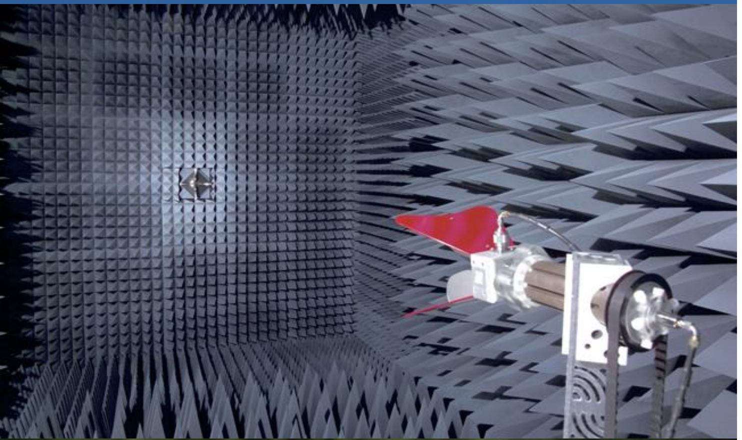
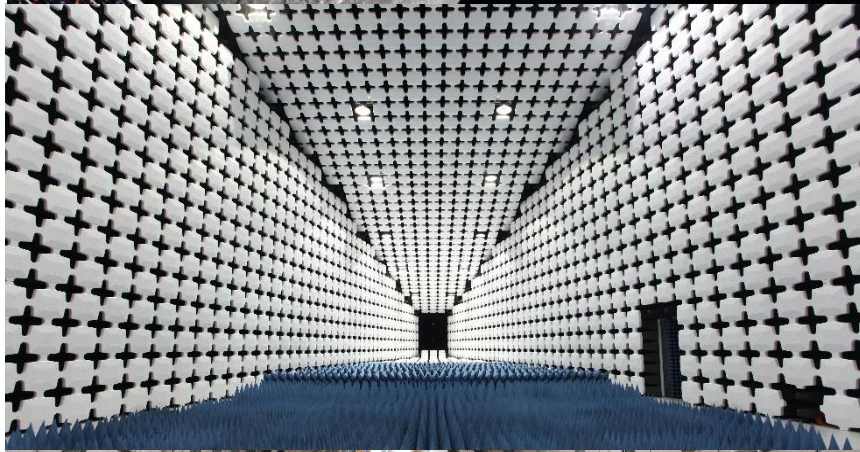
ESCO Technologies

Third Quarter FY 2023 Earnings Call





Bryan Sayler
President & CEO

Chris Tucker
Sr. Vice President & CFO

August 8, 2023

Forward Looking Statement

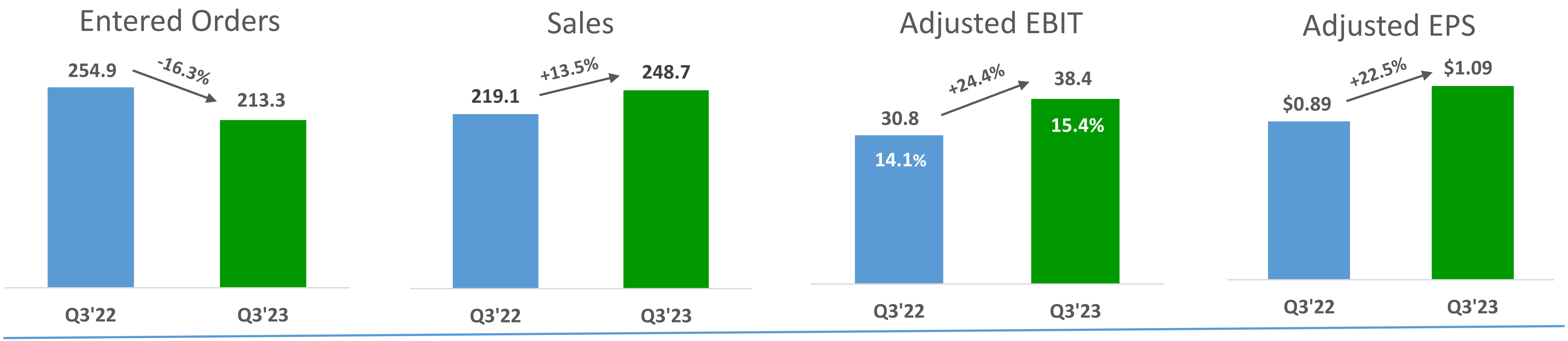
Statements in this presentation and made during today's conference call regarding Management's expectations for fiscal 2023, the effects of continuing inflationary pressures, higher interest rates, pressures related to supply chain performance and labor shortages; our expectations and guidance for 2023 including sales and sales trends; revenues and revenue growth, earnings and Adjusted EPS, Adjusted EBIT and Adjusted EBITDA margin; the effects of acquisitions; and any other statements which are not strictly historical, are "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. securities laws.

