Lydall

Q3 2013 Earnings Conference Call

November 4, 2013

SPECIALTY ENGINEERED PRODUCTS & MATERIALS

AUTOMOTIVE

Thermal/Acoustical Metals

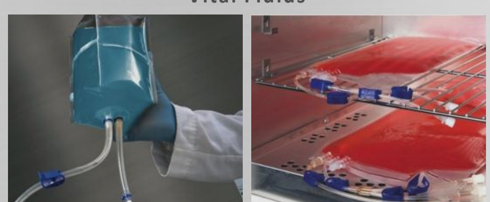
Thermal/Acoustical Fibers

FILTRATION & ENGINEERED MATERIALS

Performance Materials

LIFE SCIENCES

Vital Fluids



Forward-looking Statements

This presentation contains “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Any statements contained in this presentation that are not statements of historical fact may be deemed to be forward-looking statements. All such forward-looking statements are intended to provide management’s current expectations for the future operating and financial performance of the Company based on current expectations and assumptions relating to the Company’s business, the economy and other future conditions. Forward-looking statements generally can be identified through the use of the words such as: “believes,” “anticipates,” “may,” “should,” “will,” “plans,” “projects,” “expects,” “estimates,” “forecasts,” “predicts,” “targets,” “prospects,” “strategy,” “signs,” and other words of similar meaning in connection with the discussion of future operating or financial performance. Because forward-looking statements relate to the future, they are subject to inherent risks, uncertainties and changes in circumstances that are difficult to predict. Such risks and uncertainties include, among others, worldwide economic cycles that affect the markets which the businesses serve which could have an effect on demand for the Company’s products and impact the Company’s profitability; disruptions in the global credit and financial markets, including diminished liquidity and credit availability; swings in consumer confidence and spending; unstable economic growth; raw material pricing and supply issues; fluctuations in unemployment rates; and increases in fuel prices, which could cause economic instability and could have a negative impact on the Company’s results of operations and financial condition. Accordingly, the Company’s actual results may differ materially from those contemplated by these forward-looking statements. Investors, therefore, are cautioned against relying on any of these forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. Additional information regarding the factors that may cause actual results to differ materially from these forward-looking statements is available in our filings with the Securities and Exchange Commission, including the risks and uncertainties identified in Part I, Item 1A - Risk Factors of Lydall’s Annual Report on Form 10-K for the year ended December 31, 2012.

These forward-looking statements speak only as of the date of this presentation, and Lydall does not assume any obligation to update or revise any forward-looking statement made in this presentation or that may, from time to time, be made by or on behalf of the Company.

Q3 2013 Financial Highlights

- Net sales of $98.0 million compared to $94.2 million in Q3 2012, or a 4.1% increase
- Operating income was $7.4 million, or 7.5% of net sales, compared to operating income of $5.2 million, or 5.5% of net sales, in Q3 2012
- Net income was $4.6 million, or $0.27 per diluted share, compared to $3.9 million, or $0.23 per diluted share in Q3 2012
- Quarter end Q3 2013 cash balance of $60.0 million, versus $63.6 million as of December 31, 2012

Q3 2013 vs. Q3 2012 Summary Statements of Operations

($ in 000)	Q3 2013	Q3 2012	Var $	Var %
Net sales	97,995	94,167	*3,828*	4.1%
Gross profit	20,494	19,269	*1,225*	6.4%
%	*20.9%*	*20.5%*	*0.4%*	
Selling, product development and administrative expenses	13,108	14,069	*(961)*	-6.8%
%	*13.4%*	*14.9%*	*-1.5%*	
Operating income	7,386	5,200	*2,186*	
%	*7.5%*	*5.5%*	*2.0%*	
Interest expense	77	96	*(19)*	
Other Income, net	(16)	(19)	*3*	
Income before income taxes	7,325	5,123	*2,202*	
Income tax expense	2,750	1,248	*1,502*	
As % of pre-tax income	*37.5%*	*24.4%*	*13.1%*	
Net income	**4,575**	**3,875**	***700***	
Diluted earnings per share	$ 0.27	$ 0.23	*$ 0.04*	

