

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 27, 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:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$.01 par value	KAI	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 October 27, 2020, Kadant Inc. (the “Company”) announced its financial results for the fiscal quarter ended September 26, 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 October 28, 2020, the Company will hold a webcast and conference call to discuss its financial results for the fiscal quarter ended September 26, 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

Exhibit No.	Description of Exhibits
99.1	<a href="#">Press Release issued by the Company on October 27, 2020 announcing its financial results.</a>
99.2	<a href="#">Slides to be presented by the Company on October 28, 2020.</a>
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: October 27, 2020

By /s/ Michael J. McKenney

\_\_\_\_\_  
Michael J. McKenney  
Executive Vice President and Chief Financial Officer

**KADANT**

**KADANT INC.**  
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 Westford, MA 01886 USA  
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**PRESS RELEASE****Kadant Reports Third Quarter 2020 Results**

**WESTFORD, Mass.**, October 27, 2020 - Kadant Inc. (NYSE: KAI) reported its financial results for the third quarter ended September 26, 2020.

**Third Quarter 2020 Financial Highlights**

- Operating cash flow was \$24 million and free cash flow was \$23 million.
- Bookings decreased 16% to \$143 million.
- Revenue decreased 11% to \$155 million.
- GAAP diluted EPS decreased 9% to \$1.28.
- Adjusted diluted EPS decreased 5% to \$1.31.
- Net income decreased 8% to \$15 million.
- Adjusted EBITDA decreased 7% to \$30 million and represented 19.4% of revenue.

Note: Percent changes above are based on comparison to the prior year period. Free cash flow, adjusted diluted EPS, adjusted EBITDA, adjusted EBITDA margin, 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 pandemic-related challenges, our revenue increased sequentially to \$155 million in the third quarter and was stronger than expected driven by increased demand in our Industrial Processing and Flow Control segments," said Jeffrey L. Powell, president and chief executive officer of Kadant. "We had our highest quarterly adjusted diluted EPS for the year of \$1.31, up 24 percent sequentially, due to excellent operational execution and contributions from government employee retention programs. We were particularly pleased with our cash flow from operations of \$24 million and free cash flow of \$23 million. We paid down \$26 million in debt in the quarter, which combined with our adjusted EBITDA helped drive a reduction in our leverage ratio to 1.88.

"Our parts and consumables revenue increased six percent sequentially to \$103 million in the third quarter, representing 66 percent of our third quarter revenue. We have seen an increase in demand for our parts and consumables following the curtailment in spending by our customers in the first half of the year."

**Third Quarter 2020 compared to 2019**

Revenue decreased 11 percent to \$154.6 million compared to \$173.5 million in 2019. Organic revenue was down 12 percent, which excludes an acquisition and an increase from the favorable effect of foreign currency translation. Gross margin was 44.2 percent compared to 42.8 percent in 2019.

GAAP diluted earnings per share (EPS) decreased nine percent to \$1.28 compared to \$1.41 in 2019. Adjusted diluted EPS decreased five percent to \$1.31 compared to \$1.38 in 2019. Adjusted diluted EPS in 2020 excludes \$0.03 of restructuring costs, a \$0.03 discrete tax benefit, \$0.02 of acquired backlog amortization and \$0.01 of acquisition costs. Adjusted diluted EPS in 2019 excludes a \$0.02 discrete tax benefit. Adjusted EBITDA decreased seven percent to \$30.0 million compared to \$32.3 million in 2019. Cash flow from operations decreased five percent to \$24.4 million compared to \$25.7 million in 2019.

Bookings decreased 16 percent to \$143.3 million compared to \$170.9 million in 2019. Organic bookings were down 17 percent, which excludes an acquisition and an increase from the favorable effect of foreign currency translation.

#### Summary and Outlook

"Capital projects are showing signs of increasing activity and we expect a solid sequential improvement in our capital bookings in the fourth quarter," Mr. Powell continued. "We also expect demand for our parts and consumables to remain stable as our customers perform year-end maintenance on their equipment. As our business continues to strengthen, we anticipate the benefits we receive from government employee retention programs, primarily in Canada and China, will be lower in the fourth quarter. Our global footprint and the diversity of our product offerings have provided stability as the timing of the market recovery has shown to vary by region and industry. While we have seen a recent strengthening in consumer demand, there is still uncertainty surrounding the timing of the recovery in markets around the world and as a result, we will not be providing guidance at this time."

