



Second Quarter Fiscal 2020

November 8, 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, and in the Company's Quarterly Report on Form 10-Q for the quarter ended June 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, 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.

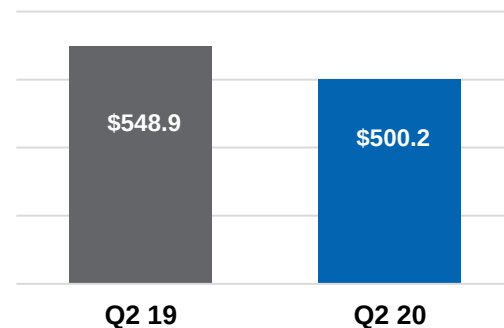
Q2 FY 2020 Highlights



- Reducing the outlook for several of our key end markets
 - Lowering guidance for Modine's second half based on the revised outlook
- Implementing immediate cost containment measures
 - Short-term savings and long-term initiatives
 - \$25 to \$30M in total savings over 18 months
- Continuing with automotive business divestiture process; remains a strategic priority
 - Completion of the divestiture will yield a stronger, more profitable Modine
- Sales decreased 7% on a constant-currency basis
 - BHVAC segment sales up, but more than offset by declines in VTS and CIS markets
- Adjusted operating income down and in-line with lower sales volumes

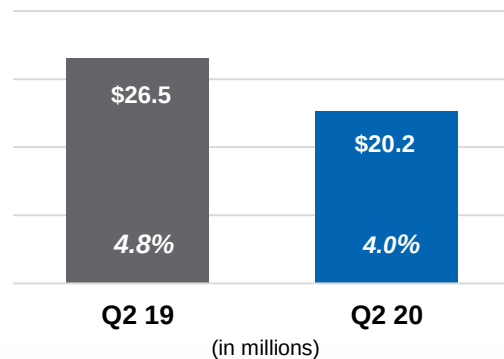
Net Sales

-9%



Adjusted Operating Income

-24%

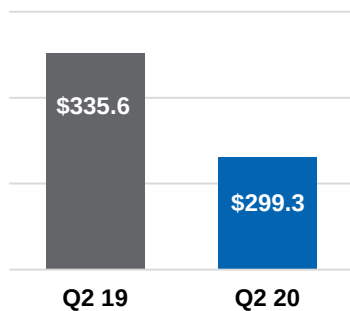


VTS Summary



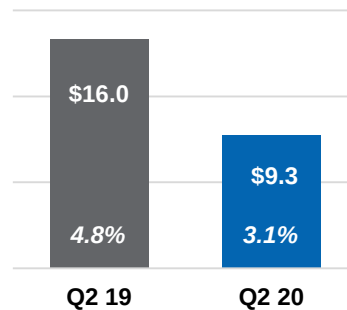
Net Sales

-11%



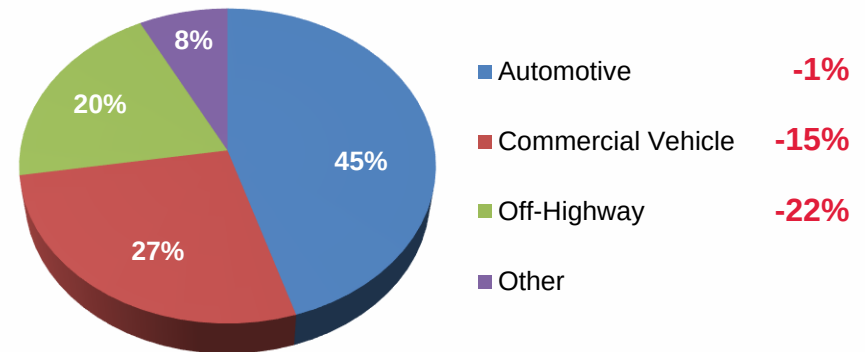
Adjusted Operating Income

-42%

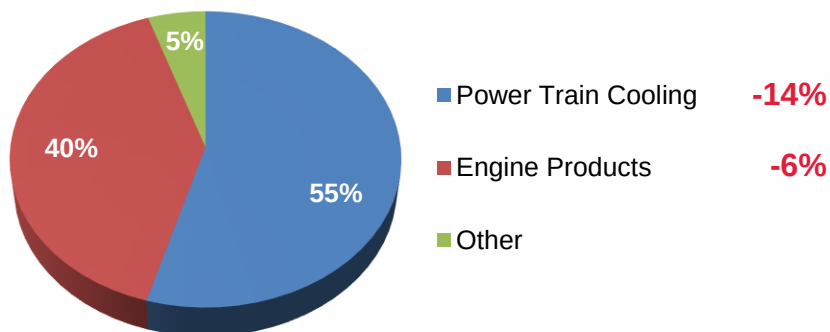


(in millions)