Investors are cautioned that such statements are only predictions and speak only as of the date of this release, and the Company undertakes no duty to update them except as may be required by applicable laws or regulations. The Company's actual results in the future may differ materially from those projected in the forward-looking statements due to risks and uncertainties that exist in the Company's operations and business environment including but not limited to those described in Item 1A, "Risk Factors", of the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2022; the effects of a resurgence of the COVID-19 pandemic, or the emergence of another pandemic, including labor shortages, facility closures, shelter in place policies or quarantines, material shortages, transportation delays, termination or delays of Company contracts, and the inability of our suppliers or customers to perform; the impacts of climate change and related regulation of greenhouse gases; the impacts of natural disasters on the Company's operations and those of the Company's customers and suppliers; the timing and content of future contract awards or customer orders; the appropriation, allocation and availability of Government funds; the termination for convenience of Government and other customer contracts or orders; weakening of economic conditions in served markets; the success of the Company's competitors; changes in customer demands or customer insolvencies; competition; intellectual property rights; technical difficulties; the success of the Company's acquisition efforts; delivery delays or defaults by customers; performance issues with key customers, suppliers and subcontractors; changes in the costs and availability of certain raw materials; labor disputes; changes in U.S. tax laws and regulations; other changes in laws and regulations including but not limited to changes in accounting standards and foreign taxation; changes in interest rates; costs relating to environmental matters arising from current or former facilities; uncertainty regarding the ultimate resolution of current disputes, claims, litigation or arbitration; and the integration of recently acquired businesses.

During this call, the Company may discuss some non-GAAP financial measures in describing the Company's operating results. A reconciliation of these measures to their most comparable GAAP measures can be found in the press release issued today and found on the Company's website at www.escotechnologies.com under the link: Investor Relations.

In addition, the financial results presented in this presentation include certain non-GAAP financial measures such as EBIT, Adjusted EBIT, EBITDA, Adjusted EBITDA and Adjusted EPS. These non-GAAP financial measures are reconciled to their respective GAAP equivalents in the "Reconciliation of Non-GAAP Measures" presented below.

Q3 Results ($ in Millions, except per share amounts)



Entered Orders

- Orders down 16%
  - Strength in commercial aerospace & renewables
  - Order timing for A&D and softer orders for Test
  - Q3 Book-to-Bill of 0.86 / Year-to-Date Book-to-Bill >1.0
  - Ending Backlog of $705M, +$10M from 9/30/22

Sales

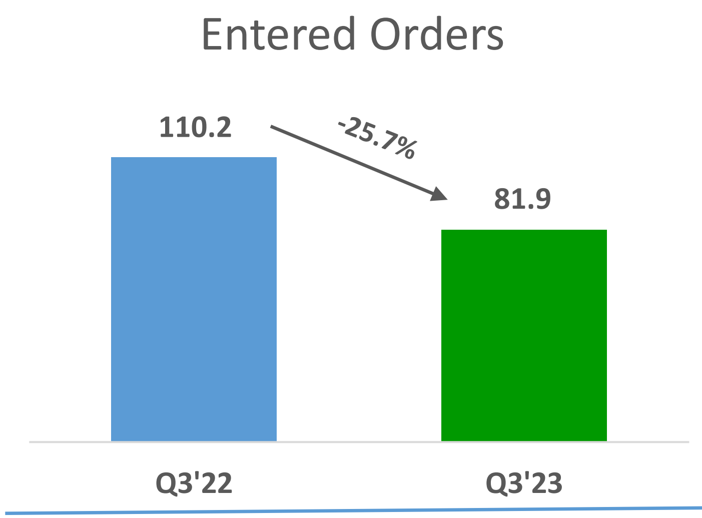
- Sales increased 13.5%
  - USG +34% - Utilities +32% & Renewables +45%
  - A&D +12% - Aerospace +32%, partially offset by lower Navy & Space
  - Test (7%)

