



# Brady Corporation F'19 Q1 Financial Results

November 15, 2018



# Forward-Looking Statements

In this presentation, statements that are not reported financial results or other historic information are “forward-looking statements.” These forward-looking statements relate to, among other things, the Company's future financial position, business strategy, targets, projected sales, costs, earnings, capital expenditures, debt levels and cash flows, and plans and objectives of management for future operations.

The use of words such as “may,” “will,” “expect,” “intend,” “estimate,” “anticipate,” “believe,” “should,” “project” or “plan” or similar terminology are generally intended to identify forward-looking statements. These forward-looking statements by their nature address matters that are, to different degrees, uncertain and are subject to risks, assumptions, and other factors, some of which are beyond Brady's control, that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. For Brady, uncertainties arise from: our ability to compete effectively or to successfully execute our strategy; Brady's ability to develop technologically advanced products that meet customer demands; difficulties in protecting our websites, networks, and systems against security breaches; decreased demand for our products; Brady's ability to retain large customers; extensive regulations by U.S. and non-U.S. governmental and self-regulatory entities; risks associated with the loss of key employees; divestitures and contingent liabilities from divestitures; Brady's ability to properly identify, integrate, and grow acquired companies; litigation, including product liability claims; Brady's ability to execute facility consolidations and maintain acceptable operational service metrics; foreign currency fluctuations; the impact of the Tax Reform Act and any other changes in tax legislation and tax rates; potential write-offs of Brady's substantial intangible assets; differing interests of voting and non-voting shareholders; Brady's ability to meet certain financial covenants required by our debt agreements; numerous other matters of national, regional and global scale, including those of a political, economic, business, competitive, and regulatory nature contained from time to time in Brady's U.S. Securities and Exchange Commission filings, including, but not limited to, those factors listed in the “Risk Factors” section within Item 1A of Part I of Brady's Form 10-K for the year ended July 31, 2018.

These uncertainties may cause Brady's actual future results to be materially different than those expressed in its forward-looking statements. Brady does not undertake to update its forward-looking statements except as required by law.