#### Conference Call

Kadant will hold a webcast with a slide presentation for investors on Wednesday, October 28, 2020, 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](http://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 2649708. 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](http://www.sec.gov). An archive of the webcast presentation will be available on our website until November 27, 2020.

Shortly after the webcast, Kadant will post its updated general investor presentation incorporating the third quarter results on its website at [www.kadant.com](http://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 third quarter of 2020 included a \$0.6 million favorable foreign currency translation effect and \$0.8 million from an acquisition. Revenue in the first nine months of 2020 included a \$5.9 million unfavorable foreign currency translation effect and \$1.0 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.

*Third Quarter*

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

- Pre-tax acquisition costs of \$0.1 million in 2020.
- Pre-tax restructuring costs of \$0.5 million in 2020.
- Pre-tax expense related to acquired backlog amortization of \$0.3 million in 2020.

Adjusted net income and adjusted diluted EPS exclude:

- After-tax acquisition costs 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 acquired backlog amortization of \$0.2 million (\$0.3 million net of tax of \$0.1 million) in 2020.
- A discrete tax benefit of \$0.3 million in both 2020 and 2019.

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

- Capital expenditures of \$1.8 million in 2020 and \$2.1 million in 2019.

*First Nine Months*

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

- Pre-tax acquisition costs of \$0.5 million in 2020 and \$0.8 million in 2019.
- Pre-tax restructuring costs of \$0.9 million in 2020.
- Pre-tax expense related to acquired backlog amortization of \$0.4 million in 2020 and \$1.3 million in 2019.
- Pre-tax expense related to amortization of acquired profit in inventory of \$3.5 million in 2019.

Adjusted net income and adjusted diluted EPS exclude:

- After-tax acquisition costs of \$0.4 million (\$0.5 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 \$0.7 million (\$0.9 million net of tax of \$0.2 million) in 2020.
- After-tax expense related to acquired backlog amortization of \$0.3 (\$0.4 million net of tax of \$0.1 million) in 2020 and \$1.0 million (\$1.3 million net of tax of \$0.3 million) in 2019.
- After-tax expense related to amortization of acquired profit in inventory of \$2.7 million (\$3.5 million net of tax of \$0.8 million) in 2019.
- A discrete tax benefit of \$0.3 million in 2020 and \$1.5 million in 2019.

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

- Capital expenditures of \$5.4 million in 2020 and \$6.2 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)

<b>Consolidated Statement of Income</b>	Three Months Ended		Nine Months Ended	
	Sept. 26, 2020	Sept. 28, 2019	Sept. 26, 2020	Sept. 28, 2019
Revenue	\$ 154,610	\$ 173,504	\$ 466,597	\$ 521,985
Costs and Operating Expenses:				
Cost of revenue	86,294	99,257	263,510	302,852
Selling, general, and administrative expenses	43,853	47,097	134,518	144,883
Research and development expenses	2,658	2,597	8,532	7,980
Restructuring costs	470	—	926	—
	133,275	148,951	407,486	455,715
Operating Income	21,335	24,553	59,111	66,270
Interest Income	52	43	140	158
Interest Expense	(1,670)	(3,066)	(6,060)	(10,143)
Other Expense, Net	(32)	(98)	(95)	(296)
Income Before Provision for Income Taxes	19,685	21,432	53,096	55,989
Provision for Income Taxes	4,705	5,219	13,738	12,310
Net Income	14,980	16,213	39,358	43,679
Net Income Attributable to Noncontrolling Interest	(129)	(98)	(369)	(360)
Net Income Attributable to Kadant	\$ 14,851	\$ 16,115	\$ 38,989	\$ 43,319
Earnings per Share Attributable to Kadant:				
Basic	\$ 1.29	\$ 1.43	\$ 3.40	\$ 3.87
Diluted	\$ 1.28	\$ 1.41	\$ 3.38	\$ 3.79
Weighted Average Shares:				
Basic	11,504	11,267	11,472	11,198
Diluted	11,589	11,469	11,550	11,434

