

CREATING "SEGMENT-OF-ONE" LEADERS



The Titanium Economy



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For today's discussion: three questions

1

What is the Titanium Economy?

An often overlooked, underappreciated, and consistently outperforming sector

These companies inspire the next era of American manufacturing

2

What can we learn from leaders?

Leaders have delivered stellar returns (5x) over the past decade

No silver bullets: disciplined execution of the Titanium playbook

3

Looking ahead, what will drive outperformance?

Uncertainty lies ahead - leaders use moments of uncertainty to differentiate

Rigorous focus on enablers of Titanium companies will be essential to survive and thrive



What is the Titanium Economy?

ENPHASE

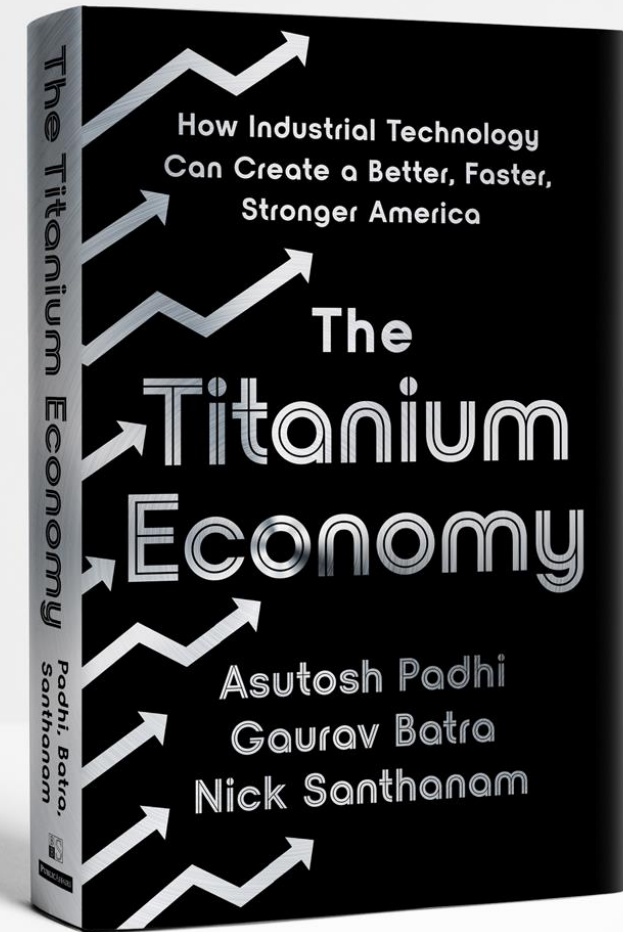
HEICO



Sealed Air



QORVO





The Titanium Economy at a glance

Providing outsized value
to *the US economy*

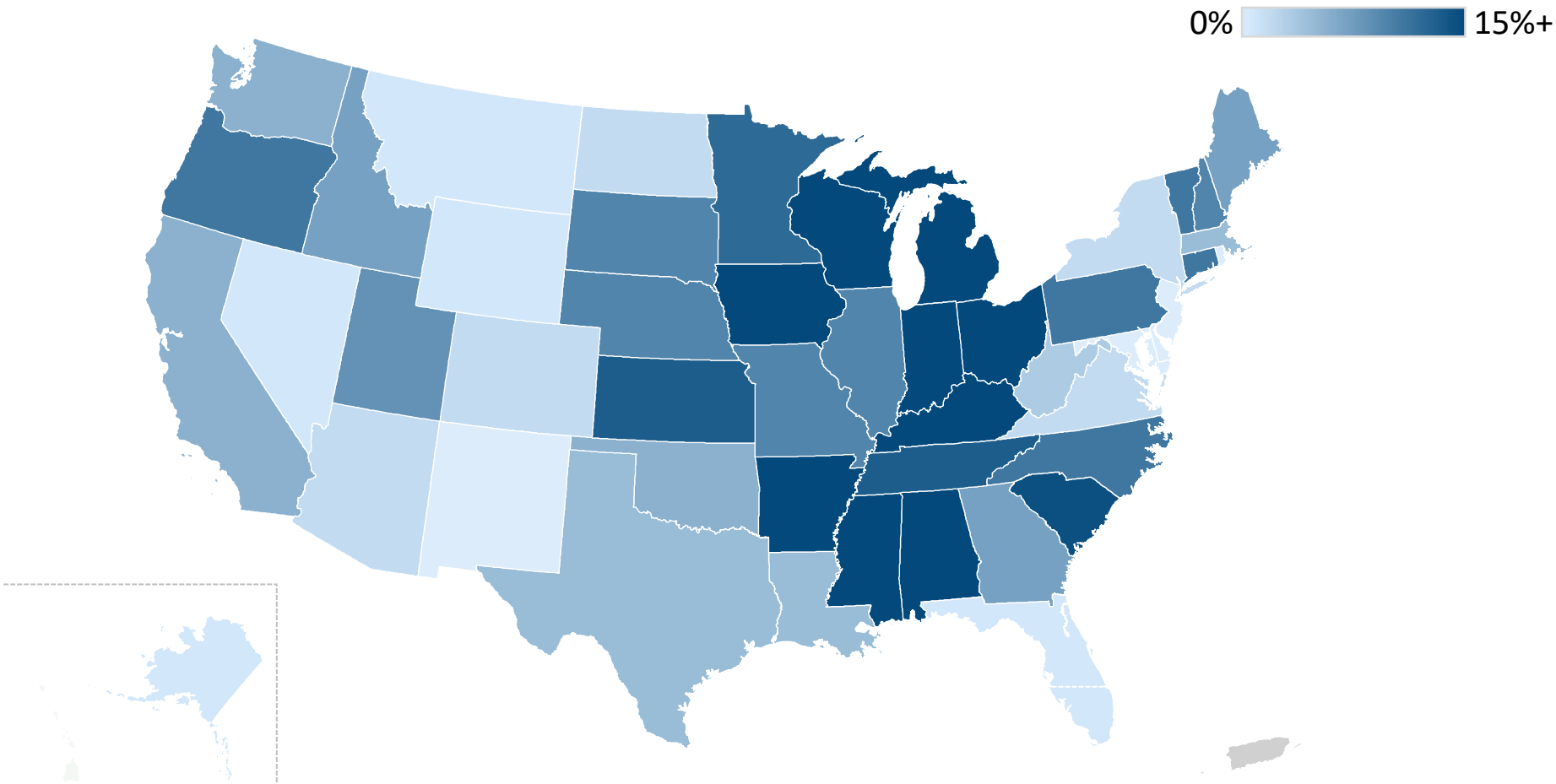
\$400B

Contribution to U.S. GDP^{1,2}

5M+

Jobs provided^{1,2}, with another
~1.5M yet unfilled³

Geographic representation of manufacturing job opportunities,
manufacturing jobs as percent of total employment, by state



Source: 1. IBISWorld Manufacturing industry report 2. EMSI-BurningGlass 3. NAICS Lightcast search



