



First Quarter Fiscal 2020

August 1, 2019 8:00 am CDT



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. 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 evaluation of strategic alternatives for our automotive business within the VTS segment; uncertainties regarding the costs and benefits of Modine’s restructuring activities; 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, 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 release, and the Company does not assume any obligation to update any forward-looking statements.

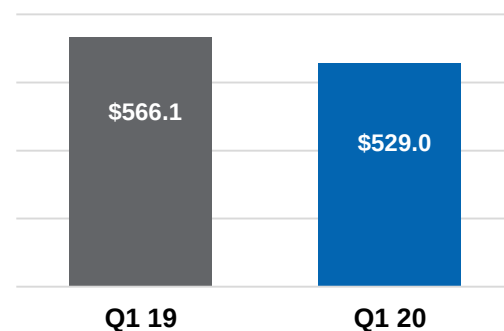
Q1 FY 2020 Highlights



- Sales decreased 3% on a constant-currency basis
 - BHVAC segment sales up 11%
 - VTS and CIS down, consistent with end market demand
- Adjusted operating income down due to lower sales volumes
- First quarter in-line with our expectations
- Adjusting the outlook for second half based on recent market news and trends
- Management is very focused on those factors that we can control
- Formal sale process for automotive business is well underway

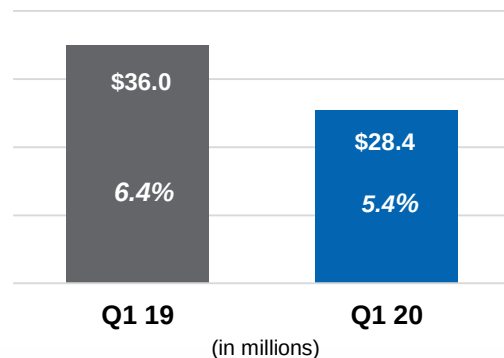
Net Sales

(7%)



Adjusted Operating Income

(21%)



* See Appendix for Non-GAAP reconciliations



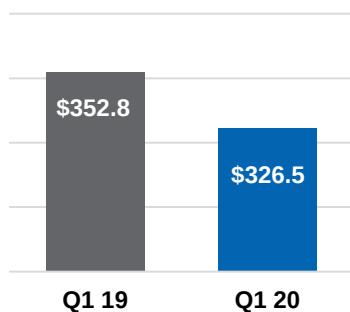
Segment Updates



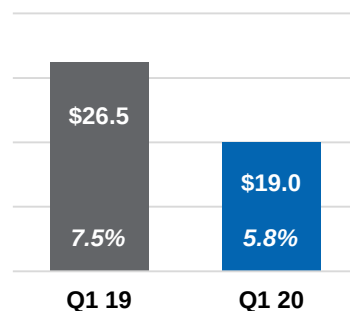
VTS Summary



Net Sales
(7%)

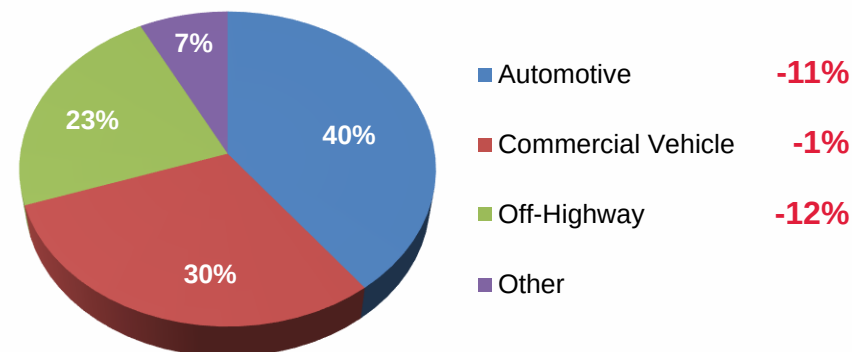


Adjusted Operating Income
(28%)