<b>Adjusted Net Income and Adjusted Diluted EPS (a)</b>	Three Months Ended		Three Months Ended	
	Sept. 26, 2020	Sept. 26, 2020	Sept. 28, 2019	Sept. 28, 2019
Net Income and Diluted EPS Attributable to Kadant, as Reported	\$ 14,851	\$ 1.28	\$ 16,115	\$ 1.41
Adjustments for the Following:				
Restructuring Costs, Net of Tax	335	0.03	—	—
Acquisition Costs, Net of Tax	58	0.01	—	—
Amortization of Acquired Backlog, Net of Tax (e)	249	0.02	16	—
Discrete Tax Items	(338)	(0.03)	(264)	(0.02)
Adjusted Net Income and Adjusted Diluted EPS (a)	\$ 15,155	\$ 1.31	\$ 15,867	\$ 1.38

<b>Adjusted Net Income and Adjusted Diluted EPS (a)</b>	Nine Months Ended		Nine Months Ended	
	Sept. 26, 2020	Sept. 26, 2020	Sept. 28, 2019	Sept. 28, 2019
Net Income and Diluted EPS Attributable to Kadant, as Reported	\$ 38,989	\$ 3.38	\$ 43,319	\$ 3.79
Adjustments for the Following:				
Restructuring Costs, Net of Tax	667	0.06	—	—
Acquisition Costs, Net of Tax	355	0.03	699	0.06
Amortization of Acquired Profit in Inventory and Backlog, Net of Tax (e.f)	275	0.02	3,687	0.32
Discrete Tax Items	(338)	(0.03)	(1,499)	(0.13)
Adjusted Net Income and Adjusted Diluted EPS (a)	\$ 39,948	\$ 3.46	\$ 46,206	\$ 4.04

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Revenue by Segment (b)	Three Months Ended			Decrease	Decrease Excluding Acquisition and FX (a,c)
	Sept. 26, 2020	Sept. 28, 2019			
Flow Control	\$ 56,815	\$ 62,375	\$ (5,560)	\$ (5,300)	
Industrial Processing	62,086	74,229	(12,143)	(13,306)	
Material Handling	35,709	36,900	(1,191)	(1,689)	
	<u>\$ 154,610</u>	<u>\$ 173,504</u>	<u>\$ (18,894)</u>	<u>\$ (20,295)</u>	

Percentage of Parts and Consumables Revenue 66 % 61 %

	Nine Months Ended			Decrease	Decrease Excluding Acquisition and FX (a,c)
	Sept. 26, 2020	Sept. 28, 2019			
Flow Control	\$ 165,329	\$ 188,792	\$ (23,463)	\$ (19,769)	
Industrial Processing	192,468	222,899	(30,431)	(29,375)	
Material Handling	108,800	110,294	(1,494)	(1,316)	
	<u>\$ 466,597</u>	<u>\$ 521,985</u>	<u>\$ (55,388)</u>	<u>\$ (50,460)</u>	

Percentage of Parts and Consumables Revenue 65 % 63 %

Bookings by Segment (b)	Three Months Ended			Decrease	Decrease Excluding Acquisition and FX (c)
	Sept. 26, 2020	Sept. 28, 2019			
Flow Control	\$ 49,608	\$ 58,817	\$ (9,209)	\$ (8,757)	
Industrial Processing	59,903	74,928	(15,025)	(15,713)	
Material Handling	33,838	37,185	(3,347)	(4,057)	
	<u>\$ 143,349</u>	<u>\$ 170,930</u>	<u>\$ (27,581)</u>	<u>\$ (28,527)</u>	

Percentage of Parts and Consumables Bookings 67 % 59 %

	Nine Months Ended			Decrease	Decrease Excluding Acquisition and FX (c)
	Sept. 26, 2020	Sept. 28, 2019			
Flow Control	\$ 166,713	\$ 184,246	\$ (17,533)	\$ (13,516)	
Industrial Processing	178,885	229,007	(50,122)	(48,790)	
Material Handling	106,344	115,249	(8,905)	(9,005)	
	<u>\$ 451,942</u>	<u>\$ 528,502</u>	<u>\$ (76,560)</u>	<u>\$ (71,311)</u>	

Percentage of Parts and Consumables Bookings 67 % 63 %

Business Segment Information (b)	Three Months Ended		Nine Months Ended	
	Sept. 26, 2020	Sept. 28, 2019	Sept. 26, 2020	Sept. 28, 2019
Gross Margin:				
Flow Control	52.9 %	52.9 %	53.1 %	51.7 %
Industrial Processing	43.7 %	38.7 %	41.0 %	39.0 %
Material Handling	31.1 %	34.0 %	33.5 %	31.4 %
	<u>44.2 %</u>	<u>42.8 %</u>	<u>43.5 %</u>	<u>42.0 %</u>