Titanium Economy at a glance

Providing outsized value to
shareholders and
constituents

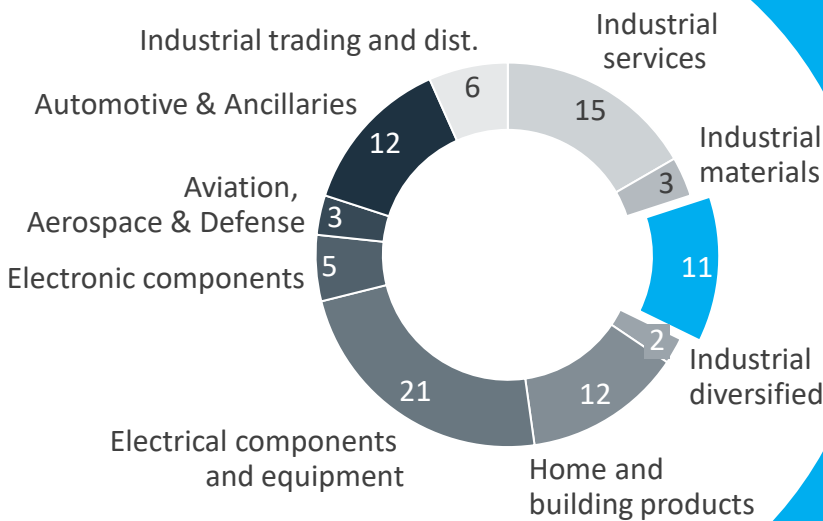
12%

TSR CAGR over past
5 years vs 9% S&P500¹

13%+

Return on invested capital,
2012-2021²

Industrial segments,
of micro-verticals, size = % of total revenue



Industrial machinery

Engineered products & components
Engines and turbines
