# Third Quarter Fiscal 2020

**February 5, 2020  8:00 am CDT**

MODINE

Always Innovating. Always Improving.

# Forward-Looking Statements

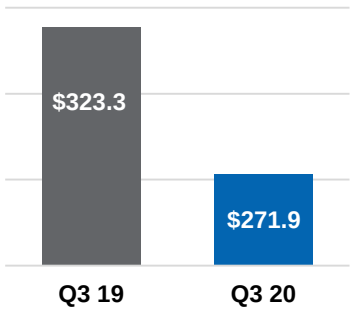
This presentation contains statements, including information about future financial performance and market conditions, accompanied by phrases such as “believes,” “estimates,” “expects,” “plans,” “anticipates,” “intends,” and other similar “forward-looking” statements, as defined in the Private Securities Litigation Reform Act of 1995. Modine's actual results, performance or achievements may differ materially from those expressed or implied in these statements because of certain risks and uncertainties, including, but not limited to those described under “Risk Factors” in Item 1A of Part I of the Company's Annual Report on Form 10-K for the year ended March 31, 2019 and under Forward-Looking Statements in Item 7 of Part II of that same report, and in the Company’s Quarterly Report on Form 10-Q for the quarters ended June 30, 2019 and September 30, 2019. Other risks and uncertainties include, but are not limited to, the following: the overall health and price-down focus of Modine’s customers; our ability to successfully execute our strategic and operational plans, including our ability to successfully separate and sell our automotive business within the VTS segment; our ability to effectively and efficiently reduce our cost structure in response to sales volume declines and complete restructuring activities and realize benefits thereon; operational inefficiencies as a result of program launches, unexpected volume increases and product transfers; economic, social and political conditions, changes and challenges in the markets where Modine operates and competes, including foreign currency exchange rate fluctuations, tariffs (and potential trade war impacts resulting from tariffs or retaliatory actions), inflation, changes in interest rates, recession, restrictions associated with importing and exporting and foreign ownership, public health crises, such as pandemics and epidemics, and the general uncertainties about the impact of regulatory and/or policy changes, including those related to tax and trade, that have been or may be implemented in the U.S. or by its trade partners, and continuing uncertainty regarding “Brexit”; the impact on Modine of any significant increases in commodity prices, particularly aluminum, copper, steel and stainless steel (nickel) and other purchased component inventory, and our ability to adjust product pricing in response to any such increases; the nature of and Modine’s significant exposure to the vehicular industry and the dependence of this industry on the health of the economy; the concentration of sales within our CIS segment attributed to one customer; Modine’s ability to recruit and maintain talent in managerial, leadership, and administrative functions; Modine’s ability to protect its proprietary information and intellectual property from theft or attack; the impact of any substantial disruption or material breach of our information technology systems; costs and other effects of environmental investigation, remediation or litigation; and other risks and uncertainties identified by the Company in public filings with the U.S. Securities and Exchange Commission. Forward-looking statements are as of the date of this presentation, and the Company does not assume any obligation to update any forward-looking statements.

# Q3 FY 2020 Highlights

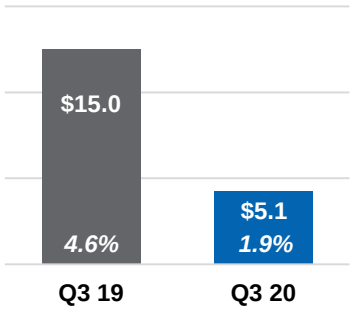
- Sales down $67.6M from prior year and adjusted operating income down $10.8M
  - Lower market demand in VTS and CIS segments
- Improved free cash flow during the quarter
  - Strengthened balance sheet by refinancing debt
- New CIS leadership focused on improving margins and growing coolers business
- Realigned organization and approach to data center market
- Automotive exit strategy progressing
  - Plan to manage and report a separate auto segment in FY21
  - Separation nearly complete with focused leadership team
  - Committed to exiting auto business quickly and efficiently
  - Segmented the business and engaged with numerous interested parties
  - Focused on managing the business to optimize earnings and cash flow