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Business Segment Information (b) (continued)	Three Months Ended		Nine Months Ended	
	Sept. 26, 2020	Sept. 28, 2019	Sept. 26, 2020	Sept. 28, 2019
<b>Operating Income:</b>				
Flow Control	\$ 13,770	\$ 15,103	\$ 37,360	\$ 43,220
Industrial Processing	12,072	13,107	32,147	38,830
Material Handling	2,614	3,525	10,341	5,515
Corporate	(7,121)	(7,182)	(20,737)	(21,295)
	<u>\$ 21,335</u>	<u>\$ 24,553</u>	<u>\$ 59,111</u>	<u>\$ 66,270</u>
<b>Adjusted Operating Income (a,d):</b>				
Flow Control	\$ 14,035	\$ 15,103	\$ 38,081	\$ 43,220
Industrial Processing	12,438	13,107	32,948	38,830
Material Handling	2,862	3,546	10,597	11,210
Corporate	(7,121)	(7,182)	(20,737)	(21,295)
	<u>\$ 22,214</u>	<u>\$ 24,574</u>	<u>\$ 60,889</u>	<u>\$ 71,965</u>
<b>Capital Expenditures:</b>				
Flow Control	\$ 509	\$ 636	\$ 1,667	\$ 1,814
Industrial Processing	785	1,053	2,460	3,223
Material Handling	486	397	1,167	1,145
Corporate	42	7	125	54
	<u>\$ 1,822</u>	<u>\$ 2,093</u>	<u>\$ 5,419</u>	<u>\$ 6,236</u>
<b>Cash Flow and Other Data</b>				
	Three Months Ended		Nine Months Ended	
	Sept. 26, 2020	Sept. 28, 2019	Sept. 26, 2020	Sept. 28, 2019
Cash Provided by Operations	\$ 24,393	\$ 25,678	\$ 52,601	\$ 58,166
Less: Capital Expenditures	(1,822)	(2,093)	(5,419)	(6,236)
Free Cash Flow (a)	<u>\$ 22,571</u>	<u>\$ 23,585</u>	<u>\$ 47,182</u>	<u>\$ 51,930</u>
Depreciation and Amortization Expense	<u>\$ 8,086</u>	<u>\$ 7,763</u>	<u>\$ 23,260</u>	<u>\$ 24,304</u>
<b>Balance Sheet Data</b>				
			Sept. 26, 2020	Dec. 28, 2019
<b>Assets</b>				
Cash, Cash Equivalents, and Restricted Cash			\$ 56,204	\$ 68,273
Accounts Receivable, net			94,145	95,740
Inventories			108,715	102,715
Unbilled Revenue			9,095	13,162
Property, Plant, and Equipment, net			82,427	86,032
Intangible Assets			164,359	173,896
Goodwill			342,999	336,032
Other Assets			55,947	63,537
			<u>\$ 913,891</u>	<u>\$ 939,387</u>
<b>Liabilities and Stockholders' Equity</b>				
Accounts Payable			\$ 32,588	\$ 45,852
Debt Obligations			255,010	294,717
Other Borrowings			5,577	6,308
Other Liabilities			158,471	165,431
Total Liabilities			451,646	512,308
Stockholders' Equity			462,245	427,079
			<u>\$ 913,891</u>	<u>\$ 939,387</u>