Fluid handling
Food-processing equipment
Food service equipment
Industrial tools
Metalworking machinery
Packaging equipment
Pipes and metals
Specialty flow control
Specialty industrial machinery

Example companies



COLFAX



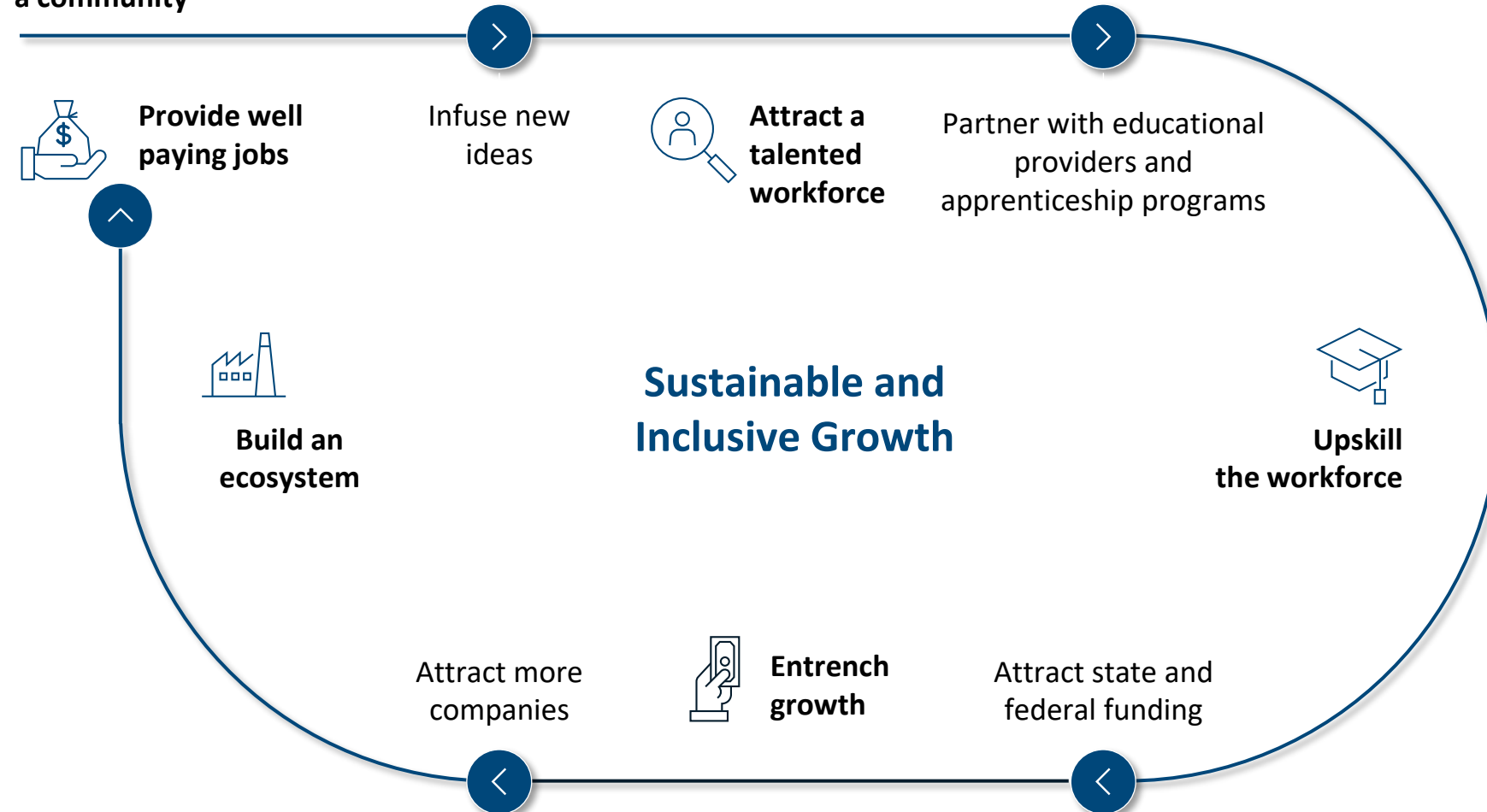
Source: 1. IBISWorld Manufacturing report, CapIQ 2. McKinsey report: Value Creation in Industrials