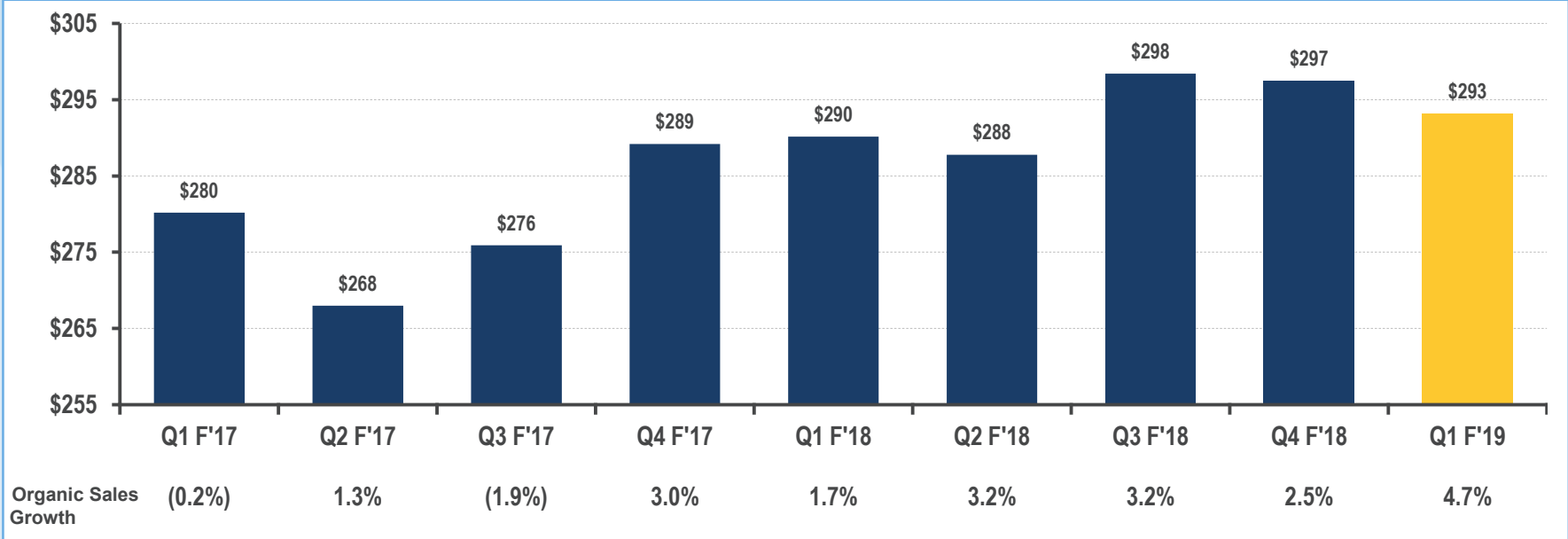
# Q1 F'19 Financial Summary

- **Sales increased 1.0% to \$293.2M in Q1 of F'19 compared with \$290.2M in Q1 of F'18.**
  - Organic sales increased 4.7%.
  - Foreign currency translation decreased sales 2.0%.
  - Sale of business decreased sales 1.7%.
- **Gross profit margin of 50.0% in Q1 of F'19 compared with 50.3% in Q1 of F'18.**
- **SG&A expense of \$94.6M (32.3% of sales) in Q1 of F'19 compared with \$100.1M (34.5% of sales) in Q1 of F'18.**
- **R&D expense of \$11.3M (3.9% of sales) in Q1 of F'19 compared with \$10.5M (3.6% of sales) in Q1 of F'18.**
- **Earnings before income taxes increased 14.8% to \$39.9M in Q1 of F'19 compared with \$34.8M in Q1 of F'18.**
- **Net earnings increased 18.6% to \$30.6M in Q1 of F'19 compared with \$25.8M in Q1 of F'18.**
- **Net earnings per Class A Diluted Nonvoting Common Share of \$0.58 in Q1 of F'19, compared with \$0.49 in Q1 of F'18.**

# Sales Overview

## SALES

(millions of USD)



### Q1 F'19 SALES:

- 4.7% increase in organic sales:
  - ID Solutions – Organic sales increased 5.7%.
  - Workplace Safety – Organic sales increased 2.2%.
- 2.0% decrease due to foreign currency translation.
- 1.7% decrease due to the sale of a business.

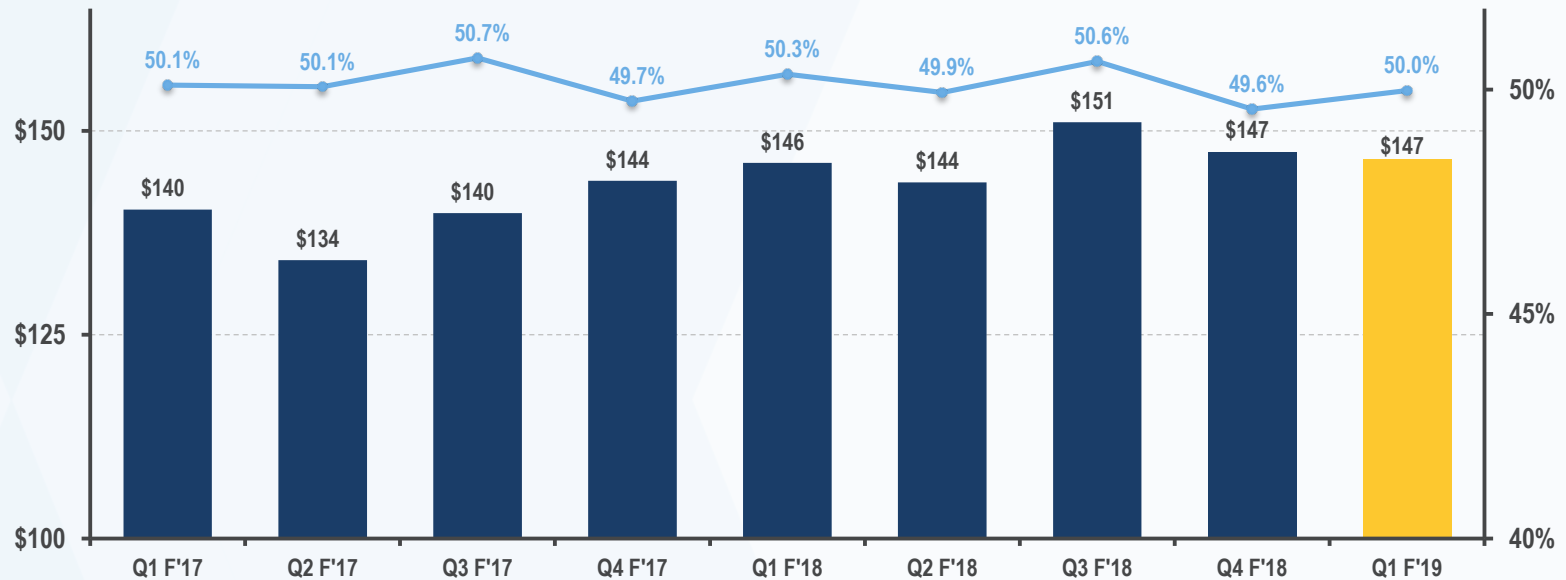
### Q1 F'19 SALES COMMENTARY:

- ID Solutions - Organic sales increased in all three regions.
- Workplace Safety - Organic sales increased in Europe and Australia and declined in North America.
- Foreign currency translation had a negative impact on sales in the quarter.

# Gross Profit Margin

## GROSS PROFIT & GPM%

(millions of USD)



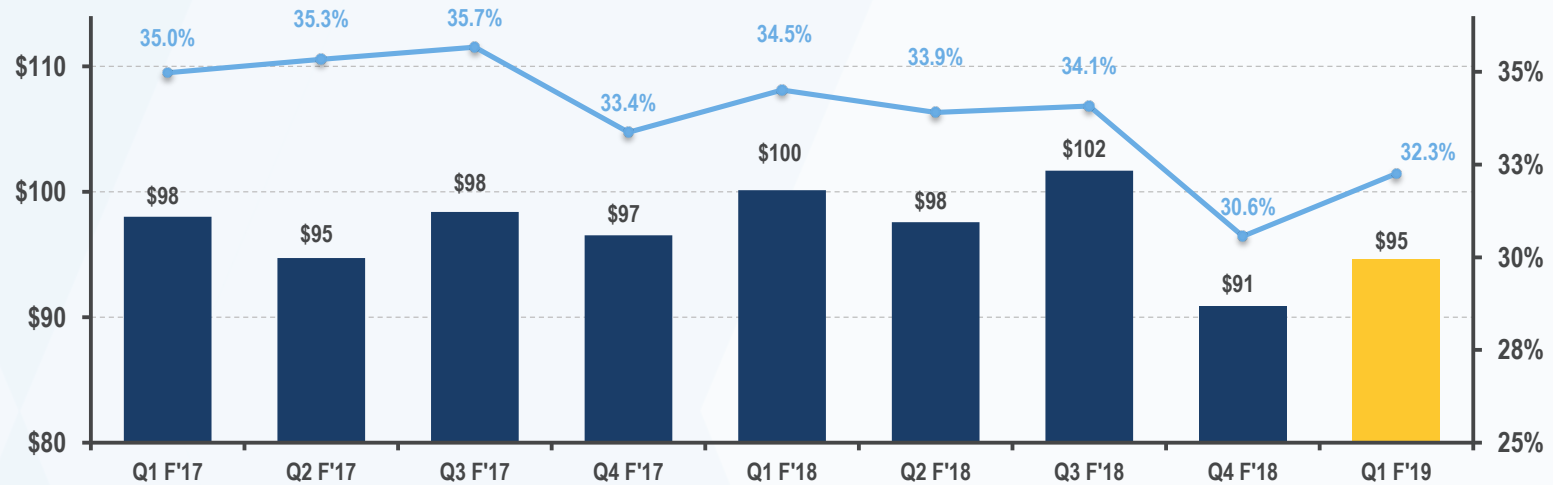
### Q1 F'19 – GROSS PROFIT MARGIN:

- Slight decline in GPM from 50.3% in Q1 of F'18 to 50.0% in Q1 of F'19.
- Costs increased in certain areas including freight and personnel.
- We continue to invest in automation and manufacturing optimization to offset cost increases.