# VTS Summary

## Net Sales
-16%

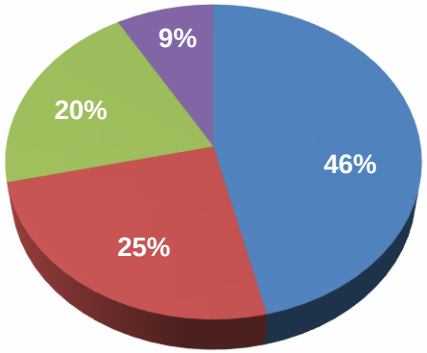



## Adjusted Operating Income
-66%



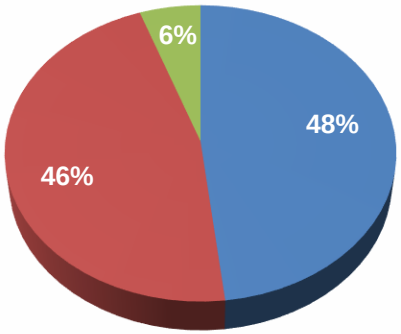

(in millions)

## Sales by End Market




| | |
|---|---|
| Automotive | -3% |
| Commercial Vehicle | -26% |
| Off-Highway | -26% |
| Other | |

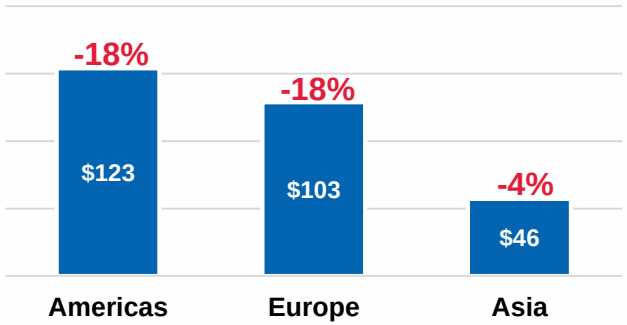
## Sales by Product




| | |
|---|---|
| Power Train Cooling | -28% |
| Engine Products | +3% |
| Other | |

* See Appendix for Non-GAAP reconciliations

## Sales by Region

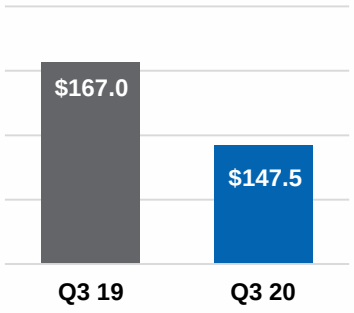



(in millions)

# CIS Summary

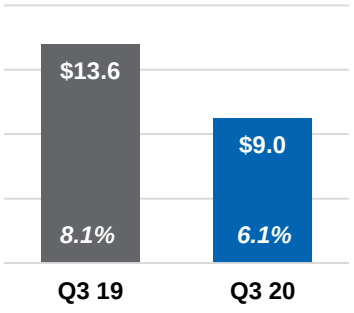
## Net Sales

-12%



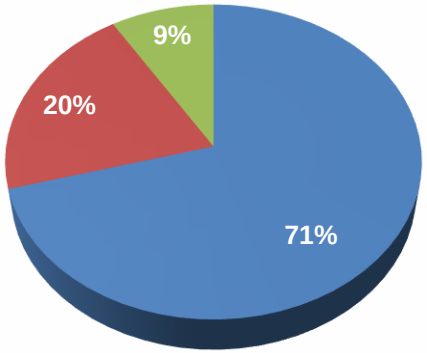

## Adjusted Operating Income

-34%



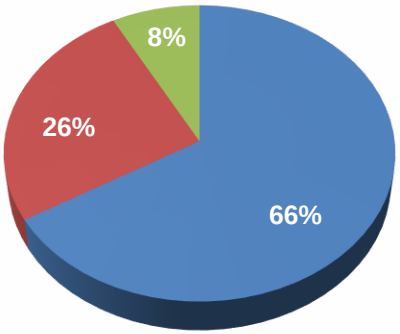

(in millions)

## Sales by End Market




| | |
|---|---|
| Commercial HVAC&R | -9% |
| Data Center | -25% |
| Industrial (Power & Other) | +7% |