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Adjusted Operating Income and Adjusted EBITDA Reconciliation (a,b)	Three Months Ended		Nine Months Ended	
	Sept. 26, 2020	Sept. 28, 2019	Sept. 26, 2020	Sept. 28, 2019
<b>Consolidated</b>				
Net Income Attributable to Kadant	\$ 14,851	\$ 16,115	\$ 38,989	\$ 43,319
Net Income Attributable to Noncontrolling Interest	129	98	369	360
Provision for Income Taxes	4,705	5,219	13,738	12,310
Interest Expense, Net	1,618	3,023	5,920	9,985
Other Expense, Net	32	98	95	296
Operating Income	21,335	24,553	59,111	66,270
Restructuring Costs	470	—	926	—
Acquisition Costs	78	—	485	843
Acquired Backlog Amortization (e)	331	21	367	1,303
Acquired Profit in Inventory (f)	—	—	—	3,549
Adjusted Operating Income (a)	22,214	24,574	60,889	71,965
Depreciation and Amortization	7,755	7,742	22,893	23,001
Adjusted EBITDA (a)	\$ 29,969	\$ 32,316	\$ 83,782	\$ 94,966
Adjusted EBITDA Margin (a,g)	19.4 %	18.6 %	18.0 %	18.2 %
<b>Flow Control</b>				
Operating Income	\$ 13,770	\$ 15,103	\$ 37,360	\$ 43,220
Restructuring Costs	265	—	721	—
Adjusted Operating Income (a)	14,035	15,103	38,081	43,220
Depreciation and Amortization	1,564	1,629	4,729	4,823
Adjusted EBITDA (a)	\$ 15,599	\$ 16,732	\$ 42,810	\$ 48,043
Adjusted EBITDA Margin (a,g)	27.5 %	26.8 %	25.9 %	25.4 %
<b>Industrial Processing</b>				
Operating Income	\$ 12,072	\$ 13,107	\$ 32,147	\$ 38,830
Restructuring Costs	205	—	205	—
Acquisition Costs	78	—	485	—
Acquired Backlog Amortization (e)	83	—	111	—
Adjusted Operating Income (a)	12,438	13,107	32,948	38,830
Depreciation and Amortization	3,311	3,249	9,598	9,731
Adjusted EBITDA (a)	\$ 15,749	\$ 16,356	\$ 42,546	\$ 48,561
Adjusted EBITDA Margin (a,g)	25.4 %	22.0 %	22.1 %	21.8 %
<b>Material Handling</b>				
Operating Income	\$ 2,614	\$ 3,525	\$ 10,341	\$ 5,515
Acquisition Costs	—	—	—	843
Acquired Backlog Amortization (e)	248	21	256	1,303
Acquired Profit in Inventory (f)	—	—	—	3,549
Adjusted Operating Income (a)	2,862	3,546	10,597	11,210
Depreciation and Amortization	2,824	2,801	8,416	8,259
Adjusted EBITDA (a)	\$ 5,686	\$ 6,347	\$ 19,013	\$ 19,469
Adjusted EBITDA Margin (a,g)	15.9 %	17.2 %	17.5 %	17.7 %
<b>Corporate</b>				
Operating Loss	\$ (7,121)	\$ (7,182)	\$ (20,737)	\$ (21,295)
Depreciation and Amortization	56	63	150	188
EBITDA (a)	\$ (7,065)	\$ (7,119)	\$ (20,587)	\$ (21,107)

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- (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) See reconciliation to the most directly comparable GAAP financial measure under "Adjusted Operating Income and Adjusted EBITDA Reconciliation."
- (e) Represents intangible amortization expense associated with acquired backlog.
- (f) Represents expense within cost of revenues associated with amortization of acquired profit in inventory.
- (g) 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](http://www.kadant.com).

**Safe Harbor Statement**

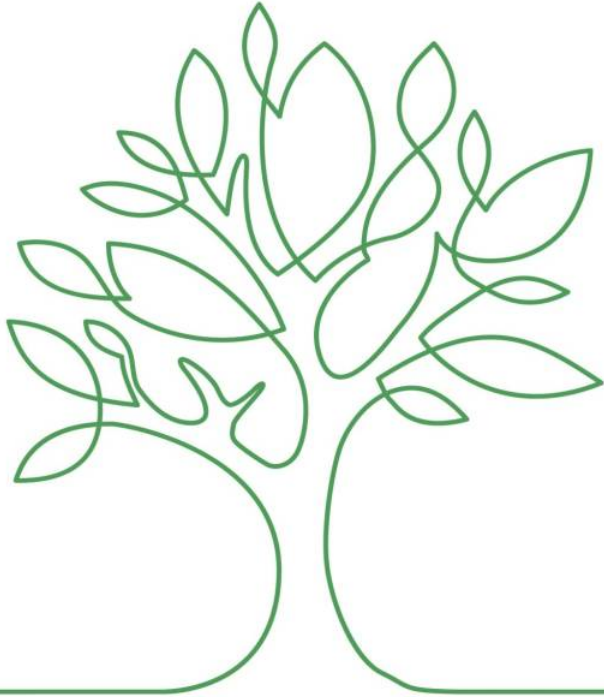
The following constitutes a "Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995: This press release contains forward-looking statements that involve a number of risks and uncertainties, including forward-looking statements about our future financial and operating performance, 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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# Third Quarter 2020 Business Review

**KĀDANT**

October 28, 2020

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# 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.

