



Fourth Quarter 2019 Earnings Call

March 3, 2020

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More information on potential factors that could affect the Company’s financial condition and operating results is included in “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Annual Report on Form 10-K filed on February 28, 2020, and in the Company’s other filings with the Securities and Exchange Commission. Any forward-looking statement made by the Company in this presentation speaks only as of the date on which we make it. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

NON-GAAP AND OTHER COMPANY INFORMATION

Included in this presentation are certain non-GAAP financial measures designed to complement the financial information presented in accordance with generally accepted accounting principles in the United States of America because management believes such measures are useful to investors. Because the Company’s calculations of these measures may differ from similar measures used by other companies, you should be careful when comparing the Company’s non-GAAP financial measures to those of other companies. A reconciliation of non-GAAP financial measures to GAAP financial measures is included in an appendix to this presentation.

Q4 Highlights



- Divested Metalex, focus on two core businesses: Osborn and Milsco
- Osborn NPD Polymaxx flap disc, TufBrush™ long-life brush launch
- Milsco diversification efforts ramping up
- Three plant consolidation projects in process
- Tuck-in M&A activity resulted in Matchless acquisition, subsequent to the quarter
- Operational execution remains strong



Full Year 2019 Results



- Improved operational performance and enhanced customer relationships
- Experienced weakening demand in industrial and served markets throughout the year
- Altered the portfolio to reduce cyclicity by divesting automotive-focused Fiber Solutions and rail-focused Metalex
- Commenced strategic alternatives process to directly address the balance sheet

Fourth Quarter Results – Total Company



Consolidated Financial Results Summary			
(\$Ms)	Q4 2019	Q4 2018	Change
Net Sales	\$ 76.4	\$ 80.9	\$ (4.5) (5.6)%
Operating (Loss) Income	\$ (7.0)	\$ 0.9	\$ (7.9)
<i>% of net sales</i>	<i>(9.2)%</i>	<i>1.1%</i>	<i>(1,030) bps</i>
Adjusted EBITDA	\$ 2.6	\$ 5.8	\$ (3.2)
<i>% of net sales</i>	<i>3.4%</i>	<i>7.2%</i>	<i>(380) bps</i>

Net sales of \$76.4 million, decreased 5.6%

- Organic sales decline of 10.4%
- Acquisition impact positive 5.9% from Schaffner acquisition within Industrial
- Foreign currency translation negatively impacted sales 1.1%

Operating loss of \$7.0 million increased \$7.9 million

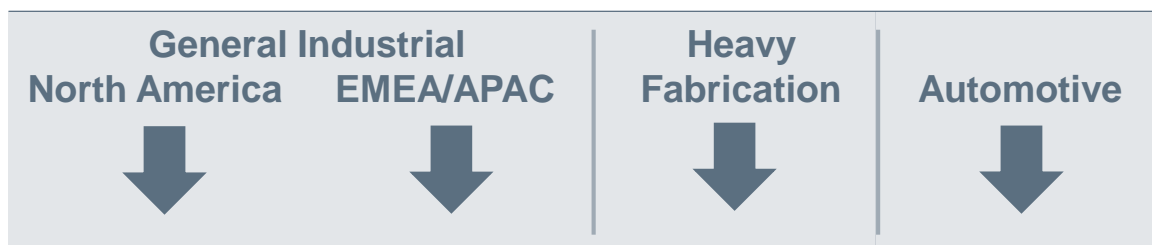
Adjusted EBITDA margin of 3.4%, decreased 380 bps

- Lower sales volumes and unfavorable product mix negatively impacted margins
- Price, continuous improvement project savings, and cost reductions positively contributed

