



VPG Fourth Quarter Fiscal 2018 Earnings

February 20, 2019



SAFE HARBOR STATEMENT

From time to time, information provided by us, including but not limited to statements in this report, or other statements made by or on our behalf, may contain "forward-looking" information within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements involve a number of risks, uncertainties, and contingencies, many of which are beyond our control, which may cause actual results, performance, or achievements to differ materially from those anticipated.

Such statements are based on current expectations only, and are subject to certain risks, uncertainties, and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, expected, estimated, or projected. Among the factors that could cause actual results to materially differ include: general business and economic conditions; difficulties or delays in completing acquisitions and integrating acquired companies; the inability to realize anticipated synergies and expansion possibilities; difficulties in new product development; changes in competition and technology in the markets that we serve and the mix of our products required to address these changes; changes in foreign currency exchange rates; political, economic and military instability in the countries in which we operate; difficulties in implementing our cost reduction strategies, such as underutilization of production facilities, labor unrest or legal challenges to our lay-off or termination plans, operation of redundant facilities due to difficulties in transferring production to achieve efficiencies; significant developments from the recent and potential changes in tariffs and trade regulation; and other factors affecting our operations, markets, products, services, and prices that are set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Non-GAAP Measures

This presentation includes discussion of adjusted operating income and the corresponding margins, as well as adjusted net earnings and adjusted diluted earnings per share. These are financial measures that were not prepared in accordance with generally accepted accounting principles in the United States (non-GAAP measures). We believe these non-GAAP measures provide insight into our financial performance. These non-GAAP measures are supplemental to the comparable GAAP measures. Reconciliations of these non-GAAP measures to the corresponding GAAP measures are included in our fourth quarter earnings press release and in the appendix to this presentation which will be available on our website at: www.vpgsensors.com.

HIGHLIGHTS

Fourth Quarter Highlights:

- Growth in revenues to \$77.0 million, up 10.9% year-over-year
- Earnings were \$0.25 per diluted share, compared to \$0.33 reported last year
- Adjusted diluted EPS* increased to \$0.54 compared to prior year \$0.39
- Operating margin for the quarter is 9.2%, as compared to 10.3% reported last year
- Adjusted operating margin* for the quarter is 12.9%, as compared to 11.5% reported last year
- Cash from operations was \$17.4 million with free cash flow* of \$12.8 million

2018 Full Year Highlights:

- Growth in revenues to \$299.8 million, up 17.9% year-over-year
- Earnings increased to \$1.75 per diluted share, compared to \$1.07 reported last year
- Adjusted diluted EPS* increased to \$2.05 compared to prior year \$1.14
- Operating margin for the year is 12.4%, as compared to 8.8% reported last year
- Adjusted operating margin* for the year is 13.5% as compared to 9.7% reported last year
- Cash from operations was \$35.4 million with free cash flow* of \$21.0 million



FINANCIAL RESULTS

Consolidated Condensed Statements of Operations (Unaudited - In thousands, except per share amounts)

	Fiscal quarter ended		Fiscal years ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Net revenues	\$ 77.0	\$ 69.4	\$ 299.8	\$ 254.4
Gross profit	\$ 30.8	\$ 26.7	\$ 121.3	\$ 98.3
Gross profit margin	40.0%	38.5%	40.5%	38.6%
Selling, general, and administrative expenses	\$ 20.9	\$ 18.8	\$ 80.9	\$ 73.8
Adjusted operating income	(1)(*) \$ 9.9	\$ 8.0	\$ 40.3	\$ 24.6
Adjusted operating margin	(1)(*) 12.9%	11.5%	13.5%	9.7%
Adjusted net earnings attributable to VPG stockholders	(2)(*) \$ 7.3	\$ 5.3	\$ 27.8	\$ 15.3
Adjusted net earnings per diluted share	(2)(*) \$ 0.54	\$ 0.39	\$ 2.05	\$ 1.14

(1) Adjusted operating income and adjusted operating margin exclude restructuring costs and impairment of goodwill and indefinite-lived assets in 2018 and restructuring and acquisition purchase accounting adjustments in 2017.

(2) Adjusted net earnings attributable to VPG shareholders and adjusted net earnings per diluted share in 2018 exclude restructuring costs, impairment of goodwill and indefinite-lived intangibles, UK pension settlement and associated tax effects, and in 2017, exclude acquisition purchase accounting adjustments, restructuring costs, proceeds from lease termination, tax rebate and associated tax effects including the enactment of the US Tax Cuts and Jobs Act.

(*) Refer to the reconciliation tables included in the appendix of this presentation.



