

# Q3 2018 Earnings Conference Call

Quarter ended  
September 30, 2018

Performance Materials



FILTRATION &  
ENGINEERED  
MATERIALS

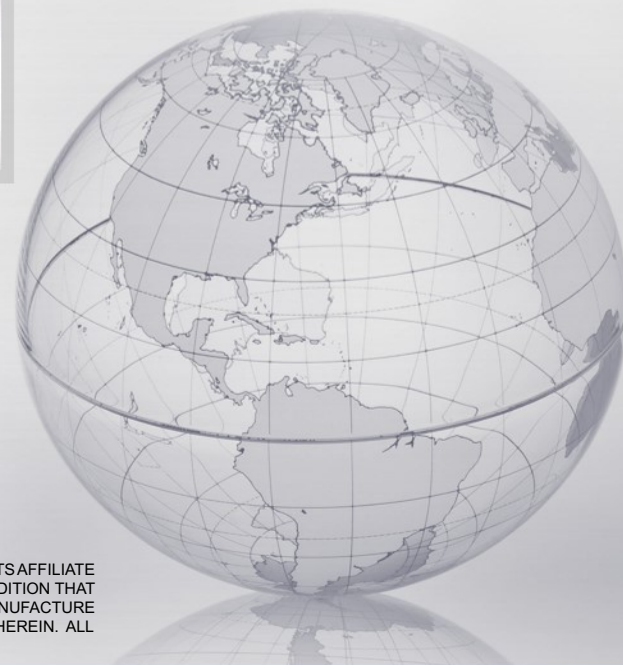
Technical Nonwovens



Thermal Acoustical Solutions



AUTOMOTIVE



# Forward-looking Statements

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This presentation contains “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. These 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, and generally can be identified through the use of words such as “believes,” “anticipates,” “may,” “should,” “will,” “plans,” “projects,” “expects,” “estimates,” “forecasts,” “predicts,” “targets,” “prospects,” “strategy,” “signs,” and other words of similar meaning. These forward-looking statements are not guarantees of future results and are subject to risks, uncertainties and assumptions that could cause actual results to differ materially and adversely from those expressed in any forward-looking statement. Investors, therefore, are cautioned against relying on any of these forward-looking statements. Lydall’s Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and other Securities and Exchange Commission filings discuss important risk factors that could affect the Company’s business, results of operations and financial condition.

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.

This presentation contains non-GAAP financial measures as defined by SEC regulations. The Appendix of this presentation includes a reconciliation to the most comparable GAAP measures.

# Highlights of Q3 2018 vs. Q3 2017

## Growth<sup>1</sup>

- Record Sales of \$197.9m, up 9.9% year over year
- Organic sales growth of 2.8%, led by Thermal Acoustical Solutions
- Continued strength in Thermal Acoustical Solutions China Sales up 34% year to date
- Strong backlog in Filtration & Engineered Materials

## Profitability<sup>1</sup>

- Continued commodity headwinds, higher costs, and mix impacted adjusted gross margins, down 380 bps to 18.7%
- Sequential operating margin erosion of 110 basis points from Q2-18
- SG&A spending leveraged decreased year over year, contributing +90bps to adjusted operating margin

