



Fourth Quarter and Fiscal Year 2018 Business Review

February 14, 2019

KĀDANT

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 net income, adjusted diluted EPS, adjusted earnings before interest, taxes, depreciation, and amortization (adjusted EBITDA), adjusted EBITDA margin, and free cash flow.

A reconciliation of those numbers to the most directly comparable GAAP financial measures is shown in the appendix to this presentation and in our 2018 fourth quarter earnings press release issued February 13, 2019, 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

Q4 2018 Financial Highlights

(\$ Millions, except per share amounts)	Q4 2018	Q4 2017	% Change ²
Bookings	\$147.1	\$146.6	0.3%
Revenue	\$163.9	\$149.1	9.9%
Gross Margin	43.3%	43.3%	n.m.
Operating Income	\$24.8	\$18.0	37.6%
Adjusted Operating Income ¹	\$26.1	\$20.9	25.3%
Net Income ³	\$18.4	\$0.8	n.m.
Adjusted EBITDA ¹	\$32.0	\$26.7	19.7%
Adjusted EBITDA Margin ¹	19.5%	17.9%	n.m.
Diluted EPS	\$1.61	\$0.07	n.m.
Adjusted Diluted EPS ¹	\$1.66	\$1.14	45.6%
Cash Flow from Operations	\$10.4	\$32.8	-68.2%

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 February 13, 2019.

² Percent change calculated using actual numbers reported in our press release dated February 13, 2019.

³ Represents net income attributable to Kadant.

2018 Financial Highlights

(\$ Millions, except per share amounts)	2018	2017	% Change ²
Bookings	\$670.4	\$521.2	28.6%
Revenue	\$633.8	\$515.0	23.1%
Gross Margin	43.9%	44.9%	n.m.
Net Income ¹	\$60.4	\$31.1	94.3%
Adjusted EBITDA ³	\$115.2	\$91.7	25.6%
Adjusted EBITDA Margin ³	18.2%	17.8%	n.m.
Diluted EPS	\$5.30	\$2.75	92.7%
Adjusted Diluted EPS ³	\$5.34	\$4.49	18.9%
Cash Flow from Operations	\$63.0	\$65.2	-3.3%
Adjusted Return on Invested Capital ⁴	12.1%	10.2%	n.m.
Adjusted Return on Equity ⁵	16.2%	14.4%	n.m.
Free Cash Flow ⁶	\$46.4	\$47.9	-3.0%

1 Represents net income attributable to Kadant.

2 Percent change calculated using actual numbers reported in our press release dated February 13, 2019.

3 Adjusted EBITDA, adjusted EBITDA margin, and adjusted diluted EPS are non-GAAP financial measures that exclude certain items as detailed in our press release dated February 13, 2019.

4 Calculated based on adjusted net income over the sum of stockholders' equity plus net debt.

5 Calculated based on adjusted net income over stockholders' equity, as adjusted.

6 Free cash flow is a non-GAAP measure that excludes certain items as detailed on slide 36.

FX Translation and Acquisition Impact

Q4 2018

(\$ in millions)	Revenue	Bookings	Parts & Consumables Revenue	Parts & Consumables Bookings
As Reported	\$163.9	\$147.1	\$90.8	\$89.4
Growth ¹	9.9%	0.3%	-1.5%	-0.7%
Growth excluding FX ²	13.3%	3.2%	1.5%	2.2%
Growth excluding FX and Acquisitions ³	13.3%	3.2%	1.5%	2.2%

FY 2018

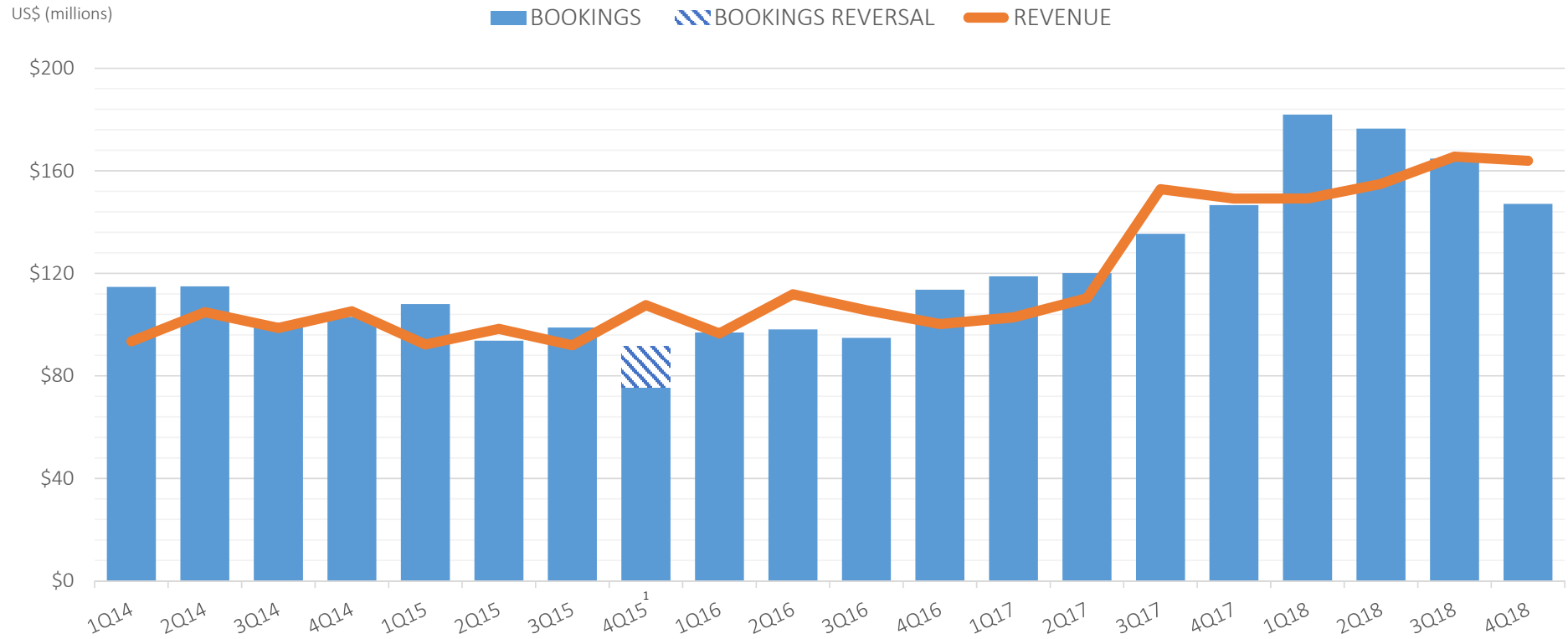
(\$ in millions)	Revenue	Bookings	Parts & Consumables Revenue	Parts & Consumables Bookings
As Reported	\$633.8	\$670.4	\$374.4	\$378.5
Growth ¹	23.1%	28.6%	18.3%	20.6%
Growth excluding FX ²	22.5%	27.5%	17.9%	20.0%
Growth excluding FX and Acquisitions ³	10.0%	12.5%	5.1%	6.4%

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.