The “Great Amplification Cycle”

A virtuous cycle of sustainable and inclusive growth

Company enters
a community



Simpsonville, SC
and the “Golden Strip”

\$20B+

GDP growth since 2001

\$67k

Per capita personal income in 2020¹
2x growth since 1970 (adj. for inflation)
From 20% below to 6% above US avg

145K+

Jobs added since 1997

1. Simpsonville, not including Greenville metro area

Source: FRED Economic Research



The Titanium Economy has the potential to strengthen the U.S. economy long-term



Creating economic opportunity

1.6M+

potential well paid jobs to fill¹

2x

salary for Titanium Economy jobs vs service industry²

Building a sustainable future

\$550-700B

in potential addressable value by 2030³

30%

higher wages for clean energy workers than national median⁴

Accelerating American innovation

~\$650B

Industry 4.0 value creation potential for U.S. manufacturers and suppliers by 2025⁵

15%

U.S. GDP boost by 2030⁶



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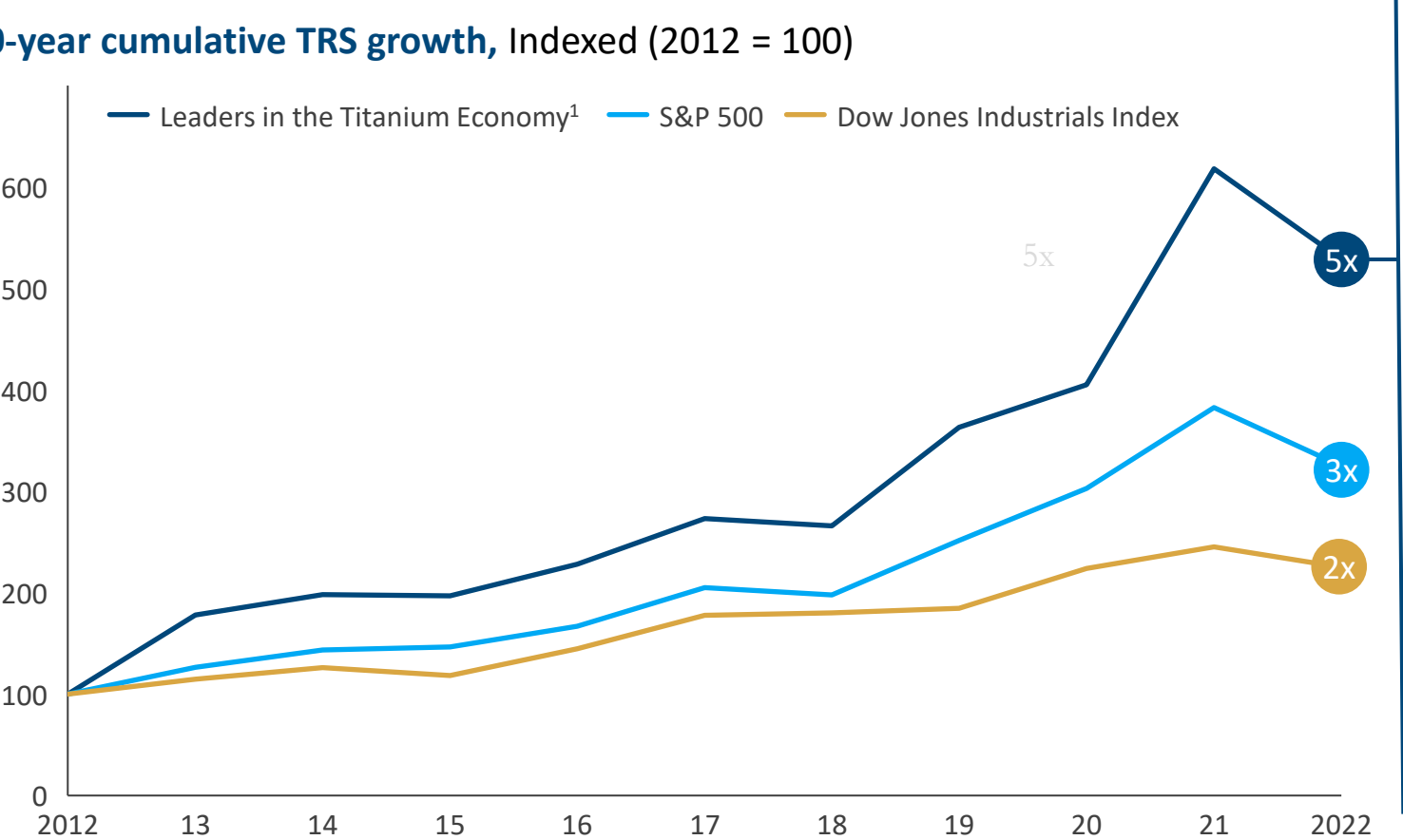
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The Titanium Economy's leading players have achieved 5x returns since 2012

Outpacing DOW industrials and S&P500

10-year cumulative TRS growth, Indexed (2012 = 100)



HEICO

MIDDLEBY

casella

Sealed Air®

BRADY®

BlueLinx
AMERICA'S BUILDING PRODUCTS DISTRIBUTOR

GRACO

What has enabled long-term outperformance of leading Titanium companies?

