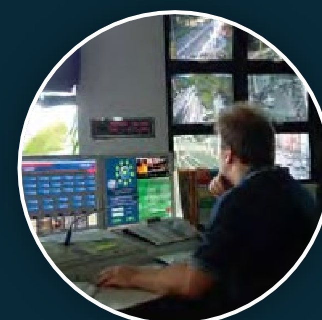
Federal Signal Q1 2023 Earnings Call

May 2, 2023







Jennifer Sherman, President & Chief Executive Officer
Ian Hudson, SVP, Chief Financial Officer

Safe Harbor

This presentation contains unaudited financial information and various forward-looking statements as of the date hereof and we undertake no obligation to update these forward-looking statements regardless of new developments or otherwise. Statements in this presentation that are not historical are forward-looking statements. Such statements are subject to various risks and uncertainties that could cause actual results to vary materially from those stated. Such risks and uncertainties include but are not limited to: direct and indirect impacts of the coronavirus pandemic and the associated government response, risks and adverse economic effects associated with emerging geopolitical conflicts, product and price competition, supply chain disruptions, work stoppages, availability and pricing of raw materials, cybersecurity risks, risks associated with acquisitions such as integration of operations and achieving anticipated revenue and cost benefits, foreign currency exchange rate changes, interest rate changes, increased legal expenses and litigation results, legal and regulatory developments and other risks and uncertainties described in filings with the Securities and Exchange Commission (SEC).

This presentation also contains references to certain non-GAAP financial information. Such items are reconciled herein, in our earnings news release provided as of the date of this presentation or in other investor materials filed with the SEC.

Q1 Highlights *

- Net sales of $386 M, up $55 M, or 17%
  - Organic growth of $44 M, or 13%
- Operating income of $39.5 M, up $11.0 M, or 39%
- Adjusted EBITDA of $54.5 M, up $12.3 M, or 29%
- Adjusted EBITDA margin of 14.1%, vs. 12.8%
- GAAP EPS of $0.45, up $0.12, or 36%
- Adjusted EPS of $0.46, up $0.12, or 35%
- Record backlog of $968 M, up $216 M, or 29%
- Record orders of $475 M, up $22 M, or 5%

** Comparisons versus Q1 of 2022*

Group and Corporate Results

$ millions, except %		Q1 2023	Q1 2022	% Change
ESG	Orders	395.8	387.6	2%
	Sales	318.8	274.2	16%
	Operating income	37.6	26.8	40%
	Operating margin	*11.8%*	*9.8%*	
	Adjusted EBITDA	51.2	39.3	30%
	Adjusted EBITDA margin	*16.1%*	*14.3%*	
SSG	Orders	78.9	65.0	21%
	Sales	66.7	56.0	19%
	Operating income	12.1	7.9	53%
	Operating margin	*18.1%*	*14.1%*	
	Adjusted EBITDA	13.2	8.9	48%
	Adjusted EBITDA margin	*19.8%*	*15.9%*	
Corporate expenses		10.2	6.2	65%
Consolidated	Orders	474.7	452.6	5%
	Sales	385.5	330.2	17%
	Operating income	39.5	28.5	39%
	Operating margin	*10.2%*	*8.6%*	
	Adjusted EBITDA	54.5	42.2	29%
	Adjusted EBITDA margin	*14.1%*	*12.8%*	

Consolidated Statement of Operations

$ millions, except % and per share	Q1 2023	Q1 2022	$ Change	% Change
Net sales	$ 385.5	$ 330.2	$ 55.3	17%
Gross profit	95.8	75.7	20.1	27%
SEG&A expenses	52.0	43.6	8.4	19%
Amortization expense	3.6	3.3	0.3	9%
Acquisition and integration related expenses	0.7	0.3	0.4	NM
Operating income	39.5	28.5	11.0	39%
Interest expense	4.7	1.3	3.4	262%
Other expense (income), net	0.1	(0.4)	0.5	NM
Income tax expense	7.3	7.1	0.2	3%
Net income	27.4	20.5	6.9	34%
Diluted EPS	$ 0.45	$ 0.33	$ 0.12	36%
Diluted adjusted EPS	$ 0.46	$ 0.34	$ 0.12	35%
Gross Margin	24.9%	22.9%		
SEG&A expenses as a % of net sales	13.5%	13.2%		
Effective tax rate	21.0%	25.7%		

