

ESCO Technologies

First Quarter FY 2024

Earnings Call

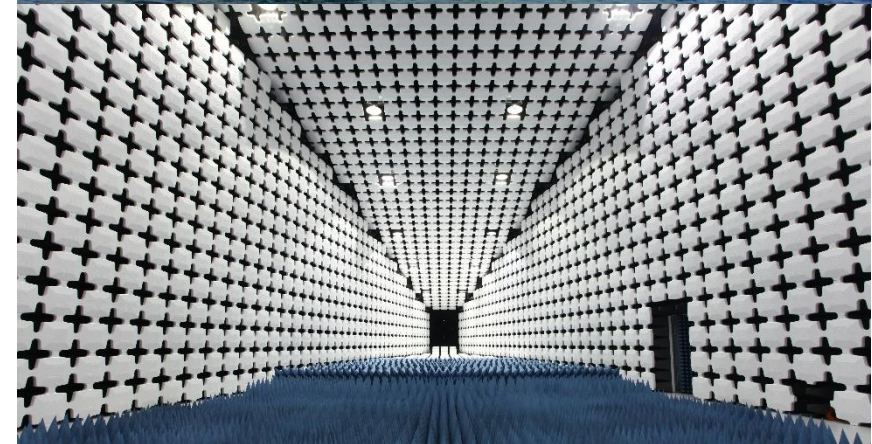
Bryan Saylor

President & CEO

Chris Tucker

Sr. Vice President & CFO

February 8, 2024



Forward Looking Statement

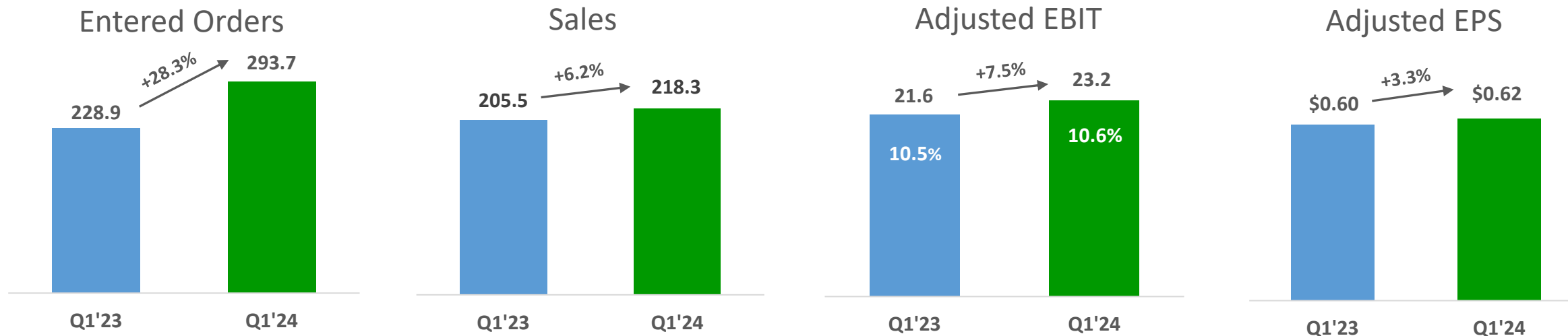
Statements in this presentation regarding Management's expectations for fiscal 2024, restructuring and cost reduction efforts, sales, inflationary pressures, interest rates, supply chain performance and labor shortages; our guidance for 2024 including revenues, earnings, Adjusted EPS, Adjusted EBIT and Adjusted EBITDA margin; the effects of acquisitions; and any other statements which are not strictly historical, are "forward-looking statements within the meaning of the safe harbor provisions of the U.S. securities laws.