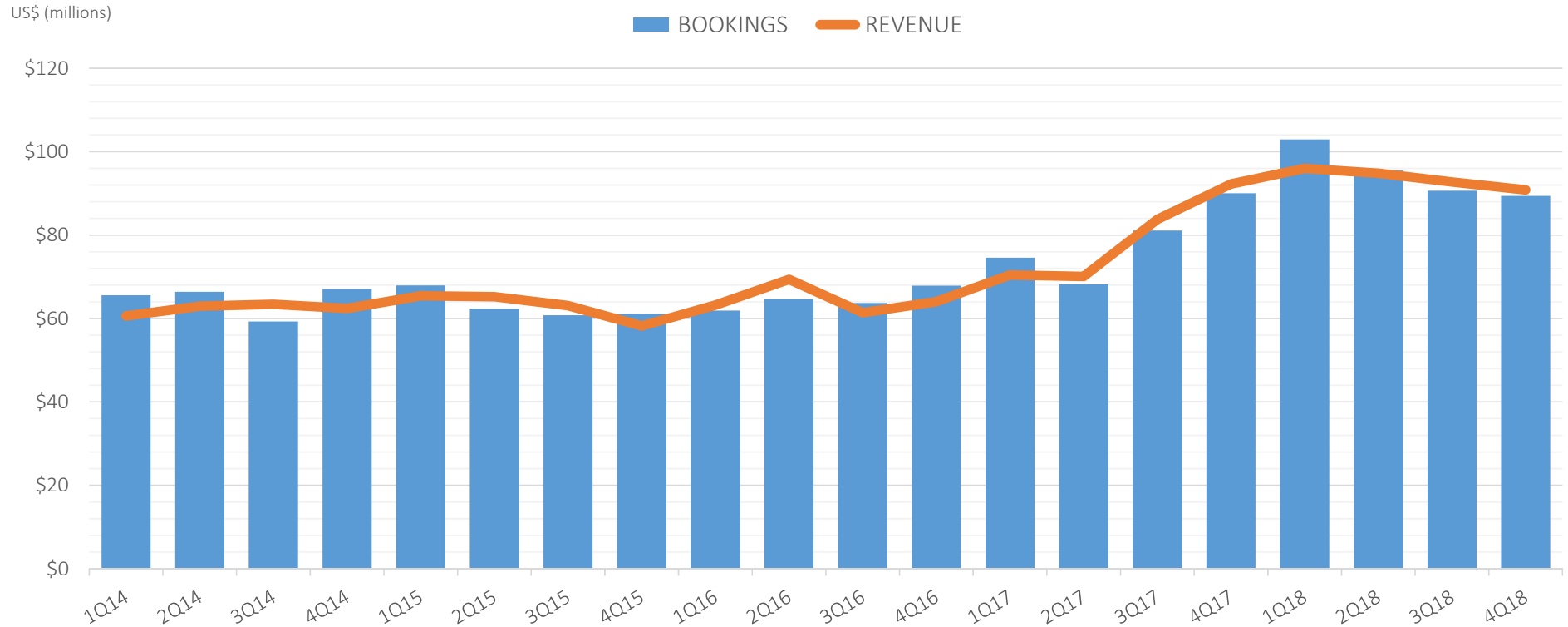
³ Represents the year-over-year percent change excluding the impact of acquisitions and current period versus prior period exchange rates. Acquired businesses are classified as Acquisitions for the first four quarters after acquisition.

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

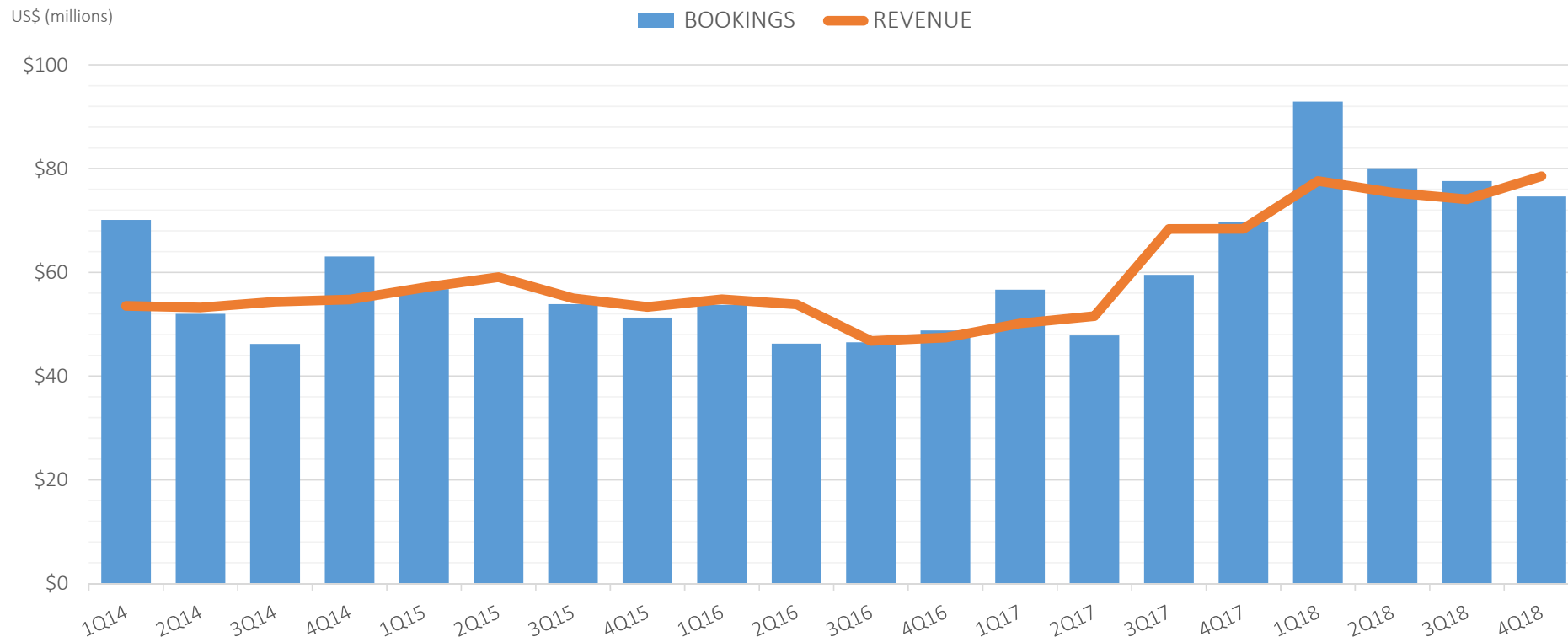


Syntron Acquisition

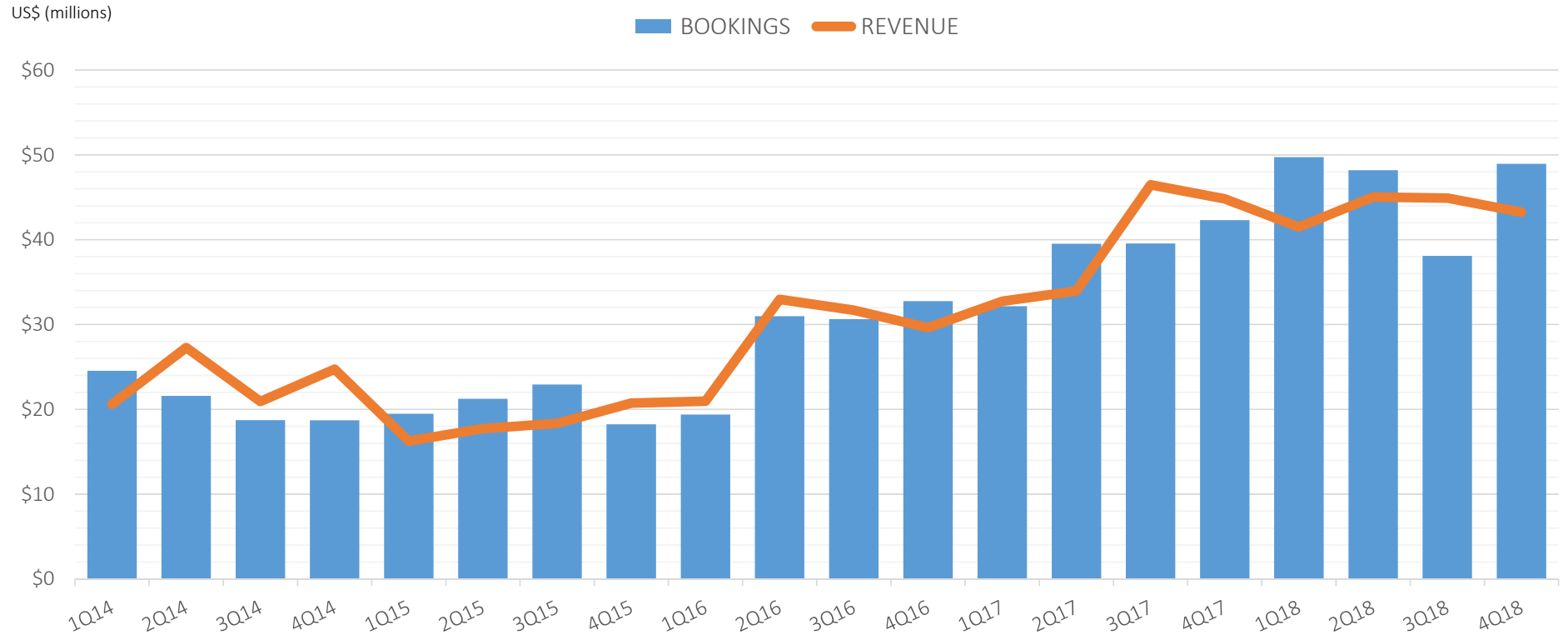
- Acquired in Q1 2019
- Manufacturer of vibratory and conveying equipment for bulk materials
- High impact products on large capital investments
- Integration moving forward as planned
- Expected to have a modestly positive impact on 2019 adjusted EPS