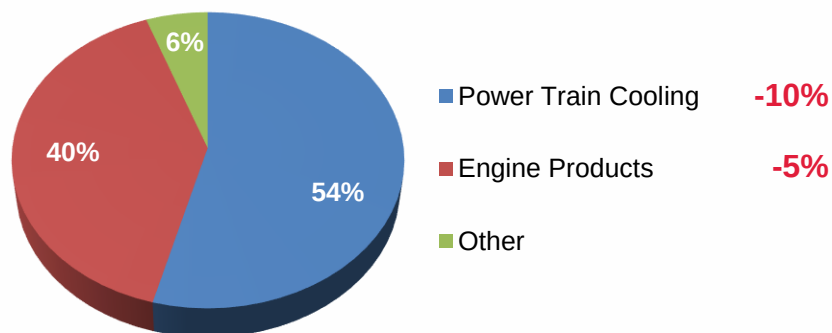


(in millions)

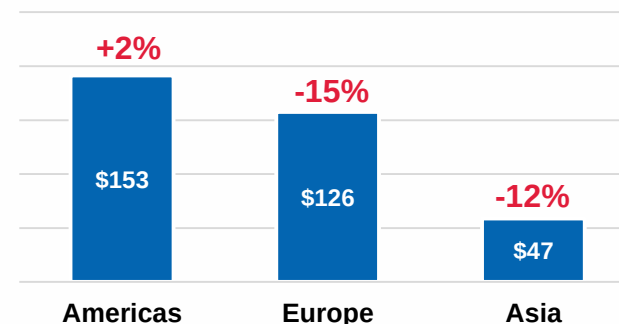
Sales by End Market



Sales by Product



Sales by Region



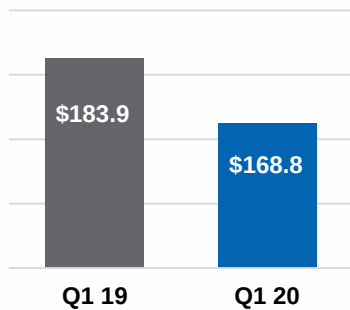
(in millions)

* See Appendix for Non-GAAP reconciliations

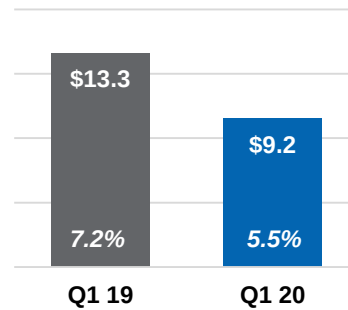
CIS Summary



Net Sales
(8%)

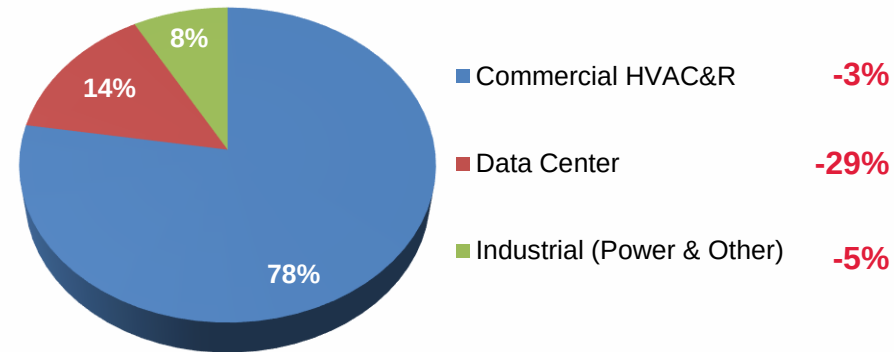


Adjusted Operating Income
(31%)

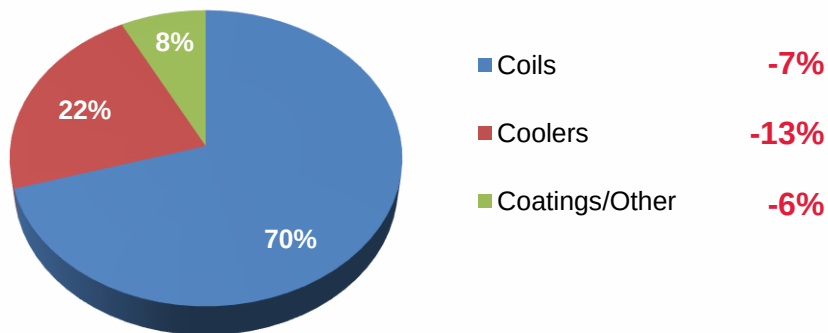


(in millions)