Investors are cautioned that such statements are only predictions and speak only as of the date of this release, and the Company undertakes no duty to update them except as may be required by applicable laws or regulations. The Company's actual results in the future may differ materially from those projected in the forward-looking statements due to risks and uncertainties that exist in the Company's operations and business environment including but not limited to those described in Item 1A, "Risk Factors", of the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2023 and the following: the impacts of climate change and related regulation of greenhouse gases; the impacts of labor disputes, civil disorder, wars, elections, political changes, tariffs and trade disputes, terrorist activities, cyberattacks or natural disasters on the Company's operations and those of the Company's customers and suppliers; disruptions in manufacturing or delivery arrangements due to shortages or unavailability of materials or components, or supply chain disruptions; inability to access work sites; the timing and content of future contract awards or customer orders; the timely appropriation, allocation and availability of Government funds; the termination for convenience of Government and other customer contracts or orders; weakening of economic conditions in served markets; the success of the Company's competitors; changes in customer demands or customer insolvencies; competition; intellectual property rights; technical difficulties or data breaches; the availability of selected acquisitions; delivery delays or defaults by customers; performance issues with key customers, suppliers and subcontractors; material changes in the costs and availability of certain raw materials; material changes in the cost of credit; changes in laws and regulations including but not limited to changes in accounting standards and taxation; changes in interest rates; costs relating to environmental matters arising from current or former facilities; uncertainty regarding the ultimate resolution of current disputes, claims, litigation or arbitration; and the integration and performance of recently acquired businesses.

During this call, the Company may discuss some non-GAAP financial measures in describing the Company's operating results. A reconciliation of these measures to their most comparable GAAP measures can be found in the press release issued today and found on the Company's website at www.escotechnologies.com under the link: Investor Relations.

In addition, the financial results presented in this presentation include certain non-GAAP financial measures such as EBIT, Adjusted EBIT, EBITDA, Adjusted EBITDA and Adjusted EPS. These non-GAAP financial measures are reconciled to their respective GAAP equivalents in the "Reconciliation of Non-GAAP Measures" presented below.

Q1 Results (\$ in Millions, except per share amounts)



Entered Orders

- Orders +\$65M (+28%) - Strength in Aerospace & Navy
- Q1 Book-to-Bill of 1.35
- Record Ending Backlog +\$75M (+10%) from 9/30/23

Sales

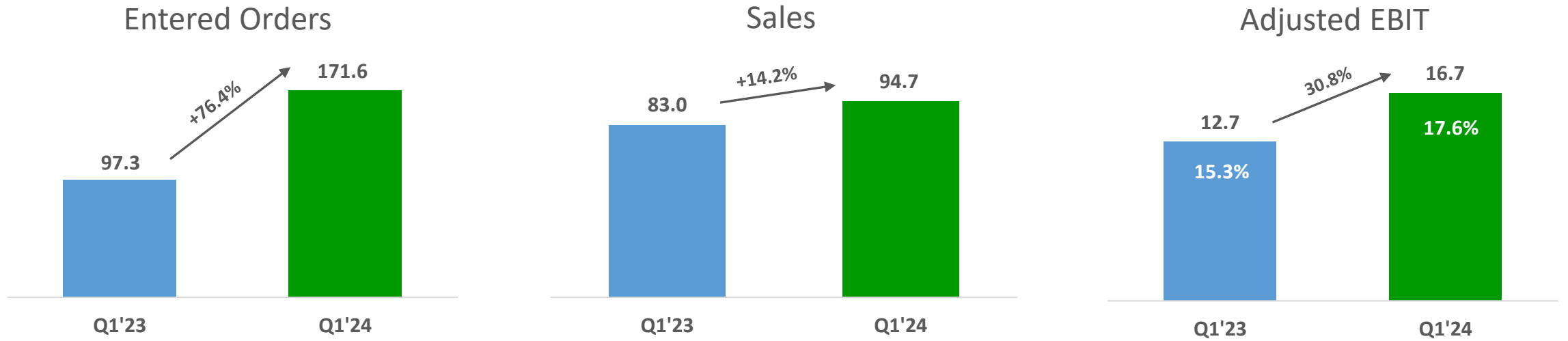
- Sales increased 6% – Organic +4% & CMT/MPE Acquisitions +2%
- Organic Growth
 - Driven by commercial and defense aerospace, Navy, utility, and renewables spending
 - Partially offset by lower sales at Test

