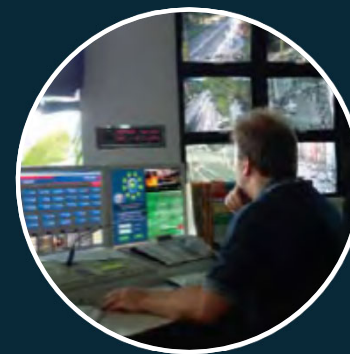




# Federal Signal Q4 2022 Earnings Call

## *March 1, 2023*



Jennifer Sherman, President & Chief Executive Officer  
Ian Hudson, SVP, Chief Financial Officer

# Safe Harbor

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This presentation contains unaudited financial information and various forward-looking statements as of the date hereof and we undertake no obligation to update these forward-looking statements regardless of new developments or otherwise. Statements in this presentation that are not historical are forward-looking statements. Such statements are subject to various risks and uncertainties that could cause actual results to vary materially from those stated. Such risks and uncertainties include but are not limited to: direct and indirect impacts of the coronavirus pandemic and the associated government response, risks and adverse economic effects associated with emerging geopolitical conflicts, product and price competition, supply chain disruptions, work stoppages, availability and pricing of raw materials, cybersecurity risks, risks associated with acquisitions such as integration of operations and achieving anticipated revenue and cost benefits, foreign currency exchange rate changes, interest rate changes, increased legal expenses and litigation results, legal and regulatory developments and other risks and uncertainties described in filings with the Securities and Exchange Commission (SEC).

This presentation also contains references to certain non-GAAP financial information. Such items are reconciled herein, in our earnings news release provided as of the date of this presentation or in other investor materials filed with the SEC.

# Delivering on our Strategy

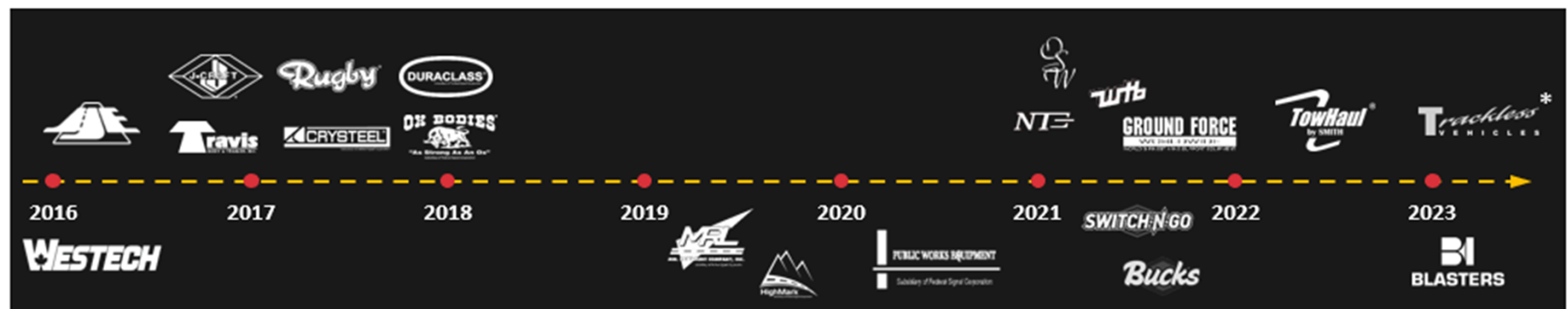
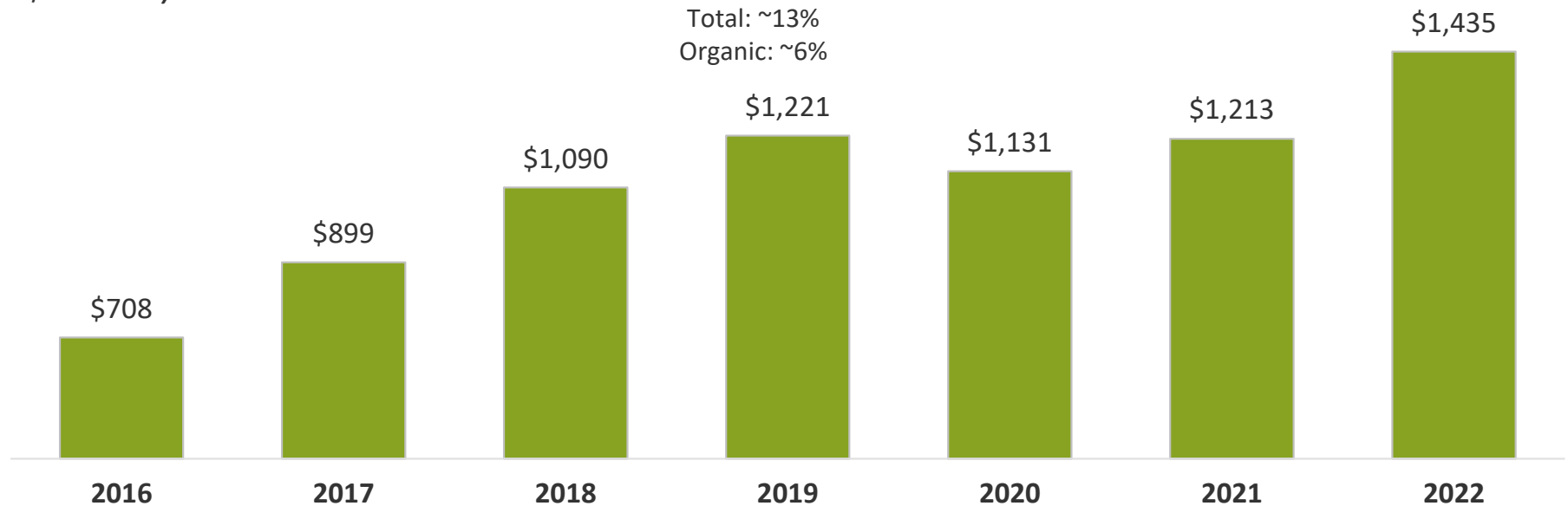
Strategic acquisitions, primarily focused on developing a Specialty Vehicle platform, and organic growth have contributed meaningfully to Federal Signal's growth since 2016