Sales by End Market

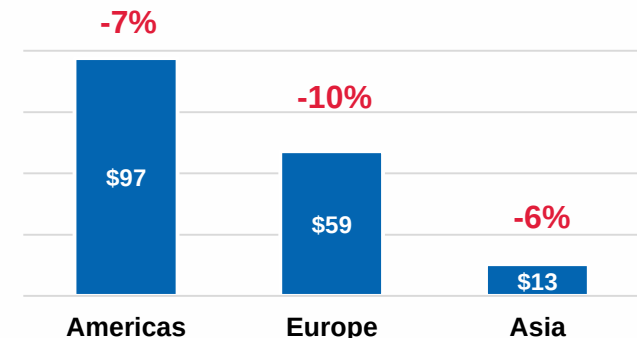


Sales by Product



* See Appendix for Non-GAAP reconciliations

Sales by Region



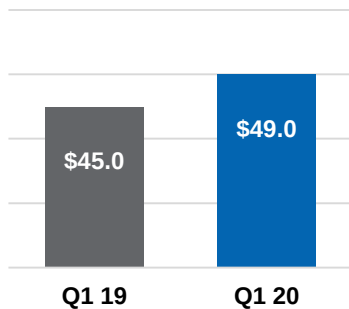
(in millions)

BHVAC Summary



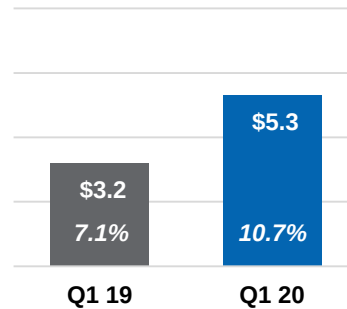
Net Sales

+9%



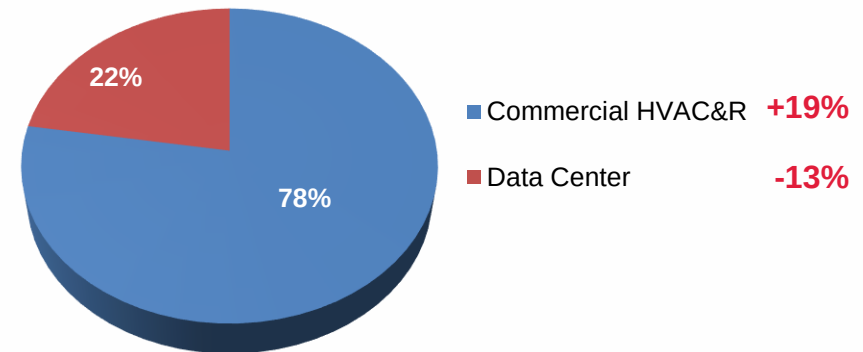
Operating Income

+66%

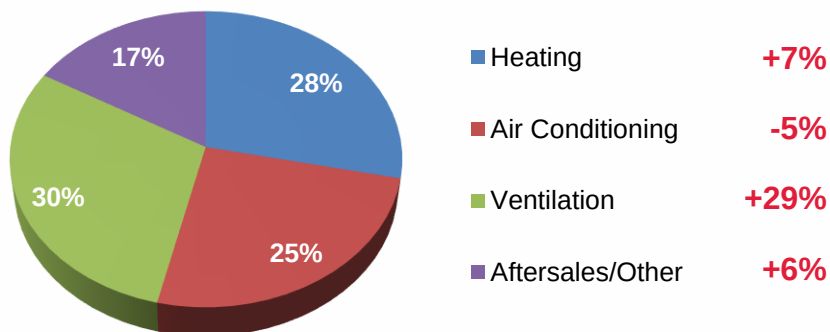


(in millions)

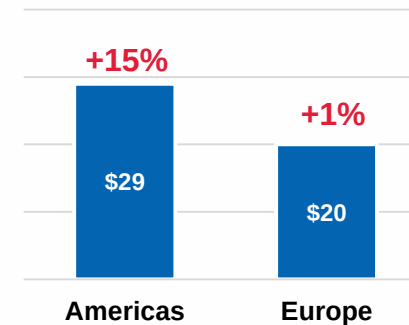
Sales by End Market



Sales by Product



Sales by Region



(in millions)



Financial Updates



Income Statement Metrics



Sales decreased \$37.1M or 6.6%

- Difficult Q1 comparisons, but generally in-line with our expectations
- On a constant-currency basis down 3.4%

