TWIN DISC®

TWIN DISC, INC

Investor Presentation


DISCLOSURES

Safe Harbor Statement

This presentation contains statements that are forward-looking within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. These statements are based on management's current expectations that are based on assumptions that are subject to risks and uncertainties. Actual results may vary because of variations between these assumptions and actual performance. Investors are referred to Twin Disc's fiscal year 2022 Annual Report and Form 10-K, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Forward-Looking Information," which outlines certain risks regarding the Company's forward-looking statements. Copies of the Company's SEC filings may be obtained from the SEC, and are available on Twin Disc's web site (www.twindisc.com), or by request from the Investor Relations department at the Company.

Non-GAAP Financial Disclosures

Financial information excluding the impact of asset impairments, restructuring charges, foreign currency exchange rate changes and the impact of acquisitions, if any, in this press release are not measures that are defined in U.S. Generally Accepted Accounting Principles ("GAAP"). These items are measures that management believes are important to adjust for in order to have a meaningful comparison to prior and future periods and to provide a basis for future projections and for estimating our earnings growth prospects. Non-GAAP measures are used by management as a performance measure to judge profitability of our business absent the impact of foreign currency exchange rate changes and acquisitions. Management analyzes the company's business performance and trends excluding these amounts. These measures, as well as EBITDA, provide a more consistent view of performance than the closest GAAP equivalent for management and investors. Management compensates for this by using these measures in combination with the GAAP measures. The presentation of the non-GAAP measures in this press release are made alongside the most directly comparable GAAP measures.

Definitions

Earnings before interest, taxes, depreciation and amortization (EBITDA) is calculated as net earnings or loss excluding interest expense, the provision or benefit for income taxes, depreciation and amortization expenses.

Net debt is calculated as total debt less cash.

Leverage Ratio is calculated as net debt divided by the sum of EBITDA over the last twelve months.

FIRST QUARTER HIGHLIGHTS

Financial

- Q1 sales +13.7% vs. YA to $63.6 million
- Gross margin increased ~240 bps vs. YA to 26.2% despite $3.1 million one-time charge
- EBITDA of $2.3 million vs. $0.6 million YA
- Robust operating cash flow of $9.8 million; free cash flow of $6.1 million
- Reinstated cash dividend of $0.04 per share

Strategic

- Execution on operational priorities, steady demand supported solid quarterly results
- Leveraged Singapore-based sales team to drive growth in China
- Decreased inventory levels alongside robust backlog; historically high backlog for ARFF
- Continued global expansion of Veth business

MARINE & PROPULSION SYSTEMS

- Increased sales by 24% vs. YA
- Robust demand driven by uptick in activity in commercial markets across the globe
- Belgium plant fully booked for fiscal 2024
- Increase in government defense spending driving patrol boat projects
- Veth six-month backlog increased 17% sequentially
- Successful Veth and Rolla partnership produces the Elite Drive for the mega yacht market, further bolstering sales