(US\$ in millions)

Net Sales CAGR (2016-22)

Total: ~13%

Organic: ~6%

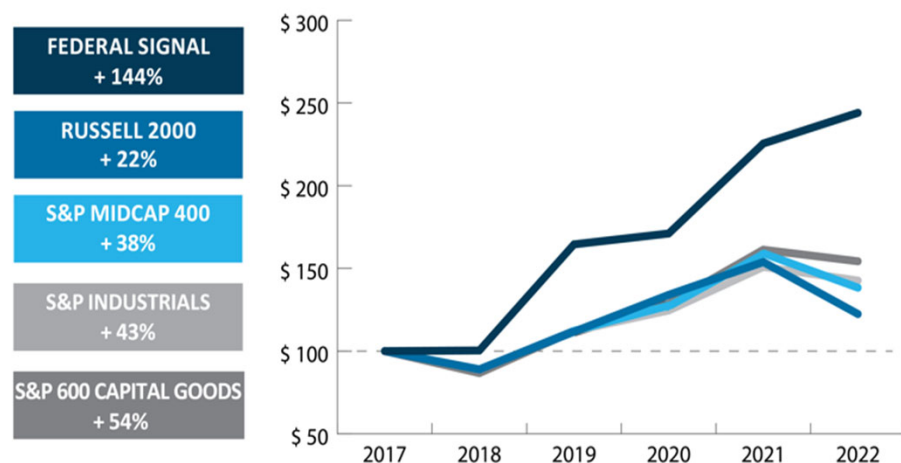


\*Pending close

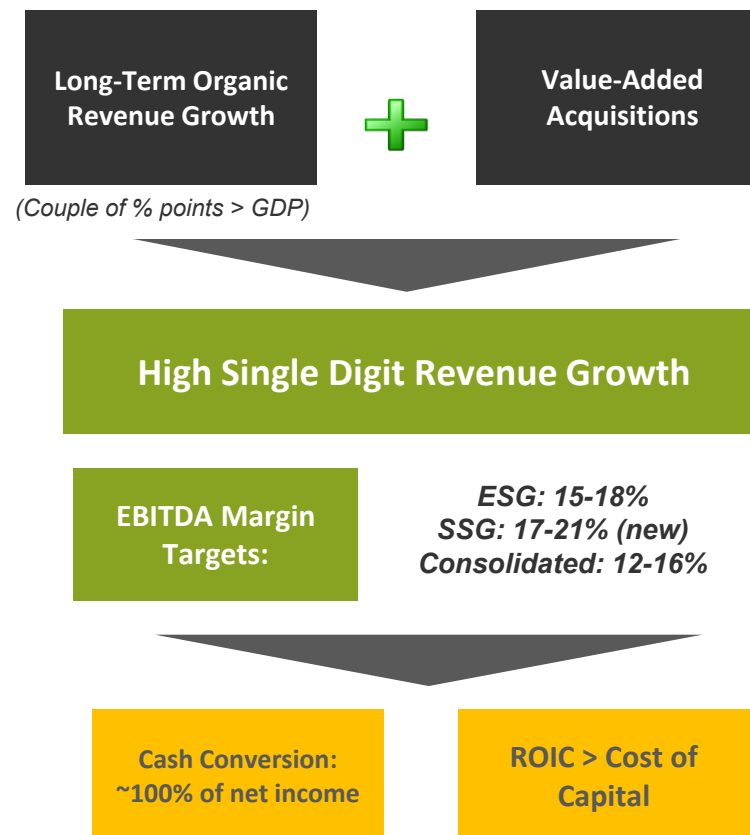
# Financial Framework Driving Long-Term Value Creation