Fourth Quarter Results - Industrial



Business Conditions



	Q4 2019	Q4 2018	Change	FY2019	Change
Net Sales	\$47.9	\$47.2	1.6%	\$201.5	(2.9)%
<i>Growth from:</i>					
Organic sales growth			(7.1)%		(6.6)%
Currency impact			(1.8)%		(3.4)%
Acquisitions			10.5%		7.1%
Divestiture & Non-Core exit			---%		---%
Adjusted EBITDA	\$3.2	\$5.2	\$(2.0)	\$20.9	\$(8.0)
% of Sales	6.6%	10.9%	(430) bps	10.4%	(360) bps

- Organic sales decline of 7.1% driven by weaker industrial markets in both North America and Europe
- Schaffner Manufacturing acquisition growth
- Adjusted EBITDA decline on lower volumes and unfavorable product mix, partially offset by pricing actions and cost controls

Fourth Quarter Results – Engineered Components



Business Conditions



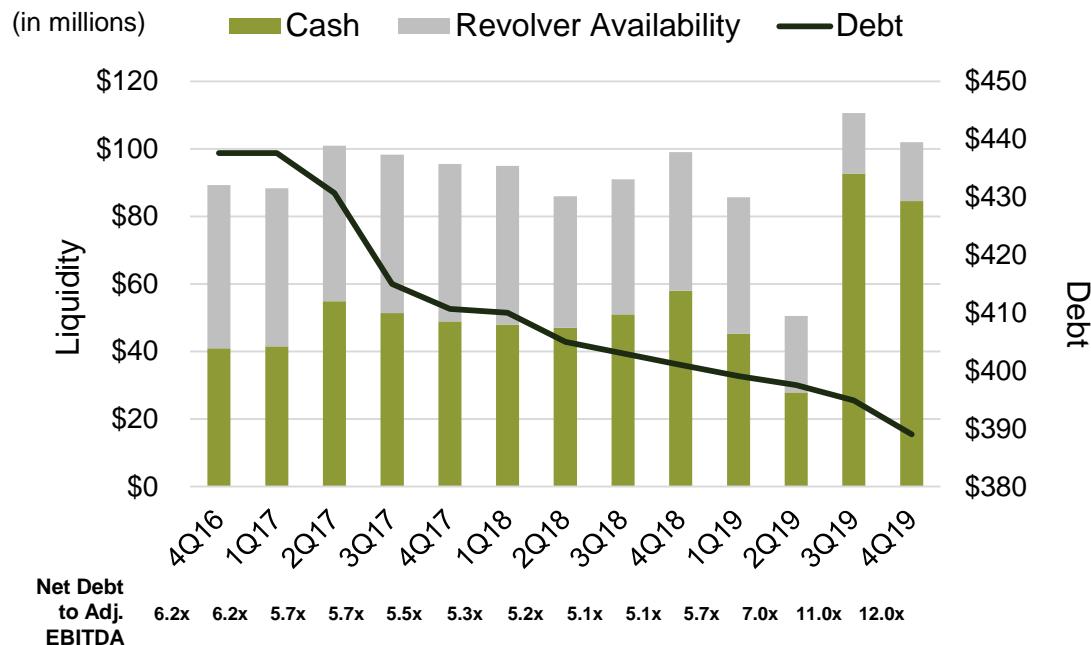
	Q4 2019	Q4 2018	Change	FY2019	Change
Net Sales	\$28.4	\$33.7	(15.6)%	\$136.4	(14.9)%
<i>Growth from:</i>					
Organic sales growth			(15.6)%		(14.9)%
Currency impact			---%		---%
Acquisitions			---%		---%
Divestiture & Non-Core exit			---%		---%
Adjusted EBITDA	\$2.5	\$3.4	\$(0.9)	\$15.1	\$(4.6)
% of Sales	8.7%	10.0%	(130) bps	11.1%	(120) bps

- Lower demand and inventory destocking from OEM customers in heavy industry, turf care, and powersports
- Adjusted EBITDA decline on lower volumes and unfavorable product mix