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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 third quarter 2020 earnings press release issued October 27, 2020, which is available in the Investors section of our website at [investor.kadant.com](http://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

- Safeguarding our workplaces and protecting the health and safety of our employees remains a core priority as the virus persists in most regions
- Solid execution by our businesses led to strong margin performance and excellent cash flow from operations
- Our balance sheet remains healthy and our liquidity position remains solid

# Q3 2020 Performance

(\$ in millions, except per share amounts)

	Q3 20	Q3 19	Change
Revenue	\$154.6	\$173.5	-10.9%
Net Income	\$14.9	\$16.1	-7.8%
Adjusted EBITDA*	\$30.0	\$32.3	-7.3%
Adjusted EBITDA Margin*	19.4%	18.6%	+80 bps
Diluted EPS	\$1.28	\$1.41	-9.2%
Adjusted Diluted EPS*	\$1.31	\$1.38	-5.1%
Operating Cash Flow	\$24.4	\$25.7	-5.0%
Free Cash Flow*	\$22.6	\$23.6	-4.3%
Bookings	\$143.3	\$170.9	-16.1%

## HIGHLIGHTS

- Free cash flow\* was strong at \$23 million
- Parts and consumables revenue was up 6% sequentially and made up 66% of Q3 revenue
- Strong performance in our Flow Control and Industrial Processing segments contributed to an excellent adjusted EBITDA margin

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# Flow Control

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

\$ in millions	Q3 20	Q3 19	Change
Revenue	\$56.8	\$62.4	-8.9%
Bookings	\$49.6	\$58.8	-15.7%
Adjusted EBITDA*	\$15.6	\$16.7	-6.8%
Adjusted EBITDA Margin*	27.5%	26.8%	+70 bps

## HIGHLIGHTS

- Q3 capital project activity still slow while service demand strengthened
- Parts and consumables revenue made up 69% of total Q3 revenue
- Product mix and operating leverage drove strong adjusted EBITDA margin
- Q4 capital project activity increased and demand for parts improving



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# Industrial Processing

Products used to recycle paper and paperboard and to process timber

\$ in millions	Q3 20	Q3 19	Change
Revenue	\$62.1	\$74.2	-16.4%
Bookings	\$59.9	\$74.9	-20.1%
Adjusted EBITDA*	\$15.7	\$16.4	-3.7%
Adjusted EBITDA Margin*	25.4%	22.0%	+340 bps



## HIGHLIGHTS

- Strong demand for wood product continued in Q3 as U.S. housing s remained strong
- Capital bookings increased 43% sequentially from a weak Q2
- Parts and consumables revenue r up 68% of total Q3 revenue
- Increasing project activity expect new inquiries continue to grow in

# Material Handling

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

\$ in millions	Q3 20	Q3 19	Change
Revenue	\$35.7	\$36.9	-3.2%
Bookings	\$33.8	\$37.2	-9.0%
Adjusted EBITDA*	\$5.7	\$6.3	-10.4%
Adjusted EBITDA Margin*	15.9%	17.2%	-130 bps

## HIGHLIGHTS

- Solid performance in the aggregate food sectors
- Capital orders up 34% sequentially
- Parts and consumables revenue m up 60% of total Q3 revenue
- Stable demand and business activ expected through Q4

## BOOKINGS



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# Business Outlook

- Capital project activity is increasing, particularly in our packaging market segment
- Q4 is expected to show solid bookings improvement over Q3
- Our strong cash flow position enables us to capitalize on new opportunities



# FINANCIAL REVIEW

Michael J. McKenney | EVP & CFO

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# Q3 2020 Financial Performance

## HIGHLIGHTS

- Adjusted EBITDA margin\* of 19.4%
- Operating cash flows of \$24.4 million
- Free cash flow\* of \$22.6 million
- Net debt of \$204 million; leverage ratio<sup>1</sup> of 1.88

(\$ in millions, except per share amounts)