Adjusted EBIT

- Higher margins in A&D offset by lower margins in USG and Test

	Q1'23	Q1'24	Delta \$	Delta %
Entered Orders	\$228.9	\$293.7	\$64.8	28.3%
Sales	205.5	218.3	12.8	6.2%
Adjusted EBIT	21.6	23.2	1.6	7.5%
<i>Adj EBIT Margin</i>	<i>10.5%</i>	<i>10.6%</i>	<i>+0.1 pts</i>	
Adjusted EBITDA	33.9	36.4	2.5	7.4%
<i>Adj EBITDA Margin</i>	<i>16.5%</i>	<i>16.7%</i>	<i>+0.2 pts</i>	
EPS GAAP	\$0.57	\$0.59	\$0.02	3.5%
EPS Adjusted	\$0.60	\$0.62	\$0.02	3.3%

A&D – Q1 (\$ in Millions)



Entered Orders

- Navy – Large Virginia Class orders for Block V surface hull tiles & Block VI long lead material procurement for LWWAA
- Aerospace - Strong quarter for Commercial & Defense OEM/Aftermarket
- Q1 Book-to-Bill of 1.81
- Record Ending Backlog +\$77M (16%) from 9/30/23

Sales

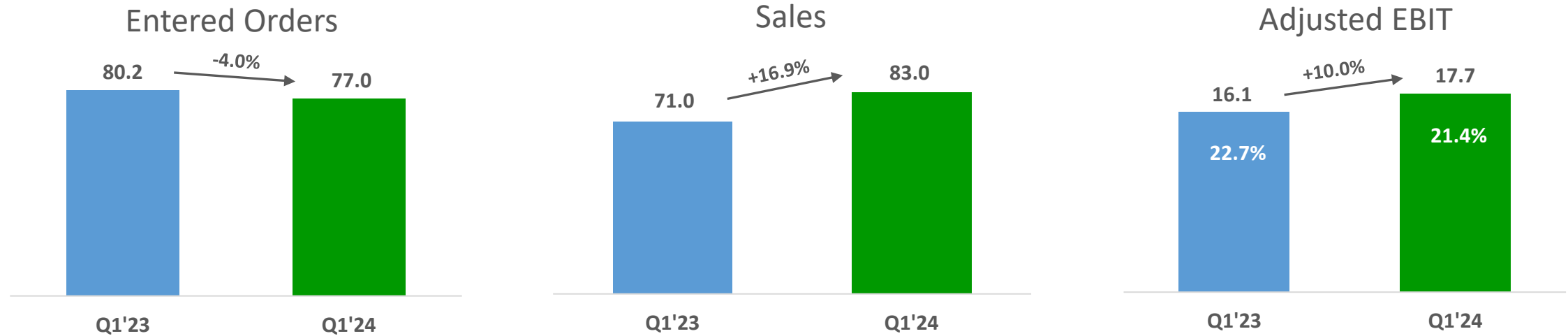
- Aerospace - Commercial +\$3M (+9%) & Defense +\$3M (+21%)
- Navy +\$3M (+14%)
- Organic revenue up 10% + CMT Acquisition added 4%

Adjusted EBIT

- Leverage and price increases, partially offset by inflation and mix

	Q1'23	Q1'24	Delta \$	Delta %
Entered Orders	\$97.3	171.6	74.3	76.4%
Sales	83.0	94.7	11.7	14.2%
Adjusted EBIT	12.7	16.7	4.0	30.8%
<i>Adj EBIT Margin</i>	15.3%	17.6%	+2.3 pts	
Adjusted EBITDA	15.7	20.1	4.4	28.0%
<i>Adj EBITDA Margin</i>	18.9%	21.2%	+2.3 pts	
	9/30/23	12/31/23	Delta \$	Delta %
Backlog	\$484.1	560.9	76.8	15.9%

USG – Q1 (\$ in Millions)



Entered Orders

- Doble ~flat to prior year after strong Q4'23 orders
- NRG (\$2M) – moderate Q1 for renewables orders after record FY'23