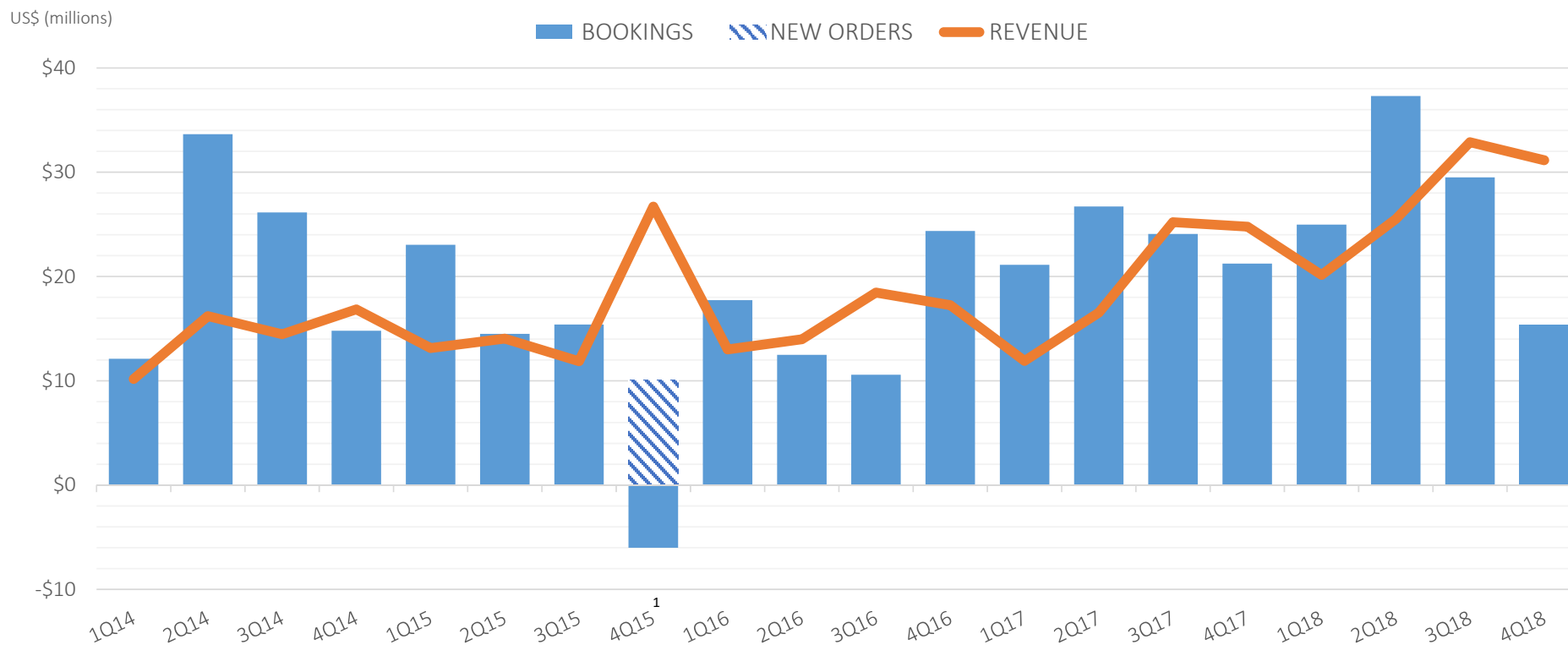
North America Bookings and Revenue



Europe Bookings and Revenue

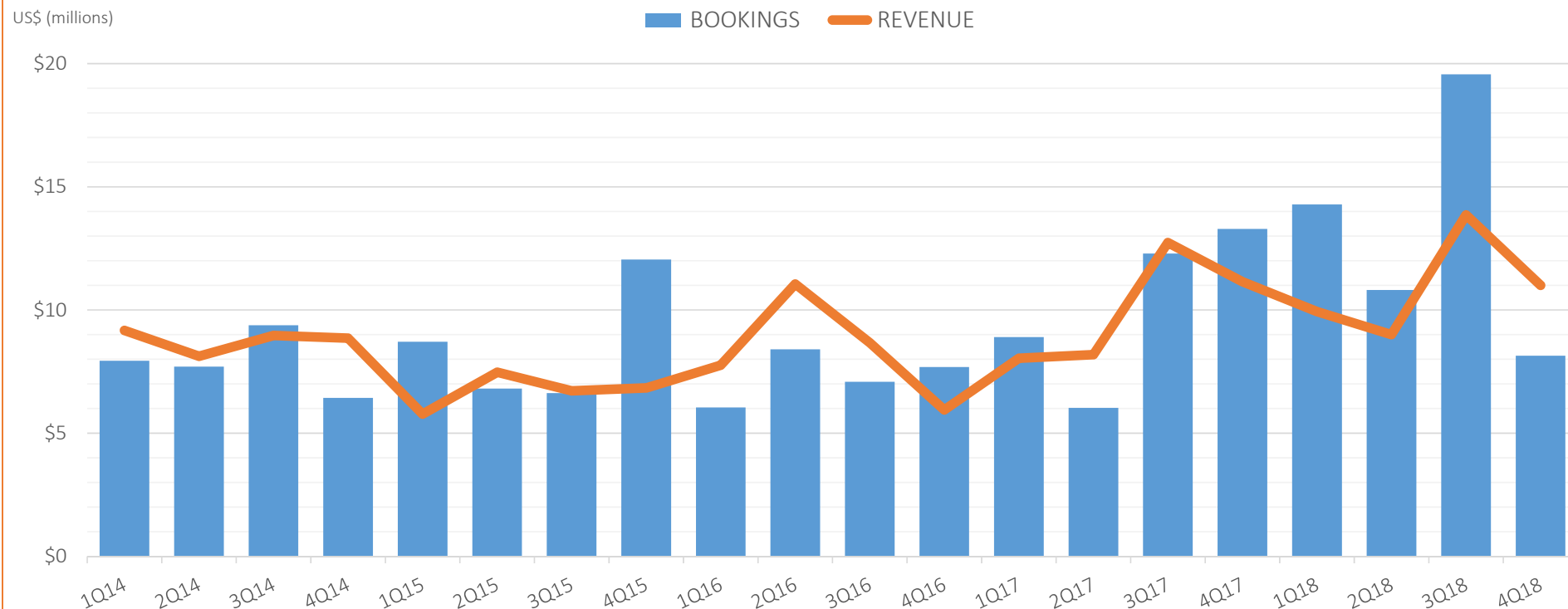


Asia Bookings and Revenue



¹ Reported Q415 Asia bookings were negative \$6 million, which included new orders of \$10 million and a booking reversal of \$16 million.

Rest-of-World Bookings and Revenue



Guidance

- FY 2019 GAAP diluted EPS of \$4.75 to \$4.90
- FY 2019 adjusted diluted EPS* of \$5.20 to \$5.35
- FY 2019 revenue of \$700 to \$710 million
- Q1 2019 GAAP diluted EPS of \$0.77 to \$0.83
- Q1 2019 adjusted diluted EPS* of \$1.11 to \$1.17
- Q1 2019 revenue of \$160 to \$165 million

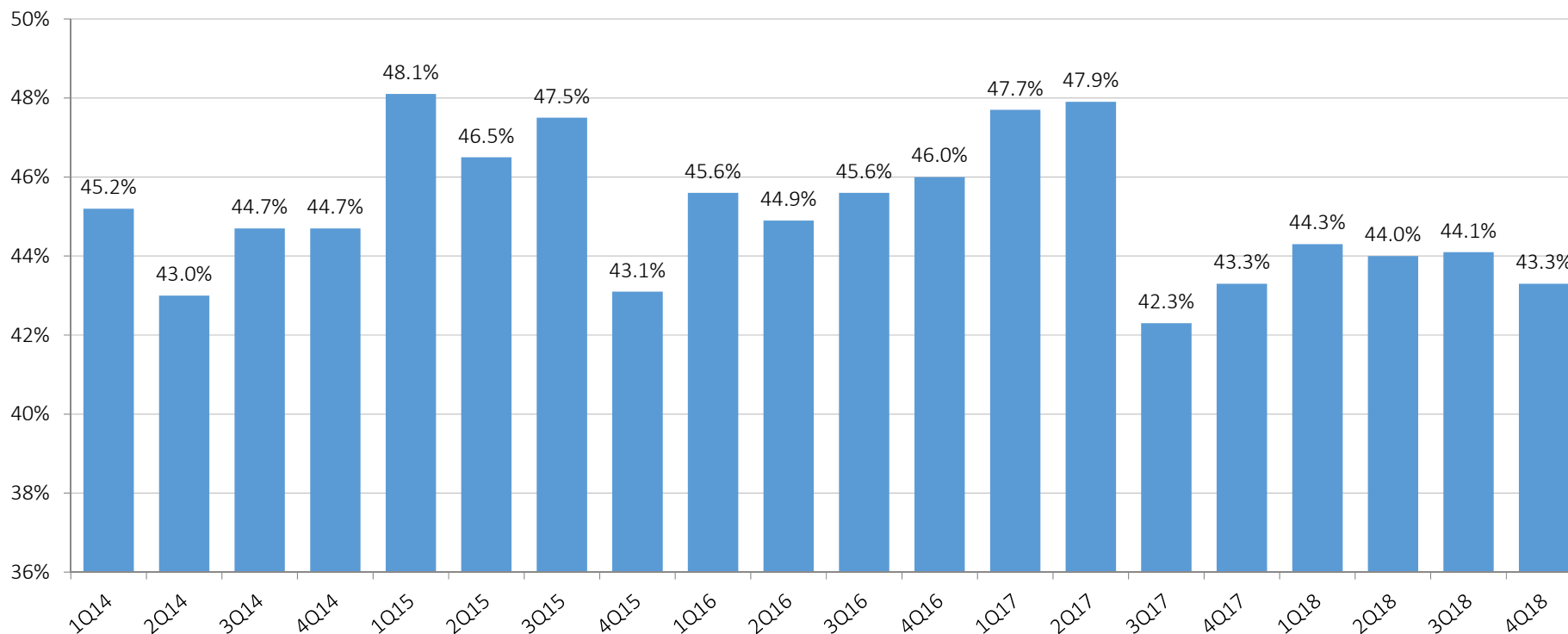
* Adjusted diluted EPS is a non-GAAP financial measure that excludes certain items as detailed in our press release dated February 13, 2019.