Gross profit decreased 11.6%; margin negatively impacted by VTS and CIS segments

- Downside conversion as expected due to fixed cost absorption
- Negative FX impact on gross profit
- Margin down on lower volume, combined with labor costs and tariff expenses
- Stronger BHVAC margin primarily due to higher sales and favorable pricing

SG&A of \$63.5M included \$8.4M of costs associated with the strategic review and potential sale of the automotive business

- Underlying SG&A down from prior year

Adjusted operating income decreased \$7.6M

- Targeted SG&A reductions partially offsetting volume, tariff and FX impacts

Adjusted EPS declined \$0.10 or 24.4%, primarily due to lower earnings

(In millions)	Q1 2020	Q1 2019
Net Sales	\$529.0	\$566.1
Gross Profit	83.4	94.3
<i>Margin</i>	15.8%	16.7%
SG&A expenses	63.5	59.3
<i>% of net sales</i>	12.0%	10.5%
Adjusted Op Income*	28.4	36.0
<i>Margin</i>	5.4%	6.4%
Interest Expense	5.9	6.2
Provision for Income Taxes	2.9	5.0
Adjusted Tax Rate*	24%	25%
Adjusted EPS*	\$0.31	\$0.41

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

Cash Flow & Net Debt



- Free cash flow improved compared to the prior year, primarily due to favorable net changes in working capital levels
- Q1 FY20 includes \$13M of cash payments for strategy, restructuring and environmental costs
 - Mostly due to the review of strategic alternatives for Modine's automotive business
 - Expecting further costs as the sale process proceeds and the company prepares for a potential separation
- Anticipating an increase in full-year free cash flow during fiscal 2020
- Net debt increased \$20M, resulting in a leverage ratio of 2.2

(In millions)	Q1 2020	Q1 2019
Operating cash flow	\$0.5	(\$4.1)
Capital expenditures	(20.3)	(22.6)
Free cash flow	(\$19.8)	(\$26.7)

(In millions)	6/30/19	3/31/19
Cash	\$29.1	\$41.7
Total debt	457.2	449.7
Net debt	\$428.1	\$408.0
Leverage Ratio	2.2x	2.1x

Fiscal 2020 Guidance



(In millions)	Guidance	Comments
Net sales	\$2,102 to \$2,213	-5% to Flat
Adjusted operating income*	\$120 to \$130	-9% to -1% (-30 to -10 bps)
Adjusted EPS*	\$1.35 to \$1.50	\$22M of annual interest expense; Assumes current foreign exchange rates; Increase in adjusted tax rate to 26%

- Adjusting revenue and earnings guidance based on a reduced outlook for second half of fiscal 2020
- Downside adjustments are primarily due to slowing data center sales and weakness across most vehicular markets, in particular global automotive and off-highway
- Offsetting some of the volume impacts with additional cost reductions
- Full-year sales flat to declining 5%, and adjusted operating income declining 1% to 9%
- Adjusted EPS range down 4% to 14%; expecting our adjusted tax rate to be higher than Fiscal 2019
- Expecting difficult earnings comparisons in the second quarter and improving in the second half of Fiscal 2020

* See Appendix for Non-GAAP reconciliations



Appendix



Q1 GAAP Income Statement



(In millions, except per share amounts)

	Q1 2020	Q1 2019	Better (Worse)
Net sales	\$ 529.0	\$ 566.1	\$ (37.1)
Cost of sales	445.6	471.8	26.2
Gross profit	83.4	94.3	(10.9)
SG&A expenses	63.5	59.3	(4.2)
Restructuring expenses	1.8	0.2	(1.6)
Operating income	18.1	34.8	(16.7)
Interest expense	(5.9)	(6.2)	0.3
Other expense - net	(1.1)	(1.1)	-
Earnings before income taxes	11.1	27.5	(16.4)
Provision for income taxes	(2.9)	(5.0)	2.1
Net earnings	8.2	22.5	(14.3)
Net earnings attributable to noncontrolling interest	(0.2)	(0.5)	0.3
Net earnings attributable to Modine	\$ 8.0	\$ 22.0	\$ (14.0)
Net earnings per share - diluted	\$ 0.16	\$ 0.43	\$ (0.27)

Non-GAAP Reconciliations



Adjusted financial results (unaudited)