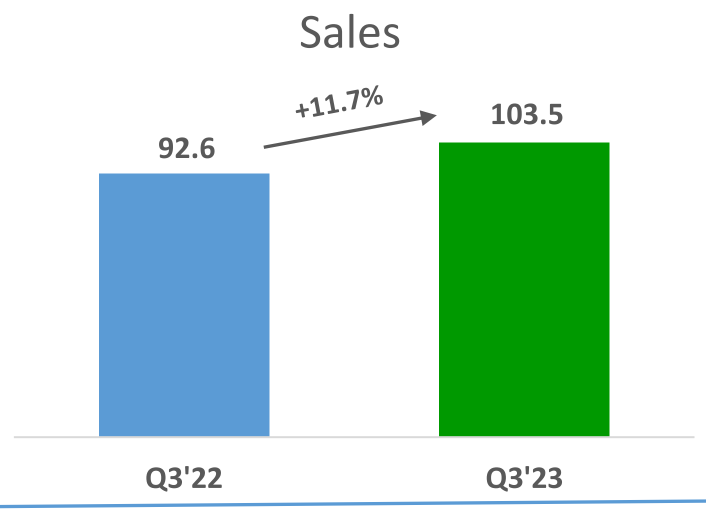
Adjusted EBIT

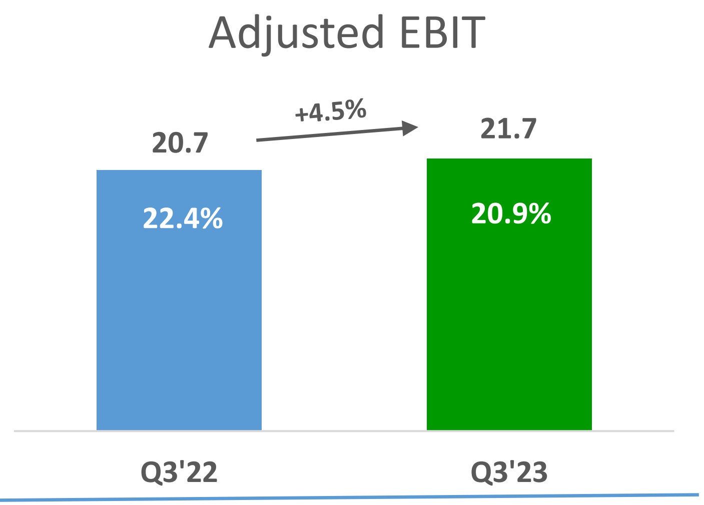
- Margins improve 130 basis points as price increases more than offset inflation impacts. Leverage on increased sales

	Q3'22	Q3'23	Delta $	Delta %
Entered Orders	$254.9	213.3	(41.6)	-16.3%
Sales	219.1	248.7	29.6	13.5%
Adjusted EBIT	30.8	38.4	7.6	24.4%
Adj EBIT Margin	*14.1%*	*15.4%*	*+1.3 pts*	
Adjusted EBITDA	42.8	51.1	8.3	19.5%
Adj EBITDA Margin	*19.5%*	*20.6%*	*+1.1 pts*	
EPS GAAP	$0.89	$1.08	$0.19	21.3%
EPS Adjusted	$0.89	$1.09	$0.20	22.5%

A&D ($ in Millions)







Entered Orders

- Aerospace order strength continues – Crissair, Mayday & PTI all higher
- VACCO ($35M)
  - $30M order for SLS long lead material in Q3'22
  - Timing due to customer delays on Space and VA Class orders
- Ending backlog of $414M, +$5M from 9/30/22