Sales

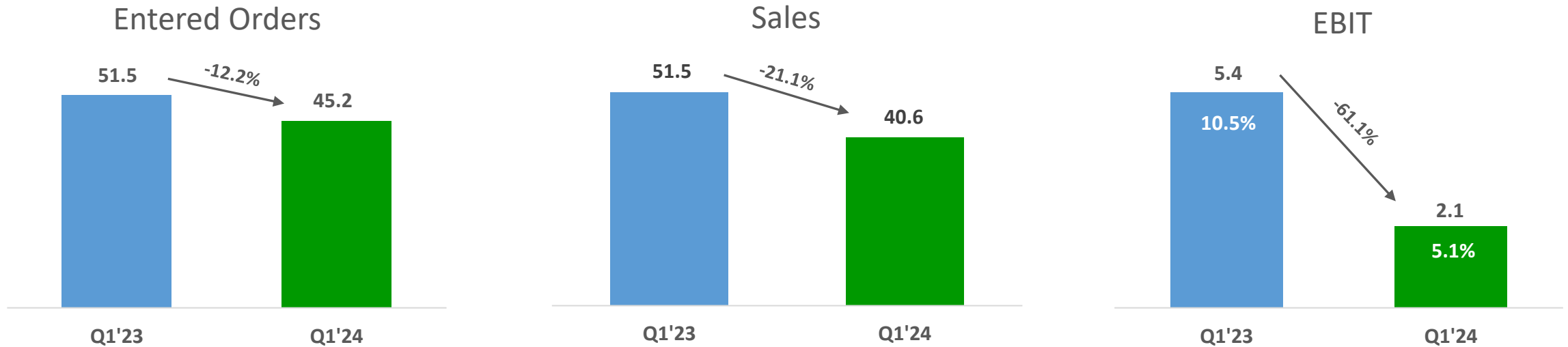
- Doble +\$7.6M (+13%) – strong quarter for offline products & services
- NRG +\$4.4M (+30%) – driven by long-term orders placed in FY'23

Adjusted EBIT

- Leverage on higher revenue and price increases, offset by inflationary pressures and mix

	Q1'23	Q1'24	Delta \$	Delta %
Entered Orders	\$80.2	77.0	(3.2)	-4.0%
Sales	71.0	83.0	12.0	16.9%
Adjusted EBIT	16.1	17.7	1.6	10.0%
<i>Adj EBIT Margin</i>	22.7%	21.4%	-1.3 pts	
<i>Adjusted EBITDA</i>	19.5	21.5	2.0	10.4%
<i>Adj EBITDA Margin</i>	27.4%	25.9%	-1.5 pts	
	9/30/23	12/31/23	Delta \$	Delta %
Backlog	\$133.5	127.4	(6.1)	-4.5%

Test – Q1 (\$ in Millions)



Entered Orders

- MPE added \$4.8M in orders including \$3.2M of acquired backlog
- Offset by delays on a few large projects - EMEA/China