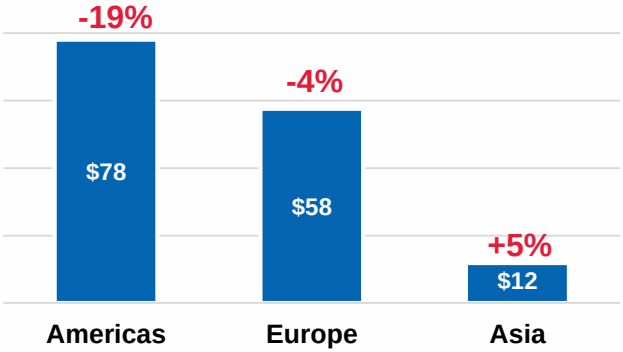
## Sales by Product




| | |
|---|---|
| Coils | -9% |
| Coolers | -22% |
| Coatings/Other | +8% |

* See Appendix for Non-GAAP reconciliations

## Sales by Region

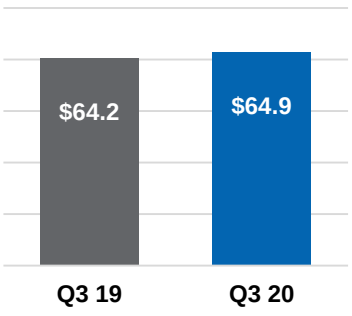



(in millions)

# BHVAC Summary

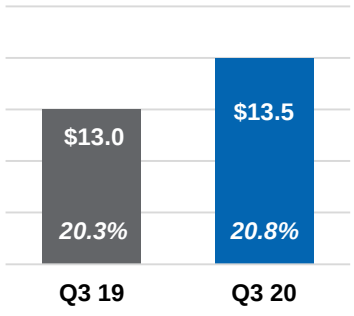
## Net Sales

+1%



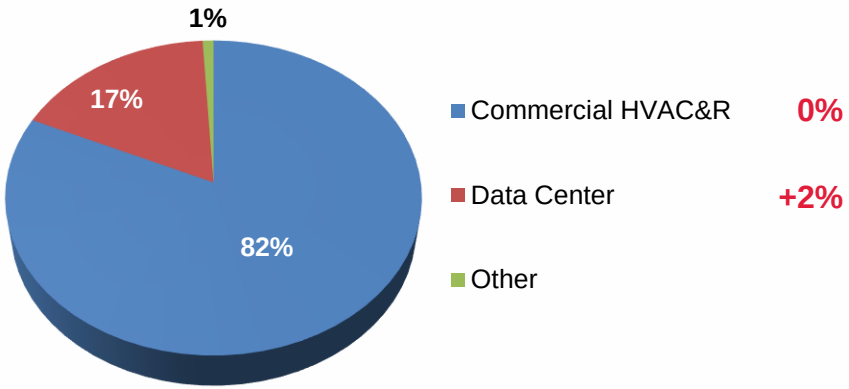

## Operating Income

+4%

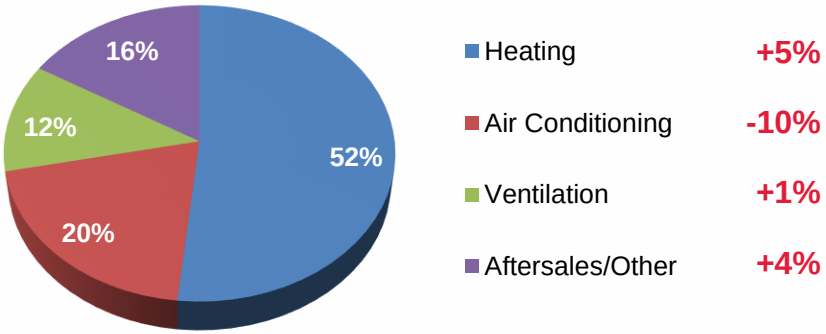



(in millions)

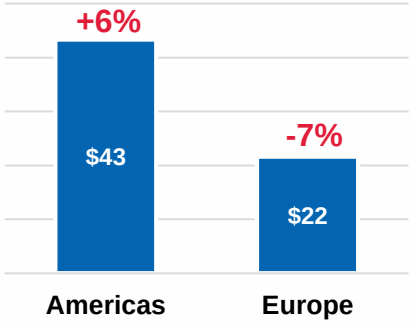
## Sales by End Market




## Sales by Product




## Sales by Region




(in millions)

# Income Statement Metrics

**Sales decreased $67.6M or 12%**

- Significant truck and off-highway market headwinds in VTS
- CIS impacted by the decline with one major data center customer

**Gross profit decreased 20%; margin negatively impacted by VTS and CIS segments**

- Margin decline driven by the reduction in volume and in-line with typical downside conversions

**Total SG&A includes $12.6M of costs related to the separation and exit the automotive business**

- Program management; necessary to create a stand-alone business and allow for an eventual divestiture
- Majority of the separation work is complete; IT, legal, HR, audit, accounting, and tax
- Majority of any remaining costs will be to support a sale process; seller due diligence, accounting, legal, and other advisory fees
- Underlying SG&A decreased $5M or 9% from prior year