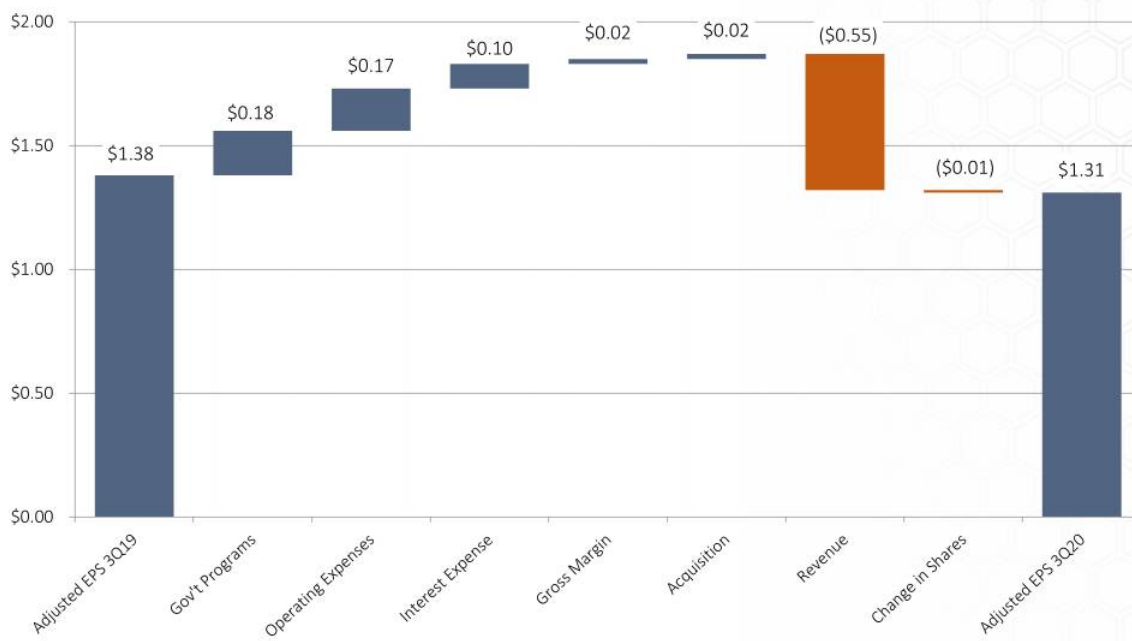
	Q3 20	Q3 19
Gross Margin	44.2%	42.8%
SG&A % of Revenue	28.4%	27.1%
Operating Income	\$21.3	\$24.4
Net Income	\$14.9	\$16.4
Adjusted EBITDA*	\$30.0	\$32.1
Diluted EPS	\$1.28	\$1.4
Adjusted Diluted EPS*	\$1.31	\$1.3



# Key Consolidated Financial Metrics



# 3Q19 to 3Q20 Adjusted Diluted EPS\*



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# Key Liquidity Metrics

\$ in millions	Q3 20	Q2 20	Q3 19
Cash, cash equivalents, and restricted cash	\$56.2	\$60.9	\$49.9
Debt	\$255.0	\$277.5	\$310.5
Lease obligations	\$5.6	\$5.6	\$6.3
Net Debt	\$204.4	\$222.2	\$266.9
Leverage ratio <sup>1</sup>	1.88	2.01	2.07
Working capital % LTM revenue <sup>2</sup>	15.6%	14.8%	14.6%
Cash conversion days <sup>3</sup>	140 days	128 days	122 days

- Net debt decreased 23% from Q3 2019
- Paid down \$26 million of debt in the third quarter of 2020
- Our liquidity remains solid with \$400 million in borrowing capacity
  - Approximately \$155 million under our revolving credit facility; an additional uncommitted \$150 million
  - Up to \$115 million through our note purchase agreement



