

Earnings Release Call Third Quarter 2023

October 31, 2023

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TENNANT[®]
COMPANY

Forward-Looking Statements & Non-GAAP Measures

Certain statements contained in this document are considered “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act. These statements do not relate to strictly historical or current facts and provide current expectations or forecasts of future events. Any such expectations or forecasts of future events are subject to a variety of factors. These include factors that affect all businesses operating in a global market as well as matters specific to the Company and the markets it serves. Particular risks and uncertainties presently facing the Company include: geopolitical and economic uncertainty throughout the world; uncertainty surrounding the impacts and duration of the COVID-19 pandemic; the Company's ability to comply with global laws and regulations; the Company's ability to adapt to customer pricing sensitivities; the competition in its business; fluctuations in the cost, quality or availability of raw materials and purchased components; the Company's ability to adjust pricing to respond to cost pressures; unforeseen product liability claims or product quality issues; the Company's ability to attract, retain and develop key personnel and create effective succession planning strategies; the Company's ability to effectively develop and manage strategic planning and growth processes and the related operational plans; the Company's ability to successfully upgrade and evolve its information technology systems; the Company's ability to successfully protect its information technology systems from cybersecurity risks; the occurrence of a significant business interruption; the Company's ability to maintain the health and safety of its workers; the Company's ability to integrate acquisitions; and the Company's ability to develop and commercialize new innovative products and services. The Company cautions that forward-looking statements must be considered carefully and that actual results may differ in material ways due to risks and uncertainties both known and unknown. Information about factors that could materially affect the Company's results can be found in its 2022 Form 10-K. Shareholders, potential investors and other readers are urged to consider these factors in evaluating forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The Company undertakes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law. Investors are advised to consult any further disclosures by the Company in its filings with the Securities and Exchange Commission and in other written statements on related subjects. It is not possible to anticipate or foresee all risk factors, and investors should not consider any list of such factors to be an exhaustive or complete list of all risks or uncertainties.

Executive Summary

- ✓
 2023 Q3 organic sales growth of 13.9%
 - Net sales driven by 8.9% price growth and 5% volume

- ✓
 Backlog of ~\$214M
 - Reduced ~\$41M from Q2 '23

- ✓
 Over 100% FCF conversion from net income

- ✓
 Increase full-year guidance for 2023
 - Net Sales of \$1.23B - \$1.25B
 - Adjusted EBITDA* of \$190M - \$200M

	Q3 2023	Q3 2022	% Change
Net Sales	\$304.7	\$262.9	15.9%
Adjusted EBITDA*	\$45.9	\$33.8	35.8%
Adjusted EBITDA Margin	15.1%	12.9%	220 bps
Adjusted Diluted EPS*	\$1.34	\$0.98	36.7%

*Non-GAAP Measures: refer to the Appendix of this presentation for additional information and reconciliation

In millions of USD, except adjusted diluted EPS

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Closing Out Enterprise Strategy a Year Early

Strategic Pillars



Win where we have a competitive advantage



Reduce complexity & build scalable processes



Innovate for profitable growth

	Targets		Achievement*	
Revenue	2-3%	»	~3%	✓
EBITDA	6-10%	»	~9%	✓
EBITDA %	15%	»	15%+	✓
Years	5	»	4	✓

*Based on midpoint of 2023 guidance range

Launching New Enterprise Strategy Pivot to Growth



GROWTH

Customer-focused new product innovation

Channel expansion and new go-to-market opportunities

Price growth across product categories



PERFORMANCE

Optimizing our global processes informed by our customer value proposition

Modernize existing ERP systems and create a scalable digital infrastructure



PEOPLE

Attract, retain and develop top talent

Accelerate our Thriving People, Healthy Planet strategy across entire enterprise

Above market growth rates

Continued margin improvement

Target 100% FCF Conversion

Focused M&A Framework



Defend & Grow Cleaning Core

Closing Product Gaps
and Strengthening our
Channel Position



Expand Equipment Portfolio into Select Adjacencies

Leverage Existing
Strengths Beyond
Cleaning



Drive Value Through Connected Autonomy

Grow Recurring
Revenue Potential



M&A Priorities

Strategic Value

Operational Fit

Financial Return

Tennant Company

Financial Results Third Quarter 2023



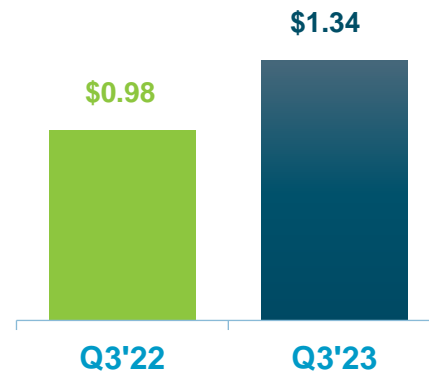
Third Quarter 2023 Financial Performance