Sales by End Market

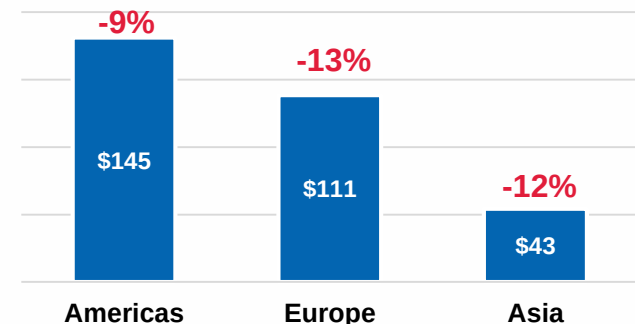


Sales by Product



* See Appendix for Non-GAAP reconciliations

Sales by Region



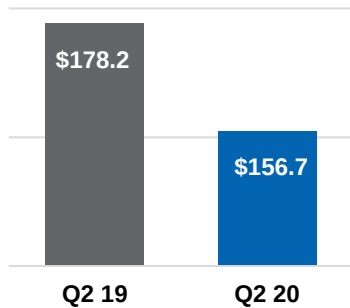
(in millions)

CIS Summary



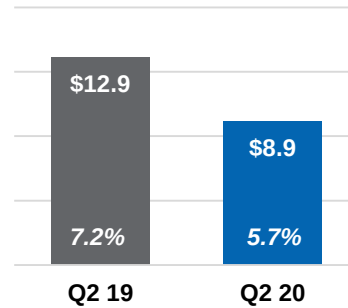
Net Sales

-12%



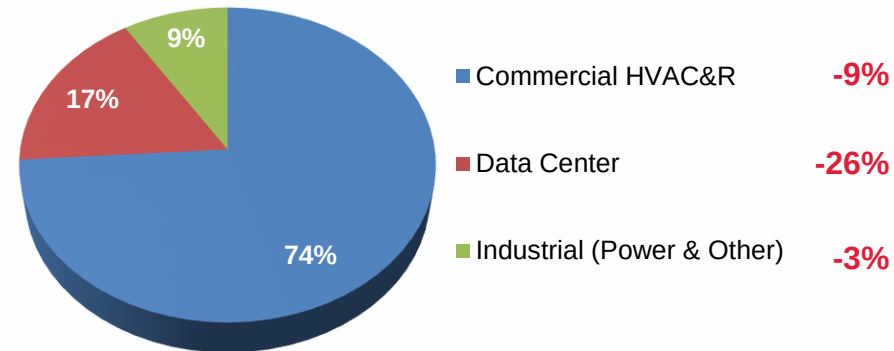
Adjusted Operating Income

-31%

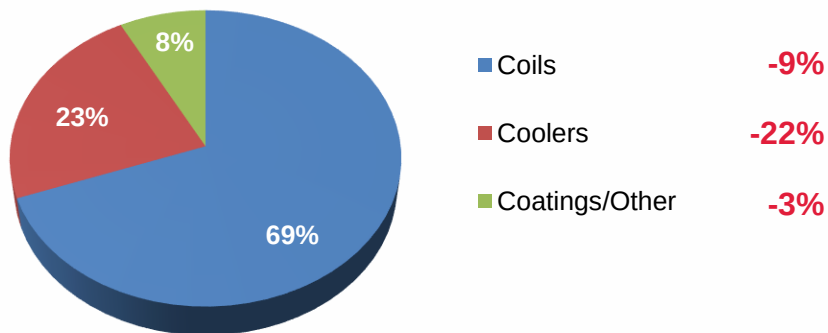


(in millions)

Sales by End Market

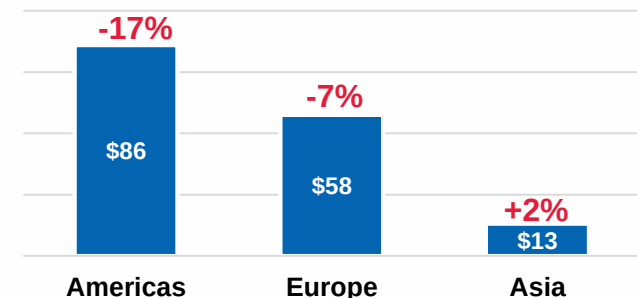


Sales by Product



* See Appendix for Non-GAAP reconciliations

Sales by Region



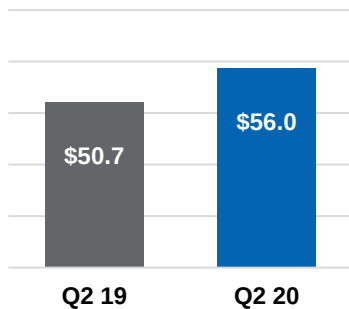
(in millions)