# SG&A Expense

## SG&A EXPENSE AND SG&A EXPENSE AS A % of SALES

(millions of USD)



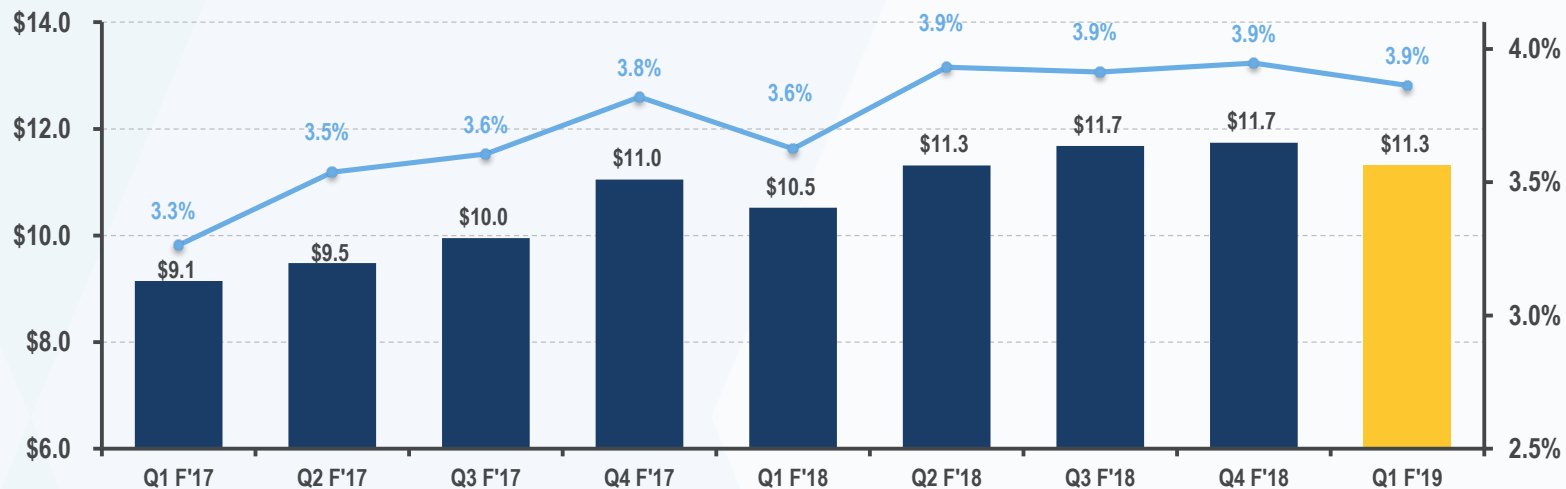
### Q1 F'19 – SG&A EXPENSE:

- SG&A expense was \$94.6M (32.3% of sales) in Q1 of F'19 compared to \$100.1M (34.5% of sales) in Q1 of F'18.
- SG&A expense is down in absolute dollars as a result of foreign currency translation, the sale of a business in the fourth quarter of last year, and due to on-going efficiency gains.
- We continue to drive sustainable efficiency gains in administrative expenses and non-customer facing selling expenses while investing in sales-generating resources.
- SG&A expense in Q4 of last year includes a \$4.7M gain on the sale of our Runelandhs business in Sweden.

# R&D Expense

## R&D EXPENSE AND R&D EXPENSE AS A % of SALES

(millions of USD)



