

**KĀDANT**

# First Quarter 2022 Business Review

May 4, 2022



# 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 our expectations as of May 3, 2022. 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 fiscal year ended January 1, 2022 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; health epidemics; our acquisition strategy; 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; development and use of digital media; cyclical economic conditions affecting the global mining industry; demand for coal, including economic and environmental risks associated with coal; failure of our information systems or breaches of data security and cybertheft; implementation of our internal growth strategy; supply chain constraints, inflationary pressure, price increases and shortages in raw materials; competition; changes in our tax provision or exposure to additional tax liabilities; our ability to successfully manage our manufacturing operations; disruption in production; future restructurings; loss of key personnel and effective succession planning; protection of intellectual property; climate change; adequacy of our insurance coverage; global operations; policies of the Chinese government; the variability and uncertainties in sales of capital equipment in China; currency fluctuations; economic conditions and regulatory changes caused by the United Kingdom’s exit from the European Union; changes to government regulations and policies around the world; compliance with government regulations and policies and compliance with laws; environmental laws and regulations; environmental, health and safety laws and regulations impacting the mining industry; our debt obligations; restrictions in our credit agreement and note purchase agreement; substitution of an alternative index for LIBOR; soundness of financial institutions; fluctuations in our share price; and anti-takeover provisions.

# 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 revenue excluding the effect of acquisitions and foreign currency translation (organic revenue), adjusted diluted EPS (earnings per share), adjusted earnings before interest, taxes, depreciation, and amortization (adjusted EBITDA), adjusted EBITDA margin, adjusted operating income, 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 first quarter 2022 earnings press release issued May 3, 2022, 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

# Operational Highlights

- Strong demand continued into the first quarter leading to record bookings and revenue
- Solid execution by our businesses led to excellent financial performance and record adjusted EBITDA\*
- Capital project activity continued its momentum in Q1 despite increasing economic headwinds and socio-political uncertainties
- Strong cash flow reached a new historical high for a first quarter

# Q1 2022 Performance

(\$ in millions, except per share amounts)

	Q1 22	Q1 21	Change
Revenue	\$226.5	\$172.5	+31.3%
Net Income	\$41.2	\$16.6	+148.7%
Adjusted EBITDA*	\$45.8	\$32.4	+41.4%
Adjusted EBITDA Margin*	20.2%	18.8%	+140 bps
Diluted EPS	\$3.53	\$1.43	+146.9%
Adjusted Diluted EPS*	\$2.28	\$1.53	+49.0%
Operating Cash Flow	\$23.8	\$19.1	+24.5%
Free Cash Flow*	\$20.9	\$16.8	+24.2%
Bookings	\$266.1	\$204.5	+30.1%

## HIGHLIGHTS

- Demand remained strong in the first quarter; bookings up 30% to a record \$266 million
- Record revenue performance with organic revenue up 22% led by our Industrial Processing segment
- Strong operating performance led to record adjusted EBITDA\* and excellent cash flow
- Aftermarket parts were up 24% and represented 65% of total Q1 revenue

# Flow Control

\$ in millions	Q1 22	Q1 21	Change
Revenue	\$85.8	\$63.8	+34.6%
Bookings	\$100.1	\$76.0	+31.7%
Adjusted EBITDA*	\$23.9	\$18.0	+32.8%
Adjusted EBITDA Margin*	27.9%	28.3%	-40 bps

## BOOKINGS



## HIGHLIGHTS

- Strong aftermarket demand and capital project activity drove record bookings
- Improved operating leverage led to strong adjusted EBITDA\* performance
- Macroeconomic headwinds and supply chain constraints continue to present challenges to manage
- Fundamental drivers of our end-markets remain strong

# Industrial Processing

\$ in millions	Q1 22	Q1 21	Change
Revenue	\$93.1	\$69.2	+34.6%
Bookings	\$106.3	\$86.6	+22.8%
Adjusted EBITDA*	\$22.0	\$14.5	+51.4%
Adjusted EBITDA Margin*	23.6%	21.0%	+260 bps