## Other

- Completed Interface Performance Materials acquisition

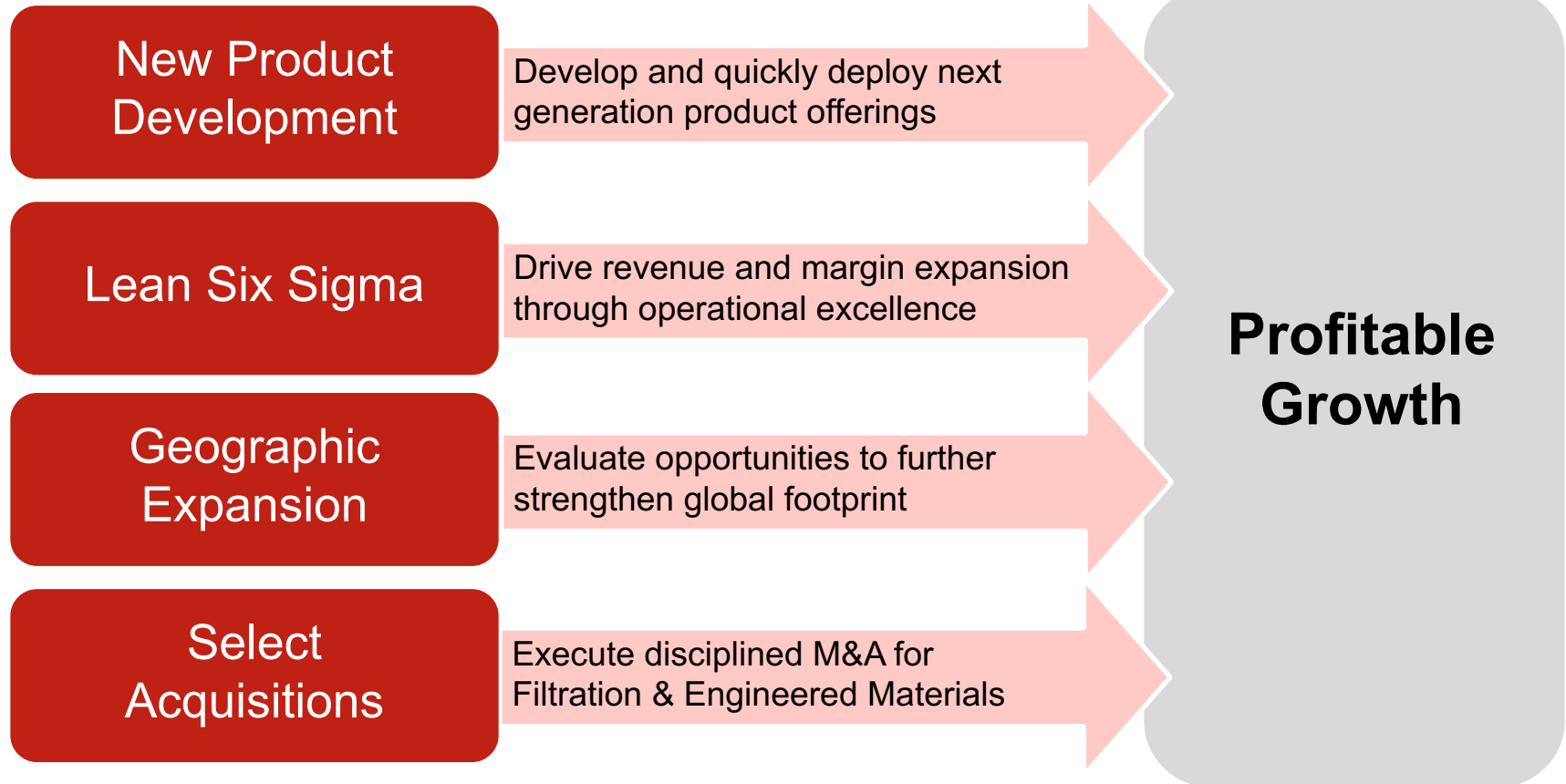


- Technical Nonwovens integration and restructuring activities on track

<sup>1</sup> Reference Appendix for reconciliation between adjusted and GAAP financials

# Clear, Consistent Strategy for Profitable Growth

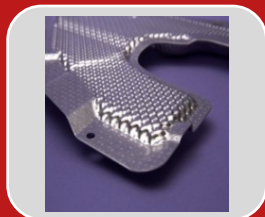
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# Business Conditions

## Automotive

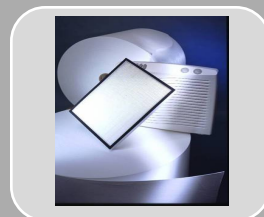
### Thermal Acoustical Solutions



- Above market growth in all regions
- China ramp up continues to outpace market rates; closely monitoring China auto sales
- Commodity headwinds continue, further impacted by recent tariff issues

## Filtration & Engineered Materials

### Performance Materials



- Stable demand in Europe and North America
- Softness in China for cryogenic insulation
- Price increases gaining traction
- Strong backlog