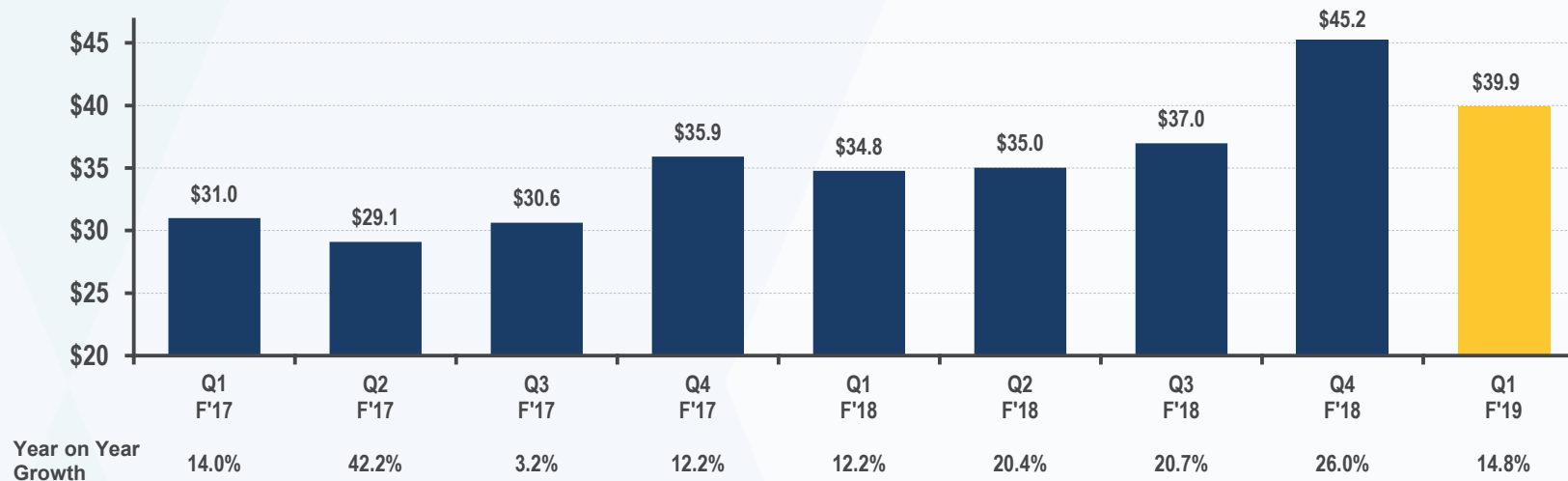
## INCREASING OUR INVESTMENT IN RESEARCH & DEVELOPMENT:

- Investing in R&D to drive future organic sales growth.
- R&D expenses were up 7.7% in Q1 of F'19 compared to Q1 of F'18.
- Improved new product pipeline.

# Earnings Before Income Taxes

## EARNINGS BEFORE INCOME TAXES

(millions of USD)



## EARNINGS BEFORE INCOME TAXES:

- Earnings before income taxes increased 14.8% to \$39.9M in Q1 of F'19 compared to \$34.8M in Q1 of F'18.
- The increase in pre-tax earnings was driven by organic sales growth and reductions in SG&A expenses.
- Earnings before income taxes in Q4 of last year includes a \$4.7M gain on the sale of our Runelandhs business in Sweden.



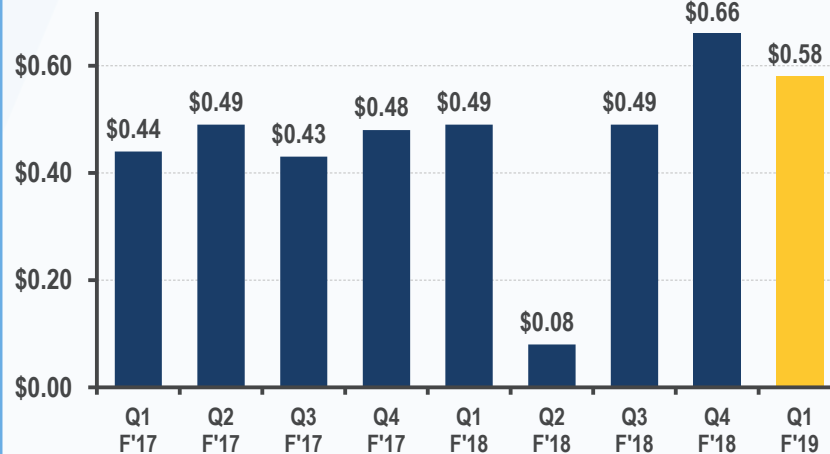
# Net Earnings & Earnings per Share

## NET EARNINGS

(millions of USD)