Sales

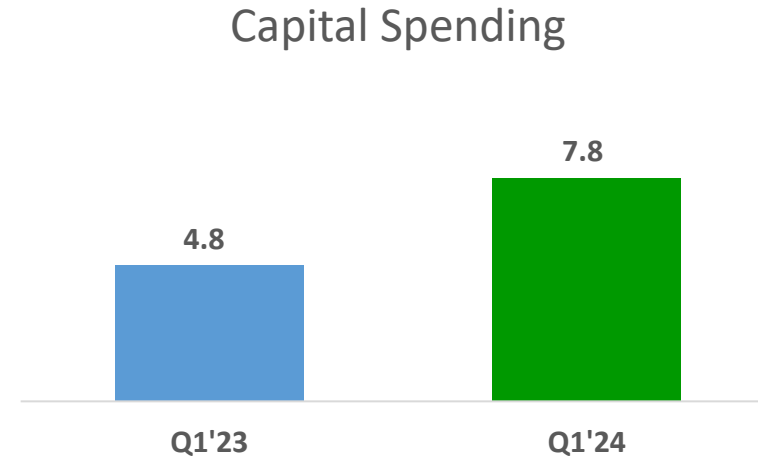
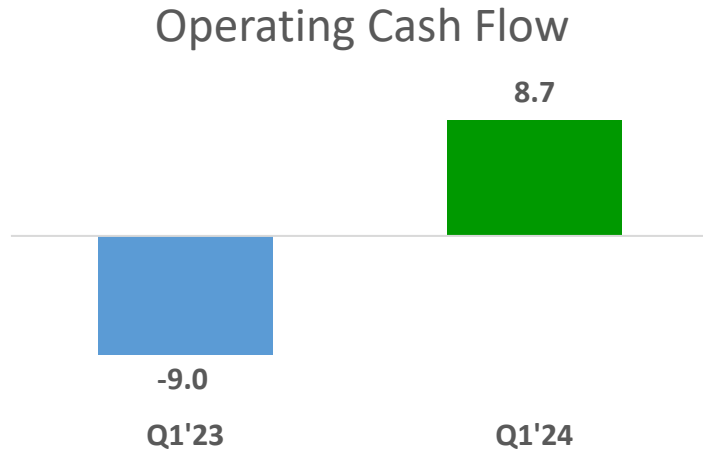
- Lower T&M volume in U.S., Europe & China
- Lower OTC filter sales in U.S.
- Organic revenue down 23% / MPE Acquisition added 2%

Adjusted EBIT

- Driven by leverage on lower revenue, partially offset by price increases and cost reduction efforts

	Q1'23	Q1'24	Delta \$	Delta %
Entered Orders	\$51.5	45.2	(6.3)	-12.2%
Sales	51.5	40.6	(10.9)	-21.1%
Adjusted EBIT	5.4	2.1	(3.3)	-61.1%
<i>Adj EBIT Margin</i>	10.5%	5.1%	-5.4 pts	
Adjusted EBITDA	6.7	3.4	(3.3)	-49.3%
<i>Adj EBITDA Margin</i>	13.1%	8.3%	-4.8 pts	
	9/30/23	12/31/23	Delta \$	Delta %
Backlog	\$154.8	159.4	+4.6	+3.0%

Cash Flow & Capital Expenditures (\$ in Millions)



Operating Cash Flow

- Lower working capital requirements

Capital Expenditures

- Q1 increase primarily relates to building improvements & machinery equipment within A&D

Acquisitions

- MPE Acquisition (Test) in Q1'24

Share Repurchase

- No shares repurchased in Q1'24

Cash Flow	Q1'23	Q1'24	Delta
Operating Cash Flow	\$(9.0)	8.7	+17.7
Capital Expenditures	(4.8)	(7.8)	(3.0)
Acquisitions	-	(56.2)	(56.2)
Share Repurchase	(4.1)	-	4.1

FY'24 Guidance

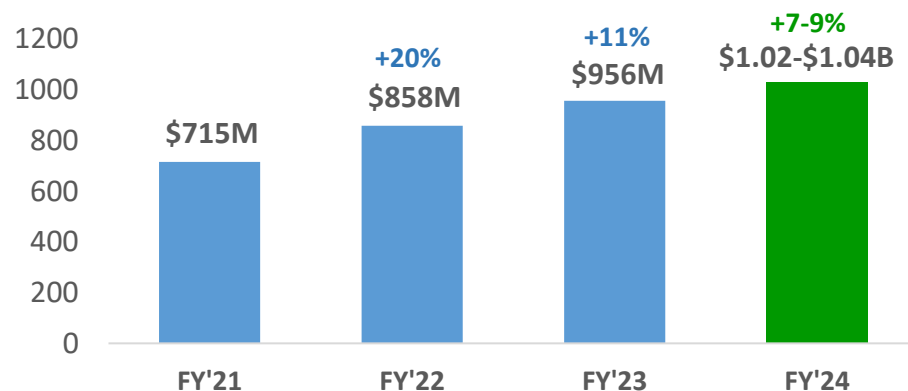
Sales – Continue to expect growth of 7% to 9% and to be in the range of \$1.02B to \$1.04B (including MPE)