Adjusted Earnings per Share

($ in millions)	Three Months Ended March 31, 2023		2022	
Net income, as reported	$	27.4	$	20.5
Add:				
Income tax expense		7.3		7.1
Income before income taxes		34.7		27.6
Add:				
Acquisition and integration-related expenses		0.7		0.3
Adjusted income before income taxes		35.4		27.9
Adjusted income tax expense (1)		(7.5)		(7.2)
Adjusted net income	**$**	**27.9**	**$**	**20.7**
Diluted EPS, as reported	$	0.45	$	0.33
Adjusted diluted EPS	**$**	**0.46**	**$**	**0.34**

(1) Adjusted income tax expense for the three months ended March 31, 2023 and 2022 w as recomputed after excluding the impact of acquisition and integration-related expenses.

Financial Strength and Flexibility *

Strong capital structure	• Cash and cash equivalents of $38 M • Net debt of ~$337 M ** • In October 2022, executed a five-year, $800 M revolving credit facility, with opportunity to increase further by the greater of (i) $400 M or (ii) 100% of TTM consolidated EBITDA, subject to lenders approval • Net debt leverage remains low • Compliant with all covenants with significant headroom
Healthy cash flow and access to cash facilitate organic growth investment, M&A and cash returns to stockholders	• Generated ~$7 M of cash from operations in Q1 2023, in line with Q1 2022 • ~$415 M of availability under revolving credit facility • Anticipating cap ex of $25 M-$30 M in 2023, including investments in our plants to add capacity and gain efficiencies through automation • Completed acquisition of Blasters, Inc. on January 3, 2023 for an initial payment of ~$13.4 M • Completed acquisition of Trackless Vehicles on April 3, 2023 for an initial purchase price of ~$40 M • Paid $5.5 M for dividends, reflecting dividend of $0.09 per share; recently declared increased dividend of $0.10 per share for Q2 2023 • ~$59 M of authorization remaining under current share repurchase program (~2% of market cap)

** Dollar amounts as of, or for the quarter ending 3/31/2023, unless otherwise noted*

*** Net debt is a non-GAAP measure and is computed as total debt of $375.5 M, less total cash and cash equivalents of $38.4 M*