FINANCIAL REVIEW

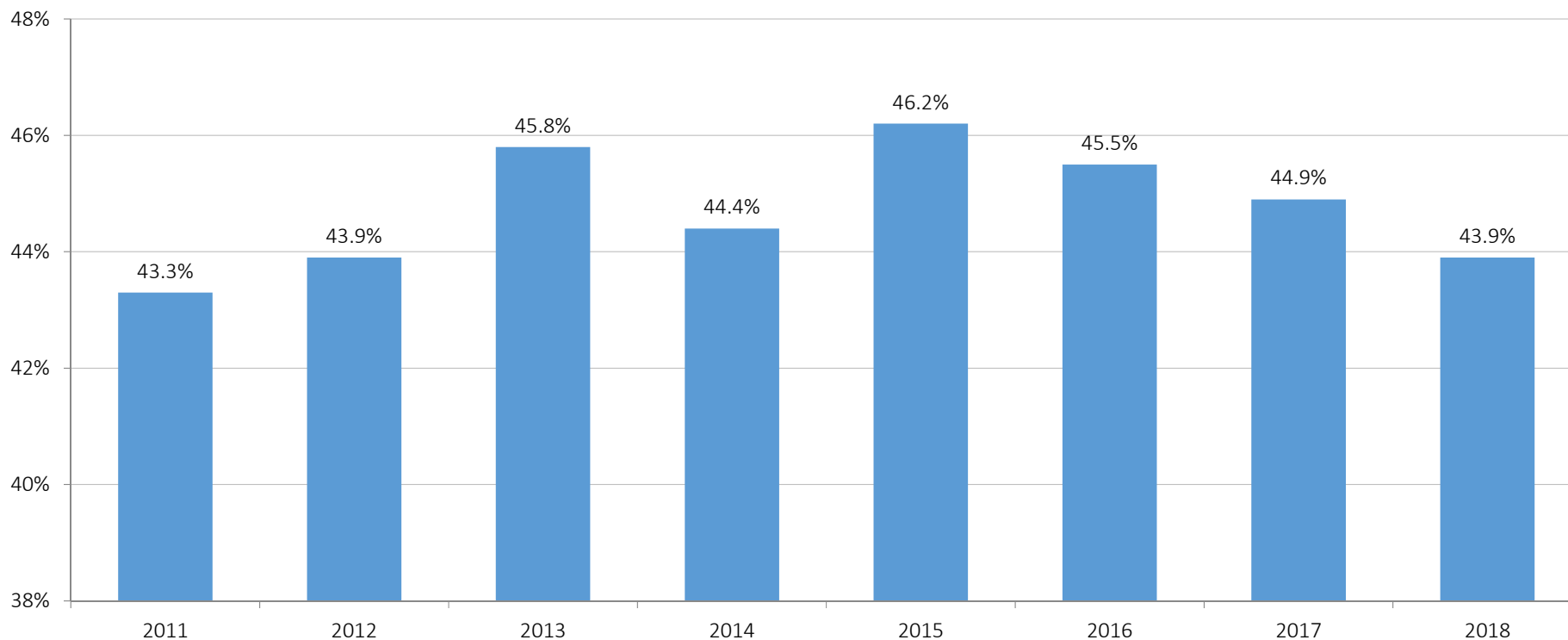
Michael J. McKenney | Executive Vice President & CFO

Quarterly Gross Margin



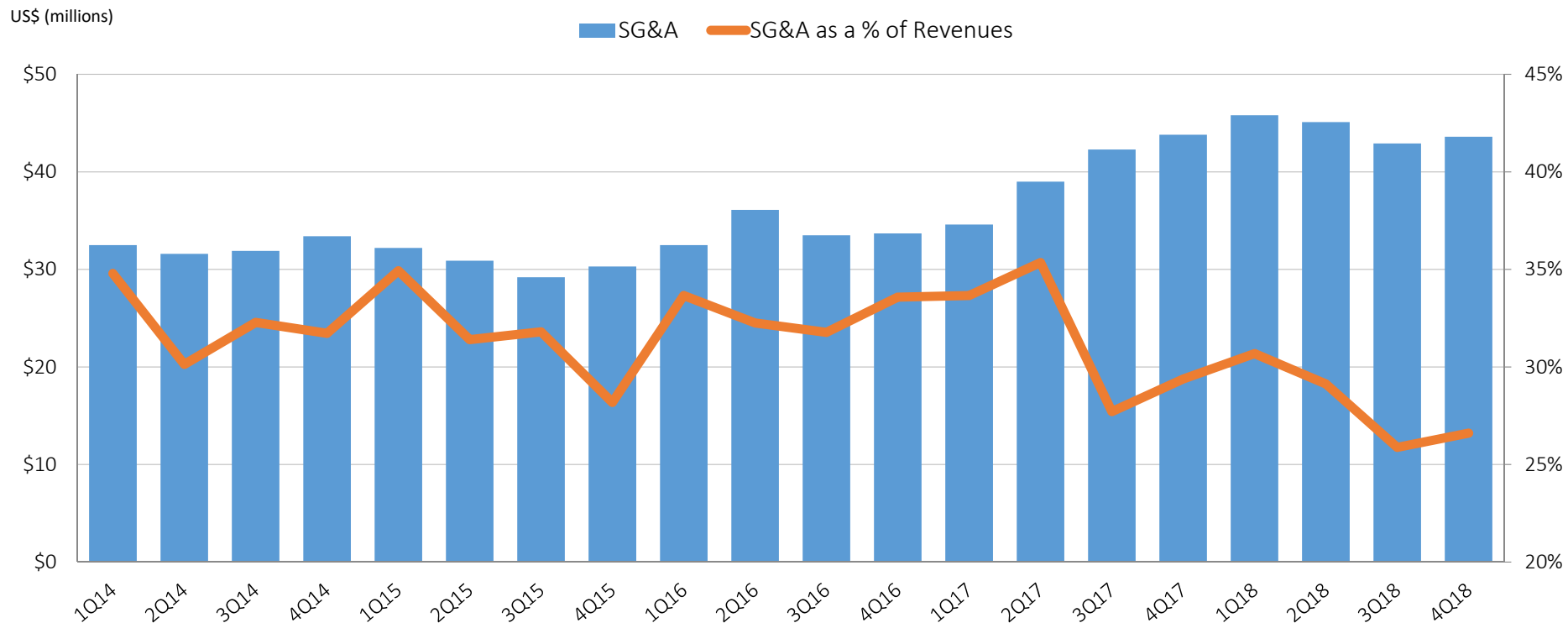
All data for 2017 and 2018 is presented in conformity with the Financial Accounting Standards Board's Accounting Standards Update No. 2017-07. Prior period amounts have not been restated.