- **A&D** – 11 to 13 percent (raised from original guidance of 8 to 10 percent)
- **USG** – 6 to 8 percent
- **Test** – 1 to 3 percent including MPE acquisition (lowered from original guidance of 8 to 10 percent)

Adjusted EPS

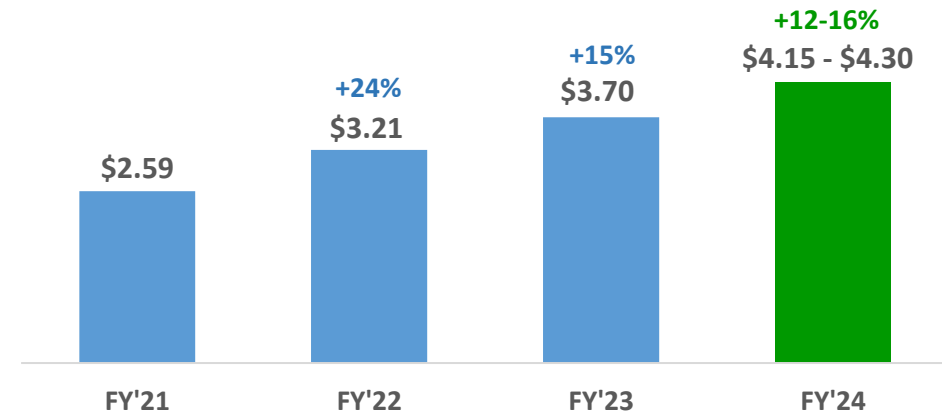
- **Q2'24** – Expectation is for Q2 Adjusted EPS in the range of \$0.85 - \$0.90, representing growth of 12% - 18% over the prior year
- **Full Year** – Increasing range for Adjusted EPS to \$4.15 - \$4.30 (from \$4.10 - \$4.30), representing growth of 12% - 16% over the prior year

Sales Trends

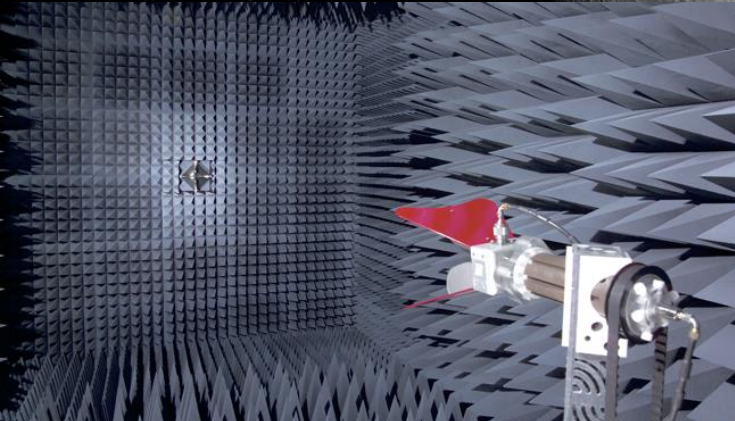
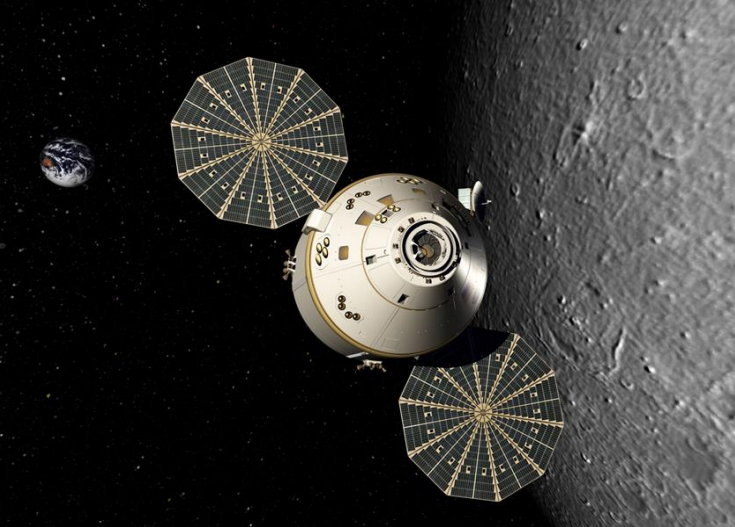