BHVAC Summary



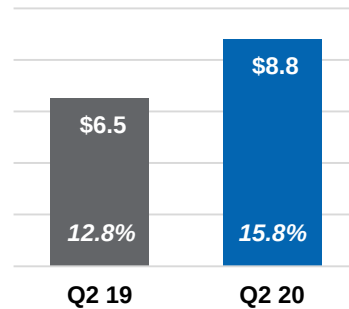
Net Sales

+10%



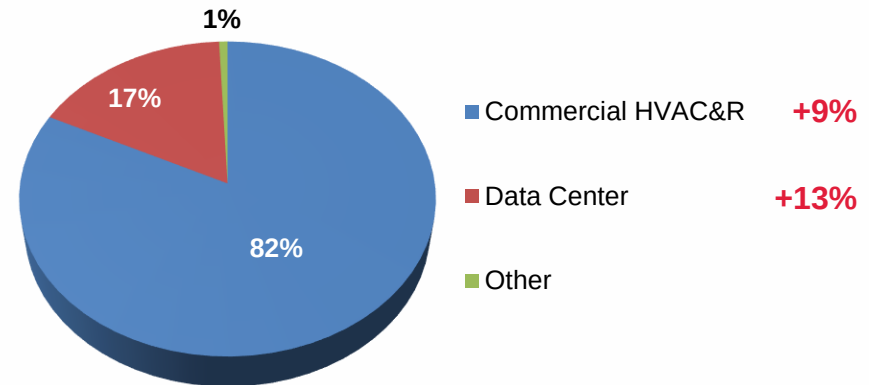
Adjusted Operating Income

+35%

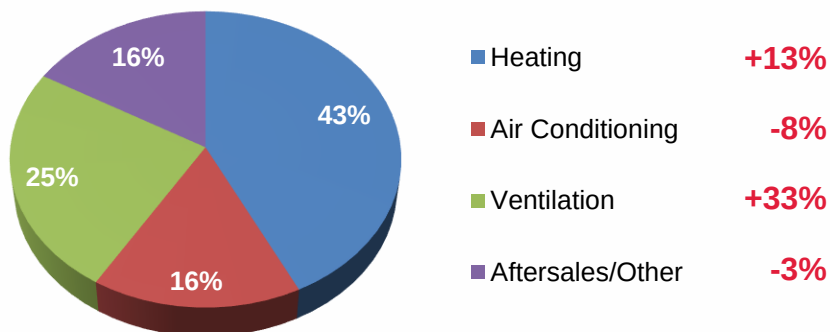


(in millions)

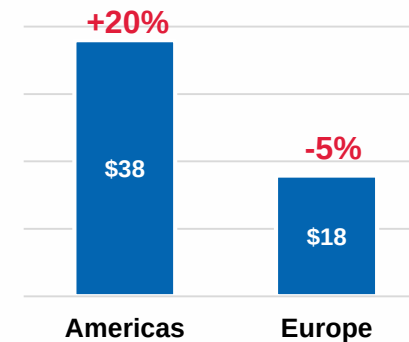
Sales by End Market



Sales by Product



Sales by Region



(in millions)

Income Statement Metrics



Sales decreased \$48.7M or 9%

- Foreign currency headwinds remain
- Weaker-than-expected commercial vehicle and off-highway markets
- BHVAC sales increased, but offset by declines across CIS

Gross profit decreased 14%; margin negatively impacted by VTS and CIS segments

- Downside conversion in-line with fixed and variable cost structures

Total SG&A includes \$11.9M of costs related to the divestiture of Modine's automotive business

- Underlying SG&A decreased from prior year

Adjusted operating income decreased \$6.3M

- Lower volume and negative FX partially offset by decreased SG&A costs

Increased tax rate due to loss of 50% deduction of GILTI inclusion and valuation allowances