Financial Position



Liquidity, Debt & Leverage



Total Liquidity of \$102.0M Following Fiber Solutions Sale

- Includes \$84.5M of cash and \$17.5M of availability on revolving loan facilities globally
- Metalex sale proceeds used for \$5.0M voluntary term loan prepayment
- Fiber Solutions sale proceeds available for reinvestment in the business and acquisitions through 3Q20

Free Cash Flow – Continuing and Discontinued Operations

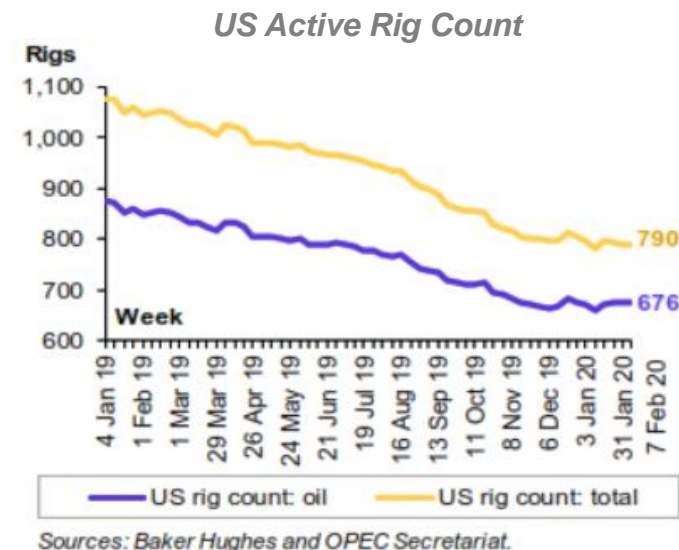
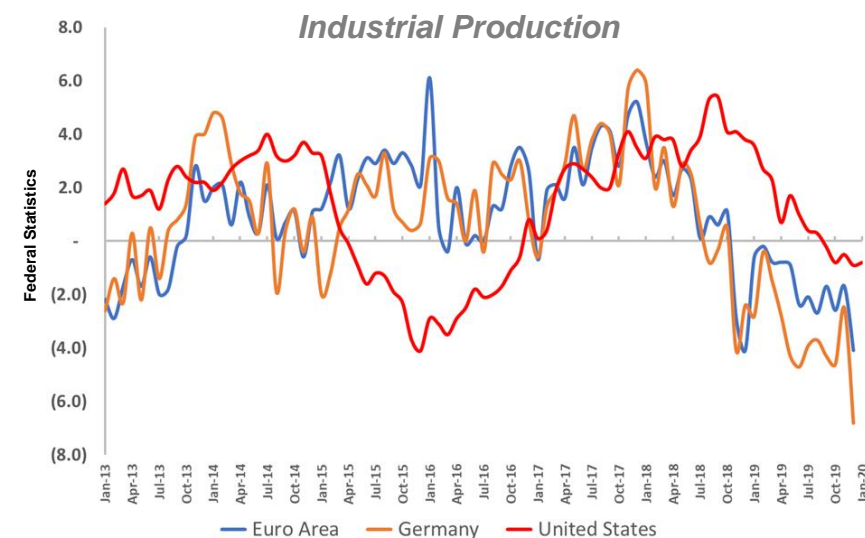
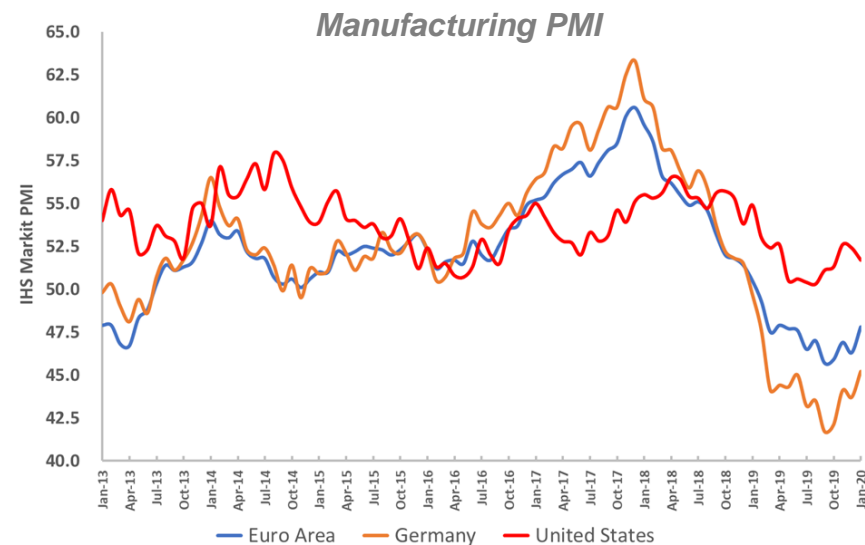
	2019	2018	Variance
Adjusted EBITDA - Con Ops	\$ 24.8	\$ 36.7	\$ (11.8)
Adjusted EBITDA - Disc Ops	7.8	30.5	(22.8)
Cash Interest	(30.1)	(30.7)	0.6
Cash Taxes	(3.6)	(6.8)	3.2
Cash Restructuring & Integration- Net	(8.1)	(6.1)	(2.0)
Transaction Costs	(4.5)	-	(4.5)
Changes In Working Capital	(6.9)	6.2	(13.1)
Operating Cash Flow	\$ (20.8)	\$ 29.8	\$ (50.6)
Less: Capital Expenditures	\$ (11.8)	(13.8)	2.0
Free Cash Flow	\$ (32.6)	\$ 16.0	\$ (48.6)