With continued focus on organic growth and M&A, and with margin performance above that of many of our peers, our financial framework aims to create long-term stockholder value

## Cumulative Returns to Stockholders



This graph assumes that the value of the investment in the Company's common stock, and in each index, was \$100 on December 31, 2017 and assumes reinvestment of all dividends through December 31, 2022.



# 2022 in Review

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- Delivered highest net sales, adjusted EPS and orders in our history
- Improved EBITDA margin performance towards the high end of current target range
- Executed against several long-term strategic objectives in 2022:
  - Continued expansion of our aftermarkets business, with revenues up 10% YoY
  - Momentum in demand for safe-digging products continued, with orders up 41% YoY
  - Funding new product development, with focus on electrification
  - Capital investments to support organic growth and 80/20 initiatives, including purchase of University Park, IL manufacturing facility
  - Funded combined \$38 M of cash dividends and share repurchases
- Issued third annual Sustainability Report

# Full-Year Financial Highlights \*

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- Record net sales of \$1.43 B, up \$222 M, or 18%
  - Organic growth of \$130 M, or 11%
- Operating income of \$160.8 M, up \$30.1 M, or 23%
- Adjusted EBITDA of \$215.0 M, up \$34.5 M, or 19%
- Adjusted EBITDA margin of 15.0%, vs. 14.9%
- GAAP EPS of \$1.97, up \$0.34, or 21%
- Record adjusted EPS of \$1.96, up \$0.21, or 12%
- Record orders of \$1.69 B, up \$153 M, or 10%
- Record backlog of \$879 M, up \$250 M, or 40%

# Q4 Highlights \*

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- Record net sales of \$392 M, up \$90 M, or 30%
  - Organic growth of \$71 M, or 24%
- Operating income of \$46.6 M, up \$16.5 M, or 55%
- Adjusted EBITDA of \$61.1 M, up \$21.1 M, or 53%
- Adjusted EBITDA margin of 15.6%, vs. 13.3%
- GAAP EPS of \$0.57, up \$0.25, or 78%
- Record adjusted EPS of \$0.57, up \$0.17, or 43%
- Orders of \$444 M; second highest quarterly orders on record

# Group and Corporate Results

\$ millions, except %

		<u>Q4 2022</u>	<u>Q4 2021</u>	<u>% Change</u>
<b>ESG</b>	<b>Orders</b>	<b>\$ 383.5</b>	<b>\$ 381.3</b>	<b>1%</b>
	<b>Sales</b>	<b>325.3</b>	<b>245.5</b>	<b>33%</b>
	<b>Operating income</b>	<b>44.7</b>	<b>24.1</b>	<b>85%</b>
	<i>Operating margin</i>	<i>13.7%</i>	<i>9.8%</i>	
	<b>Adjusted EBITDA</b>	<b>57.6</b>	<b>36.2</b>	<b>59%</b>
	<i>Adjusted EBITDA margin</i>	<i>17.7%</i>	<i>14.7%</i>	
<b>SSG</b>	<b>Orders</b>	<b>60.7</b>	<b>62.5</b>	<b>-3%</b>
	<b>Sales</b>	<b>66.2</b>	<b>55.9</b>	<b>18%</b>
	<b>Operating income</b>	<b>12.1</b>	<b>10.1</b>	<b>20%</b>
	<i>Operating margin</i>	<i>18.3%</i>	<i>18.1%</i>	
	<b>Adjusted EBITDA</b>	<b>13.2</b>	<b>11.0</b>	<b>20%</b>
	<i>Adjusted EBITDA margin</i>	<i>19.9%</i>	<i>19.7%</i>	
<b>Corporate expenses</b>		<b>10.2</b>	<b>4.1</b>	<b>149%</b>
<b>Consolidated</b>	<b>Orders</b>	<b>444.2</b>	<b>443.8</b>	<b>0%</b>
	<b>Sales</b>	<b>391.5</b>	<b>301.4</b>	<b>30%</b>
	<b>Operating income</b>	<b>46.6</b>	<b>30.1</b>	<b>55%</b>
	<i>Operating margin</i>	<i>11.9%</i>	<i>10.0%</i>	
	<b>Adjusted EBITDA</b>	<b>61.1</b>	<b>40.0</b>	<b>53%</b>
	<i>Adjusted EBITDA margin</i>	<i>15.6%</i>	<i>13.3%</i>	