## HIGHLIGHTS

- Strong end-market demand drove bookings for both parts and capital
- High operating rates at mills led to solid aftermarket parts business
- Excellent adjusted EBITDA margin\* driven by improved operating leverage and solid execution in all product lines
- Healthy backlog positions us well for strong performance in 2022



# Material Handling

\$ in millions	Q1 22	Q1 21	Change
Revenue	\$47.6	\$39.6	+20.3%
Bookings	\$59.6	\$41.9	+42.4%
Adjusted EBITDA*	\$9.7	\$7.1	+35.5%
Adjusted EBITDA Margin*	20.3%	18.0%	+230 bps

## BOOKINGS



## HIGHLIGHTS

- Demand was strong for our baling and bulk material handling equipment with record bookings in Q1
- Business activity remains healthy with organic bookings up 23%
- Margin performance continues to be solid despite inflationary pressure for raw materials

# Business Outlook

- Demand expected to remain solid with some potential for softening in the second half of 2022
- Supply chain constraints and inflationary pressures expected to continue along with macroeconomic headwinds growing
- Expecting to generate record earnings in fiscal 2022



# FINANCIAL REVIEW

Michael J. McKenney, EVP & CFO

# Q1 2022 Financial Performance

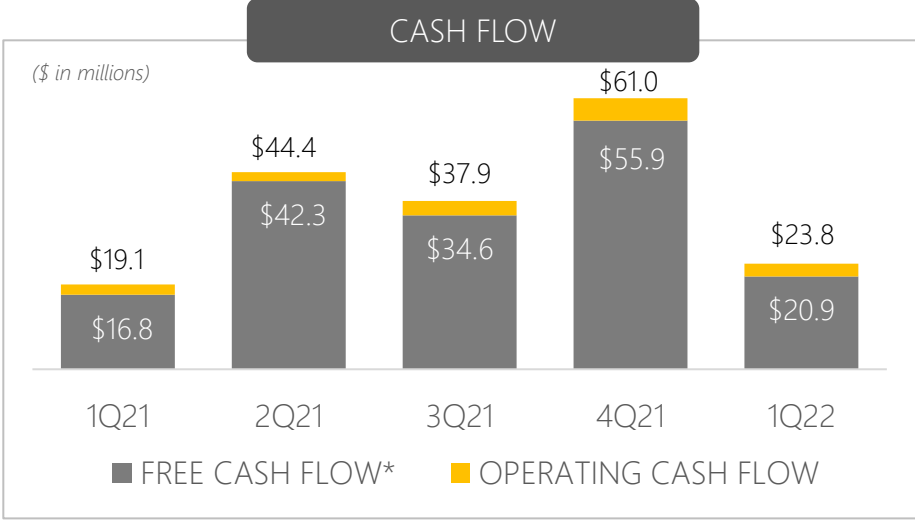
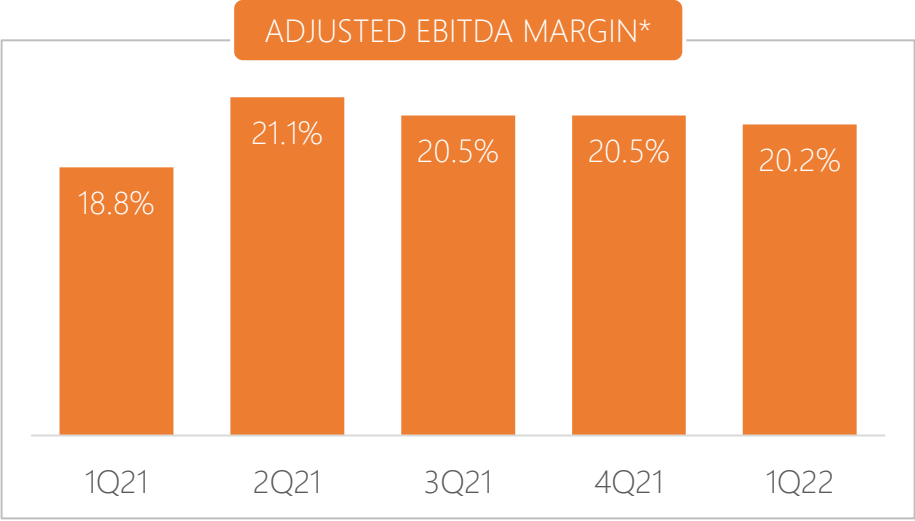
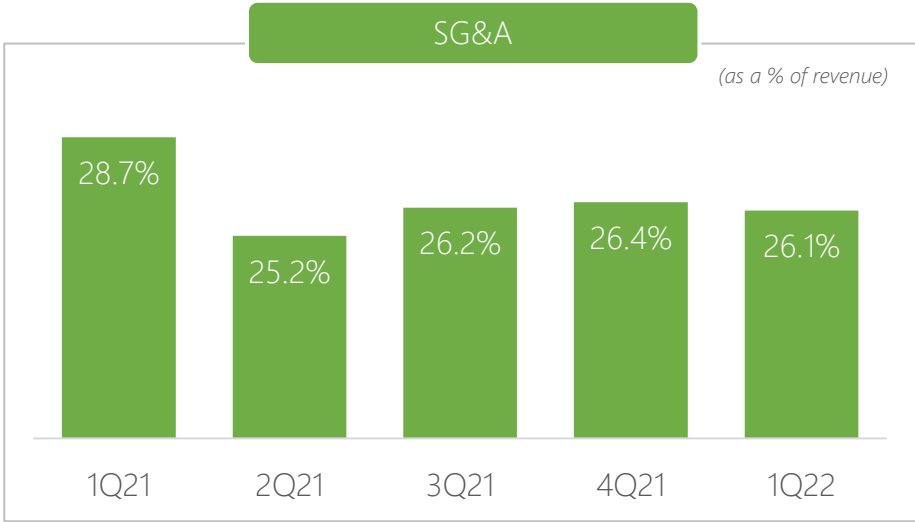
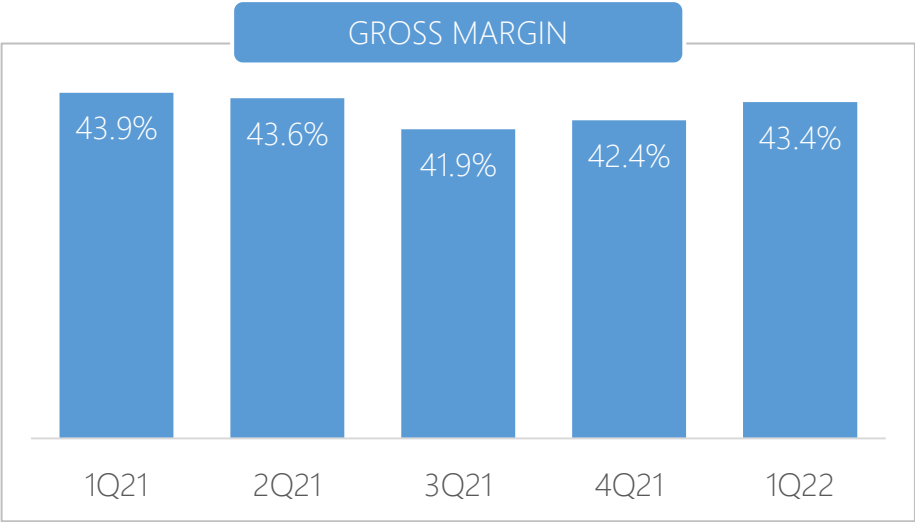
## HIGHLIGHTS