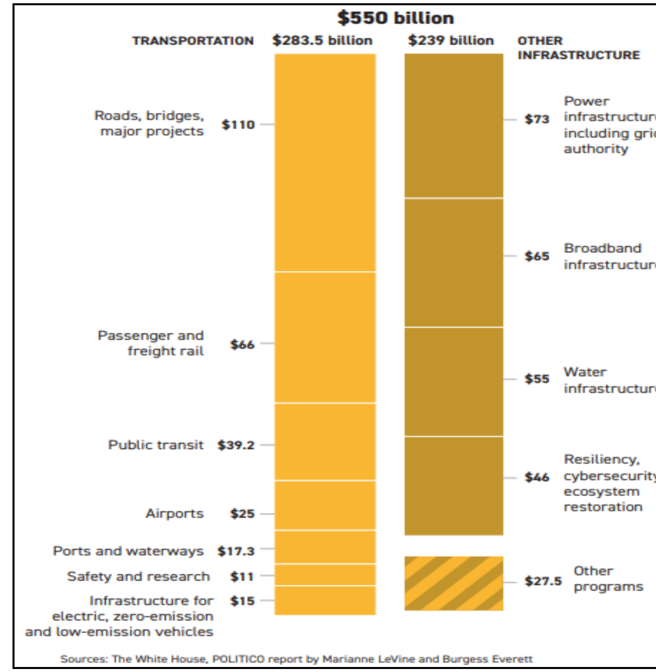
CEO Remarks – Q1 Performance

- Impressive execution by both groups led to a strong start to the year, with Q1 results including the **highest net sales and EPS** of any first quarter in Company history
- Environmental Solutions Group highlights:
  - YoY **net sales growth of 16%** and a **180-basis point improvement** in adjusted EBITDA margin
  - **17% sequential quarterly production improvement** at our two largest facilities; supply chain continuing to improve, overall
  - Aftermarket revenues **up 22%**, with noted strength in parts sales
  - Completed acquisition of Blasters in January 2023
- Safety and Security Group highlights:
  - YoY **net sales growth of 19%**, with higher sales of industrial signaling equipment and public safety equipment
  - **390-basis point improvement** in adjusted EBITDA margin
  - In-sourcing production of several key components at improved margins; reduced reliance on overseas suppliers

CEO Remarks – Market Conditions

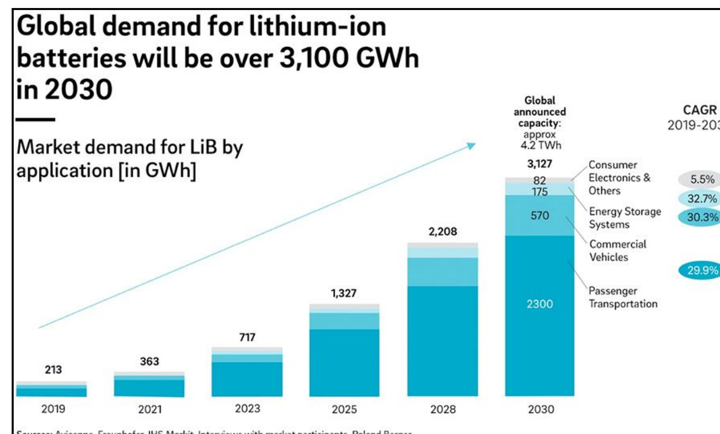
Infrastructure Investments

- *American Rescue Plan Act*
  - $350 B for maintenance of essential infrastructure, such as sewer systems and streets
- *Infrastructure Investment and Jobs Act*
  - $550 B earmarked for new investments in roads, bridges, power, water, and broadband infrastructure, public transportation, and airports
  - $6.5 B for FEMA, including outdoor warning systems



Electrification

- Showcased newest EV product offerings at recent trade shows
- Growing demand for lithium-ion batteries expected to benefit metal extraction industry



CEO Remarks – Growth Initiatives

- **Eighty-twenty improvement initiatives**
  - Ox Bodies product line simplification
  - Dedicated resource onboarded to drive additional improvement projects, including at new acquisitions
- **Aftermarket expansion**
  - Opened new facility in Colorado
  - Rental fleet investment during Q1 to support anticipated strength in demand for rentals and used equipment
- **M&A**
  - Closed Trackless acquisition in April 2023

MT7 Tractor

Snow Attachments

Maintenance Attachments

Grass Attachments

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Raising 2023 Outlook

Raising Full-Year Adjusted EPS* Outlook to a new range of $2.21 to $2.43, from the previous range of $2.15 to $2.40

Would represent highest EPS in Company's history and YoY growth of 13%-24%, despite aggregate headwind of ~$0.23 from higher interest expense and normalization of tax rate

Key Assumptions

- Also **raising low end of full-year net sales outlook by $40 M**, establishing new range of $1.62 B to $1.72 B
  - Represents YoY growth of 13% - 20% vs. $1.43 B in 2022
- Double-digit improvement in pre-tax earnings
- Depreciation and amortization expense of ~$62 M - $64 M
- Capital expenditures of $25 M to $30 M
- Interest expense of ~$20-21 M; YoY EPS headwind of ~$0.13
- Effective tax rate resets to a normalized rate between 24% and 25%, excluding additional discrete items; YoY EPS headwind of ~$0.10
- ~61-62 M weighted average shares outstanding
- No significant deterioration in current supply chain environment; assumes supply chain improves throughout year, with steady flow of customer-provided chassis
- No significant increase in current input costs
- Includes nominal contribution from Trackless acquisition

*Adjusted earnings per share ("EPS") is a non-GAAP measure, which includes certain adjustments to reported GAAP net income and diluted EPS. In 2022, we made adjustments to exclude the impact of acquisition and integration-related expenses (benefits) and debt settlement charges, where applicable. Should any similar items occur in 2023, we would expect to exclude them from the determination of adjusted EPS. However, because of the underlying uncertainty in quantifying amounts which may not yet be known, a reconciliation of our Adjusted EPS outlook to the most applicable GAAP measure is excluded based on the unreasonable efforts exception in Item 10(e)(1)(i)(B).