PERFORMANCE THROUGH PRECISION

STRATEGY

Value proposition (2019 - 2021)

ORGANIC TOP-LINE GROWTH



MID-SINGLE DIGITS IN IMPROVED GLOBAL ECONOMIC ENVIRONMENT

Mid to high single digit sales growth

SCALABLE BUSINESS MODEL



COST STRUCTURE TO LEVERAGE THE BENEFIT OF HIGHER VOLUMES

Target gross profit margin > 45%
Target Adjusted operating margin > 15 %

ROBUST CASH FLOW AND STRONG BALANCE SHEET



STRONG CASH GENERATION TO SUPPORT GROWTH

Strong cash generation

ACQUISITIONS



TARGET:

- ~\$5-60M; >40% GROSS MARGIN
- MID-TEENS IRR HURDLE RATE
- ACCRETIVE WITHIN 12 MONTHS

Focused M&A activity



CONSOLIDATED RESULTS/TRENDS

(\$ in millions)	Fiscal quarter ended		
	December 31, 2018	December 31, 2017	September 29, 2018
Net revenues	\$ 77.0	\$ 69.4	\$ 75.5
Book-to-bill ratio	0.93	1.18	0.98
Total orders	\$ 71.7	\$ 81.8	\$ 74.0
End-of-period backlog	\$ 93.4	\$ 88.9	\$ 99.4
Inventory turnover	2.89	2.85	2.74

SEGMENT RESULTS/TRENDS

(\$ in millions)	Foil Technology Products			Force Sensors			Weighing and Control Systems		
	Q4	Q4	Q3	Q4	Q4	Q3	Q4	Q4	Q3
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>
Net revenues	\$ 36.7	\$ 29.9	\$ 35.9	\$ 17.0	\$ 17.7	\$ 17.6	\$ 23.2	\$ 21.8	\$ 22.0
Gross profit	\$ 15.4	\$ 11.7	\$ 15.8	\$ 4.5	\$ 5.2	\$ 4.6	\$ 10.9	\$ 9.8	\$ 10.2
Gross profit margin	42.0%	39.3%	43.9%	26.6%	29.5%	25.9%	46.8%	44.8%	46.6%
Book-to-bill ratio	0.88	1.36	0.95	1.05	1.18	0.98	0.92	0.92	1.02
Total orders	\$ 32.4	\$ 40.7	\$ 34.2	\$ 17.9	\$ 20.9	\$ 17.3	\$ 21.5	\$ 20.1	\$ 22.4
Backlog in months	4.0	4.7	4.4	3.1	3.7	2.9	3.5	2.8	4.0
Inventory turnover	3.07	2.98	2.83	2.34	2.07	2.26	3.36	4.22	3.35

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PERFORMANCE THROUGH PRECISION

THANK YOU

APPENDIX



RECONCILIATION

Reconciliation of Adjusted Earnings Per Share

(Unaudited - \$ in thousands, except per share amounts)

	Fiscal quarter ended		Years ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Net earnings attributable to VPG stockholders	\$ 3,418	\$ 4,476	\$ 23,646	\$ 14,345
<u>Reconciling items affecting operating margin</u>				
Acquisition purchase accounting adjustments	—	49	—	91
Impairment of goodwill and indefinite-lived intangibles**	2,820	—	2,820	—
Restructuring costs	—	752	289	2,044
<u>Reconciling items affecting other income/expense</u>				
UK pension settlement	673	—	673	—
Net proceeds from lease termination	—	—	—	(1,544)
Tax rebate	—	189	—	189
<u>Less reconciling items affecting income tax expense</u>				
Tax effect of reconciling items and discrete tax items	(377)	165	(333)	(174)
Adjusted net earnings attributable to VPG stockholders	\$ 7,288	\$ 5,301	\$ 27,761	\$ 15,299
Weighted average shares outstanding - diluted	13,595	13,529	13,535	13,471
Adjusted net earnings per diluted share	\$ 0.54	\$ 0.39	\$ 2.05	\$ 1.14

** preliminary and subject to change as it is finalized when the Company files its 2018 Form 10-K with the SEC

RECONCILIATION

Reconciliation of Consolidated Adjusted Operating Margin

(Unaudited - In thousands)

	Fiscal quarter ended		Years ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Operating income	7,091	7,160	\$ 37,223	22,488
Operating margin	9.2%	10.3%	12.4%	8.8%
<u>Reconciling items affecting operating margin</u>				
Acquisition purchase accounting adjustments	—	49	—	91
Impairment of goodwill and indefinite-lived intangibles**	2,820	—	2,820	—
Restructuring costs	—	752	289	2,044
Adjusted operating income	<u>\$ 9,911</u>	<u>\$ 7,961</u>	<u>\$ 40,332</u>	<u>\$ 24,623</u>
Adjusted operating margin	12.9%	11.5%	13.5%	9.7%

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