- Adjusted EBITDA margin\* of 20.2%
- Operating cash flow of \$23.8 million
- Free cash flow\* of \$20.9 million
- Net debt of \$159 million; leverage ratio<sup>1</sup> of 1.16

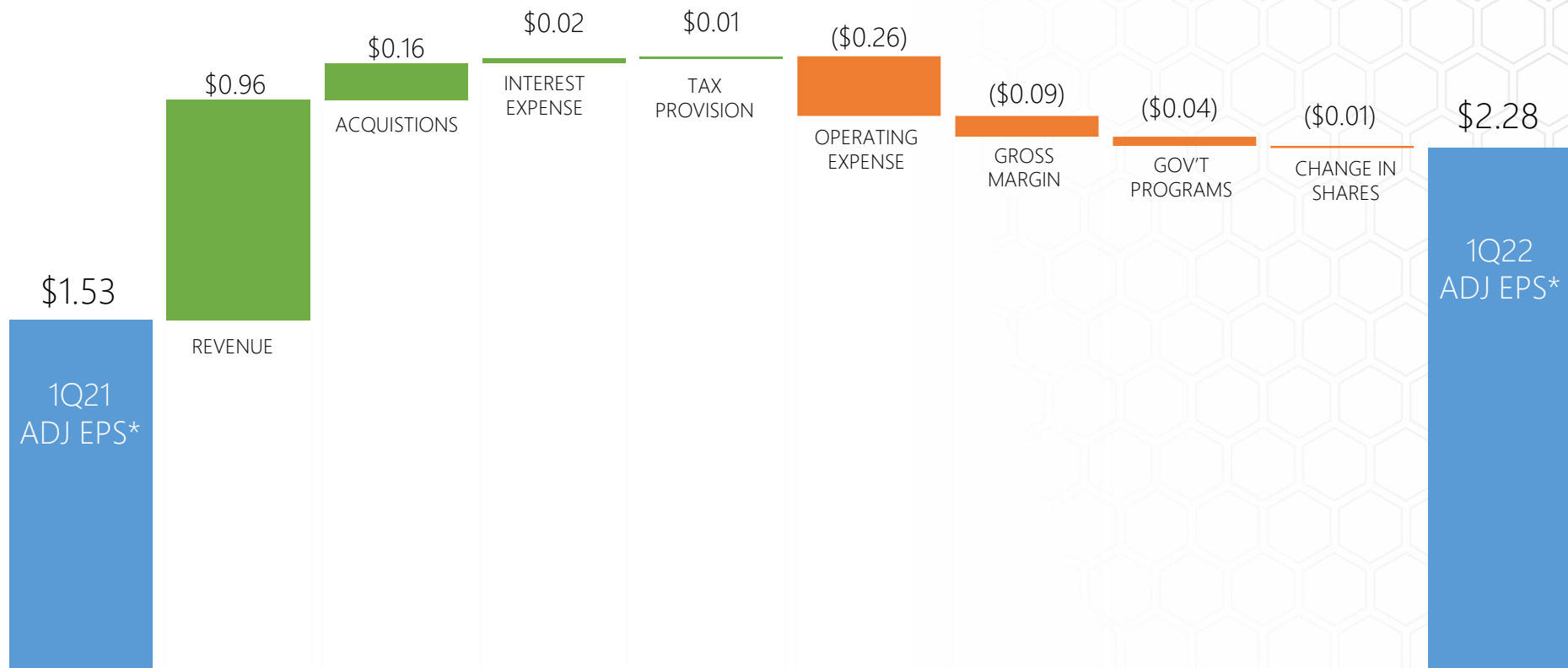
(\$ in millions, except per share amounts)

	Q1 22	Q1 21
Gross Margin	43.4%	43.9%
SG&A % of Revenue	26.1%	28.7%
Operating Income	\$56.0	\$23.4
Net Income	\$41.2	\$16.6
Adjusted EBITDA*	\$45.8	\$32.4
Diluted EPS	\$3.53	\$1.43
Adjusted Diluted EPS*	\$2.28	\$1.53