### Technical Nonwovens



- Stable demand and normal seasonality in Filtration and Advanced Materials
- Monitoring supply constraints on aramid fibers
- Strong backlog

# Financial Highlights of Q3 2018 vs. prior year

Income Statement <sup>1</sup>	Q3-18	vPY	YTD Q3	vPY
Net sales (\$millions) <i>Organic Growth</i>	<b>\$197.9</b>	+9.9% +2.8%	<b>\$576.0</b>	+10.7% 3.1%
Adjusted gross margin	<b>18.7%</b>	-380 bps	<b>19.8%</b>	-440 bps
Adjusted operating margin	<b>6.6%</b>	-290 bps	<b>7.3%</b>	-320 bps
Adjusted EBITDA (\$millions) <i>EBITDA Margin</i>	\$21.5 10.8%	-7.3% -210 bps	\$64.8 11.3%	-10.5% -260 bps
Adjusted EPS	<b>\$0.54</b>	-\$0.07	<b>\$1.90</b>	-\$0.24

## Balance Sheet

- Cash balance of \$44.1m as of September 30, 2018
- \$338M in total borrowings outstanding

## Cash Flows

- Capital expenditures estimated to be ~\$30-35m for 2018
- Cash flows from operations of \$14.5m year to date

<sup>1</sup>Reference Appendix for reconciliation between adjusted and GAAP financials

# Thermal Acoustical Solutions

(\$ in 000)	Q3 2018	Adj.	Var \$	Var %	YTD 2018	Adj.	Var \$	Var %
		Q3 2017				YTD 2017		
Net sales								
Parts	77,723	75,195	2,528	3.4%	248,764	237,657	11,107	4.7%
Tooling	10,488	9,181	1,307	14.2%	31,053	17,505	13,548	77.4%
Thermal Acoustical Solutions Segment	88,211	84,376	3,835	4.5%	279,817	255,162	24,655	9.7%
Operating income	7,923	11,696	(3,773)		29,357	42,600	(13,243)	
% of net sales	9.0%	13.9%			10.5%	16.7%		

## Highlights

- Sales growth in all regions, led by continued strength in China. Organic growth of 3.3% net of 0.5% point FX headwind and stronger tooling sales which contributed 1.7% points of growth
- Operating profit impacted down \$3.8M driven by higher commodity and production costs impacting adjusted operating margin by -290 bps



*New 440 ton high speed press operational at Hamptonville, NC facility*

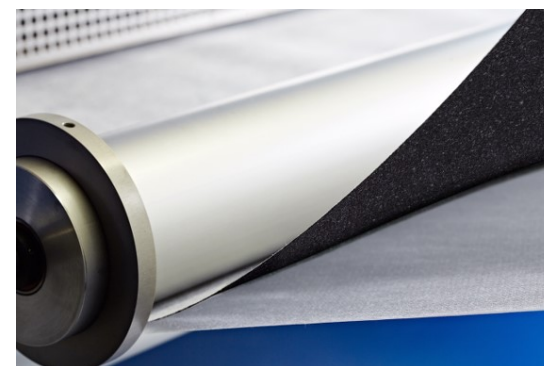
<sup>1</sup>Reference Appendix for reconciliation between adjusted and GAAP financials

# Performance Materials

(\$ in 000)	Q3 2018				Q3 2017			
	Adj. Q3 2018	Q3 2017	Var \$	Var %	Adj. YTD 2018	YTD 2017	Var \$	Var %
Net sales								
Filtration	22,643	22,263	380	1.7%	68,846	65,483	3,363	5.1%
Sealing and Advanced Solutions	19,077	7,284	11,793	161.9%	34,801	22,116	12,685	57.4%
Performance Materials Segment	41,720	29,547	12,173	41.2%	103,647	87,599	16,048	18.3%
Operating Income	3,143	3,133	10		9,433	8,725	708	
% of net sales	7.5%	10.6%			9.1%	10.0%		

## Highlights

- Interface Performance Materials acquisition adds \$11.8M to top-line sales, while legacy business impacted by lower specialty insulation sales in China.
- Adjusted for inventory step up, Q3 operating margin decreased by 310 bps on unfavorable product mix and higher amortization expense of \$0.9M or 210 bps.