Adjusted EPS declined \$0.22, with \$0.12 related to the change in the tax rate

(In millions)	Q2 2020	Q2 2019
Net Sales	\$500.2	\$548.9
Gross Profit	75.7	87.9
<i>Margin</i>	<i>15.1%</i>	<i>16.0%</i>
SG&A expenses	67.4	63.4
<i>% of net sales</i>	<i>13.5%</i>	<i>11.5%</i>
Adjusted Op Income*	20.2	26.5
<i>Margin</i>	<i>4.0%</i>	<i>4.8%</i>
Interest Expense	5.8	6.5
(Provision)/Benefit for Income Taxes	(3.7)	22.9
Adjusted Tax Rate*	52%	5%
Adjusted EPS*	\$0.13	\$0.35

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

Cash Flow & Net Debt



- Decline in free cash flow is due primarily to lower cash earnings and expenses for potential automotive business divestiture
 - YTD includes \$20M of cash payments for strategy and restructuring costs
 - Primarily due to the separation of the automotive business and associated severance
 - Expecting further costs as the sale process proceeds and the company prepares for a potential separation
- Capital expenditures are higher, partially due to spending related to the separation process
- Forecasting free cash flow to be slightly positive in the second half of fiscal 2020
 - Includes anticipated separation costs
- Net debt increased \$25M, resulting in a leverage ratio of 2.3
 - Leverage ratio remains within target

(In millions)	Q2 YTD 2020	Q2 YTD 2019
Operating cash flow	\$17.5	\$36.7
Capital expenditures	(41.4)	(37.9)
Free cash flow	(\$23.9)	(\$1.2)

(In millions)	9/30/19	3/31/19
Cash	\$32.3	\$41.7
Total debt	465.2	449.7
Net debt	\$432.9	\$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*	\$0.75 to \$0.90	\$23M of annual interest expense; Assumes current foreign exchange rates; Increase in adjusted tax rate to 34%

- Adjusting revenue and earnings guidance based on a reduced outlook for second half of fiscal 2020
- Downward adjustments are primarily due to slowing CIS sales and additional weakness across the commercial vehicle, agriculture, and construction markets
- Implementing immediate cost reductions to help offset the volume declines
- Full-year sales declining 7% to 12%, and adjusted operating income declining 28% to 36%
- Estimated tax rate impacted by items in the quarter, mix of earnings and foreign business taxes
- Adjusted EPS range of \$0.75 to \$0.90 based on the reduced revenue outlook, cost reductions and higher tax rate

* See Appendix for Non-GAAP reconciliations

In Summary



Strengthen, Diversify & Grow

- Automotive divestiture goals
 - Strategy to better focus dollars and management to strengthen, diversify and grow our business going forward
 - Committed to finding the best path forward that maximizes shareholder value
- Immediate actions in response to slowing markets
 - In a stronger position than during the last market downturn
 - Well positioned with leading share in our non-automotive markets
- Industrial outlook
 - CIS leadership change to return the segment to expected profitability
 - Optimistic on BHVAC future growth prospects
- Investment focus
 - Growth in industrial markets with strong long-term macro trends
 - Capital prioritization to improve margins and cash flow



Appendix



Q2 GAAP Income Statement



(In millions, except per share amounts)

	Q2 2020	Q2 2019	Better (Worse)
Net sales	\$ 500.2	\$ 548.9	\$ (48.7)
Cost of sales	424.5	461.0	36.5
Gross profit	75.7	87.9	(12.2)
SG&A expenses	67.4	63.4	(4.0)
Restructuring expenses	2.3	-	(2.3)
Loss on sale of assets	-	1.7	1.7
Operating income	6.0	22.8	(16.8)
Interest expense	(5.8)	(6.5)	0.7
Other expense - net	(1.3)	(0.5)	(0.8)
(Loss) earnings before income taxes	(1.1)	15.8	(16.9)
(Provision)/Benefit for income taxes	(3.7)	22.9	(26.6)
Net (loss) earnings	(4.8)	38.7	(43.5)
Net loss (earnings) attributable to noncontrolling interest	0.1	(0.2)	0.3
Net (loss) earnings attributable to Modine	\$ (4.7)	\$ 38.5	\$ (43.2)
Net (loss) earnings per share - diluted	\$ (0.09)	\$ 0.75	\$ (0.84)

Non-GAAP Reconciliations



Adjusted financial results (unaudited)

(In millions, except per share amounts)