Net Income



In millions of USD

Adjusted Diluted EPS*



Net Income

- ▶ Q3 2023 net income of \$22.9M, a \$7.3M increase compared to the same period last year
 - ▶ Driven by strong operating performance and gross margin expansion through price realization
 - ▶ Interest expense of \$3.3M increased \$1.1M in Q3 2023 due to rising interest rates on variable rate debt
 - ▶ Effective tax rate of 23.4% in line with full-year expectations

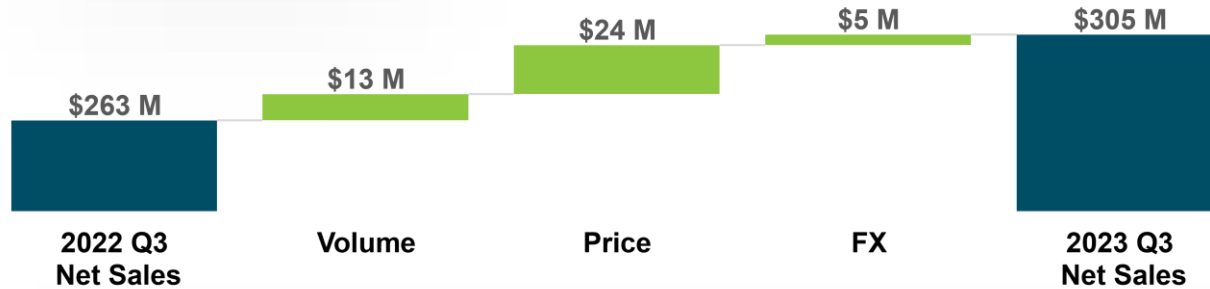
Adjusted Diluted EPS*

- ▶ Q3 2023 Adjusted EPS of \$1.34 per diluted share compared to \$0.98 per diluted share in the same period last year

*Non-GAAP Measures: refer to the Appendix of this presentation for additional information and reconciliation

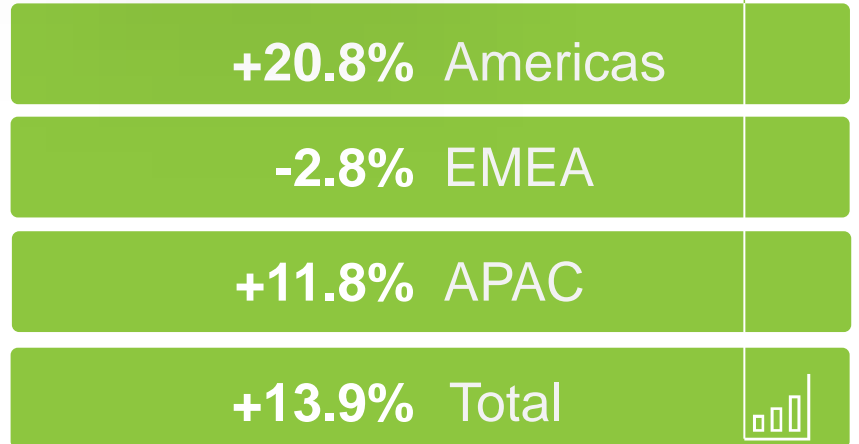
Third Quarter 2023 – Net Sales Performance