*LydAir GP Gas Phase filtration media*

<sup>1</sup>Reference Appendix for reconciliation between adjusted and GAAP financials



# Technical Nonwovens

(\$ in 000)								
	Adj. Q3 2018	Adj. Q3 2017	Var \$	Var %	Adj. YTD 2018	Adj. YTD 2017	Var \$	Var %
Net sales								
Industrial Filtration	40,945	38,346	2,599	6.8 %	120,346	108,884	11,462	10.5%
Advanced Materials	32,126	34,960	(2,834)	(8.1)%	91,978	90,438	1,540	1.7%
Technical Nonwovens Segment	73,071	73,306	(235)	(0.3)%	212,324	199,322	13,002	6.5%
Operating Income	6,790	8,826	(2,036)		19,333	21,681	(2,348)	
% of net sales	9.3%	12.0%			9.1%	10.9%		

## Highlights

- Organic growth of 1.6%, net of 1.9% point FX headwind, led by gains in Industrial Filtration markets domestically and in Europe, offset by lower Automotive sales in the Advanced Materials segment.
- Adjusted operating margin of 9.3% decreased 270 basis points primarily due to higher raw materials costs, net of pricing actions, unfavorable mix, and 40 bps of incremental intangibles amortization expense.
- Integrations on track; expect to meet or exceed anticipated synergy goals



Industrial Filtration:  
Gutsche Porotex Filtration bag

<sup>1</sup>Reference Appendix for reconciliation between adjusted and GAAP financials

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# *Appendix*

# Q2 2018 vs. Q2 2017 Summary Statements of Operations

## As Reported

(\$ in 000)	Quarters Ended September 30,		
	2018	2017	Var \$
Net sales	197,886	180,041	17,845
Gross profit	35,139	40,054	(4,915)
%	17.8%	22.2%	(4.4)%
Selling, product development and administrative expenses	25,406	24,700	706
%	12.8%	13.7%	(0.9)%
Operating income	9,733	15,354	(5,621)
%	4.9%	8.5%	(3.6)%
Interest expense	1,505	705	800
Other (income) expense, net	(40)	601	(641)
Income before income taxes	8,268	14,048	(5,780)
Income tax expense	2,076	3,404	(1,328)
<i>As % of income</i>	25.1%	24.2%	0.9 %
(Income) loss from equity method investments	(64)	(31)	(33)
<b>Net income</b>	<b>6,256</b>	<b>10,675</b>	<b>(4,419)</b>
Diluted earnings per share	\$ 0.36	\$ 0.62	\$ (0.26)

# Summary Balance Sheets

(\$ in 000)	<u>Sep. 30, 2018</u>	<u>Dec. 31, 2017</u>	Var \$
Cash	44,074	59,875	(15,801)
Accounts receivable, net	163,984	116,712	47,272
Contract assets	24,756	—	24,756
Inventories	91,879	80,339	11,540
Prepays and other current assets	17,513	16,569	944
Total current assets	<u>342,206</u>	<u>273,495</u>	68,711
Property, plant and equipment, net	211,931	170,332	41,599
Goodwill and other intangible assets	340,903	109,512	231,391
Other assets, net	8,199	7,532	667
Total assets	<u><u>903,239</u></u>	<u><u>560,871</u></u>	<u><u>342,368</u></u>
Accounts payable	88,195	71,931	16,264
Accrued payroll and other compensation	15,317	15,978	(661)
Other current liabilities	28,244	14,197	14,047
Total current liabilities	<u>131,756</u>	<u>102,106</u>	29,650
Long-term debt	327,674	76,913	250,761
Benefit plan and other long-term liabilities	66,760	28,456	38,304
Total liabilities	<u>526,190</u>	<u>207,475</u>	318,715
Total stockholders' equity	<u>377,049</u>	<u>353,396</u>	23,653
Total liabilities and stockholders' equity	<u><u>903,239</u></u>	<u><u>560,871</u></u>	<u><u>342,368</u></u>