Full-Year Gross Margin



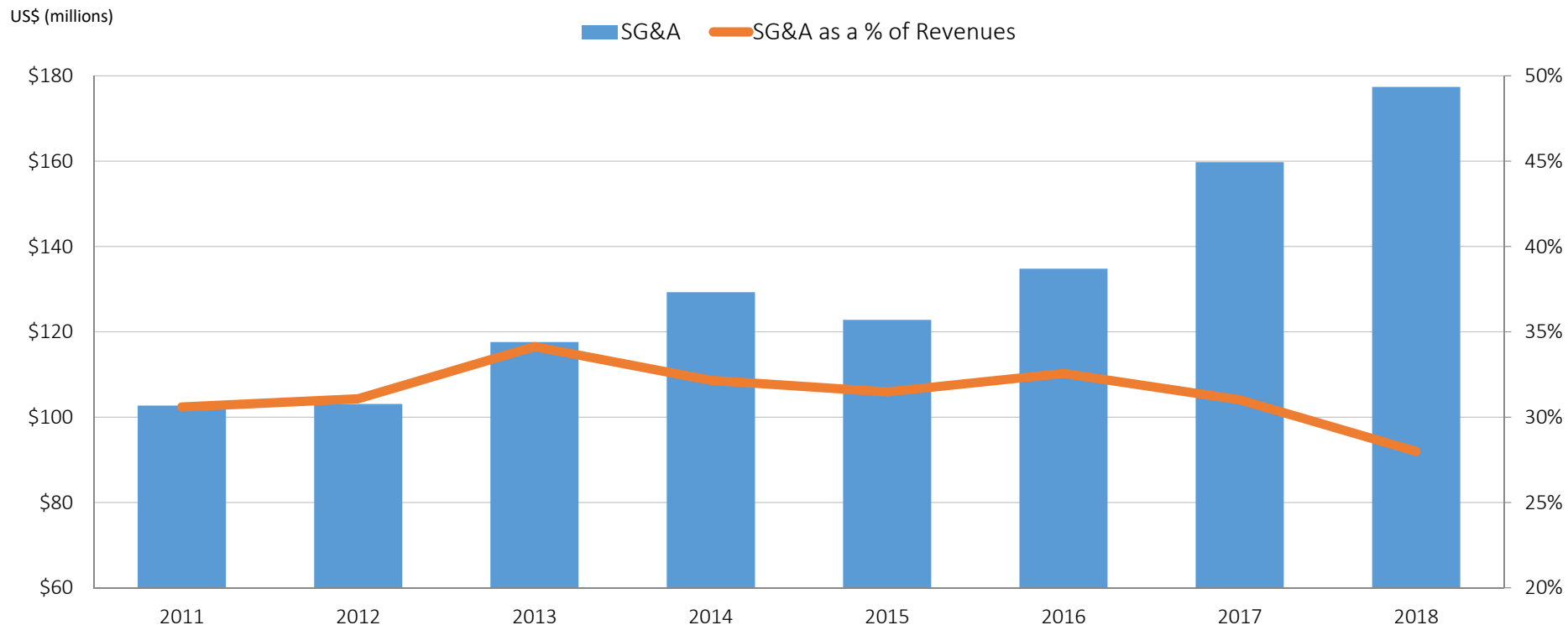
All data for 2017 and 2018 is presented in conformity with the Financial Accounting Standards Board's Accounting Standards Update No. 2017-07. Prior period amounts have not been restated.

Quarterly SG&A



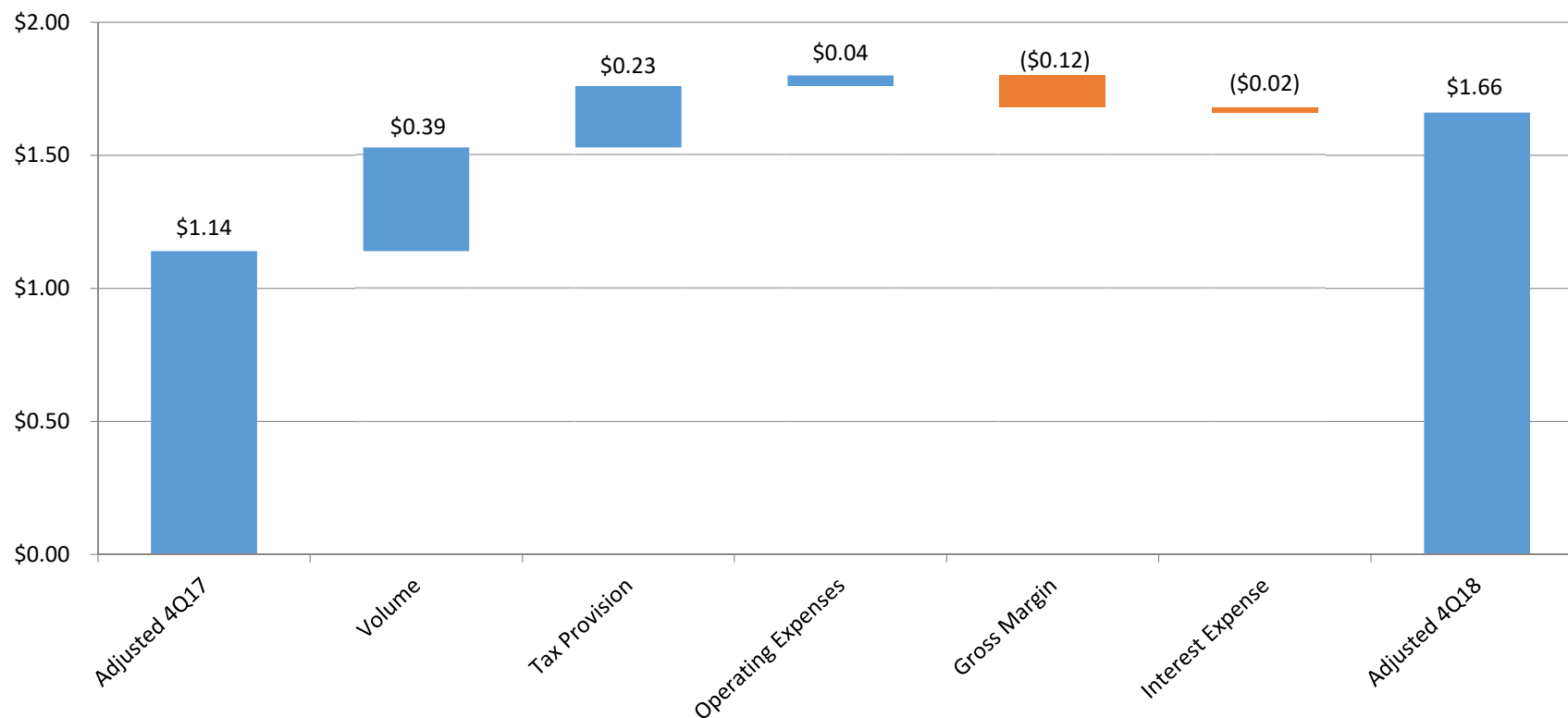
All data for 2017 and 2018 is presented in conformity with the Financial Accounting Standards Board's Accounting Standards Update No. 2017-07. Prior period amounts have not been restated.