Net Sales



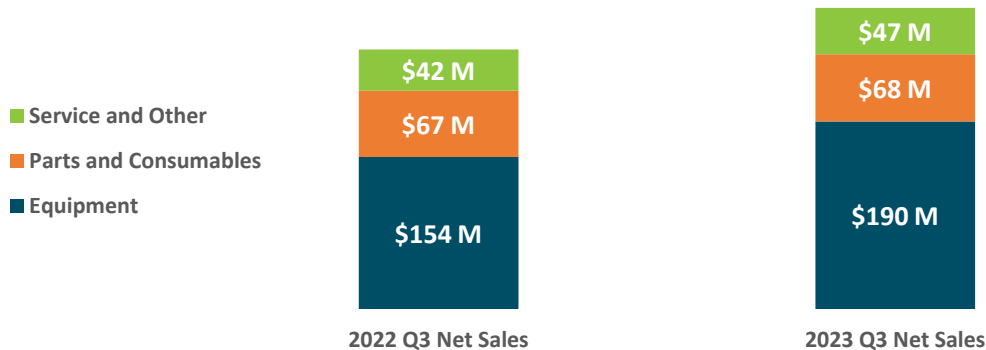
- ▶ **Favorable volume impact of ~\$13M**
Volume increases in all major geographies, except EMEA
- ▶ **Favorable price realization of ~\$24M**
Pricing realization impacting all geographies
- ▶ **Favorable foreign currency impact of ~\$5M, primarily in EMEA and APAC**

Region*

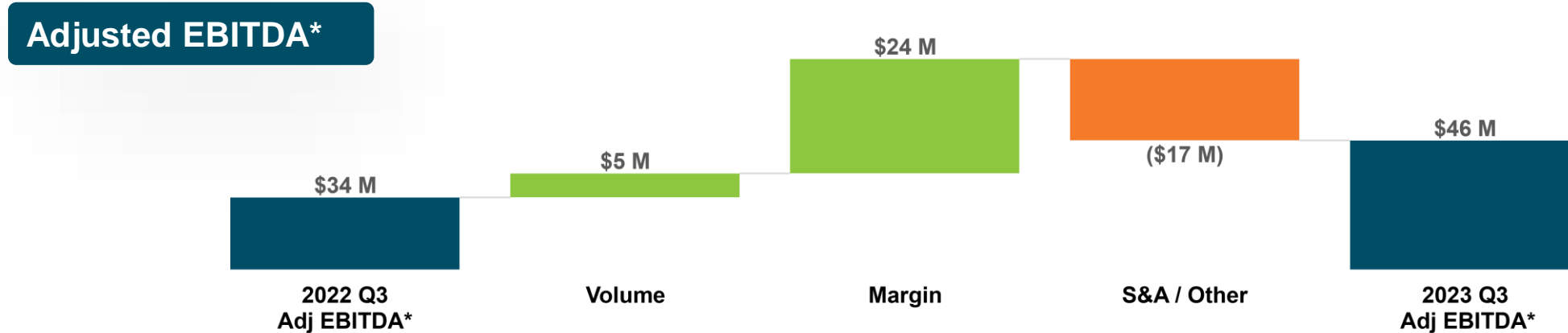


*Organic net sales growth

Categories



Third Quarter 2023 – Adjusted EBITDA Performance



► **Volume**
impact of
~\$5M

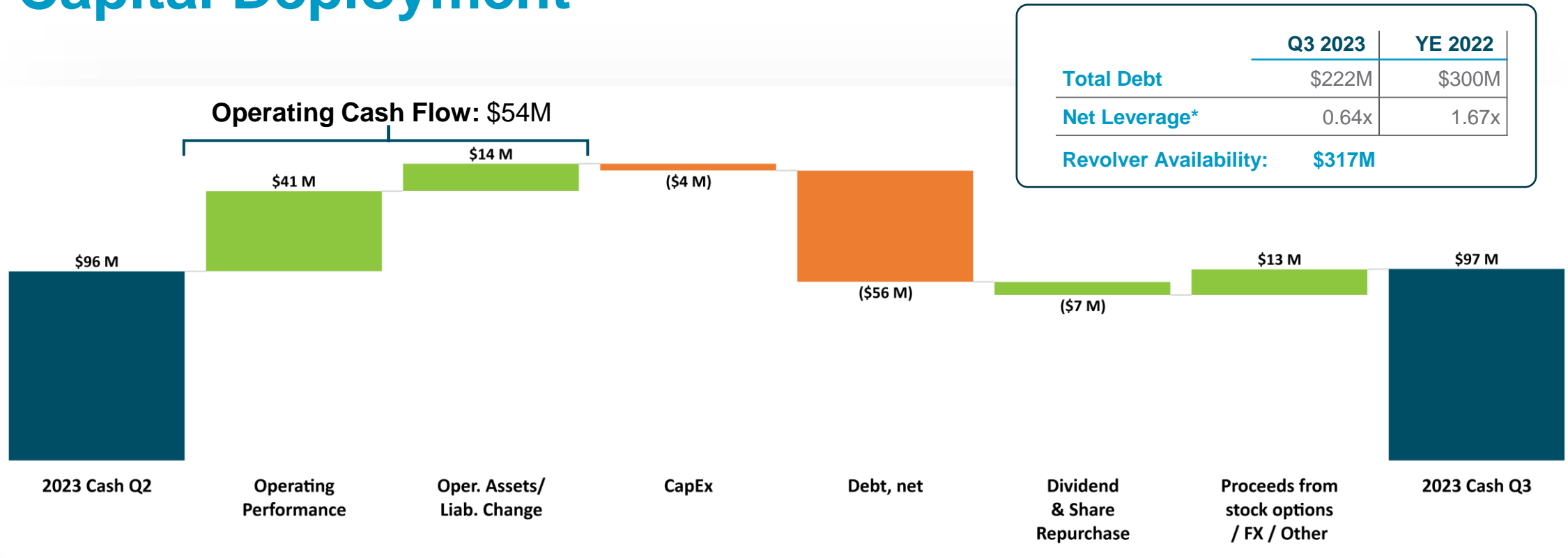
► Improvement in **gross margin** contributed ~\$24M of the increase in Adjusted EBITDA primarily due to pricing realization and improved productivity