# Key Consolidated Financial Metrics



# 1Q21 to 1Q22 Adjusted Diluted EPS\*



# Key Liquidity Metrics

\$ in millions	Q1 22	Q4 21	Q1 21
Cash, cash equivalents, and restricted cash	\$89.0	\$94.2	\$66.7
Debt	\$243.4	\$264.6	\$217.3
Lease obligations	\$4.5	\$4.9	\$5.2
Net Debt	\$158.9	\$175.4	\$155.8
Leverage ratio <sup>1</sup>	1.16	1.34	1.50
Working capital % LTM revenue <sup>2</sup>	10.8%	9.4%	15.1%
Cash conversion days <sup>3</sup>	104	106	123

# Guidance

- FY 2022 GAAP diluted EPS of \$10.05 to \$10.25
- FY 2022 adjusted diluted EPS\* of \$8.80 to \$9.00
- FY 2022 revenue of \$885 to \$905 million
  
- Q2 2022 GAAP diluted EPS of \$1.86 to \$1.96
- Q2 2022 revenue of \$215 to \$220 million





# Questions & Answers

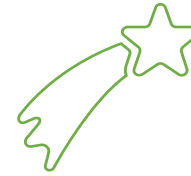
To ask a question, please call 888-326-8410 within the U.S. or +1 704-385-4884 outside the U.S. and reference 858 2925.

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# 2022 Key Priorities



ACCELERATE SUSTAINABLE  
INDUSTRIAL PROCESSING



DELIVER EXCEPTIONAL  
STAKEHOLDER VALUE



MAINTAIN STRONG  
CASH FLOW



CAPITALIZE ON NEW  
OPPORTUNITIES

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# APPENDIX

## First Quarter 2022 Business Review

# Revenue by Customer Location

\$ in thousands	Q1 22	Q1 21	Change	Change Excl. Acquisitions and FX*
North America	\$124,336	\$95,092	\$29,244	\$20,423
Europe	58,366	44,641	13,725	10,099
Asia	31,987	21,813	10,174	7,200
Rest of World	11,791	10,917	874	175
<b>TOTAL</b>	<b>\$226,480</b>	<b>\$172,463</b>	<b>\$54,017</b>	<b>\$37,897</b>

## Adjusted Diluted EPS Reconciliation

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

	Q1 22	Q1 21
Diluted EPS, as reported	\$3.53	\$1.43
Impairment Costs, Net of Tax	0.01	-
Gain on Sale, Net of Tax	(1.30)	-
Acquisition Costs, Net of Tax	0.01	0.10
Acquired Profit in Inventory and Backlog Amortization, Net of Tax	0.03	-
Adjusted Diluted EPS*	\$2.28	\$1.53

## Free Cash Flow Reconciliation

Free cash flow is a non-GAAP financial measure.

\$ in thousands	Q1 22	Q1 21
Operating Cash Flow	\$23,768	\$19,092
Less Capital Expenditures	(2,868)	(2,259)
Free Cash Flow*	\$20,900	\$16,833

# 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	Q1 22	Q1 21
Net Income Attributable to Kadant	\$41,192	\$16,561
Net Income Attributable to Noncontrolling Interest	249	235
Provision for Income Taxes	13,378	5,561
Interest Expense, Net	1,132	1,046
Other Expense, Net	22	24
Impairment Costs	182	-
Gain on Sale	(20,190)	-
Acquisition Costs	76	1,298
Indemnification Asset Reversal	575	-
Acquired Backlog Amortization	703	60
Acquired Profit in Inventory Amortization	(218)	-
Depreciation and Amortization	8,742	7,626
Adjusted EBITDA*	\$45,843	\$32,411
Adjusted EBITDA Margin*	20.2%	18.8%

# Notes

## PRESENTATION NOTES

- 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 May 3, 2022.

## 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.