Sales

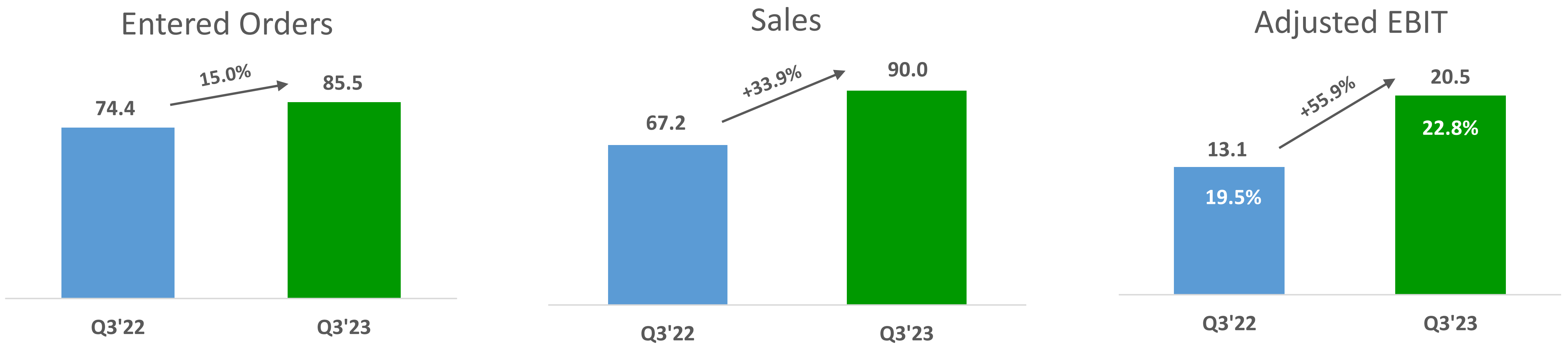
- Underlying growth of 8%, CMT adds 4 pts of growth
- Commercial Aero +$8M (+24%) & Defense Aero +$7M (+54%)
  - PTI, Crissair & Mayday all >25% growth in Q3
- Partially offset by lower Navy & Space sales in the quarter

Adjusted EBIT

- EBIT +$1M / Lower margin (-150 basis pts) – Aerospace strength somewhat offset by lower Space / Navy volumes and margin erosion on Space development contracts

	Q3'22	Q3'23	Delta $	Delta %
Entered Orders	$110.2	81.9	(28.3)	-25.7%
Sales	92.6	103.5	10.9	11.7%
Adjusted EBIT	20.7	21.7	1.0	4.5%
Adj EBIT Margin	*22.4%*	*20.9%*	*-1.5 pts*	
	Prior YE	**Q3'23**	**Delta $**	**Delta %**
Backlog	$408.3	413.7	5.4	1.3%

USG ($ in Millions)



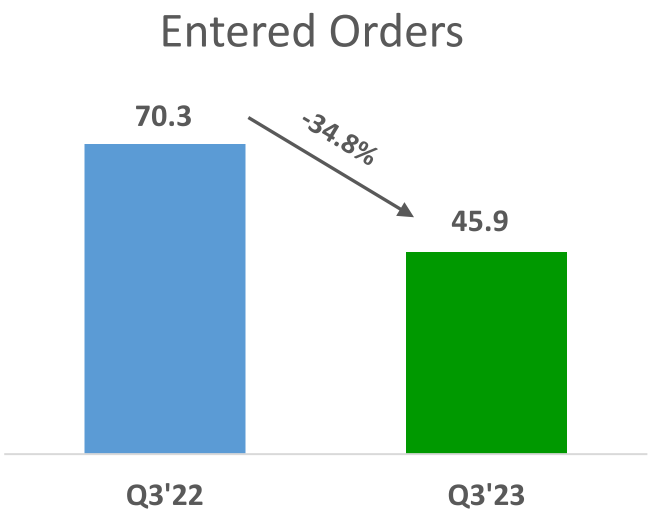
Entered Orders
- Utility +$1.9M/ (+3%)
- Renewables +$9.2M (+67%)
  - Solar and wind project pipeline continues to be strong
- Ending backlog of $138M, +$10M (+8%) from 9/30/22