# Summary Statements of Cash Flows

	Nine Months Ended September 30,	
	2018	2017
	(Unaudited)	
<b>Cash flows from operating activities:</b>		
<b>Net income</b>	\$ 27,760	\$ 35,469
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of business	—	—
Depreciation and amortization	22,442	19,386
Long-lived asset impairment charge	—	772
Inventory step-up amortization	1,390	1,108
Deferred income taxes	340	(466)
Stock-based compensation	3,187	3,240
(Income) loss from equity method investment	(120)	37
Loss on disposition of property, plant and equipment	100	—
Changes in operating assets and liabilities:		
Accounts receivable	(25,407)	(12,138)
Contract assets	(5,443)	—
Inventories	(12,160)	(11,795)
Accounts payable	8,296	18,071
Accrued payroll and other compensation	(1,406)	2,044
Accrued taxes	981	(2,826)
Benefit plan liabilities	(7,635)	(3,797)
Other, net	2,173	(2,913)
<b>Net cash provided by operating activities</b>	<u>14,498</u>	<u>46,192</u>
<b>Cash flows from investing activities:</b>		
Business acquisitions, net of cash acquired	(269,972)	(335)
Capital expenditures	(20,091)	(19,918)
Proceeds from the sale of property, plant and equipment	282	—
<b>Net cash used for investing activities</b>	<u>(289,781)</u>	<u>(20,253)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from borrowings	338,000	—
Debt repayments	(76,794)	(35,674)
Debt issuance cost payments	(538)	—
Common stock issued	846	409
Common stock repurchased	(956)	(2,592)
<b>Net cash provided by (used for) financing activities</b>	<u>260,558</u>	<u>(37,857)</u>
Effect of exchange rate changes on cash	(1,076)	4,690
Decrease in cash and cash equivalents	(15,801)	(7,228)
Cash and cash equivalents at beginning of period	\$ 59,875	\$ 71,934
<b>Cash and cash equivalents at end of period</b>	44,074	64,706
<b>Free Cash Flow (Cash provided by ops - Cap exp)</b>	(5,593)	26,274

# Reconciliation Between Adjusted and Reported GAAP Financials

In millions except per share data	For the quarter ended September 30, 2018			For the quarter ended September 30, 2017		
	As Reported,	Adjustments	Adjusted	As Reported,	Adjustments	Adjusted
Net sales	\$ 197,886	\$ —	\$ 197,886	\$ 180,041	—	\$ 180,041
Cost of sales	162,747	(1,790) (a)	160,957	139,987	(370) (d)	139,617
Gross profit	35,139	1,790	36,929	40,054	370	40,424
Gross margin	17.8%		18.7%	22.2%		22.5%
Selling, product development and administrative expenses	25,406	(1,633) (b)	23,773	24,700	(1,390) (e)	23,310
Operating income	9,733	3,423	13,156	15,354	1,760	17,114
Operating margin	4.9%		6.6%	8.5%		9.5%
Interest expense	1,505	—	1,505	705	—	705
Other income, net	(40)	—	(40)	601	—	601
Income before income taxes	8,268	3,423	11,691	14,048	1,760	15,808
Income tax expense	2,076	386 (c)	2,462	3,404	1,957 (f)	5,361
Income (loss) from equity method	(64)	—	(64)	(31)	—	(31)
Net income	\$ 6,256	\$ 3,037	\$ 9,293	\$ 10,675	(197)	\$ 10,478
Earnings per share						
Basic	\$ 0.36		\$ 0.54	\$ 0.63		\$ 0.61
Diluted	\$ 0.36		\$ 0.54	\$ 0.62		\$ 0.61
Weighted average number of common shares outstanding						
Basic	17,216		17,216	17,055		17,055
Diluted	17,349		17,349	17,267		17,267

- (a) Exclude the inventory step-up purchase accounting adjustment of \$1.4 million related to the Interface acquisition and the restructuring expenses of \$0.4 million related to the Technical Nonwovens segment.
- (b) Exclude the the strategic initiatives expenses of \$1.5 million and the restructuring expenses of \$0.1 million related to the Technical Nonwovens segment.
- (c) Exclude the tax benefits realized on the adjustments in (a) and (b) of \$0.4 million.
- (d) Exclude the inventory step-up purchase accounting adjustment of \$0.1 million related to the Texel acquisition, the restructuring expenses of \$0.2 million related to the Technical Nonwovens segment and expenses of \$0.1 million related to the consolidation of Thermal Acoustical Solutions segment.
- (e) Exclude the strategic initiative expenses of \$0.3 million and expenses of \$1.1 million related to the consolidation of the Thermal Acoustical Solutions segment.
- (f) Exclude the tax benefit realized on the adjustments in (a) and (b) of \$0.6 million and the tax benefits realized on discrete tax adjustments of \$1.4 million.