Free Cash Flow:

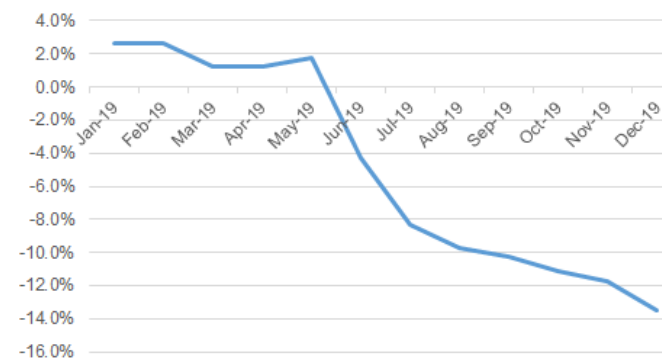
- Lower adjusted EBITDA from continuing and discontinued operations
- Unfavorable changes in working capital
- \$4.5M transaction costs related to Fiber Solutions and Metalex divestitures and Schaffner acquisition

*See Appendix for calculation of Net Debt to Adjusted EBITDA.

Market Conditions



Residential Riding Mower Unit Build
TTM Rate of Change



*Source: OPEI

Milsco Innovation In Practice

Conceptual



New Platform Example



Incubator Line of Business



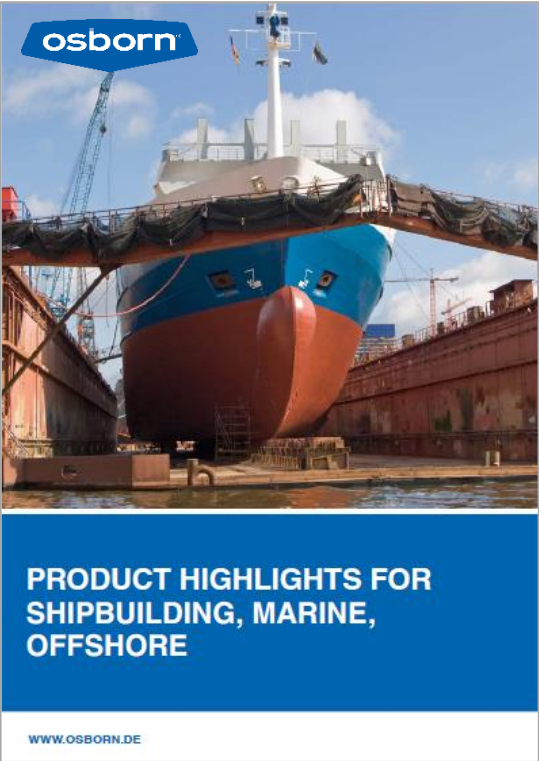
Osborn Integrated Commercial Activity



Industry-specific Exhibitions



Targeted Vertical Markets



Channel Partnerships

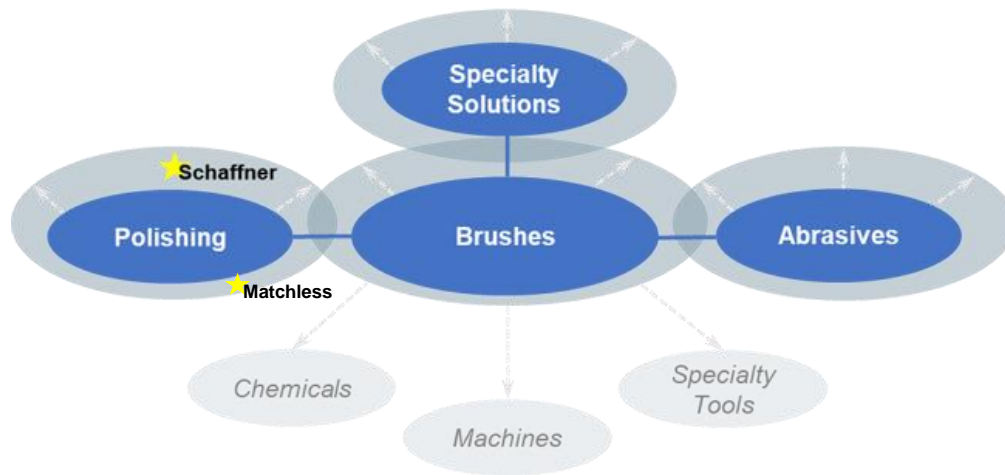


Product and Solution Vitality

Tuck-in Acquisition Execution



Osborn Strategy



Matchless Acquisition

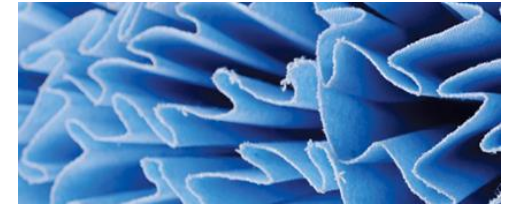
- \$8M revenue, \$5M purchase price
- 135-year history
- True tuck-in acquisition
- 80% of product line direct cross-over to existing Osborn items
- Chemical product line extension for Osborn
- New customers and vertical markets for Osborn

Funnel of active prospects and ability to continue to execute one to two per year

Osborn Polishing



- Consolidating three leading North American polishing companies
- One brand: Osborn
- Standardized product portfolio, single broad-line of SKUs
- New customers and new vertical markets
- Expanded offering into flap wheels and chemicals
- Bundled material spend
- Reduced aggregate combined facilities from 14 down to 8



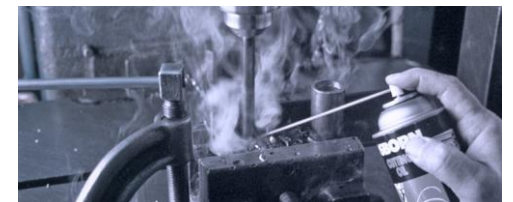
Bufs



Compounds



Flap Wheels and Discs



Chemicals

Establishing a global leadership position in the Industrial Polishing market

Cost Reduction Activity Update



- Jackson, Mississippi
- Northville, Michigan
- *Pittsburgh, Pennsylvania (Q2 2020)*
- *Livonia, Michigan (Q2 2020)*