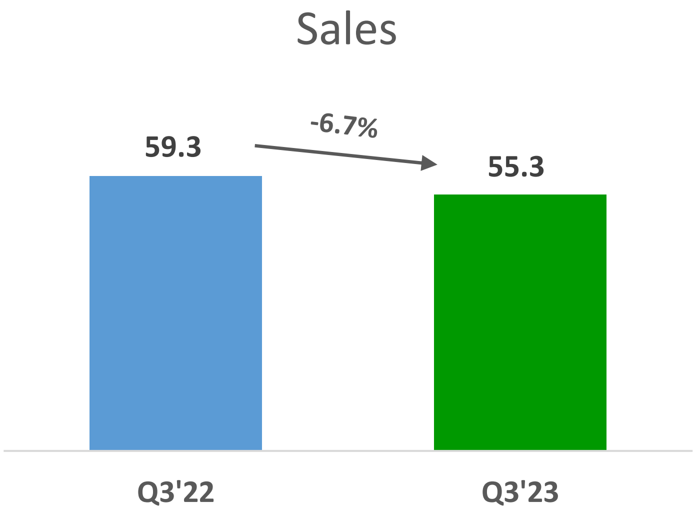
Sales
- Utility +17.6M (+32%) – Strength across Services, Offline Testing, Protection Testing and Condition Monitoring
- Renewables +$5.2M (+45%) – Strength across all product lines

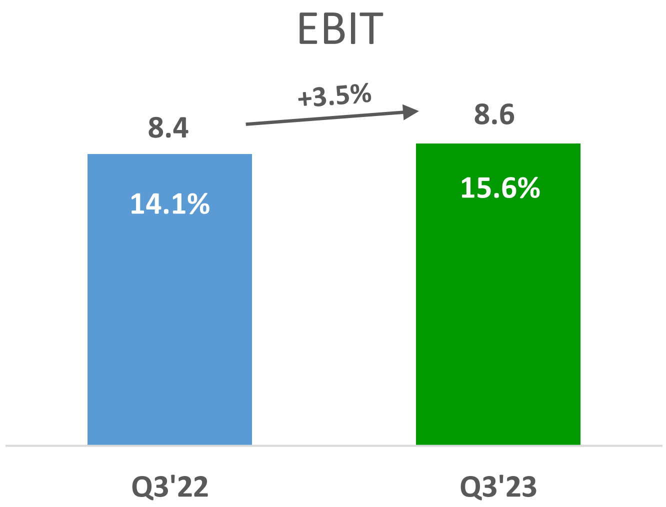
Adjusted EBIT
- Driven by leverage on higher revenue and price increases, partially offset by wage and material cost inflation and higher commissions, travel, and trade show expenses

	Q3’22	Q3’23	Delta $	Delta %
Entered Orders	$74.4	85.5	11.1	15.0%
Sales	67.2	90.0	22.8	33.9%
Adjusted EBIT	13.1	20.5	7.4	55.9%
Adj EBIT Margin	*19.5%*	*22.8%*	*+3.3 pts*	
	Prior YE	**Q3’23**	**Delta $**	**Delta %**
Backlog	$128.2	138.2	10.0	7.9%

Test ($ in Millions)







Entered Orders

- Q3’22 contained a number of large Test & Measurement orders in EMEA & Americas
- China lower due to delayed T&M projects & weaker business activity since COVID re-opening
- Ending backlog of $153M, ($5M) from 9/30/22

Sales

- Sales lower by $4.0M (-7%)
- Lower Test & Measurement in China & U.S. / Lower filters in U.S.
- Partially offset by higher volumes in EMEA and increased Services