**Adjusted operating income decreased $10.8M**

- Lower margin driven by the reduced sales and partially offset by decreased SG&A costs

**Adjusted EPS declined $0.05 to $0.37**

- Decreased tax rate due to tax benefits in Italy and a favorable forecast of the GILTI impact on US taxes

| (In millions) | Q3 2020 | Q3 2019 |
|---|---|---|
| **Net Sales** | **$473.4** | **$541.0** |
| Gross Profit | 73.5 | 91.7 |
| *% of net sales* | *15.5%* | *16.9%* |
| SG&A expenses | 63.5 | 57.2 |
| *% of net sales* | *13.4%* | *10.6%* |
| **Adjusted Op Income*** | **24.0** | **34.8** |
| *% of net sales* | *5.1%* | *6.4%* |
| Interest Expense | 5.6 | 6.2 |
| Adj. Provision for Income Taxes* | 0.0 | 6.5 |
| Adjusted Tax Rate* | 0% | 23% |
| **Adjusted EPS*** | **$0.37** | **$0.42** |

* See Appendix for the full GAAP income statement and Non-GAAP reconciliations

# Cash Flow & Net Debt

**Cash flow improved during the quarter and anticipating further progress to continue through year end**

- Net debt declined by $21M during the quarter, with positive free cash flow of $12M

**On a YTD basis, cash flow has been impacted by lower earnings, along with working capital and expenses related to the automotive exit plan**

- Investments in the automotive exit have been important and strategic
- Costs have supported several workstreams, including program management, separation, and the sale process
- Separation costs are mostly complete, with the cash flow impact on a lag
- Planning to run the stand alone automotive segment with much lower capital investments
- Future cash flow benefits expected from asset sales

**Net debt of $412M, with leverage at 2.3x**

**Further strengthened the capital structure by refinancing $100M with long-term private placements**

| (In millions) | Q3 YTD 2020 | Q3 YTD 2019 |
|---|---|---|
| Operating cash flow | $45.9 | $67.4 |
| Capital expenditures | (58.2) | (58.7) |
| **Free cash flow** | **($12.3)** | **$8.7** |

| (In millions) | 12/31/19 | 3/31/19 |
|---|---|---|
| Cash | $36.2 | $41.7 |
| Total debt | 447.7 | 449.7 |
| **Net debt** | **$411.5** | **$408.0** |
| **Leverage Ratio** | **2.3x** | **2.1x** |

# Fiscal 2020 Guidance

| (In millions) | Guidance | Comments |
|---|---|---|
| Net sales | $1,947 to $2,058 | -12% to -7% |
| Adjusted operating income* | $85 to $95 | -36% to -28% (-160 to -140 bps) |
| Adjusted EPS* | $0.85 to $1.00 | $23M of annual interest expense; Assumes current foreign exchange rates; Adjusted tax rate 26% |

- Confirming sales and adjusted operating income guidance
- Increasing the adjusted EPS range due to favorable tax forecast changes
- Anticipating lower year-over-year sales from slowing CIS markets/customers, declining commercial vehicle and off-highway markets, and partially offset with growth in BHVAC
- Executing on cost reduction plans to help offset the volume decreases
- Full-year sales declining 7% to 12%, and adjusted operating income declining 28% to 36%
- Adjusted EPS range of $0.85 to $1.00

* See Appendix for Non-GAAP reconciliations

# Appendix

# Q3 GAAP Income Statement

(In millions, except per share amounts)

| | Q3 2020 | Q3 2019 | Better (Worse) |
|---|---|---|---|
| **Net sales** | **$ 473.4** | **$ 541.0** | **$ (67.6)** |
| Cost of sales | 399.9 | 449.3 | 49.4 |
| **Gross profit** | **73.5** | **91.7** | **(18.2)** |
| Selling, general & administrative expenses | 63.5 | 57.2 | (6.3) |
| Restructuring expenses | 2.6 | 0.5 | (2.1) |
| Impairment charge | - | 0.4 | 0.4 |
| Gain on sale of assets | (0.8) | - | 0.8 |
| **Operating income** | **8.2** | **33.6** | **(25.4)** |
| Interest expense | (5.6) | (6.2) | 0.6 |
| Other income (expense) - net | 0.1 | (0.5) | 0.6 |
| **Earnings before income taxes** | **2.7** | **26.9** | **(24.2)** |
| Provision for income taxes | (1.7) | (8.6) | 6.9 |
| **Net earnings** | **1.0** | **18.3** | **(17.3)** |
| Net loss (earnings) attributable to noncontrolling interest | 0.2 | (0.3) | 0.5 |
| **Net earnings attributable to Modine** | **$ 1.2** | **$ 18.0** | **$ (16.8)** |
| **Net earnings per share - diluted** | **$ 0.02** | **$ 0.35** | **$ (0.33)** |