# 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 264 9708.

*Please mute the audio on your computer.*

# 2020 Key Priorities



SAFEGUARD OUR  
EMPLOYEES



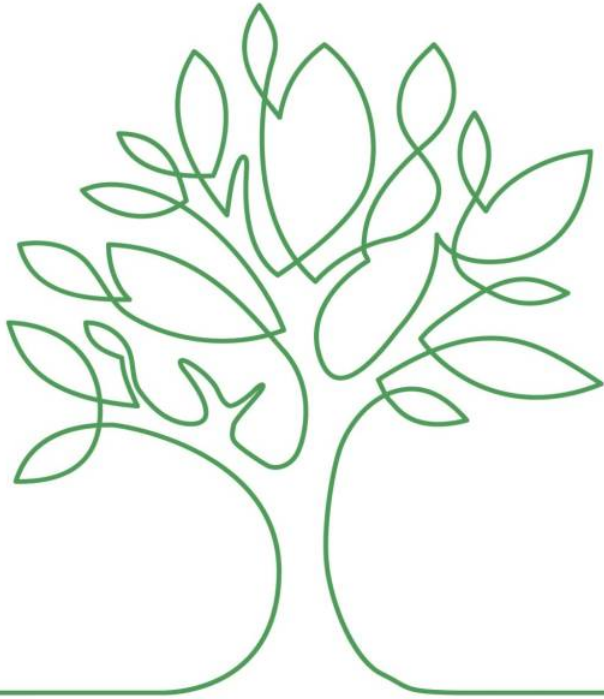
MAINTAIN STRONG  
CASH FLOW



MEET OUR  
CUSTOMERS' NEEDS



OPTIMIZE OUR  
LIQUIDITY



# Thank You

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October 28, 2020

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# APPENDIX

## Third 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

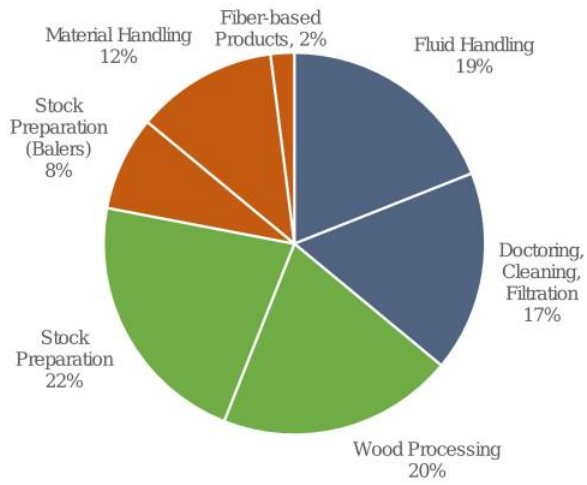
- Stock Preparation and Wood Processing product lines
- Products used to recycle paper and paperboard and process timber
- Key industries include packaging, tissue, wood products, and alternative fuels
- \$302 million revenue (2019)



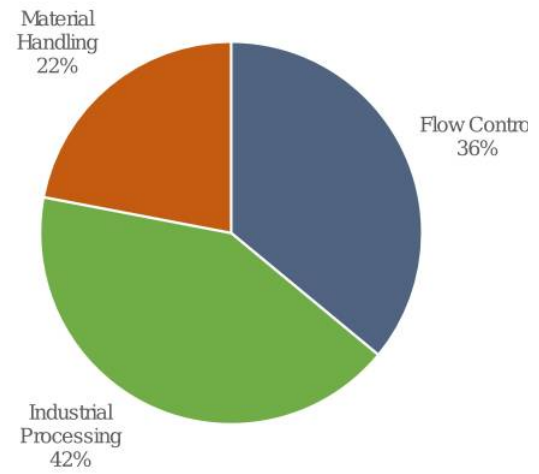
## MATERIAL HANDLING

- Conveyors, Vibratory Feeders, Balers, Fiber-based Products
- Products used to handle bulk and dry materials for secondary processing
- Key industries include aggregates, minerals, 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.

	Q3 20	Q3 19
Diluted EPS, as reported	\$1.28	\$1.41
Restructuring Costs, Net of Tax	0.03	-
Acquisition Costs, Net of Tax	0.01	-
Amortization of Acquired Backlog, Net of Tax	0.02	-
Discrete Tax Items	(0.03)	(0.02)
Adjusted Diluted EPS	\$1.31	\$1.38

## Free Cash Flow Reconciliation

Free cash flow is a non-GAAP financial measure.

\$ in thousands	Q3 20	Q3 19
Cash Provided by Operations	\$24,393	\$25,678
Capital Expenditures	(1,822)	(2,093)
Free Cash Flow	\$22,571	\$23,585

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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 same period.

\$ in thousands	Q3 20	Q3 19
Net Income Attributable to Kadant	\$14,851	\$16,115
Net Income Attributable to Noncontrolling Interest	129	98
Provision for Income Taxes	4,705	5,219
Interest Expense, Net	1,618	3,023
Other Expense, Net	32	98
Restructuring Costs	470	-
Acquisition Costs	78	-
Acquired Backlog Amortization	331	21
Depreciation and Amortization	7,755	7,742
<b>Adjusted EBITDA</b>	<b>\$29,969</b>	<b>\$32,316</b>
Adjusted EBITDA Margin	19.4%	18.6%

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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. 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 6-9 is calculated using actual numbers reported in our press release dated October 27, 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 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.