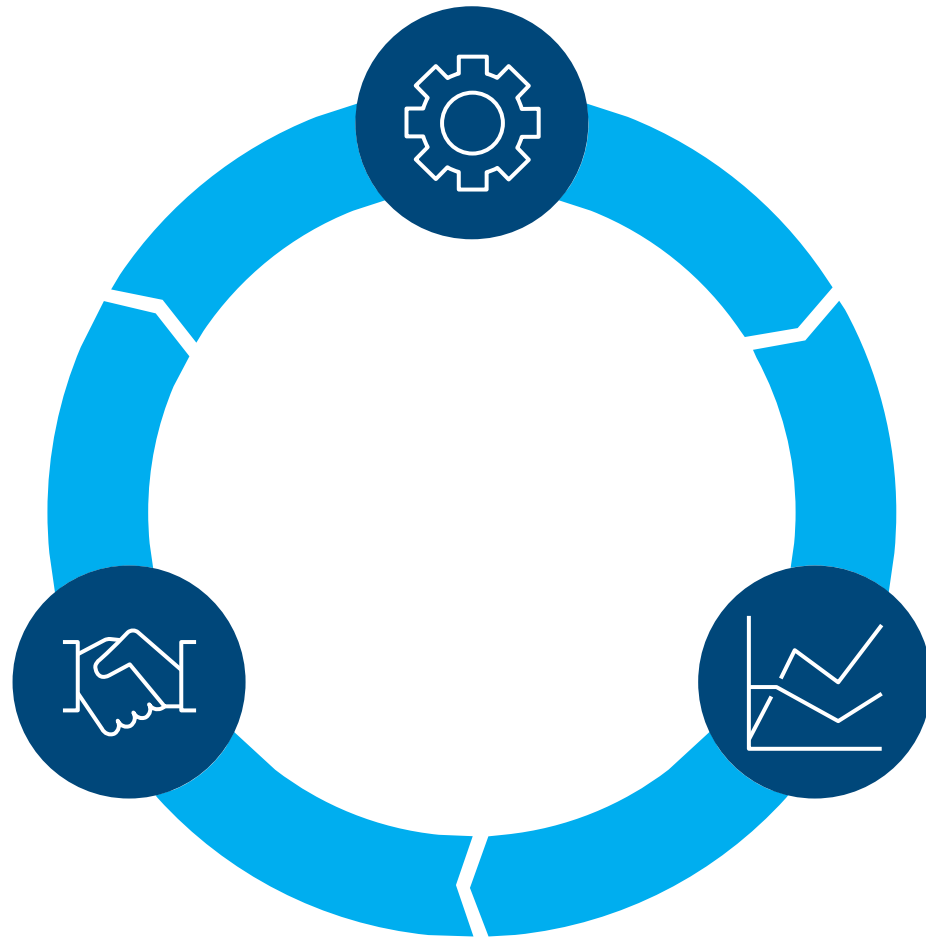
1. Companies profiled in The Titanium Economy: How Industrial Technology can create a Better, Faster, Stronger America

Sources: McKinsey Corporate Performance Analytics; Bloomberg



The Titanium Playbook

Top-performing companies improved their performance by leveraging a three-step approach



Step 1 – Core transformation

Drive core transformation, leveraging tech and data, to achieve margin expansion and growth in an accelerated fashion



Step 2 – Quality & Investor perceptions

Focus on portfolio shifts and changes to business models, including recurring revenues and services



Step 3 – M&A

Leverage M&A to achieve leading position in a micro-vertical and build a platform for future expansion



Key elements to implement the Titanium Playbook



Step 1 Core transformation

Preserve and grow revenues

- Eliminate leakage in pricing, channels, and segments
- Drive sales excellence – base expansion, retention, channel

Focus on cost efficiency

- ‘Clean-sheet’ base for key revenue streams
- Create cash discipline

Build digital

- Define highest value use cases
- Invest in new tech / capabilities

Enable your workforce

- Align talent to value
- Develop talent and capabilities at scale
- Build an “execution culture,” reinforced by disciplined performance management



Step 2 Quality & investor perceptions

Improve revenue quality

- Optimize sales mix
- Explore new pricing, monetization models
- Invest in innovation

Execute portfolio shifts

- Re-allocate resources to attractive customers, channels, and geographies

Tell a compelling investor story

- Understand your investor base
- Define a clear value creation agenda
- Actively engage the investor community
- Communicate clear roadmap, milestones



Step 3 M&A

Strengthen your micro-vertical position

- Expand product base
- Acquire new, differentiated capabilities

Expand to attractive adjacencies

- Leverage your strategic advantages in target geographies, micro-verticals

Invest through-cycle

- Invest in and after downturns
- Identify market gaps and capture opportunities created by volatility



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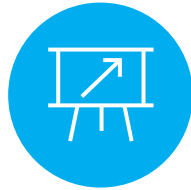
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Growth aspirations will need to consider today's headwinds ...