	Three months ended September 30,		Six months ended September 30,	
	2019	2018	2019	2018
Operating income	\$ 6.0	\$ 22.8	\$ 24.1	\$ 57.6
Automotive business strategy costs ^(a)	11.9	-	20.2	-
Restructuring expenses ^(b)	2.3	-	4.1	0.2
Environmental charges ^(c)	-	1.9	0.1	2.8
Loss on sale of assets ^(d)	-	1.7	-	1.7
Acquisition integration costs ^(e)	-	0.1	-	0.2
Adjusted operating income	\$ 20.2	\$ 26.5	\$ 48.5	\$ 62.5
Net (loss) earnings per share attributable to Modine shareholders - diluted	\$ (0.09)	\$ 0.75	\$ 0.06	\$ 1.18
Automotive business strategy costs ^(a)	0.18	-	0.30	-
Restructuring expenses ^(b)	0.04	-	0.08	-
Environmental charges ^(c)	-	0.03	-	0.04
Loss on sale of assets ^(d)	-	0.03	-	0.03
U.S. tax reform ^(f)	-	(0.47)	-	(0.47)
Tax valuation allowances ^(g)	-	0.02	-	(0.02)
Adjusted earnings per share	\$ 0.13	\$ 0.35	\$ 0.44	\$ 0.76

^(a) During the first six months of fiscal 2020, the Company recorded \$20.2 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 \$5.0 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 during the first six months of fiscal 2020 was \$0.3 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) 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 was no tax benefit associated with this transaction based upon the capital loss tax treatment in the applicable jurisdiction.

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

^(f) During the second quarter of fiscal 2019, the Company recorded income tax benefits totaling \$24.4 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.

^(g) 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.

Non-GAAP Reconciliations



Segment adjusted operating income and margin

(In millions)

Vehicular Thermal Solutions	Three months ended September 30,	
	2019	2018
Operating income	\$ 7.4	\$ 14.1
Restructuring expenses ^(a)	1.9	-
Environmental charges ^(a)	-	1.9
Adjusted operating income	<u>\$ 9.3</u>	<u>\$ 16.0</u>
Net sales	\$ 299.3	\$ 335.6
Adjusted operating margin	3.1%	4.8%

Commercial and Industrial Solutions	Three months ended September 30,	
	2019	2018
Operating income	\$ 8.5	\$ 12.9
Restructuring expenses ^(a)	0.4	-
Adjusted operating income	<u>\$ 8.9</u>	<u>\$ 12.9</u>
Net sales	\$ 156.7	\$ 178.2
Adjusted operating margin	5.7%	7.2%

Building HVAC Systems	Three months ended September 30,	
	2019	2018
Operating income	\$ 8.8	\$ 4.8
Loss on sale of assets ^(a)	-	1.7
Adjusted operating income	<u>\$ 8.8</u>	<u>\$ 6.5</u>
Net sales	\$ 56.0	\$ 50.7
Adjusted operating margin	15.8%	12.8%

^(a) See the adjusted financial results on slide 13 for additional information regarding these adjustments.

Non-GAAP Reconciliations



Adjusted tax rate

(In millions)

	Three months ended September 30,	
	2019	2018
(Loss) earnings before income taxes	\$ (1.1)	\$ 15.8
Automotive business strategy costs ^(a)	11.9	-
Restructuring expenses ^(a)	2.3	-
Environmental charges ^(a)	-	1.9
Loss on sale of assets ^(a)	-	1.7
Acquisition integration costs ^(a)	-	0.1
Adjusted earnings before income taxes	\$ 13.1	\$ 19.5
Provision/(benefit) for income taxes	\$ 3.7	\$ (22.9)
Taxes on adjustments above	3.0	0.5
U.S. tax reform ^(a)	-	24.4
Tax valuation allowance ^(a)	-	(1.0)
Adjusted provision for income taxes	\$ 6.7	\$ 1.0
GAAP tax rate	-336%	-145%
Adjusted tax rate	52%	5%

^(a) See the adjusted financial results on slide 13 for additional information regarding these adjustments.

Non-GAAP Reconciliations



Net sales - constant currency (unaudited)

(In millions)

Three months ended September 30,				
2019			2018	
	Net Sales	Effect of Exchange Rate Changes	Net Sales - Constant Currency	Net Sales
Vehicular Thermal Solutions	\$ 299.3	\$ 6.6	\$ 305.9	\$ 335.6
Commercial and Industrial Solutions	156.7	3.3	160.0	178.2
Building HVAC Systems	56.0	1.0	57.0	50.7
Segment total	512.0	10.9	522.9	564.5
Corporate and eliminations	(11.8)	-	(11.8)	(15.6)
Net sales	\$ 500.2	\$ 10.9	\$ 511.1	\$ 548.9

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 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 six months of fiscal 2020 are presented on slide 13. 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.