► **S&A & Other** increase due to higher variable employee costs and investments in **R&D** to propel our innovation leadership position

► **Adjusted EBITDA Margin*** improves to 15.1% of net sales from 12.9% in prior-year period

*Non-GAAP Measures: refer to the Appendix of this presentation for additional information and reconciliation

Capital Deployment



▶ Net cash provided by operating activities of ~\$54M driven by operating performance and moderating investments in working capital

▶ Capital expenditures of ~\$4m in line with guidance expectations

▶ Debt paydown of ~\$56M reducing exposure to rising interest rates

▶ Returned capital to shareholders via dividend and share repurchases

Increase 2023 Full-Year Guidance

	Updated 2023 Guidance	Previous 2023 Guidance
Net Sales	\$1.23B - \$1.25B	\$1.2B - \$1.25B
Organic Net Sales Growth	12.5% - 14.5%	10% - 14%
Diluted EPS	\$5.00 - \$5.40	\$4.30 - \$4.95
Adjusted Diluted EPS⁽¹⁾	\$5.70 - \$6.10	\$5.10 - \$5.75
Adjusted EBITDA⁽¹⁾	\$190M - \$200M	\$175M - \$190M
Adjusted EBITDA Margin	15.4% - 16.0%	14.6% - 15.2%
Capital Expenditures	\$20M - \$25M	\$20M - \$25M
Adjusted Effective Tax Rate⁽¹⁾	20% - 25%	20% - 25%