LAND-BASED TRANSMISSIONS

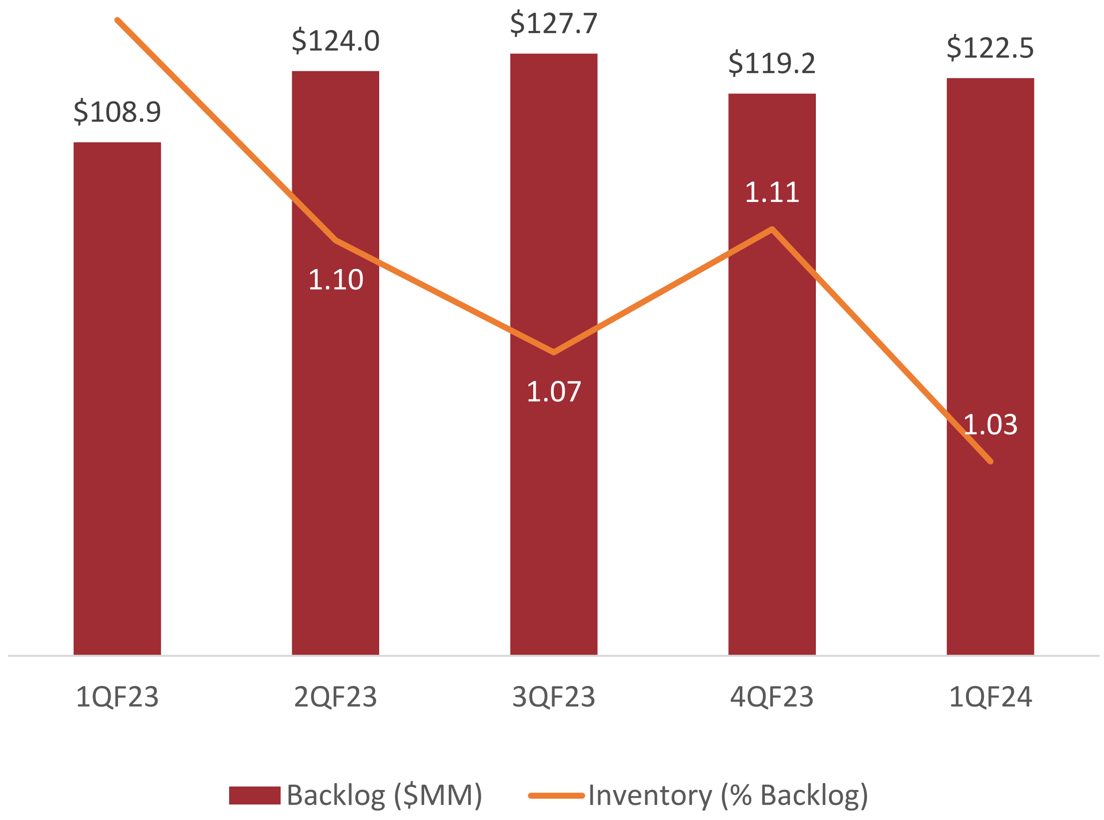
- Increased sales 17% vs. YA
- Increased demand from Oil & Gas markets supported growth
- Historically high backlog for ARFF transmissions
- General increase in orders across the board; seeing early trend of pullback in spare parts orders

INDUSTRIAL

- Sales declined 19% due to softened demand amongst key customers
  - Weak demand primarily for commoditized products; higher-content products continuing to perform well
- Sourcing and supply chain headwinds have generally subsided
- Continuing to advance domestic OEM partnerships
- Won new business within industrial gear on large shredder application with major customer Vermeer

IMPROVING INVENTORY & ROBUST BACKLOG

BACKLOG AND INVENTORY % OF BACKLOG



- Robust 6-month backlog increased on sequential and year-over-year basis
- Inventory as a percentage of backlog trending downwards, partially driven by asset sale during the quarter

Note: Backlog figures are reflective of a six-month period. The six-month order backlog is considered more representative of operating conditions than total backlog.

LONG-TERM STRATEGY

Leading Hybrid/Electric solution provider for niche marine and land-based applications

Continued expansion of Veth product to reach new markets and geographies

Rationalize global footprint for efficiency and customer response

Increased focus on controls and system integration rather than individual components

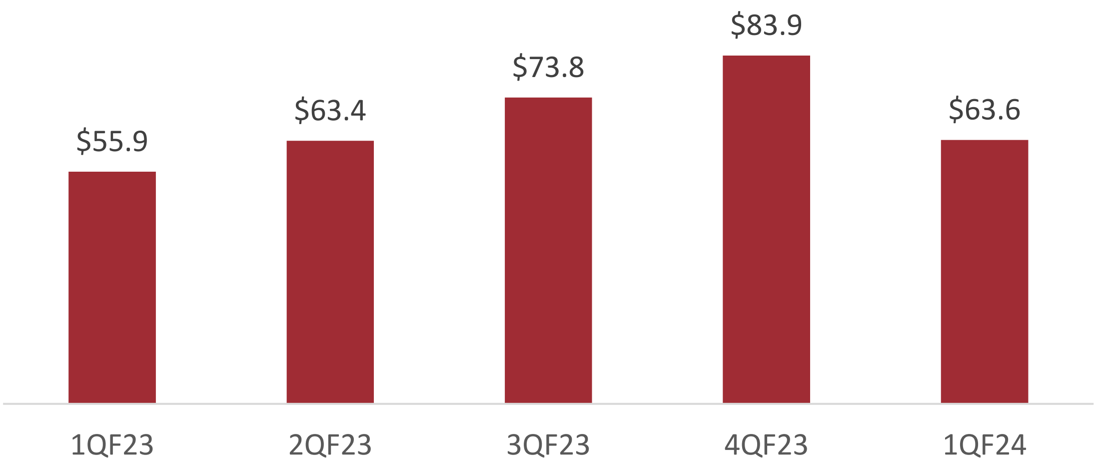
M&A priorities: Industrial and Marine Technology (Hybrid focus)