	Three months ended June 30,	
	2019	2018
Operating income	\$ 18.1	\$ 34.8
Automotive business strategy costs ^(a)	8.4	-
Restructuring expenses ^(b)	1.8	0.2
Environmental charges ^(c)	0.1	0.9
Acquisition integration costs ^(d)	-	0.1
Adjusted operating income	\$ 28.4	\$ 36.0
Net earnings per share attributable to Modine shareholders - diluted	\$ 0.16	\$ 0.43
Automotive business strategy costs ^(a)	0.12	-
Restructuring expenses ^(b)	0.03	-
Environmental charges ^(c)	-	0.02
Tax valuation allowance ^(e)	-	(0.04)
Adjusted earnings per share	\$ 0.31	\$ 0.41

^(a) During the first quarter of fiscal 2020, the Company recorded \$8.4 million of SG&A expenses at Corporate related to its review of strategic alternatives for the automotive business within its Vehicular Thermal Solutions ("VTS") segment. These expenses primarily related to third-party professional services and included costs to prepare for a potential sale of the automotive business. The tax benefit related to these costs was \$2.0 million.

^(b) Restructuring expenses primarily relate to employee severance expenses, largely resulting from targeted headcount reductions in Europe and the Americas within the VTS segment, and equipment transfer and plant consolidation costs. The tax benefit related to these costs in the first quarter of fiscal 2020 was \$0.2 million.

^(c) 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.

^(d) These costs related to the Company's acquisition and integration of the Luvata Heat Transfer Solutions business.

^(e) On June 30, 2018, the Company reversed a portion of the valuation allowance on its deferred tax assets in China, and, as a result, recorded an income tax benefit of \$2.0 million.

Non-GAAP Reconciliations



Segment adjusted operating income and margin

(In millions)

Vehicular Thermal Solutions

Three months ended June 30,

	2019	2018
Operating income	\$ 17.3	\$ 25.5
Restructuring expenses ^(a)	1.6	0.1
Environmental charges ^(a)	0.1	0.9
Adjusted operating income	<u>\$ 19.0</u>	<u>\$ 26.5</u>
Net sales	\$ 326.5	\$ 352.8
Adjusted operating margin	5.8%	7.5%

Commercial and Industrial Solutions

Three months ended June 30,

	2019	2018
Operating income	\$ 9.0	\$ 13.2
Restructuring expenses ^(a)	0.2	0.1
Adjusted operating income	<u>\$ 9.2</u>	<u>\$ 13.3</u>
Net sales	\$ 168.8	\$ 183.9
Adjusted operating margin	5.5%	7.2%

^(a) See the adjusted financial results on slide 14 for additional information regarding these adjustments.

Non-GAAP Reconciliations



Adjusted tax rate

(In millions)

Three months ended June 30,

	2019	2018
Earnings before income taxes	\$ 11.1	\$ 27.5
Automotive business strategy costs ^(a)	8.4	-
Restructuring expenses ^(a)	1.8	0.2
Environmental charges ^(a)	0.1	0.9
Acquisition integration costs ^(a)	-	0.1
Adjusted earnings before income taxes	<u>\$ 21.4</u>	<u>\$ 28.7</u>
Provision for income taxes	\$ 2.9	\$ 5.0
Taxes on adjustments above	2.3	0.3
Tax valuation allowance ^(a)	-	2.0
Adjusted provision for income taxes	<u>\$ 5.2</u>	<u>\$ 7.3</u>
GAAP tax rate	26%	18%
Adjusted tax rate	24%	25%

^(a) See the adjusted financial results on slide 14 for additional information regarding these adjustments.

Non-GAAP Reconciliations



Net sales - constant currency (unaudited)

(In millions)

Three months ended June 30,				
2019			2018	
	Net Sales	Effect of Exchange Rate Changes	Net Sales - Constant Currency	Net Sales
Vehicular Thermal Solutions	\$ 326.5	\$ 12.1	\$ 338.6	\$ 352.8
Commercial and Industrial Solutions	168.8	4.6	173.4	183.9
Building HVAC Systems	49.0	1.1	50.1	45.0
Segment total	544.3	17.8	562.1	581.7
Corporate and eliminations	(15.3)	-	(15.3)	(15.6)
Net sales	\$ 529.0	\$ 17.8	\$ 546.8	\$ 566.1

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 reviewing strategic alternatives for the automotive business in our VTS segment, acquisition and integration costs, impairment charges and certain other items. These expenses or gains for the first quarter of fiscal 2020 are presented on slide 14. 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.