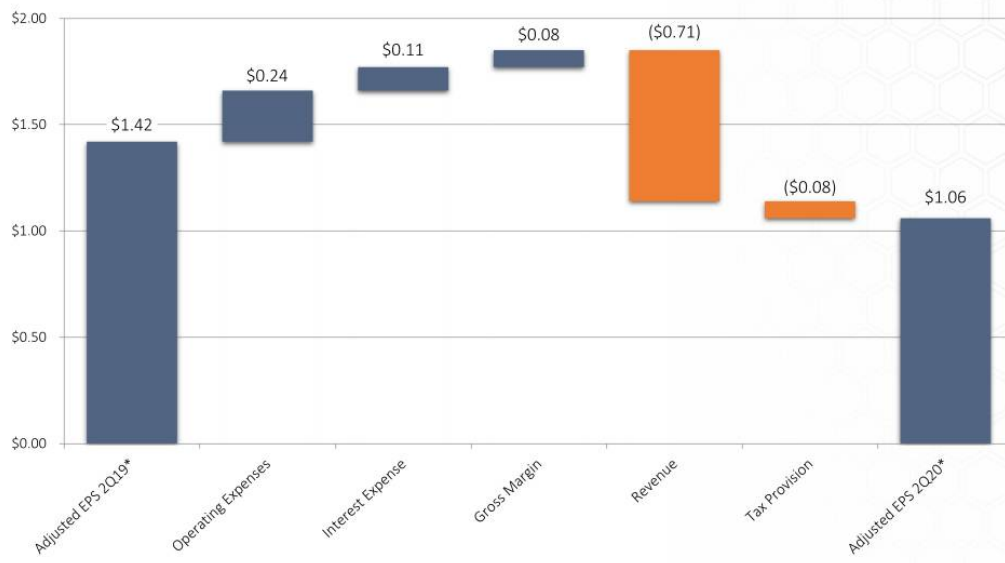
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Key Consolidated Financial Metrics



2Q19 to 2Q20 Adjusted Diluted EPS*



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Key Liquidity Metrics

\$ in millions	Q2 20	Q1 20	Q2 19
Cash, cash equivalents, and restricted cash	\$60.9	\$62.1	\$58.1
Debt	\$277.5	\$289.5	\$340.2
Lease obligations	\$5.6	\$5.9	\$6.6
Net Debt	\$222.2	\$233.3	\$288.7
Leverage ratio ¹	2.01	2.04	2.19
Working capital % LTM revenue ²	14.8%	14.2%	15.4%
Cash conversion days ³	128 days	119 days	117 days

- Net debt decreased 23% from Q2 2019
- Paid down \$13.8 million of debt in the second quarter of 2020
- Our liquidity remains solid with \$400 million in borrowing capacity
 - Over \$130 million under our revolving credit facility; an additional uncommitted \$150 million
 - Up to \$115 million through our note purchase agreement

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FINANCIAL REVIEW

Michael J. McKenney | EVP & CFO

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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 488 0692.

Please mute the audio on your computer.

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2020 Key Priorities



SAFEGUARD OUR
EMPLOYEES



MAINTAIN STRONG
CASH FLOW



MEET OUR
CUSTOMERS' NEEDS



OPTIMIZE OUR
LIQUIDITY



Thank You

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July 29, 2020

APPENDIX

Second Quarter 2020 Business Review



Strategic Operating Segments



FLOW CONTROL

- Fluid Handling and Doctoring, Cleaning, & Filtration product lines
- Custom-engineered products, systems and technologies that control the flow of fluids
- Key industries include packaging, tissue, food, and metals
- \$250 million revenue (2019)



INDUSTRIAL PROCESSING

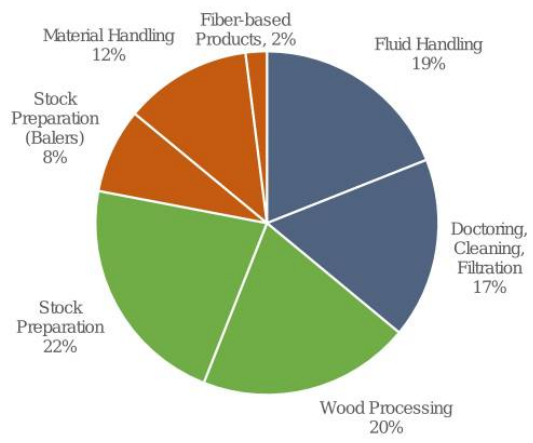
- Stock Preparation and Wood Processing product lines
- Products used to recycle paper and paperboard and process timber
- Key industries include packaging, tissue, wood products, and alternative fuels
- \$302 million revenue (2019)