Full-Year SG&A



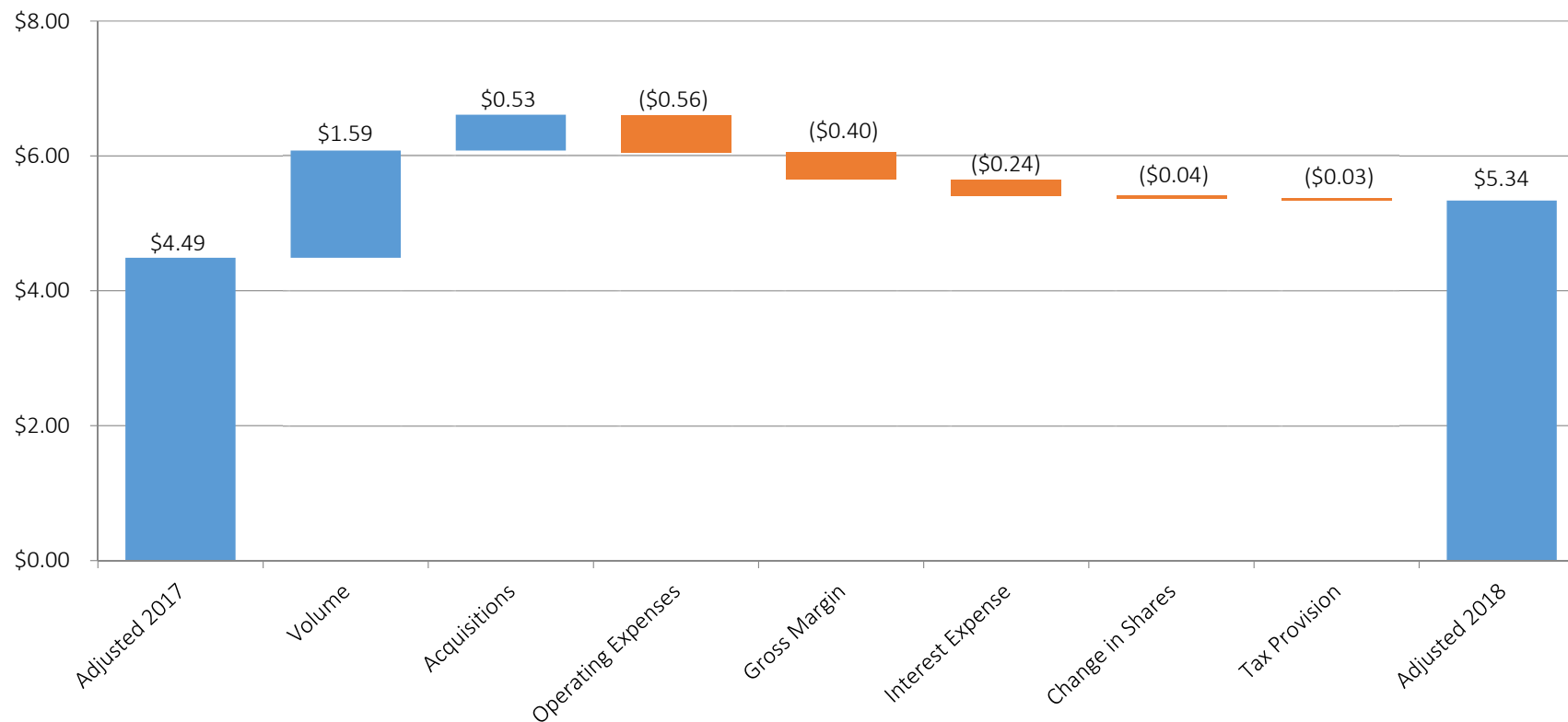
All data for 2017 and 2018 is presented in conformity with the Financial Accounting Standards Board's Accounting Standards Update No. 2017-07. Prior period amounts have not been restated.

4Q17 to 4Q18 Adjusted Diluted EPS*



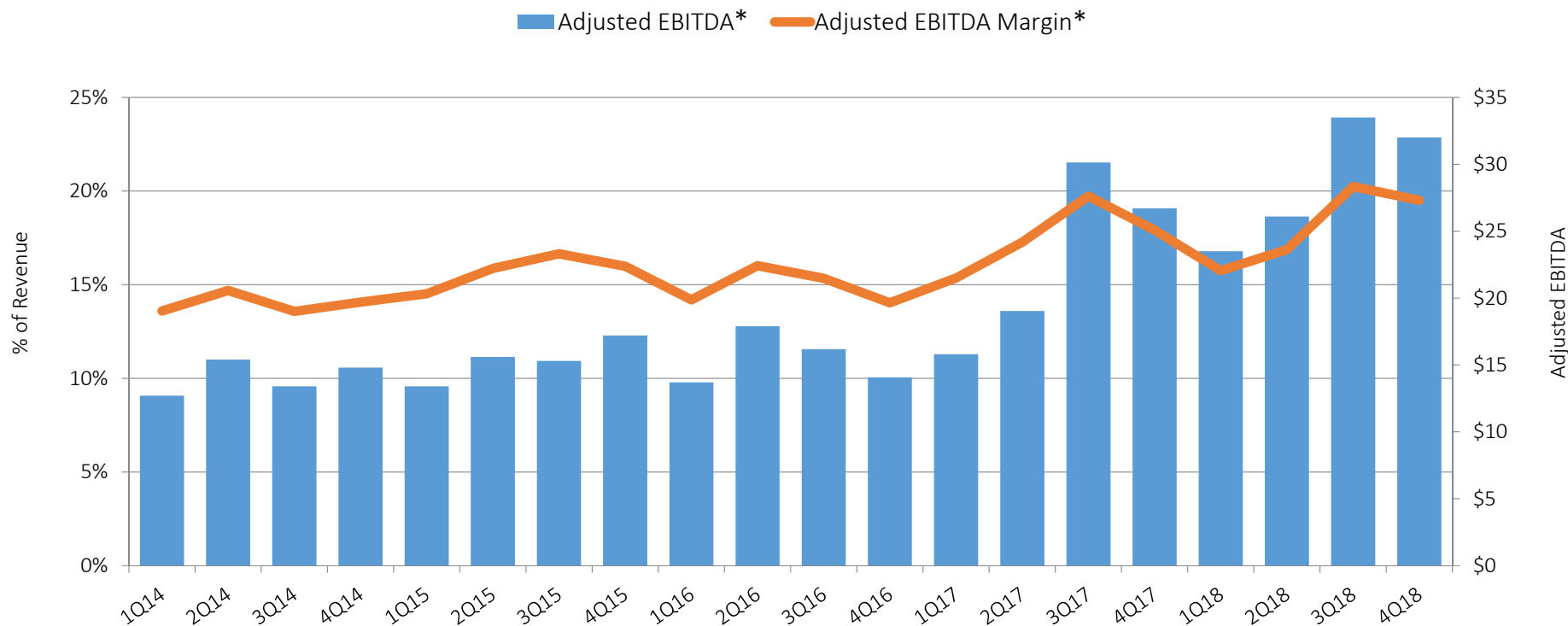
* Adjusted diluted EPS is a non-GAAP financial measure that excludes certain items as detailed in our press release dated February 13, 2019.

2017 to 2018 Adjusted Diluted EPS*



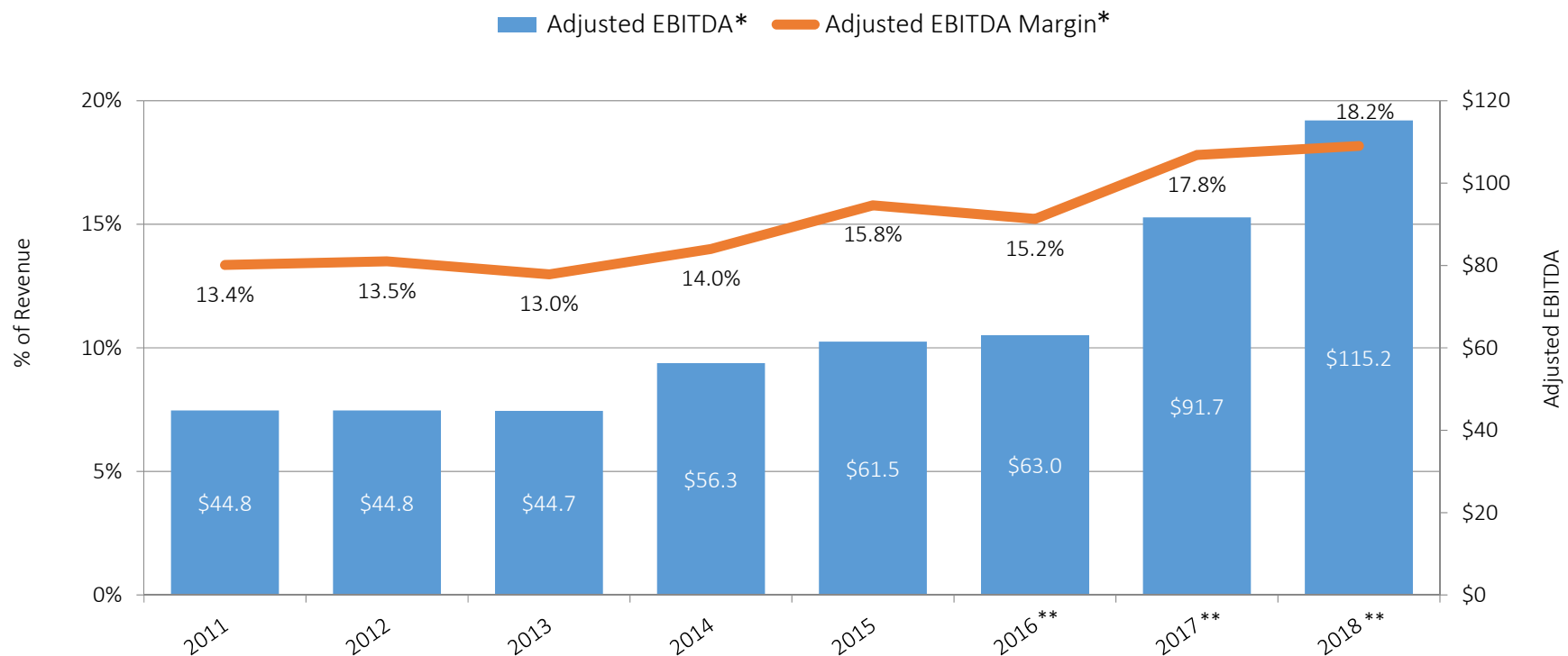
* Adjusted diluted EPS is a non-GAAP financial measure that excludes certain items as detailed in our press release dated February 13, 2019.