**Potential demand
headwinds**



**Persistence
of inflation**



**Geopolitical
uncertainty**



**Continued supply chain
congestion**



**Tight labor
markets**



**Strong corporate and
consumer cash balances**



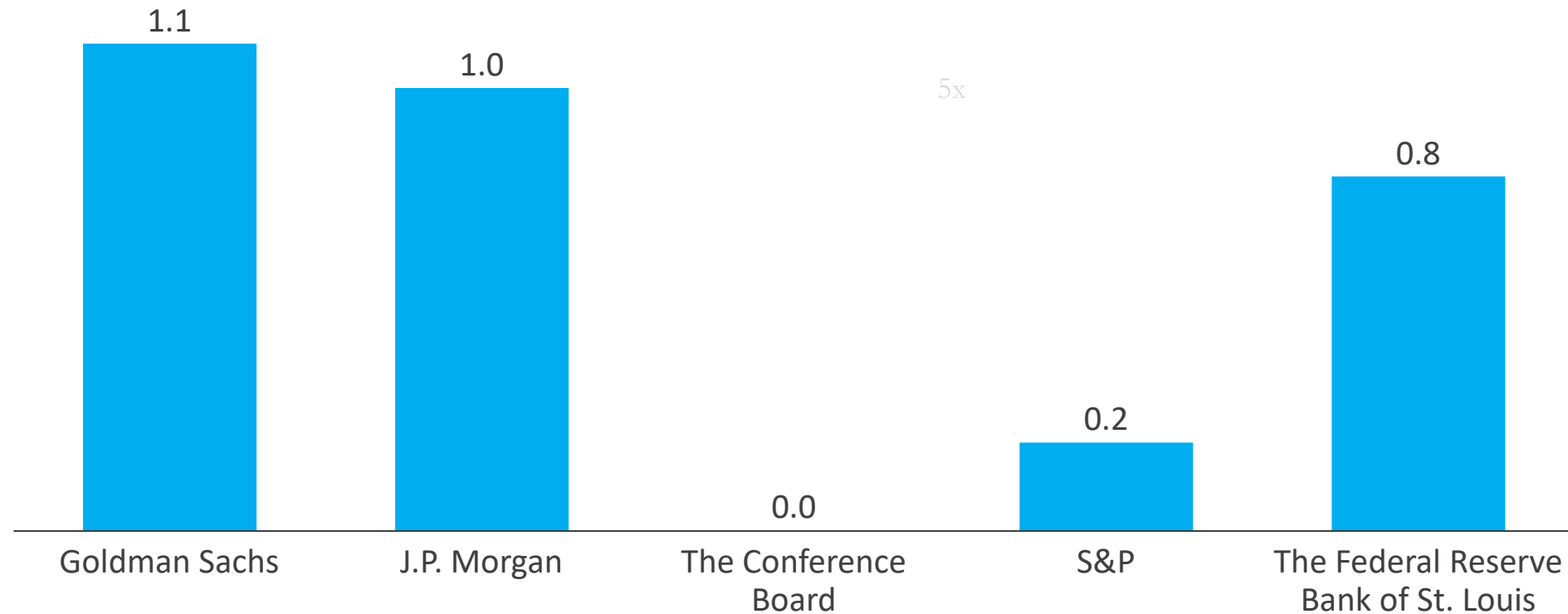
**Delinquencies and
defaults at historic lows**



Headwinds: Economic uncertainty and tight labor markets

GDP forecast for 2023 is weak...

US GDP Growth Forecast 2023, Percent



...while talent shortages are compounding

11.3 million

Job openings in the US alone as of Jan 2022

By 2030, global talent shortage expected to reach

85.2 million

Source: Goldman Sachs forecast released in September 2023; J.P. Morgan forecast released in January 2023; The Conference Board forecast released in January 2023, S&P forecast released in September 2023, Federal Reserve Bank of St. Louis forecast released in November 2022; US Bureau of Labor Statistics; Korn Ferry Insights;

Titanium companies have leveraged times of uncertainty to reinforce their differentiation



What did they do to strengthen their differentiation?