# Non-GAAP Reconciliations

**Adjusted financial results (unaudited)**

(In millions, except per share amounts)

| | Three months ended December 31, | | Nine months ended December 31, | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| Operating income | **$ 8.2** | $ 33.6 | **$ 32.3** | $ 91.2 |
| Automotive separation and strategy costs [a] | **14.0** | 1.2 | **34.3** | 1.2 |
| Restructuring expenses [b] | **2.6** | 0.5 | **6.7** | 0.7 |
| (Gain) loss on sale of assets [c] | **(0.8)** | - | **(0.8)** | 1.7 |
| Environmental charges [d] | **-** | (0.9) | **0.1** | 1.9 |
| Impairment charge [e] | **-** | 0.4 | **-** | 0.4 |
| Acquisition integration costs [f] | **-** | - | **-** | 0.2 |
| **Adjusted operating income** | **$ 24.0** | $ 34.8 | **$ 72.6** | $ 97.3 |
| Net earnings per share attributable to Modine shareholders - diluted | **$ 0.02** | $ 0.35 | **$ 0.09** | $ 1.53 |
| Automotive separation and strategy costs [a] | **0.21** | 0.02 | **0.51** | 0.02 |
| Restructuring expenses [b] | **0.04** | 0.01 | **0.11** | 0.01 |
| (Gain) loss on sale of assets [c] | **(0.01)** | - | **(0.01)** | 0.03 |
| Environmental charges [d] | **-** | (0.01) | **-** | 0.03 |
| Impairment charge [e] | **-** | 0.01 | **-** | 0.01 |
| Tax valuation allowances [g] | **0.06** | - | **0.06** | (0.02) |
| Tax from legal entity restructuring [h] | **0.05** | - | **0.05** | - |
| U.S. tax reform [i] | **-** | 0.04 | **-** | (0.43) |
| **Adjusted earnings per share** | **$ 0.37** | $ 0.42 | **$ 0.81** | $ 1.18 |

[a] During the first nine months of fiscal 2020 and 2019, the Company recorded $34.3 million and $1.2 million, respectively, of costs at Corporate directly associated with its review of strategic alternatives for the Vehicular Thermal Solutions ("VTS") segment's automotive business, including costs to separate and prepare the business for a potential sale. With the exception of $1.5 million of costs in fiscal 2020 associated with program and equipment transfers recorded as costs of sales, these costs were recorded as SG&A expenses and primarily related to accounting, legal, and IT professional services. The tax benefit related to these costs during the first nine months of fiscal 2020 was $8.3 million.

[b] Restructuring expenses primarily relate to employee severance expenses, largely resulting from targeted headcount reductions, and equipment transfer and plant consolidation costs. The tax benefit related to these costs during the first nine months of fiscal 2020 was $1.0 million.

[c] During fiscal 2020, the VTS segment sold a previously-closed manufacturing facility in Germany and, as a result, recorded a gain of $0.8 million. During fiscal 2019, the Building HVAC Systems segment sold its operations in South Africa and, as a result, recorded a loss of $1.7 million. Annual sales for this disposed business were less than $2.0 million. There were no tax impacts associated with these transactions.

[d] Environmental charges, including related legal costs, are recorded as SG&A expenses and relate to previously-owned U.S. manufacturing facilities in the VTS segment. During the third quarter in fiscal 2019, the Company recovered $1.1 million of environmental investigation costs from a prior owner of one of these facilities and recorded the recovery within SG&A expenses.

[e] During fiscal 2019, the Company recorded a $0.4 million impairment charge related to a previously-closed Austrian manufacturing facility within the CIS segment.

[f] These costs related to the Company's acquisition and integration of the Luvata Heat Transfer Solutions business.