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Q&A

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Investor Information

Stock Ticker - NYSE:FSS

Company website: federalsignal.com/investors

HEADQUARTERS

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Appendix

Consolidated Adjusted EBITDA

$ millions, except %	Q1 2023	Q1 2022
Net income	$ 27.4	$ 20.5
Add:		
Interest expense	4.7	1.3
Acquisition and integration-related expenses	0.7	0.3
Other expense (income), net	0.1	(0.4)
Income tax expense	7.3	7.1
Depreciation and amortization	14.3	13.4
Consolidated adjusted EBITDA	$ 54.5	$ 42.2
Net Sales	$ 385.5	$ 330.2
Consolidated adjusted EBITDA margin	14.1%	12.8%

Segment Adjusted EBITDA

ESG

$ millions, except %	Q1 2023	Q1 2022
Operating Income	$ 37.6	$ 26.8
Add:		
Acquisition and integration-related expenses	0.4	0.1
Depreciation and amortization	13.2	12.4
Adjusted EBITDA	$ 51.2	$ 39.3
Net Sales	$ 318.8	$ 274.2
Adjusted EBITDA margin	16.1%	14.3%

SSG

$ millions, except %	Q1 2023	Q1 2022
Operating Income	$ 12.1	$ 7.9
Add:		
Depreciation and amortization	1.1	1.0
Adjusted EBITDA	$ 13.2	$ 8.9
Net Sales	$ 66.7	$ 56.0
Adjusted EBITDA margin	19.8%	15.9%

Non-GAAP Measures

- Adjusted net income and earnings per share (“EPS”) - The Company believes that modifying its 2023 and 2022 net income and diluted EPS provides additional measures which are representative of the Company’s underlying performance and improves the comparability of results between reporting periods. During the three months ended March 31, 2023 and 2022, adjustments were made to reported GAAP net income and diluted EPS to exclude the impact of acquisition and integration-related expenses.

- Adjusted EBITDA and adjusted EBITDA margin - The Company uses adjusted EBITDA and the ratio of adjusted EBITDA to net sales ("adjusted EBITDA margin"), at both the consolidated and segment level, as additional measures which are representative of its underlying performance and to improve the comparability of results across reporting periods. We believe that investors use versions of these metrics in a similar manner. For these reasons, the Company believes that adjusted EBITDA and adjusted EBITDA margin, at both the consolidated and segment level, are meaningful metrics to investors in evaluating the Company’s underlying financial performance.

- Consolidated adjusted EBITDA is a non-GAAP measure that represents the total of net income, interest expense, acquisition and integration-related expenses, other expense/income, income tax expense/benefit, and depreciation and amortization expense. Consolidated adjusted EBITDA margin is a non-GAAP measure that represents the total of net income, interest expense, acquisition and integration-related expenses, other expense/income, income tax expense/benefit, and depreciation and amortization expense divided by net sales for the applicable period(s).

- Segment adjusted EBITDA is a non-GAAP measure that represents the total of segment operating income, acquisition and integration-related expenses, and depreciation and amortization expense, as applicable. Segment adjusted EBITDA margin is a non-GAAP measure that represents the total of segment operating income, acquisition and integration-related expenses, and depreciation and amortization expense, as applicable, divided by net sales for the applicable period(s). Segment operating income includes all revenues, costs and expenses directly related to the segment involved. In determining segment income, neither corporate nor interest expenses are included. Segment depreciation and amortization expense relates to those assets, both tangible and intangible, that are utilized by the respective segment. Other companies may use different methods to calculate adjusted EBITDA and adjusted EBITDA margin.


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