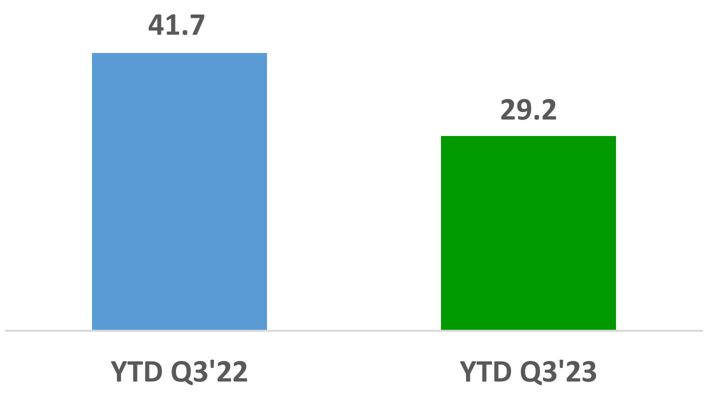
Adjusted EBIT

- Margin improvement on lower revenue – Price increases and cost reduction efforts (freight, supplies, overtime) more than offset impacts of lower volume and material cost and wage inflation

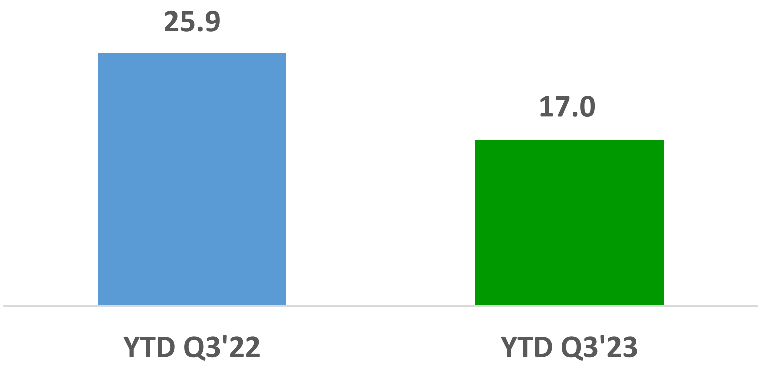
	Q3’22	Q3’23	Delta $	Delta %
Entered Orders	$70.3	45.9	(24.4)	-34.8%
Sales	59.3	55.3	(4.0)	-6.7%
EBIT	8.4	8.6	0.2	3.5%
Adj EBIT Margin	*14.1%*	*15.6%*	*+1.5 pts*	
	Prior YE	**Q3’23**	**Delta $**	**Delta %**
Backlog	$158.6	153.5	(5.1)	-3.2%

Q3 Cash Flow & Capital Expenditures ($ in Millions)

Operating Cash Flow



Capital Spending



Operating Cash Flow

- Higher working capital requirements
  - Accounts Receivable, Contract Assets higher due to increased sales
  - Inventory higher related to timing and supply chain issues
  - $13M YTD impact due to higher taxes paid
  - $4M YTD impact of higher interest paid

Capital Expenditure

- NRG building purchased in Q1’22

Acquisitions

- NEco (A&D) in Q1’22 / CMT (A&D) in Q2’23

Share Repurchase

- Q3’23 YTD repurchased ~140K shares for $12M
- Q3’22 YTD repurchased ~257K shares for $20M

Cash Flow	YTD Q3’22	YTD Q3’23	Delta
Operating Cash Flow	$41.7	29.2	(12.5)
Capital Expenditures	(25.9)	(17.0)	8.9
Acquisitions	(15.6)	(17.7)	(2.1)
Share Repurchase	(19.9)	(12.4)	7.5