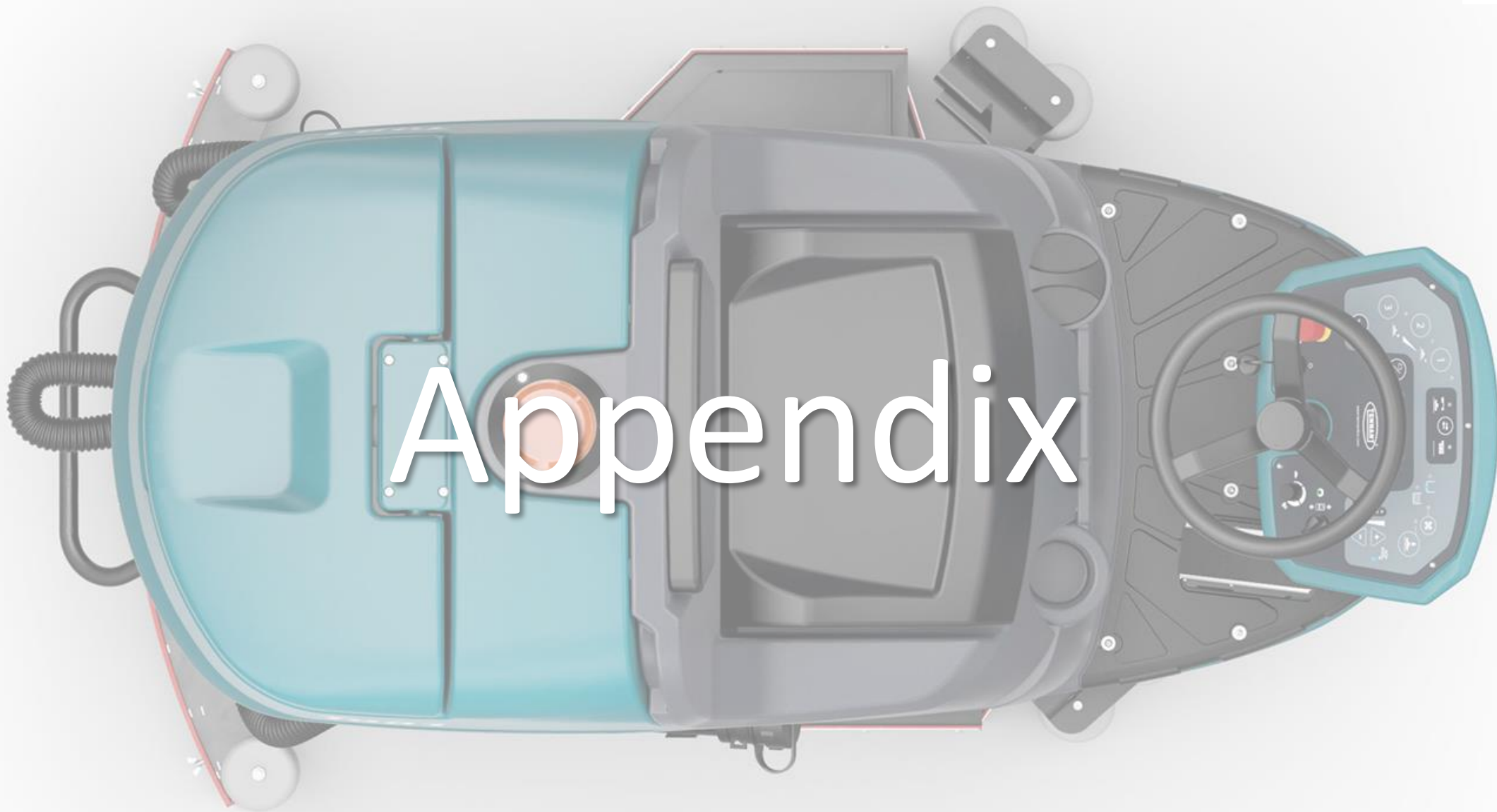
⁽¹⁾ Excludes certain nonoperational items and amortization expense.

Questions?

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Thank you

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Non-GAAP Financial Measures

This presentation and the related conference call include presentation of Non-GAAP measures that include or exclude special items of a nonrecurring and/or nonoperational nature (hereinafter referred to as “special items”). Management believes that the Non-GAAP measures provide useful information to investors regarding the Company’s results of operations and financial condition because they permit a more meaningful comparison and understanding of Tennant Company’s operating performance for the current, past or future periods. Management uses these Non-GAAP measures to monitor and evaluate ongoing operating results and trends and to gain an understanding of the comparative operating performance of the Company.

The Company believes that disclosing selling and administrative (“S&A”) expense – as adjusted, S&A expense as a percent of net sales – as adjusted, operating income – as adjusted, operating margin – as adjusted, income before income taxes – as adjusted, income tax expense – as adjusted, net income – as adjusted, net income per diluted share – as adjusted, EBITDA – as adjusted, and EBITDA margin – as adjusted (collectively, the “Non-GAAP measures”), excluding the impacts from special items, is useful to investors as a measure of operating performance. The Company uses these as one measure to monitor and evaluate operating performance. The Non-GAAP measures are financial measures that do not reflect United States Generally Accepted Accounting Principles (GAAP). The Company calculates the Non-GAAP measures by adjusting for restructuring-related charges and amortization expense, and any gain or loss on a sale of assets. The Company calculates income tax expense – as adjusted by adjusting for the tax effect of these Non-GAAP measures. The Company calculates net income per diluted share – as adjusted by adjusting for the after-tax effect of these Non-GAAP measures and dividing the result by the diluted weighted average shares outstanding. The Company calculates operating margin – as adjusted by dividing operating income – as adjusted by net sales. The Company calculates EBITDA margin – as adjusted by dividing EBITDA – as adjusted by net sales.