Quarterly Adjusted EBITDA*



* Adjusted EBITDA and adjusted EBITDA/revenue (margin) are non-GAAP financial measures that exclude certain items as detailed in our press release dated February 13, 2019.

Full-Year Adjusted EBITDA*



* Adjusted EBITDA and adjusted EBITDA/revenue (margin) are non-GAAP financial measures that exclude certain items as detailed in our press release dated February 13, 2019.

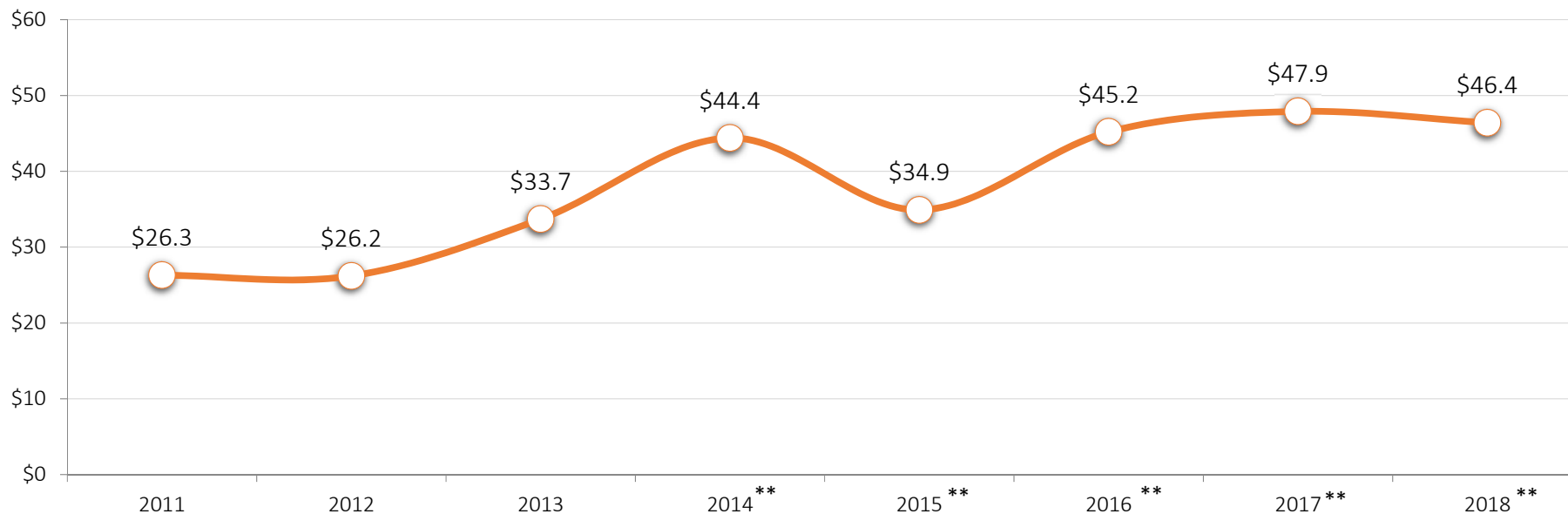
** All data for 2016, 2017 and 2018 is presented in conformity with the Financial Accounting Standards Board's Accounting Standards Update No. 2017-07. Prior period amounts have not been restated.

Cash Flow

US\$ (millions)	Q4 2018	Q4 2017	FY 2018	FY 2017
Net Income	\$18.6	\$0.9	\$61.0	\$31.6
Depreciation and Amortization	5.8	6.3	23.6	19.4
Stock-Based Compensation	1.7	1.5	7.0	5.8
Other Items	4.6	2.7	1.5	1.4
Change in Current Assets & Liabilities (excl. acquisitions)	(20.3)	21.4	(30.1)	7.0
Cash Provided by Operating Activities	\$10.4	\$32.8	\$63.0	\$65.2

Free Cash Flow*

US\$ (millions)

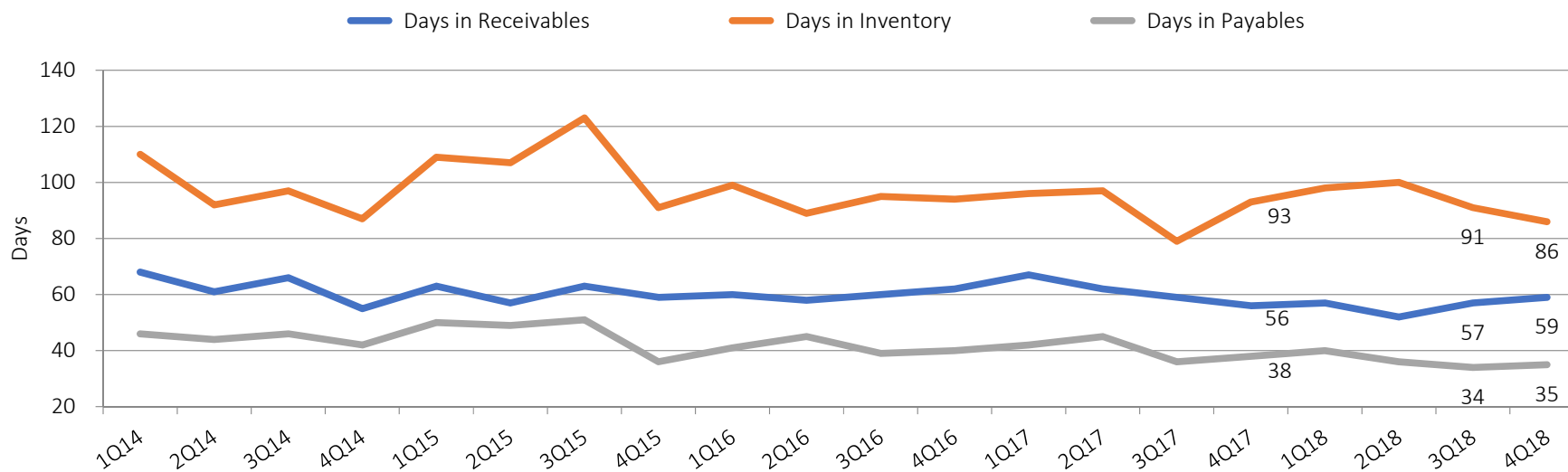


* Free cash flow, a non-GAAP financial measure, is defined as cash flows from continuing operations less capital expenditures, as calculated in the Appendix on slide 36.

** Presented in conformity with the Financial Accounting Standards Board's Accounting Standards Update No. 2016-09.

Key Working Capital Metrics

	Q4 2018	Q3 2018	Q4 2017
Days in Receivables	59	57	56
Days in Inventory	86	91	93
Days in Payables	35	34	38

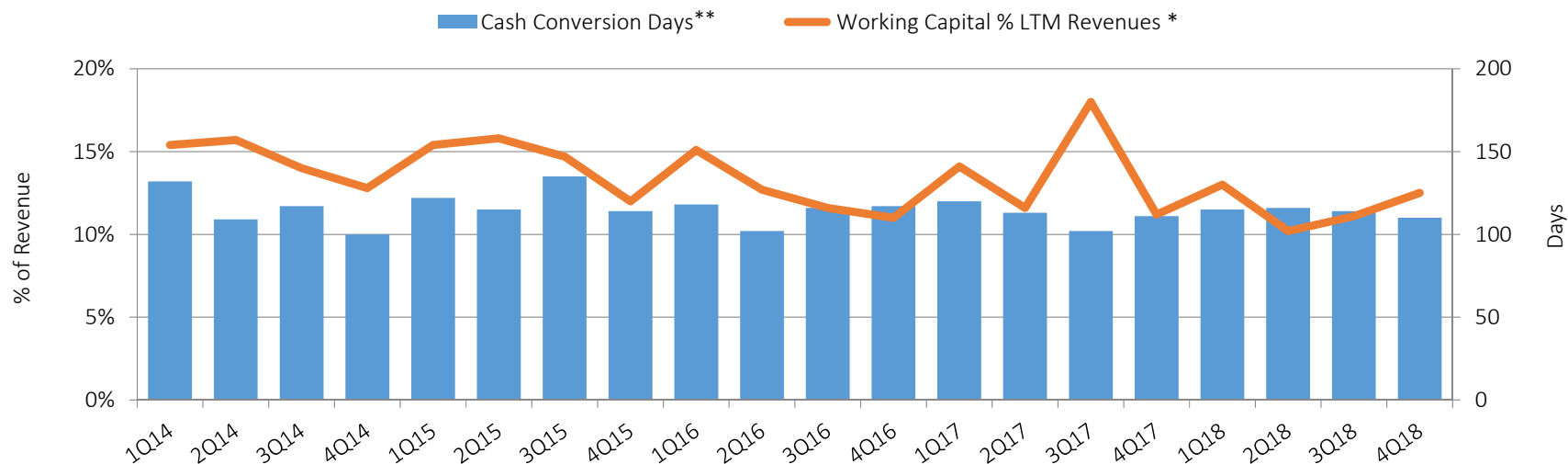


Working Capital and Cash Conversion Days

	Q4 2018	Q3 2018	Q4 2017
Working Capital % LTM Revenues*	12.5%	11.1%	11.2%
Cash Conversion Days**	110 days	114 days	111 days