FINANCIAL OVERVIEW

FINANCIAL PERFORMANCE

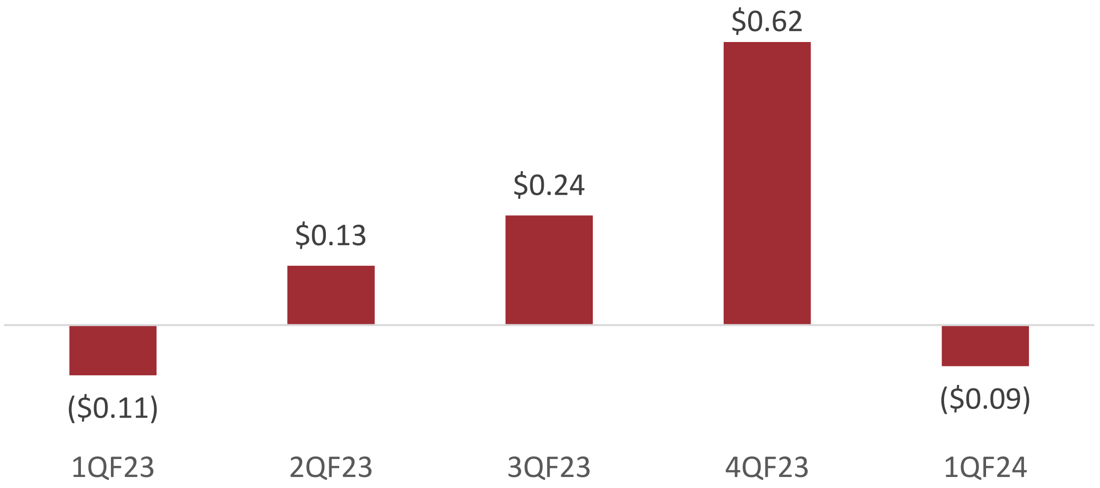
SALES

($ in millions)



- Generally stable demand across global markets
- Supply chain and inventory release improvements converting backlog to sales growth
- Capitalizing on increased pricing and favorable product mix