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SUPPLEMENTAL NON-GAAP FINANCIAL TABLES

Reported to Adjusted Net Income and Net Income Per Share

(In millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income - as reported	\$ 22.9	\$ 15.6	\$ 78.5	\$ 42.5
<u>Adjustments:</u>				
Gain on sale of assets	—	—	—	(2.8)
Amortization expense	2.5	2.7	7.9	8.8
Restructuring-related charge (S&A expense)	—	0.3	0.8	0.8
Net income - as adjusted	\$ 25.4	\$ 18.6	\$ 87.2	\$ 49.3
Net income per share - as reported:				
Diluted	\$ 1.21	\$ 0.83	\$ 4.19	\$ 2.27
<u>Adjustments:</u>				
Gain on sale of assets	—	—	—	(0.15)
Amortization expense	0.13	0.14	0.42	0.47
Restructuring-related charge (S&A expense)	—	0.01	0.04	0.04
Net income per diluted share - as adjusted	\$ 1.34	\$ 0.98	\$ 4.65	\$ 2.63

Reported Net Income to Adjusted Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)

(In millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income - as reported	\$ 22.9	\$ 15.6	\$ 78.5	\$ 42.5
<u>Less:</u>				
Interest expense, net	3.3	2.2	11.0	3.7
Income tax expense	7.0	4.2	23.3	12.3
Depreciation expense	9.2	7.6	26.4	24.0
Amortization expense	3.5	3.7	11.0	12.1
EBITDA	45.9	33.3	150.2	94.6
<u>Adjustments:</u>				
Gain on sale of assets	—	—	—	(3.7)
Restructuring-related charge (S&A expense)	—	0.5	1.2	1.1
EBITDA - as adjusted	\$ 45.9	\$ 33.8	\$ 151.4	\$ 92.0
<i>EBITDA margin - as adjusted</i>	<i>15.1 %</i>	<i>12.9 %</i>	<i>16.2 %</i>	<i>11.5 %</i>

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SUPPLEMENTAL NON-GAAP FINANCIAL TABLES

Reported to Adjusted Selling and Administrative Expense (S&A expense) and Operating Income

(In millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
S&A expense - as reported	\$ 88.2	\$ 71.4	\$ 256.9	\$ 227.1
<i>S&A expense as a percent of net sales - as reported</i>	28.9 %	27.2 %	27.6 %	28.3 %
Adjustments:				
Restructuring-related charge (S&A expense)	—	(0.5)	(1.2)	(1.1)
S&A expense - as adjusted	\$ 88.2	\$ 70.9	\$ 255.7	\$ 226.0
<i>S&A expense as a percent of net sales - as adjusted</i>	28.9 %	27.0 %	27.4 %	28.2 %
Operating income - as reported	\$ 34.7	\$ 21.4	\$ 114.1	\$ 58.8
<i>Operating margin - as reported</i>	11.4 %	8.1 %	12.2 %	7.3 %
Adjustments:				
Gain on sale of assets	—	—	—	(3.7)
Restructuring-related charge (S&A expense)	—	0.5	1.2	1.1
Operating income - as adjusted	\$ 34.7	\$ 21.9	\$ 115.3	\$ 56.2
<i>Operating margin - as adjusted</i>	11.4 %	8.3 %	12.4 %	7.0 %

Reported to Adjusted Income Before Income Taxes and Income Tax Expense

(In millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Income before income taxes - as reported	\$ 29.9	\$ 19.8	\$ 101.8	\$ 54.8
Adjustments:				
Gain on sale of assets	—	—	—	(3.7)
Amortization expense	3.5	3.7	11.0	12.1
Restructuring-related charge (S&A expense)	—	0.5	1.2	1.1
Income before income taxes - as adjusted	\$ 33.4	\$ 24.0	\$ 114.0	\$ 64.3
Income tax expense - as reported	\$ 7.0	\$ 4.2	\$ 23.3	\$ 12.3
<i>Effective tax rate - as reported</i>	23.4 %	21.2 %	22.9 %	22.4 %
Adjustments⁽¹⁾:				
Gain on sale of assets	—	—	—	(0.9)
Amortization expense	1.0	1.0	3.1	3.3
Restructuring-related charge (S&A expense)	—	0.2	0.4	0.3
Income tax expense - as adjusted	\$ 8.0	\$ 5.4	\$ 26.8	\$ 15.0
<i>Effective tax rate - as adjusted</i>	24.0 %	22.5 %	23.5 %	23.3 %

⁽¹⁾ In determining the tax impact, we applied the statutory rate in effect for each jurisdiction where income or expenses were generated.