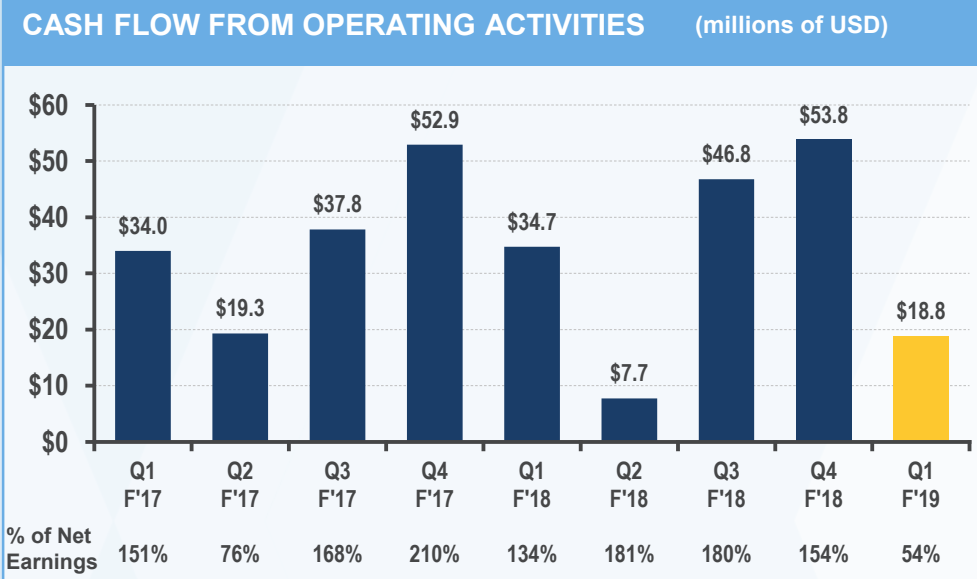
## NET EARNINGS PER CLASS A DILUTED SHARE



## Q1 F'19 – NET EARNINGS & EPS:

- Net earnings increased 18.6% to \$30.6M in Q1 of F'19 compared to \$25.8M in Q1 of F'18.
- Diluted EPS increased 18.4% to \$0.58 in Q1 of F'19 compared to \$0.49 in Q1 of F'18.
- The increase in net earnings and diluted EPS was a result of organic sales growth, reduced SG&A expense, and a lower income tax rate.
- Net earnings in Q4 of last year includes a \$4.7M gain from the sale of a business and diluted EPS in Q4 of last year includes a \$0.09 benefit from the sale of a business.

# Cash Generation & Uses



## CASH FLOWS IN Q1 OF F'19:

- Cash flow from operating activities was \$18.8M in Q1 of F'19 compared to \$34.7M in Q1 of F'18.
- Free cash flow\* was \$12.8M in Q1 of F'19 compared to \$30.9M in Q1 of F'18.
- The decrease in cash flow from operating activities was primarily due to the increase in working capital resulting from increased sales volume and the timing of annual incentive payments. In F'19, a portion of the annual incentive awards were paid in Q1 whereas all incentive compensation payments were made in Q2 of F'18.

(millions of USD)