EARNINGS PER SHARE

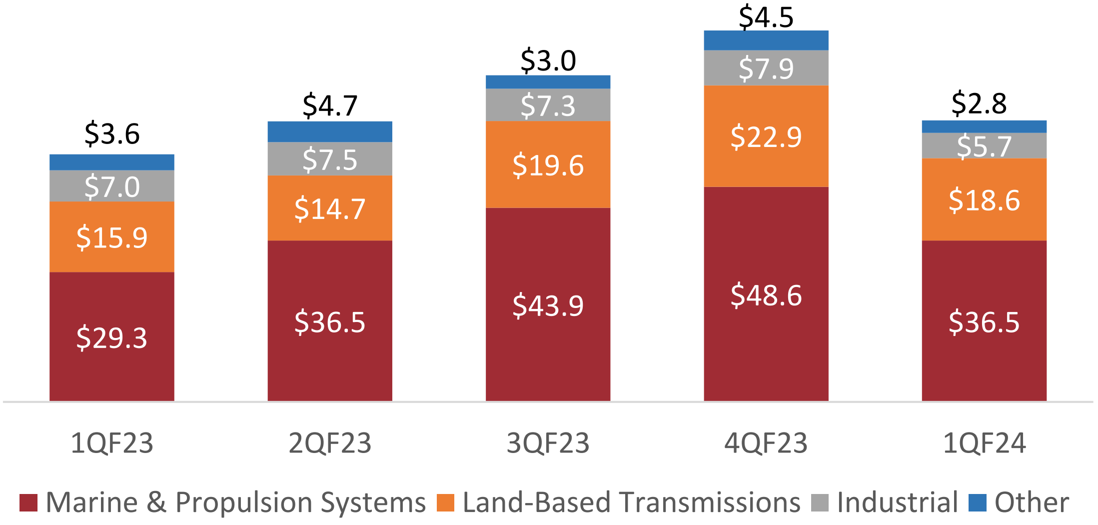


- Earnings impacted by a one-time noncash charge of $3.1M related to the sale of an asset
- Continued momentum driving year-over-year operational improvements

SALES DIVERSITY

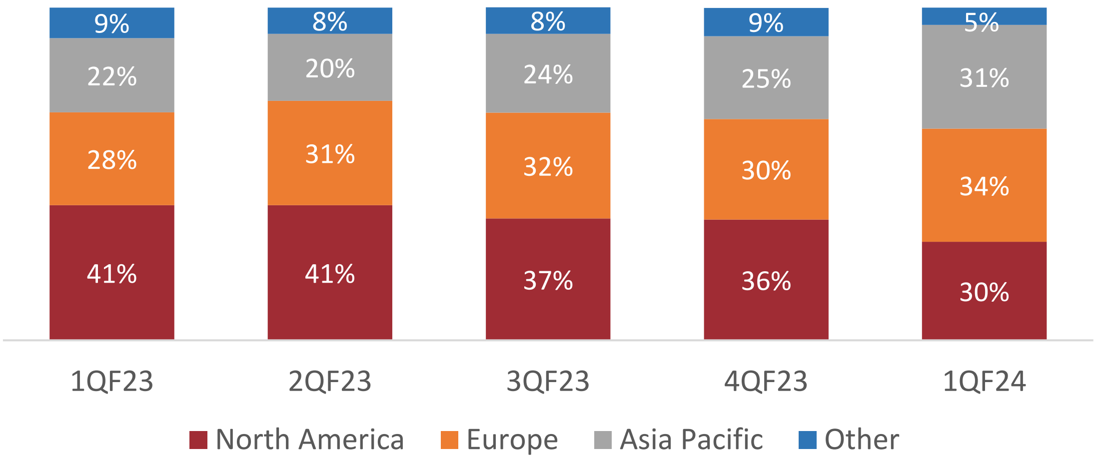
SALES BY PRODUCT GROUP

($ in millions)



- Continued strength within Marine and Propulsion Systems and Land-Based Transmissions:
  - Consistent market demand
  - Geographic expansion
  - Strategic partnerships
- Lower sales in Industrial due to softened demand

SALES MIX BY GEOGRAPHY

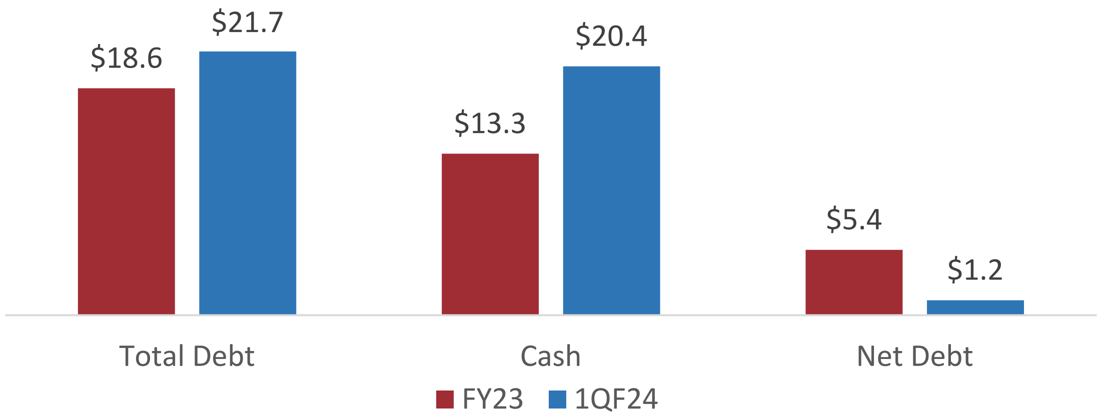


- Increased sales across multiple regions, with Asia Pacific and Europe capturing a combined increase of 10% of total sales versus fiscal year end
- Decreasing proportion of overall sales in North American market, with demand remaining steady