Comments

- Net sales increased 4.1% driven by increased sales in the Thermal/Acoustical Fibers segment, partially offset by decreased sales in the Performance Materials and the Thermal/Acoustical Metals segments
- Gross margin increased 45 basis points driven by improved gross margin from the Thermal/Acoustical Metals segment
- Effective tax rate in Q3 2013 was 37.5% compared to 24.4% in Q3 2012 that included the reversal of valuation allowance of $0.5 million or an increase of $0.03 per diluted share

Summary Balance Sheets

($ in 000)	Sep. 30, 2013	Dec. 31, 2012	Var $
Cash	59,996	63,623	(3,627)
Accounts receivable, net	63,708	47,486	16,222
Inventories	38,576	31,292	7,284
Prepaids and other current assets	10,260	9,400	860
Total current assets	**172,540**	**151,801**	**20,739**
Property, plant and equipment, net	77,152	76,254	898
Goodwill and other intangible assets	22,044	22,107	(63)
Other assets, net	1,049	1,754	(705)
Total assets	**272,785**	**251,916**	**20,869**
Accounts payable	34,317	29,441	4,876
Accrued payroll and other compensation	9,158	10,273	(1,115)
Other current liabilities	7,056	6,636	420
Total current liabilities	**50,531**	**46,350**	**4,181**
Long-term debt	1,201	1,646	(445)
Benefit plan and other long-term liabilities	33,149	29,424	3,725
Total liabilities	**84,881**	**77,420**	**7,461**
Total stockholders' equity	**187,904**	**174,496**	**13,408**
Total liabilities and stockholders' equity	**272,785**	**251,916**	**20,869**

Comments

Inventory & Receivable Days [1]

	Inventory	Receivable
Q3 2013	45.7	54.7
Q3 2012	41.4	52.7
FY 2012	41.2	51.7

[1] Inventory and receivable days are calculated using three-month and twelve-month average balances as applicable

Summary Statements of Cash Flows

($ in 000)	Nine Month Ended Sep 2013	Sep 2012	Var $
Cash flows from operating activities:			
Net Income	$ 15,022	$ 14,379	643
Adjustments to reconcile net income to net cash flow from operating activities			
Gain from sale of product line, net	-	(810)	810
Depreciation and amortization	9,586	10,346	(760)
Deferred income taxes	2,722	(687)	3,409
Stock based compensation	1,187	1,040	147
Loss on disposition of assets	234	101	133
Changes in operating assets and liabilities:			
Accounts receivable	(15,768)	(11,136)	(4,632)
Inventories	(6,950)	810	(7,760)
Accounts payable	4,635	5,678	(1,043)
Accrued payroll and other compensation	(1,253)	(16)	(1,237)
Accrued taxes	(1,247)	401	(1,648)
Other, net	2,740	(895)	3,635
Net cash provided by operating activities	**10,908**	**19,211**	**(8,303)**
Cash flows from investing activities:			
Capital expenditures	(9,502)	(7,945)	(1,557)
Acquisition earn out payments	(158)	-	(158)
Proceeds from sale of product line	-	1,000	(1,000)
Proceeds from maturity of short-term investments	-	12,015	(12,015)
Net cash (used for) provided by investing activities	**(9,660)**	**5,070**	**(14,730)**
Cash flows from financing activities			
Debt repayments	(536)	(778)	242
Common stock repurchased	(6,411)	(3,076)	(3,335)
Excess tax benefit on stock awards	197	-	197
Common stock issued	1,204	303	901
Net cash used for financing activities	**(5,546)**	**(3,551)**	**(1,995)**
Effect of exchange rate changes on cash	671	(124)	795
(Decrease) increase in cash and cash equivalents	(3,627)	20,606	(24,233)
Cash and cash equivalents at beginning of period	63,623	30,905	
Cash and cash equivalents at end of period	**59,996**	**51,511**	