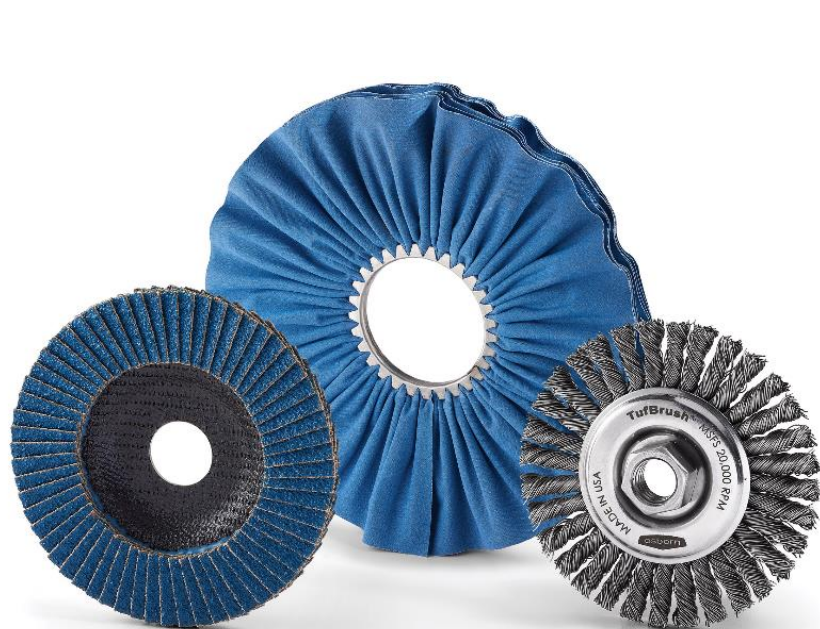
- Milsco UK
- Redgranite Quarryside



- Shared services
- Labor flexing

\$5 million of cost reductions underway through facility consolidations and other efforts