STRONG BALANCE SHEET

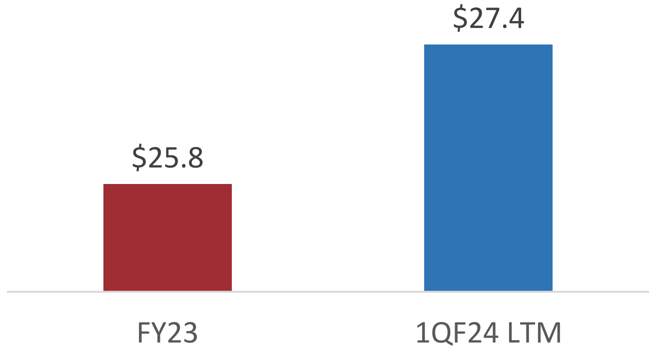
BALANCE SHEET

($ in millions)

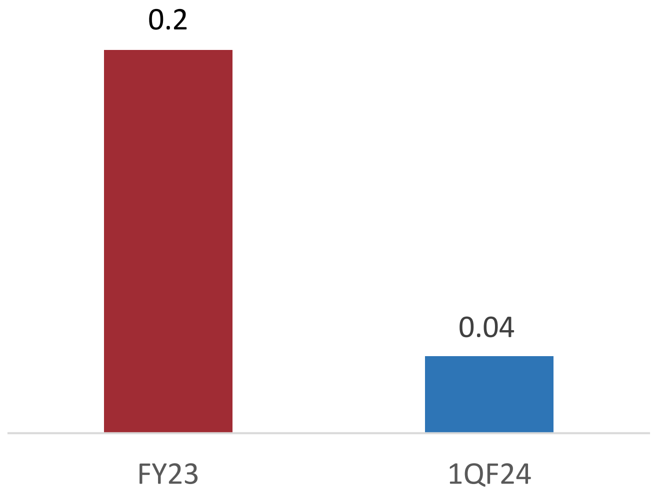


EBITDA

($ in millions)