# Reconciliation Between Adjusted and Reported GAAP Financials

In millions except per share data	For the nine months ended September 30, 2018			For the nine months ended September 30, 2017		
	As Reported,	Adjustments	Adjusted	As Reported,	Adjustments	Adjusted
Net sales	\$ 575,959	\$ —	\$ 575,959	\$ 520,407	—	\$ 520,407
Cost of sales	465,186	(3,114) (a)	462,072	396,528	(1,928) (d)	394,600
Gross profit	110,773	3,114	113,887	123,879	1,928	125,807
Gross margin	19.2%		19.8%	23.8%		24.2%
Selling, product development and administrative expenses	74,755	(3,017) (b)	71,738	73,339	(2,282) (e)	71,057
Operating income	36,018	6,131	42,149	50,540	4,210	54,750
Operating margin	6.3%		7.3%	9.7%		10.5%
Interest expense	2,617	—	2,617	2,106	—	2,106
Other income, net	(93)	—	(93)	1,727	—	1,727
Income before income taxes	33,494	6,131	39,625	46,707	4,210	50,917
Income tax expense	5,854	880 (c)	6,734	11,201	2,635 (f)	13,836
Income (loss) from equity method	(120)	—	(120)	37	—	37
Net income	\$ 27,760	\$ 5,251	\$ 33,011	\$ 35,469	1,575	\$ 37,044
Earnings per share						
Basic	\$ 1.61		\$ 1.92	\$ 2.08		\$ 2.18
Diluted	\$ 1.60		\$ 1.90	\$ 2.05		\$ 2.14
Weighted average number of common shares outstanding						
Basic	17,189		17,189	17,028		17,028
Diluted	17,339		17,339	17,270		17,270

- (a) Exclude the inventory step-up purchase accounting adjustment of \$1.4 million related to the Interface acquisition and the restructuring expenses of \$1.7 million related to the Technical Nonwovens segment.
- (b) Exclude the the strategic initiatives expenses of \$2.8 million and the restructuring expenses of \$0.2 million related to the Technical Nonwovens segment.
- (c) Exclude the tax benefits realized on the adjustments in (a) and (b) of \$0.9 million.
- (d) Exclude the inventory step-up purchase accounting adjustment of \$1.1 million related to the Texel and Gutsche acquisitions, severance expenses of \$0.5 million for reduction in force in the Thermal Acoustical Solutions segment, restructuring expenses of \$0.2 million related to the Technical Nonwovens segment and expenses of \$0.1 million related to the consolidation of Thermal Acoustical Solutions segment.
- (e) Exclude the expenses of \$1.1 million related to the consolidation of Thermal Acoustical Solutions segment, severance expenses of \$0.5 million for reductions in force in the Thermal Acoustical Solutions and Technical Nonwovens segments, strategic initiatives expenses of \$0.5 million and restructuring expenses of \$0.2 million related to the Technical Nonwovens segment.
- (f) Exclude the tax benefit realized on the adjustments in (a) and (b) of \$1.2 million and the tax benefits realized on discrete tax adjustments of \$1.4 million.