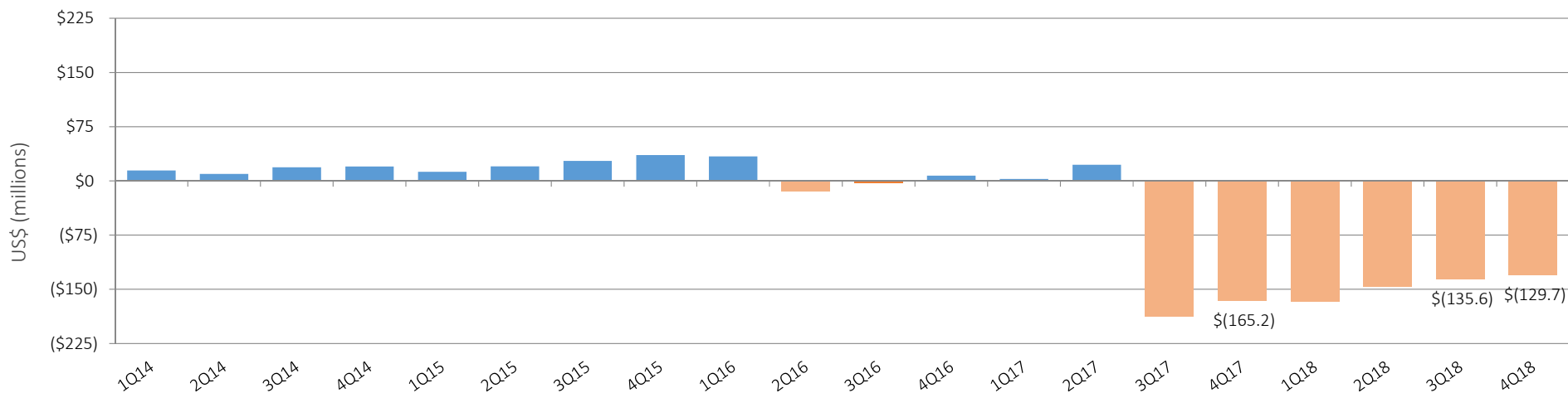
*Working Capital is defined as current assets less current liabilities, excluding cash and debt.

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

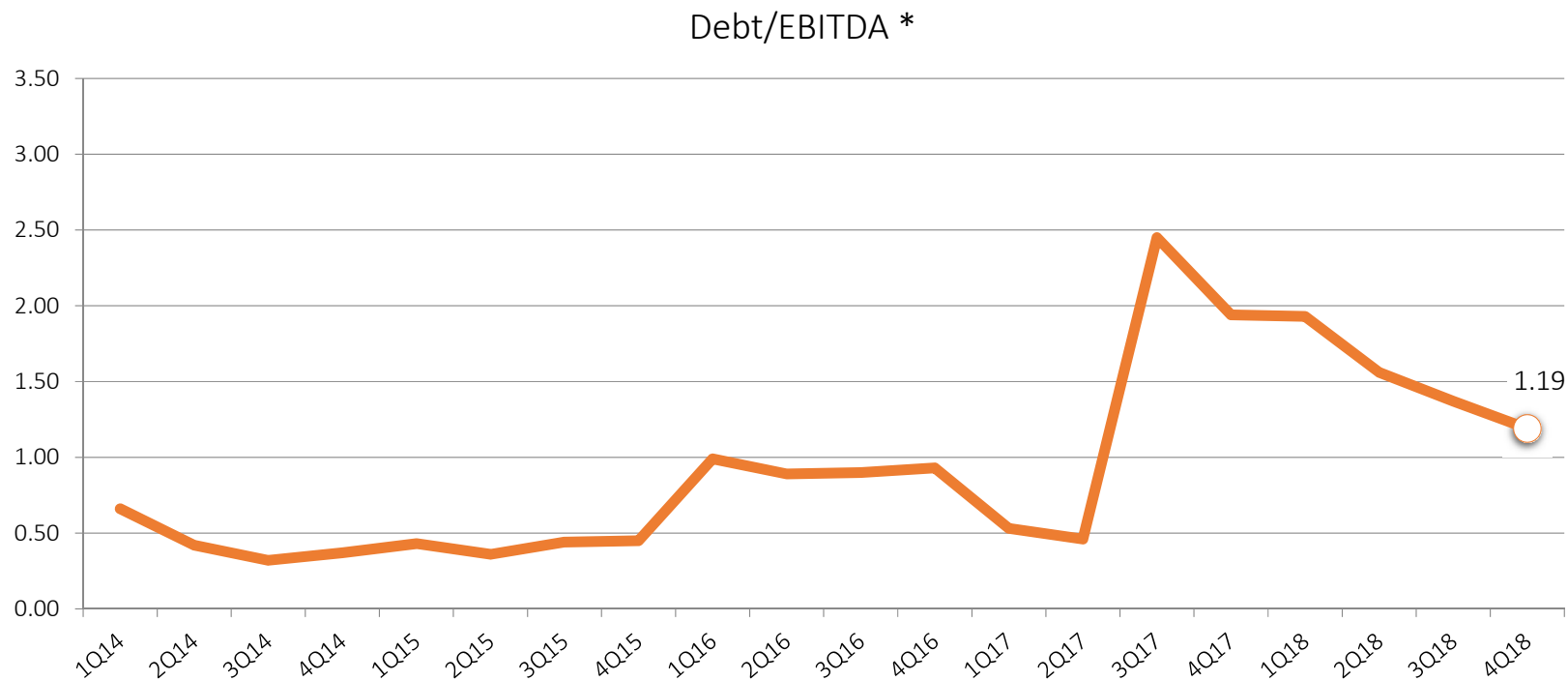


Cash and Debt

US\$ (millions)	Q4 2018	Q3 2018	Q4 2017
Cash, cash equivalents, and restricted cash	\$46.1	\$58.1	\$76.9
Debt	(171.4)	(189.1)	(237.0)
Capital lease obligations	(4.4)	(4.6)	(5.1)
Net debt	\$(129.7)	\$(135.6)	\$(165.2)



Leverage Ratio



*Calculated by adding or subtracting certain items from Adjusted EBITDA, as required by our Credit Facility. Effective December 14, 2018, 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..

Guidance

- Q1 2019 GAAP diluted EPS of \$0.77 to \$0.83
- FY 2019 GAAP diluted EPS of \$4.75 to \$4.90
- CAPEX of \$12 to \$14 million
- Depreciation & Amortization Expense of \$29 to \$30 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 **461 9678**.

Please mute the audio on your computer.

Key Take-Aways

- Record 2018 revenue, bookings, adjusted EBITDA, and GAAP diluted EPS
- Expecting record revenue and adjusted EBITDA in 2019

INVESTOR DAY

Grand Hyatt New York | March 7
RSVP to joanne.stoner@kadant.com



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APPENDIX

Free Cash Flow Reconciliation

(\$ Millions)	2011	2012	2013	2014	2015	2016	2017	2018
Cash Provided by Continuing Operations, as reported	\$ 34.3	\$ 30.5	\$ 39.9	\$ 51.1	\$ 40.4	\$ 51.0	\$ 65.2	\$ 63.0
Capital Expenditures	<u>\$ (8.0)</u>	<u>\$ (4.3)</u>	<u>\$ (6.2)</u>	<u>\$ (6.7)</u>	<u>\$ (5.5)</u>	<u>\$ (5.8)</u>	<u>\$ (17.3)</u>	<u>\$ (16.6)</u>
Free Cash Flow*	\$ 26.3	\$ 26.2	\$ 33.7	\$ 44.4	\$ 34.9	\$ 45.2	\$ 47.9	\$ 46.4

*Free Cash Flow is a non-GAAP financial measure.