3 Year CAGR to FY'24 Midpoint = 13.0%

Adjusted EPS Trends



3 Year CAGR to FY'24 Midpoint = 17.8%

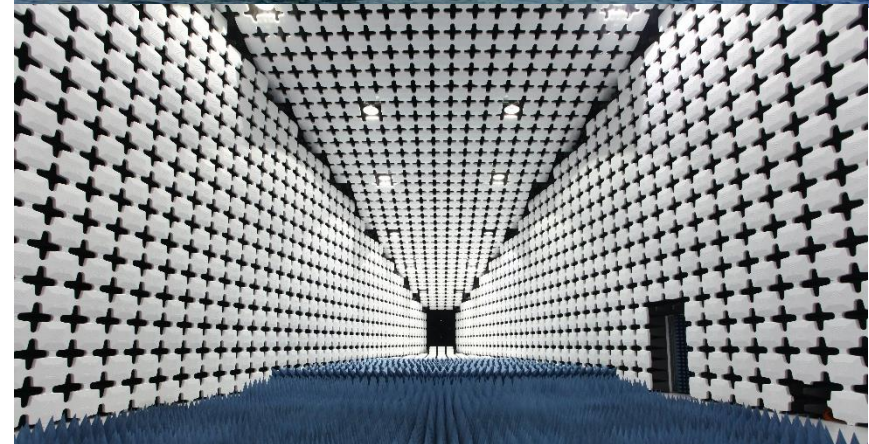


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Q&A



Reconciliation of Non-GAAP Measures – Q1

	GAAP		Adjustments		As Adjusted	
	Q1'23	Q1'24	Q1'23	Q1'24	Q1'23	Q1'24
<u>EBIT</u>						
A&D	\$12,536	\$16,663	199	-	12,735	16,663
USG	16,131	17,625	-	120	16,131	17,745
Test	5,411	1,779	-	273	5,411	2,052
Corporate	(13,521)	(13,946)	793	651	(12,728)	(13,295)
Consolidated EBIT	20,557	22,121	992	1,044	21,549	23,165
Less: Interest Expense	(1,658)	(2,667)		-	(1,658)	(2,667)
Less: Income Tax	(4,172)	(4,285)	(228)	(240)	(4,400)	(4,525)
Net Earnings	14,727	15,169	764	804	15,491	15,973
<u>D&A</u>						
A&D	\$ 2,948	\$ 3,412	-	-	2,948	3,412
USG	3,347	3,760	-	-	3,347	3,760
Test	1,327	1,329	-	-	1,327	1,329
Corporate	4,745	4,951	-	(209)	4,745	4,742
Consolidated EBIT	12,367	13,452	-	(209)	12,367	13,243
<u>EBITDA</u>						
A&D	15,484	20,075	199	-	15,683	20,075
USG	19,478	21,385	-	120	19,478	21,505
Test	6,738	3,108	-	273	6,738	3,381
Corporate	(8,776)	(8,995)	793	442	(7,983)	(8,553)
Consolidated EBITDA	32,924	35,573	992	835	33,916	36,408
Less: Depreciation & Amortization	(12,367)	(13,452)	-	209	(12,367)	(13,243)
Consolidated EBIT	\$20,557	\$22,121	992	1,044	21,549	23,165
<u>EPS - As Adjusted</u>	Q1'23	Q1'24				
EPS - GAAP	\$ 0.57	\$ 0.59				
Purchase Accounting/Acq Related Exp	\$ -	\$ 0.03				
Executive Management Transition	\$ 0.02	\$ -				
Restructuring - A&D	\$ 0.01	\$ -				
Adjustments	\$ 0.03	\$ 0.03				
EPS - As Adjusted	\$ 0.60	\$ 0.62				