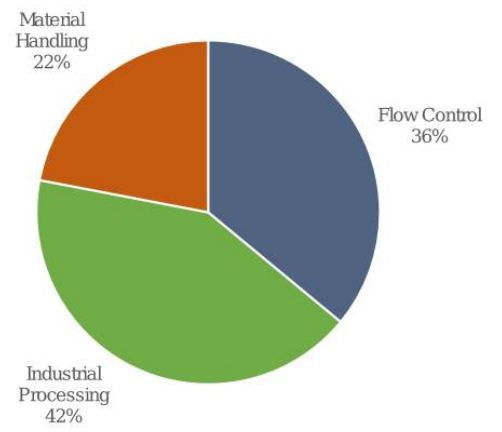
MATERIAL HANDLING

- Conveyors, Vibratory Feeders, Balers, and Fiber-based Products
- Products used to handle bulk and discrete materials for secondary processing
- Key industries include aggregates, mining, food, and waste management
- \$152 million revenue (2019)

Operating Segment Revenue



2019 AS REPORTED



2019 RECAST

Adjusted Diluted EPS Reconciliation

Adjusted diluted EPS (earnings per share) is a non-GAAP financial measure.

	Q2 20	Q2 19
Diluted EPS, as reported	\$1.00	\$1.42
Restructuring Costs, Net of Tax	\$0.03	-
Acquisition Costs, Net of Tax	\$0.03	-
Amortization of Acquired Profit in Inventory and Backlog, Net of Tax	-	\$0.10
Discrete Tax Items	-	(\$0.11)
Adjusted Diluted EPS	\$1.06	\$1.42

Free Cash Flow Reconciliation

Free cash flow is a non-GAAP financial measure.

\$ in thousands	Q2 20	Q2 19
Cash Provided by Operations	\$22,039	\$22,612
Capital Expenditures	(911)	(1,975)
Free Cash Flow	\$21,128	\$20,637

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Adjusted EBITDA Reconciliation

Adjusted EBITDA and adjusted EBITDA margin are non-GAAP financial measures. Adjusted EBITDA margin is calculated by dividing adjusted EBITDA in a given period by revenue in the same period.

\$ in thousands	Q2 20	Q2 19
Net Income Attributable to Kadant	\$11,607	\$16,304
Net Income Attributable to Noncontrolling Interest	115	97
Provision for Income Taxes	4,474	3,128
Interest Expense, Net	1,894	3,514
Other Expense, Net	31	99
Restructuring Costs	456	-
Acquisition Costs	407	-
Acquired Backlog Amortization	28	284
Acquired Profit in Inventory	-	1,239
Depreciation and Amortization	7,548	8,026
Adjusted EBITDA	\$26,560	\$32,691
Adjusted EBITDA Margin	17.4%	18.5%

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Notes

PRESENTATION NOTES

- This presentation reflects our new reportable operating segments, as announced on the Form 8-K we filed with the U.S. Securities and Exchange Commission on April 22, 2020. Prior periods have been recast to conform to this presentation.
- All references to EPS (earnings per share) are to our EPS as calculated on a diluted basis.
- Percent change in slides 6-10 is calculated using actual numbers reported in our press release dated July 28, 2020.

FOOTNOTES

- 1) Leverage ratio is calculated by dividing total debt by EBITDA. For purposes of this calculation, EBITDA is calculated by adding or subtracting certain items from Adjusted EBITDA, as required by our amended and restated credit facility ("Credit Facility"). Our Credit Facility defines total debt as debt less worldwide cash of up to \$30 million.
- 2) Working capital is defined as current assets less current liabilities, excluding cash and debt. LTM is defined as last 12 months.
- 3) Cash conversion days is based on days in receivables plus days in inventory less days in accounts payable.