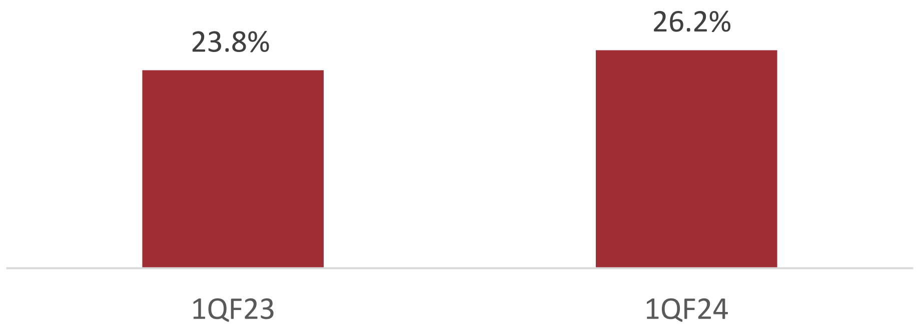


LEVERAGE RATIO



MARGINS & NEAR-TERM EXPECTATIONS

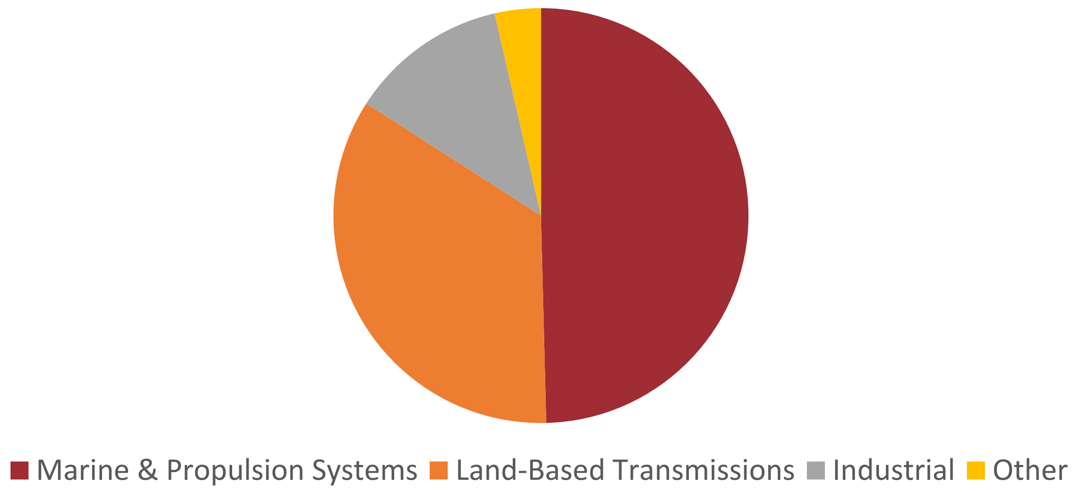
TWIN DISC GROSS MARGIN



FIRST QUARTER GROSS MARGIN DRIVERS

- Gross margin increased 240 basis points vs. YA
- $3.1M loss on asset sale reflected in gross margin
- Increased volume; favorable product mix
- Tailwind from pricing actions executed throughout FY 2023

FIRST QUARTER GROSS PROFIT BY PRODUCT GROUP



INFLATION & SUPPLY CHAIN EXPECTATIONS

- Supply chain improvements enable stronger shipments
- Commodities have stabilized, some reductions in freight and fuel surcharge

CAPITAL ALLOCATION FRAMEWORK

- Debt Reduction
- Return Capital to Shareholders (Dividends)
- Organic Growth Investments
- Bolt-On & Transformational Acquisitions
- Return Capital to Shareholders (Share Repurchases)

Focus Areas
- Research & Development
- Geographic diversification / expansion
- Marketing

Strategic Fit
- Diversification away from Oil & Gas
- Acquisition logic immediately evident

Financial Fit
- Evident value creation potential
- Consistent business performance
- Internal Rate of Return > WACC

Other Considerations
- Platform for transformative expansion
- Can enhance network and capabilities

KEY TAKEAWAYS

- Steady end market demand driving performance improvement, highlighted by robust margin expansion, cash generation, and reinstatement of a quarterly cash dividend
- Strong increase in backlog, with inventory as a percentage of backlog declining
- Supply chain headwinds largely subsided supported by management's successful actions to address legacy challenges
- Remaining well-positioned to navigate through economic uncertainty, supported by solid balance sheet and financial profile

Q&A

Fiscal 2024 First Quarter Earnings Call

APPENDIX

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES TO REPORTED FINANCIAL MEASURES

RECONCILIATION OF TOTAL DEBT TO NET DEBT
(In thousands; unaudited)

	September 29, 2023	June 30, 2023
Current maturities of long-term debt	2,002	2,010
Long-term debt	19,655	16,617
Total debt	$21,657	$18,627
Less cash	20,428	13,263
Net debt	$1,229	$5,364

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES TO REPORTED FINANCIAL MEASURES

RECONCILIATION OF CONSOLIDATED NET INCOME TO EBITDA

(In thousands; unaudited)

	1QF24 LTM	1QF24	FY23	4QF23	3QF23	2QF23	1QF23
Net Income (loss) attributable to Twin Disc	$10,630	$(1,172)	$10,380	$6,775	$3,281	$1,746	$(1,422)
Interest expense	2,081	394	2,253	571	522	594	566
Income tax expense	5,022	546	3,788	1,439	548	2,489	(688)
Depreciation and amortization	9,710	2,492	9,359	2,423	2,670	2,126	2,140
Earnings before interest, taxes, depreciation and amortization (EBITDA)	$27,444	$2,260	$25,781	$11,208	$7,021	$6,955	$596

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES TO REPORTED FINANCIAL MEASURES

NET DEBT TO EBITDA LEVERAGE RATIO CALCULATION

	1QF24	FY23
Net debt	$1,229	$5,364
EBITDA	27,444	25,781
Leverage Ratio	0.04x	0.2x