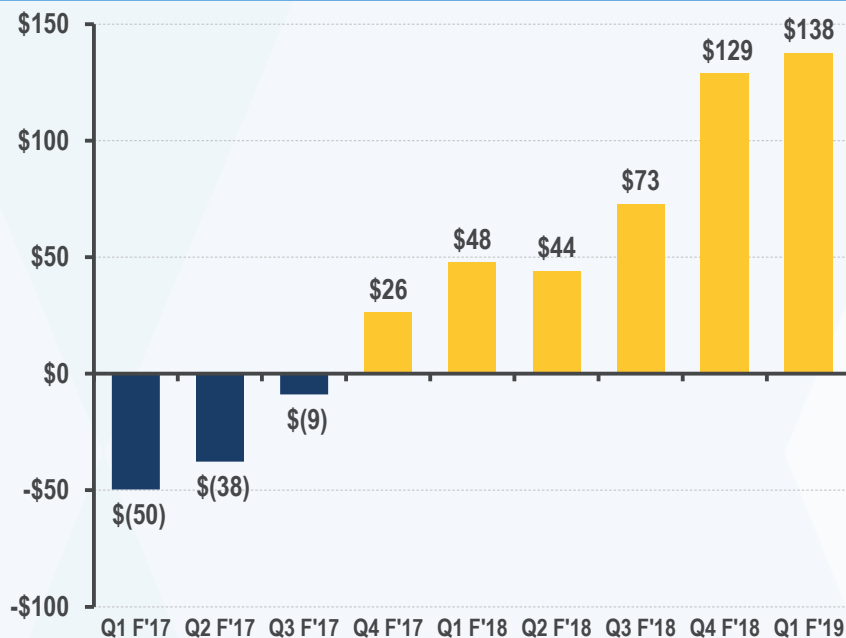
	3 Mos. Ended Oct. 31, 2018	3 Mos. Ended Oct. 31, 2017
<b>Cash Balance - Beginning of Period</b>	<b>\$ 181.4</b>	<b>\$ 133.9</b>
Cash Flow from Operating Activities	18.8	34.7
Capital Expenditures	(6.0)	(3.8)
Dividends	(11.1)	(10.6)
Debt Borrowings (Repayments) - Net	3.5	(12.0)
Effect of Exchange Rates on Cash	(3.1)	(1.9)
Other	8.7	1.9
<b>Cash Balance - End of Period</b>	<b>\$ 192.2</b>	<b>\$ 142.2</b>

\* Free Cash Flow is calculated as Net Cash Provided by Operating Activities less Capital Expenditures.

# Net Cash (Debt)

## NET CASH (DEBT)

(millions of USD)



## DEBT STRUCTURE

(millions of USD)

	Interest Rate	Oct. 31, 2018 Balance	July 31, 2018 Balance
<b>Revolver Borrowings:</b>			
USD-denominated	1.94%	\$ -	\$ -
EUR-denominated	0.75%	(3.4)	-
<b>Private Placements:</b>			
EUR-den. 2010 Series (10-yr.)	4.24%	(51.0)	(52.6)
<b>TOTAL DEBT</b>		<b>\$ (54.4)</b>	<b>\$ (52.6)</b>
<b>Cash and Cash Equivalents</b>		<b>192.2</b>	<b>181.4</b>
<b>NET CASH</b>		<b>\$ 137.8</b>	<b>\$ 128.8</b>

## STRONG BALANCE SHEET:

- October 31, 2018 cash = \$192.2M and debt = \$54.4M.
- Net cash increased \$9.0M in Q1 of F'19.
- Approximately \$82M of cash is held in the United States.
- Balance sheet provides flexibility for future investments.

# Full-Year F'19 EPS Guidance Increased

**F'19 Diluted EPS guidance increased to \$2.20 to \$2.30 (previous guidance range was \$2.15 to \$2.25).**

## **F'19 Guidance Assumptions:**

- Organic sales growth of approximately 3% - 5%.
- Full-year depreciation and amortization expense of approximately \$26M.
- Income tax rate in the mid-20% range.
- Full-year capital expenditures of approximately \$35M, inclusive of the construction of certain facilities to replace currently leased facilities.

# Identification Solutions

## Q1 F'19 vs. Q1 F'18

(millions of USD)