1 **Micro-vertical focus:** Prioritize where they play and how they win to become “Segment of One”

2 **Play defense and offense at the same time:** Build recession resilience by improving operating leverage, lowering working capital turnover, and limiting debt-to-equity ratios, while also playing offense by pursuing higher quality revenue and optimizing company's portfolio

3 **Win the talent war:** holistic focus on attracting and retaining top talent by,

- I. Building a strong employer brand
- II. Offering competitive compensation and benefits
- III. Driving employee engagement with continuous feedback, recognition, and opportunities

4 **Culture as a differentiator:** Winning culture with strong leaders, clear communication of vision and objectives, commitment to continuous improvement and clear accountability on performance goals and transparent performance management

What did they do in uncertain times? Titanium companies focused on both building their “recession resilience” while also “playing offense”



I

Building “recession resilience” – prepare for impending tough environment



Higher operating leverage – cost controls and optimization



Improved working capital turnover – maintaining a healthy cashflow through shorter cash conversion cycle



Limit debt as a source of funding for strategic initiatives

II

“Playing offense” – positioning for continued expansion even in a tough environment



Achieving higher quality of revenue – uniqueness of offerings and positioning with customers



Portfolio optimization – acquisitions in core and newer areas and divestitures to align portfolio with company strategy

How did they do it? Titanium companies worked on their recession resilience and played offense by driving performance across five areas



		Performance Metrics, 5Y Low Liquidity Period	Example actions
I. Building “recession resilience” – prepare for the impending tough environment	1. Higher operating leverage	Operating Leverage Multiple (OLM): EBITDA growth/ Sales growth Fixed Cost Optimization: Opex/ Sales People to Non-People Cost COGS Productivity: COGS/ Sales	<ul style="list-style-type: none"> Discretionary spending cuts Spend control tower Headcount rightsizing Materials cost – spend cube, supplier negotiations Labor productivity improvement
	2. Improved working capital turnover	Net working capital/ Sales Cash Conversion Cycle (CCC)	<ul style="list-style-type: none"> Cash collection war room Supplier payment terms negotiations Inventory tracking and management
	3. Limit debt as a source of funding	Net Debt/ Equity, #	<ul style="list-style-type: none"> CAPEX financing strategy definition Prioritized equity financing from institutional investors
II. Playing “offense” – positioning for continued expansion in tough environment	4. Achieving higher quality of revenue	Above Market Revenue Growth Above Market Gross Margin Expansion Intangible assets	<ul style="list-style-type: none"> Pricing Markets they play in: MxN Aftermarket penetration Uniqueness of product offering
	5. Portfolio optimization	Net acquisitions / operating income, %	<ul style="list-style-type: none"> Programmatic M&A approach Frequent review of portfolio



Questions to ask leaders

- What is your company's approach to M&A – programmatic, large deals, selective?
- Does your company conduct a periodic review of all portfolio assets?

- What micro-verticals are you focused on?
- What portion of your revenue comes from services/ aftermarket? Is it close to 50%?
- Are your products and services differentiated enough for above market revenue growth?
- What portion of your R&D cost is spent on new product/ IP development?



- How optimized is your cost base to deliver EBITDA in excess of revenue growth?
- What is the potential to improve the key cost drivers (e.g., people, non-people etc.)?
- How can these be variabilized?

- How does your cash conversion cycle compare to your peers?
- Has your company unlocked more cash with net working capital improvements?
- What is your cash management drumbeat, e.g., weekly cash war room, daily cash reconciliation

- Has your company prioritized its sources of financing between debt and equity?
- What are your sources of stress financing?



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Continue the conversation



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