# Reconciliation Between Adjusted and Reported GAAP Financials

## EBITDA

	For the Quarters Ended September 30,			
	2018	% of sales	2017	% of sales
Net income	\$ 6,256		\$ 10,675	
Interest expense	1,505		705	
Income tax expense	2,076		3,404	
Depreciation and amortization	8,194		6,608	
<b>EBITDA</b>	<b>\$ 18,031</b>	<b>9.1%</b>	<b>\$ 21,392</b>	<b>11.9%</b>
Strategic initiatives expenses	1,514		326	
Inventory step-up purchase accounting adjustments	1,390		83	
Automotive segments consolidation expenses	—		1,197	
TNW restructuring expenses	519		154	
<b>EBITDA, adjusted</b>	<b>\$ 21,454</b>	<b>10.8%</b>	<b>\$ 23,152</b>	<b>12.9%</b>

	For the Nine Months Ended September 30,			
	2018	% of sales	2017	% of sales
Net income	\$ 27,760		\$ 35,469	
Interest expense	2,617		2,106	
Income tax expense	5,854		11,201	
Depreciation and amortization	22,442		19,386	
<b>EBITDA</b>	<b>\$ 58,673</b>	<b>10.2%</b>	<b>\$ 68,162</b>	<b>13.1%</b>
Strategic initiatives expenses	2,803		471	
Inventory step-up purchase accounting adjustments	1,390		1,108	
Automotive segments consolidation expenses	—		1,197	
Severance expenses	—		987	
TNW restructuring expenses	1,938		447	
<b>EBITDA, adjusted</b>	<b>\$ 64,804</b>	<b>11.3%</b>	<b>\$ 72,372</b>	<b>13.9%</b>



# Reconciliation Between Adjusted and Reported GAAP Financials

## Organic Sales

	Quarter Ended September 30, 2018			
	Performance Materials	Technical Nonwovens	Thermal Acoustical Solutions	Consolidated
<b>Sales growth, as reported</b>	41.2 %	(0.3)%	4.5 %	9.9 %
Acquisitions	45.3 %	— %	— %	7.4 %
Change in tooling sales	— %	— %	1.7 %	0.8 %
Foreign currency translation	(0.3)%	(1.9)%	(0.5)%	(1.1)%
<b>Organic sales growth</b>	(3.8)%	1.6 %	3.3 %	2.8 %

	Nine Months Ended September 30, 2018			
	Performance Materials	Technical Nonwovens	Thermal Acoustical Solutions	Consolidated
<b>Sales growth, as reported</b>	18.3 %	6.5%	9.7%	10.7%
Acquisitions	15.3 %	—%	—%	2.6%
Change in tooling sales	— %	—%	5.0%	2.5%
Foreign currency translation	2.6 %	2.7%	2.3%	2.5%
<b>Organic sales growth</b>	0.4 %	3.8%	2.4%	3.1%

The above tables provide information regarding organic sales growth, defined as net sales growth excluding (1) sales from the acquired businesses (2) the impact of foreign currency translation and (3) change in tooling sales.

# Reconciliation Between Adjusted and Reported GAAP Financials

(\$ in 000)	Quarter Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Thermal Acoustical Solutions</b>				
Operating Income, as reported	\$ 7,923	\$ 10,607	\$ 29,357	\$ 40,798
Severance expenses	—	244	—	957
Automotive segments consolidations	—	845	—	845
Operating Income, adjusted	\$ 7,923	\$ 11,696	\$ 29,357	\$ 42,600
Operating margin, as reported	9.0%	12.6%	10.5%	16.0%
Operating margin, adjusted	9.0%	13.9%	10.5%	16.7%
<b>Performance Materials</b>				
Operating Income, as reported	\$ 1,753	\$ 3,133	\$ 8,043	\$ 8,725
Inventory step-up purchase accounting adjustment	1,390	—	1,390	—
Operating Income, adjusted	\$ 3,143	\$ 3,133	\$ 9,433	\$ 8,725
Operating margin, as reported	4.2%	10.6%	7.8%	10.0%
Operating margin, adjusted	7.5%	10.6%	9.1%	10.0%
<b>Technical Nonwovens</b>				
Operating Income, as reported	\$ 6,271	\$ 8,589	\$ 17,395	\$ 19,792
Inventory step-up purchase accounting adjustment	—	83	—	1,108
Severance expenses	—	—	—	274
Strategic initiatives expenses	—	—	—	60
Restructuring expenses	519	154	1,938	447
Operating Income, adjusted	\$ 6,790	\$ 8,826	\$ 19,333	\$ 21,681
Operating margin, as reported	8.6%	11.7%	8.2%	9.9%
Operating margin, adjusted	9.3%	12.0%	9.1%	10.9%