[g] During fiscal 2020, the Company adjusted its valuation allowances on deferred tax assets in the U.S. As a result, the Company recorded a $3.0 million income tax charge in the third quarter of fiscal 2020. During fiscal 2019, the Company adjusted its valuation allowances on deferred tax assets related to two separate subsidiaries in China. As a result, the Company recorded a $2.0 million income tax benefit in the first quarter of fiscal 2019 and an income tax charge of $1.0 million in the second quarter of fiscal 2019.

[h] During fiscal 2020, the Company recorded a net income tax charge totaling $2.7 million as a result of legal entity restructuring completed in preparation of a potential sale of the automotive business.

[i] During the first nine months of fiscal 2019, the Company recorded income tax benefits totaling $22.2 million, which were primarily related to transition tax obligations associated with tax reform legislation in the U.S. that was enacted in December 2017 and the recognition of tax assets for foreign tax credits.

# Non-GAAP Reconciliations

## Segment adjusted operating income and margin

(In millions)

| Vehicular Thermal Solutions | Three months ended December 31, 2019 | 2018 |
|---|---|---|
| **Operating income** | $ 4.3 | $ 15.5 |
| Restructuring expenses [(a)] | 1.6 | 0.4 |
| Gain on sale of assets [(a)] | (0.8) | - |
| Environmental charges [(a)] | - | (0.9) |
| **Adjusted operating income** | $ 5.1 | $ 15.0 |
| Net sales | $ 271.9 | $ 323.3 |
| **Adjusted operating margin** | 1.9% | 4.6% |

| Commercial and Industrial Solutions | Three months ended December 31, 2019 | 2018 |
|---|---|---|
| **Operating income** | $ 8.3 | $ 13.1 |
| Restructuring expenses [(a)] | 0.7 | 0.1 |
| Impairment charge [(a)] | - | 0.4 |
| **Adjusted operating income** | $ 9.0 | $ 13.6 |
| Net sales | $ 147.5 | $ 167.0 |
| **Adjusted operating margin** | 6.1% | 8.1% |

[(a)] See the adjusted financial results on slide 12 for additional information regarding these adjustments.

# Non-GAAP Reconciliations

**Adjusted tax rate**
(In millions)

| | Three months ended December 31, | |
|---|---|---|
| | **2019** | **2018** |
| **Earnings before income taxes** | $ 2.7 | $ 26.9 |
| Automotive separation and strategy costs [(a)] | 14.0 | 1.2 |
| Restructuring expenses [(a)] | 2.6 | 0.5 |
| Gain on sale of assets [(a)] | (0.8) | - |
| Environmental charges [(a)] | - | (0.9) |
| Impairment charge [(a)] | - | 0.4 |
| **Adjusted earnings before income taxes** | $ 18.5 | $ 28.1 |
| | | |
| **Provision for income taxes** | $ 1.7 | $ 8.6 |
| Taxes on adjustments above | 4.0 | 0.1 |
| Tax valuation allowance [(a)] | (3.0) | - |
| Tax from legal entity restructuring [(a)] | (2.7) | - |
| U.S. tax reform [(a)] | - | (2.2) |
| **Adjusted provision for income taxes** | $ - | $ 6.5 |
| GAAP tax rate | 63% | 32% |
| **Adjusted tax rate** | **0%** | **23%** |

[(a)] See the adjusted financial results on slide 12 for additional information regarding these adjustments.

# Non-GAAP Reconciliations

**Free cash flow (unaudited)**

(In millions)

| | Three months ended December 31, | | Nine months ended December 31, | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| Net cash provided by operating activities | **$ 28.4** | $ 30.7 | **$ 45.9** | $ 67.4 |
| Expenditures for property, plant and equipment | **(16.8)** | (20.8) | **(58.2)** | (58.7) |
| **Free cash flow** | **$ 11.6** | $ 9.9 | **$ (12.3)** | $ 8.7 |

# Non-GAAP Reconciliations

Our fiscal 2020 guidance includes adjusted operating income and adjusted earnings per share. These are non-GAAP measures, which exclude certain cash and non-cash expenses or gains. These expenses and gains may be significant and include items such as restructuring expenses (including severance costs and plant consolidation and relocation expenses), costs associated with the review of strategic alternatives for and separation and potential sale of the automotive business in our VTS segment, acquisition and integration costs, impairment charges and certain other items. These expenses or gains for the first nine months of fiscal 2020 are presented on slide 12. Beyond approximately $4.0 million of severance expenses in the VTS segment that we expect to record for additional headcount reductions approved in January 2020, estimates of these expenses and gains for the remainder of fiscal 2020 are not available due to the low visibility and unpredictability of these items.