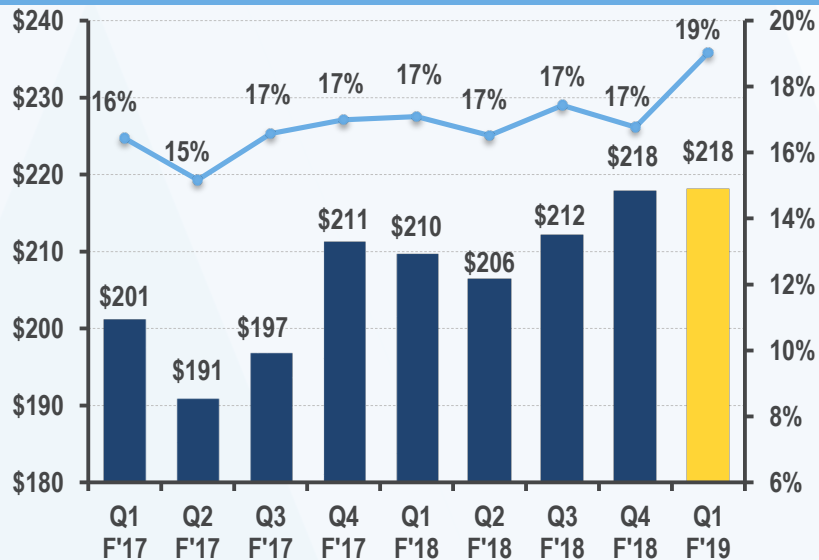
	Q1 F'19	Q1 F'18	Change
Sales	\$ 218.1	\$ 209.7	+ 4.0%
Segment Profit	41.6	35.8	+ 16.0%
Segment Profit %	19.1%	17.1%	+ 200 bps

## Q1 F'19 SUMMARY:

- Revenues increased 4.0%:
  - Organic = +5.7%
  - Fx = - (1.7)%
- Organic sales increased in the mid-single digits in the Americas and Europe and increased in the low-single digits in Asia.
- R&D expenses were up due to increased investments to develop innovative products.
- Segment profit as a percent of sales increased due to ongoing efficiency gains in our operations and SG&A structure.

## SALES & SEGMENT PROFIT %

(millions of USD)



## OUTLOOK:

- Expect F'19 organic sales to grow from 4% to 5%.
- Anticipate further increases in investments in R&D and certain sales-generating resources.

# Workplace Safety

## Q1 F'19 vs. Q1 F'18

(millions of USD)

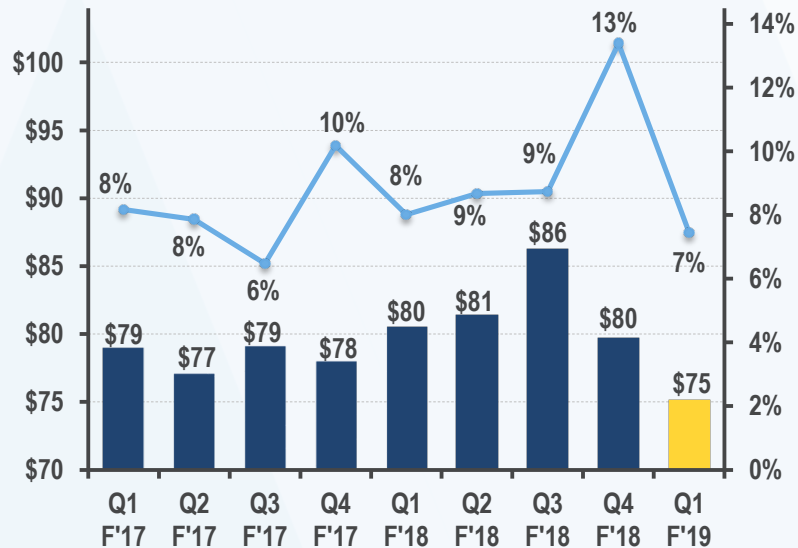
	Q1 F'19	Q1 F'18	Change
Sales	\$ 75.1	\$ 80.4	- 6.6%
Segment Profit	5.5	6.4	- 14.0%
Segment Profit %	7.4%	8.0%	- 60 bps

## Q1 F'19 SUMMARY:

- Revenues decreased (6.6%):
  - Organic = +2.2%
  - Fx = - (2.6%)
  - Divestiture = - (6.2%)
- Organic sales increased more than 10% in Australia, increased in the low-single digits in Europe and decreased in the mid-single digits in North America.
- Segment profit negatively impacted by foreign currency translation and the sale of the Runelandhs business in Q4 of last year.

## SALES & SEGMENT PROFIT %

(millions of USD)



## OUTLOOK UNCHANGED:

- Expect F'19 organic sales to grow from 1% to 3%.
- Anticipate Europe and Australia to continue to perform well while our Americas business continues its choppy recovery.

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