Performance Materials

	Q3 2013	Q3 2012	Var $	Var %
($ in 000)				
Net sales				
Industrial Filtration	15,536	17,035	(1,499)	-8.8%
Industrial Thermal Insulation	9,877	10,647	(770)	-7.2%
Life Sciences Filtration	2,447	3,128	(681)	-21.8%
Performance Materials Segment	27,860	30,810	(2,950)	-9.6%
Operating income	2,419	3,325	(906)	
% of net sales	8.7%	10.8%		

- Net sales decreased in the Industrial Filtration business primarily from lower global demand for air filtration products
- Net sales decreased in the Industrial Thermal Insulation business due to the divestiture of the electrical papers product line in a prior year by $1.1 million, which was partially offset by higher sales of cryogenic products
- Net sales decreased in the Life Sciences Filtration business due to decreased demand for products used in respiration applications
- Operating income decreased in Q3 2013 due to reduced revenues and lower absorption of fixed overhead costs, as well as unfavorable mix among product sales offset by lower selling, product development and administrative expenses

Thermal/Acoustical Metals

($ in 000)	Q3 2013	Q3 2012	Var $	*Var %*
Net sales				
Metal parts	**32,910**	**31,347**	**1,563**	**5.0%**
Tooling	**2,939**	**5,249**	**(2,310)**	**-44.0%**
Thermal/Acoustical Metals Segment	**35,849**	**36,596**	**(747)**	**-2.0%**
Operating income	**3,742**	**2,612**	**1,130**	
% of net sales	**10.4%**	**7.1%**		

- Parts sales increased due to higher North America parts sales and a modest improvement in European parts sales due to foreign currency translation. Foreign currency translation increased net sales by $1.1M in the current quarter compared to Q3 2012
- Tooling sales were lower due to timing of new product launches
- Increase in operating income was primarily attributable to reduced raw material costs, improved absorption of fixed overhead costs, favorable mix between parts and tooling sales and a $0.5 million unfavorable non-recurring pricing adjustment in Q3 2012
- Expansion into China is on track and we anticipate being fully operational in the first half of 2014

Thermal/Acoustical Fibers

($ in 000)	Q3 2013	Q3 2012	Var $	Var %
Net sales				
Fiber parts	26,642	23,484	3,158	13.4%
Tooling	4,533	146	4,387	3004.8%
Thermal/Acoustical Fibers Segment	31,175	23,630	7,545	31.9%
Operating income	5,206	3,445	1,761	
% of net sales	16.7%	14.6%		

- Parts sales increase in Q3 2013 was driven by higher consumer demand in North America on Lydall's existing platforms and new platform launches

- Increase in tooling sales was due to timing of new product launches

- Increase in operating income in Q3 2013 compared to Q3 2012 was attributable to higher net sales, improved absorption of fixed overhead costs, favorable raw material pricing, and other cost savings from manufacturing efficiency improvements

Other Products and Services

	Q3 2013	Q3 2012	Var $	Var %
($ in 000)				
Net sales				
Life Sciences Vital Fluids	4,114	4,326	(212)	-4.9%
Other Products and Services	4,114	4,326	(212)	-4.9%
Operating income				
Life Sciences Vital Fluids	112	354	(242)	
Other Products and Services	112	354	(242)	
% of net sales	2.7%	8.2%		

- Life Sciences Vital Fluids net sales for Q3 2013 decreased due to lower volumes of bioprocessing net sales
- Operating income for Life Sciences Vital Fluids decreased in Q3 2013 compared to Q3 2012 primarily due to higher selling costs associated with the distribution of the CELLution Biotech and Ipratech equipment in advance of orders as these initiatives ramp up.

Summary

- Q3 2013 consolidated operating margin is 200 basis points higher than Q3 2012
- Expect global demand for products to remain stable in the final quarter of 2013; anticipate operating results in fourth quarter will be impacted by unfavorable shift in product mix and seasonality
- Remain focused on increasing margins in all businesses through our Lydall Lean Six Sigma continuous improvement program
- Committed to funding organic growth programs, capital investments and pursuing strategic growth opportunities