FY’23 Guidance

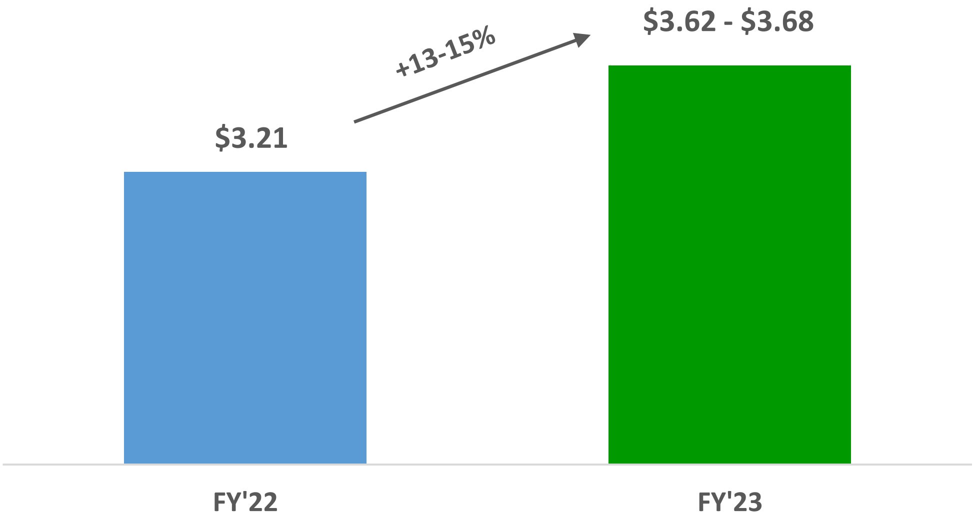
Adjusted EPS

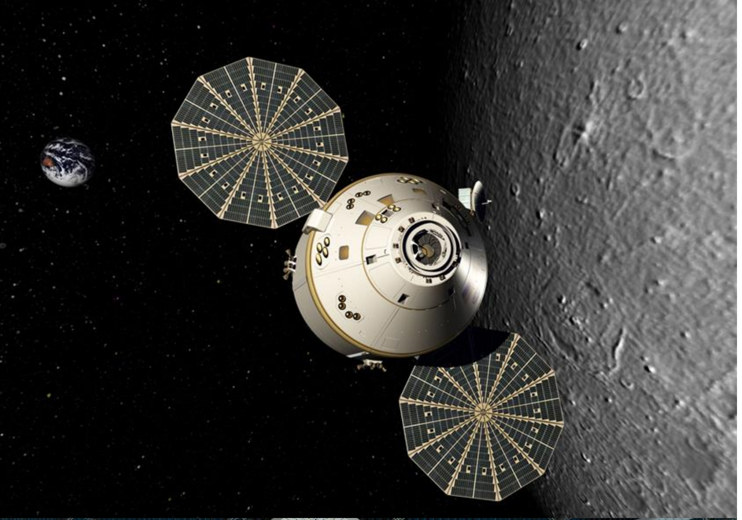
- Expectation is for Q4 Adjusted EPS in the range of $1.17 to $1.23 per share, resulting in full year EPS of $3.62 - $3.68 per share, growth of 13% - 15% over the prior year

2023 EPS Guidance Updates

November	$3.45 - $3.60
February	$3.50 - $3.60
May	$3.55 - $3.65
August	$3.62 - $3.68

Expected FY 2023 Adjusted EPS





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Third Quarter FY 2023
Earnings Call

Q&A

Reconciliation of Non-GAAP Measures

	GAAP		Adjustments		As Adjusted	
EBIT	Q3'22	Q3'23	Q3'22	Q3'23	Q3'22	Q3'23
A&D	$ 20,738	$ 21,665	-	-	20,738	21,665
USG	13,135	20,351	-	130	13,135	20,481
Test	8,354	8,643	-	-	8,354	8,643
Corporate	(11,394)	(12,658)	-	220	(11,394)	(12,438)
Consolidated EBIT	30,833	38,001	-	350	30,833	38,351
Less: Interest Expense	(1,331)	(2,495)		-	(1,331)	(2,495)
Less: Income Tax	(6,329)	(7,563)	-	(80)	(6,329)	(7,643)
Net Earnings	23,173	27,943	-	270	23,173	28,213
Consolidated EBITDA	42,788	50,790	-	350	42,788	51,140
Less: Depreciation & Amortization	(11,955)	(12,789)	-	-	(11,955)	(12,789)
Consolidated EBIT	$ 30,833	$ 38,001	-	350	30,833	38,351

EPS - As Adjusted	Q3'22	Q3'23
EPS - GAAP	$ 0.89	$ 1.08
Acq Related Exp/Restructuring	$ -	$ 0.01
EPS - As Adjusted	$ 0.89	$ 1.09