Closing Comments



Appendix

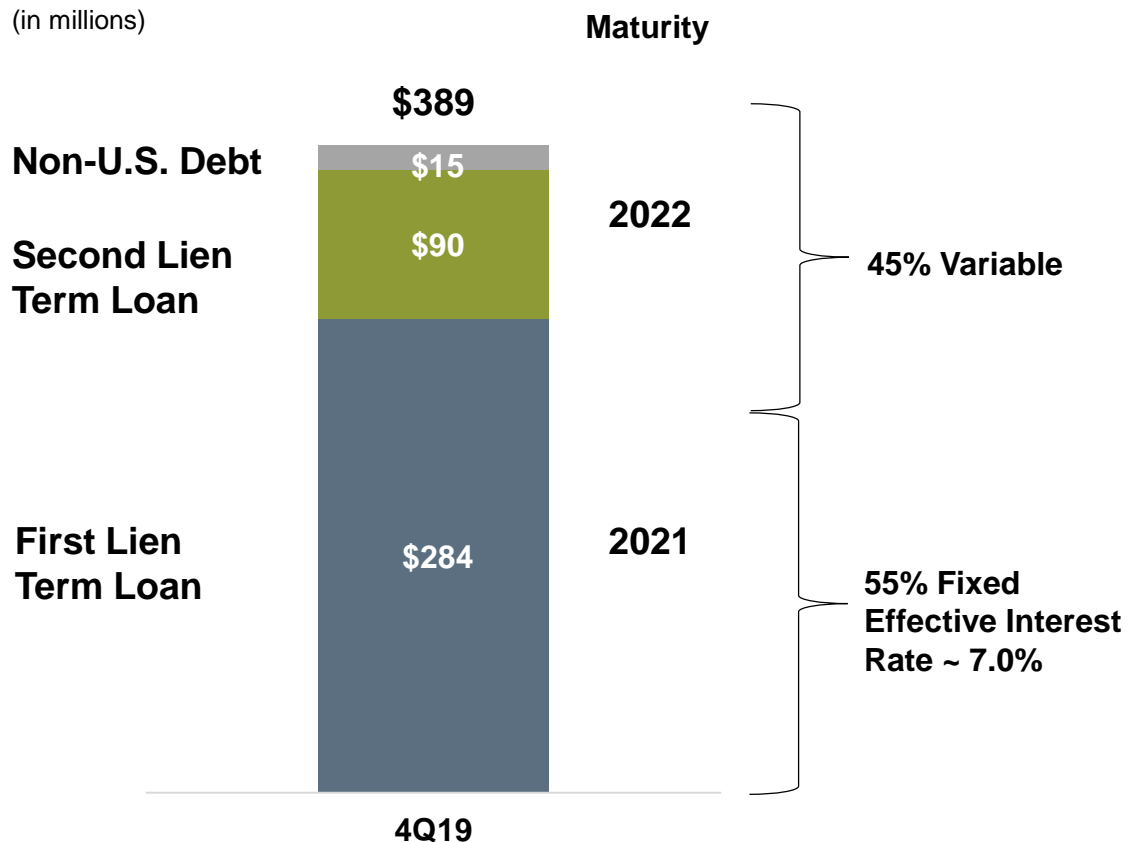


Debt Summary



Debt Structure

(in millions)



Covenants

- Springing first lien leverage ratio covenant only applicable when $\geq \$10\text{M}$ borrowings on U.S. Revolver at quarter end
- Zero borrowings outstanding on U.S. revolver, strong liquidity with no expectation to use revolver
- First lien leverage ratio of 7.52x as of 4Q19
- Current covenant 4.25x (if applicable)

*Note the consolidated First lien net leverage ratio under the Company's senior secured credit facilities was 7.52x as of December 31, 2019, and excludes second lien term loan borrowings from net debt. See Form 10-K for further discussion of the Company's senior secured credit facilities.

Adjusted EBITDA Reconciliation



	<u>4Q19</u>	<u>4Q18</u>	<u>FY2019</u>	<u>FY2018</u>
<i>(in millions)</i>				
Net loss from continuing operations	\$(16.9)	\$(4.8)	(\$43.4)	(\$14.7)
Interest expense	8.3	8.6	33.0	33.2
Tax provision (benefit)	2.1	(2.7)	4.0	(5.0)
Depreciation and amortization	6.0	5.5	22.2	21.1
EBITDA	(0.5)	6.7	15.8	34.7
Adjustments:				
Restructuring	0.5	0.6	4.0	0.9
Transaction-related expenses	0.3	-	1.0	-
Integration and other restructuring costs	1.3	(1.0)	1.4	0.1
Share-based compensation	0.6	0.8	2.4	2.3
Loss (gain) on disposals of fixed assets – net	0.3	(1.3)	0.3	(1.3)
Total adjustments	3.1	(0.9)	9.0	1.9
Adjusted EBITDA	\$2.6	\$5.8	\$24.8	\$36.7

Net Debt to Adjusted EBITDA



December 31, 2019	
<i>(in millions)</i>	
Current and long-term debt	\$ 384.8
Add: Debt discounts and deferred financing costs	4.3
Less: Cash and cash equivalents	(84.5)
Net Debt	\$ 304.5
Adjusted EBITDA	
1Q19	\$ 10.8
2Q19	7.6
3Q19	3.9
4Q19	2.6
TTM Adjusted EBITDA	24.8
Acquisitions TTM Adjusted EBITDA*	0.5
Pro Forma TTM Adjusted EBITDA	\$ 25.3
Net Debt to Adjusted EBITDA	12.0x

*Acquisitions TTM Adjusted EBITDA includes Adjusted EBITDA prior to the date of the acquisition during the trailing twelve months