# Statement of Operations

*\$ millions, except % and per share*

	<u>Q4 2022</u>	<u>Q4 2021</u>	<u>\$ Change</u>	<u>% Change</u>
Net sales	\$ 391.5	\$ 301.4	\$ 90.1	30%
Gross profit	96.6	67.4	29.2	43%
SEG&A expenses	46.2	37.6	8.6	23%
Amortization expense	3.3	2.7	0.6	22%
Acquisition and integration-related expenses (benefits)	0.5	(3.0)	3.5	NM
Operating income	<u>46.6</u>	<u>30.1</u>	<u>16.5</u>	<u>55%</u>
Interest expense	4.4	1.2	3.2	267%
Debt settlement charges	0.1	-	0.1	NM
Pension settlement charges	-	10.3	(10.3)	NM
Other expense (income), net	0.1	(0.6)	0.7	-117%
Income tax expense (benefit)	7.4	(0.3)	7.7	NM
Net income	<u>\$ 34.6</u>	<u>\$ 19.5</u>	<u>\$ 15.1</u>	<u>77%</u>
Diluted earnings per share	\$ 0.57	\$ 0.32	\$ 0.25	78%
Diluted adjusted earnings per share	\$ 0.57	\$ 0.40	\$ 0.17	43%
Gross Margin	24.7%	22.4%		
SEG&A expenses as a % of net sales	11.8%	12.5%		
Effective tax rate	17.6%	-1.6%		

# Adjusted Earnings per Share

(\$ in millions, except per share data)	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2022	2021	2022	2021
Net income	\$ 34.6	\$ 19.5	\$ 120.4	\$ 100.6
<u>Add (less):</u>				
Income tax expense (benefit)	7.4	(0.3)	30.5	17.0
Income before income taxes	42.0	19.2	150.9	117.6
<u>Add (less):</u>				
Acquisition and integration-related expenses (benefits)	0.5	(3.0)	(0.5)	(2.1)
Pension-related charges (1)	-	10.3	-	10.6
Coronavirus-related expenses (2)	-	-	-	1.2
Debt settlement charges	0.1	-	0.1	-
Purchase accounting effects (3)	-	0.2	-	0.7
Adjusted income before income taxes	42.6	26.7	150.5	128.0
Adjusted income tax expense (4)	(7.6)	(1.8)	(30.4)	(19.6)
<b>Adjusted net income</b>	<b>\$ 35.0</b>	<b>\$ 24.9</b>	<b>\$ 120.1</b>	<b>\$ 108.4</b>
Diluted EPS	\$ 0.57	\$ 0.32	\$ 1.97	\$ 1.63
<b>Adjusted diluted EPS</b>	<b>\$ 0.57</b>	<b>\$ 0.40</b>	<b>\$ 1.96</b>	<b>\$ 1.75</b>

(1) Pension-related charges in the three and twelve months ended December 31, 2021 primarily relate to pension settlement charges incurred in connection with a pension annuitization project.

(2) Coronavirus-related expenses in the twelve months ended December 31, 2021 relate to direct expenses incurred in connection with the Company's response to the coronavirus pandemic, that are incremental to, and separable from, normal operations. Such expenses primarily relate to incremental paid time off provided to employees and costs incurred to implement enhanced workplace safety protocols.

(3) Purchase accounting effects in the three and twelve months ended December 31, 2021 relate to adjustments to exclude the step-up in the valuation of equipment acquired in recent business combinations that was sold during the periods presented.

(4) Adjusted income tax expense for the three and twelve months ended December 31, 2022 and 2021 was recomputed after excluding the impact of acquisition and integration-related expenses (benefits), pension-related charges, coronavirus-related expenses, debt settlement charges, and purchase accounting effects, where applicable.

# Financial Strength and Flexibility \*

## Strong capital structure

- Cash and cash equivalents of \$48 M
- Net debt of ~\$316 M \*\*
- In October 2022, executed a five-year, \$800 M revolving credit facility, with opportunity to increase further by the greater of (i) \$400 M or (ii) 100% of TTM consolidated EBITDA, subject to lenders approval
- Net debt leverage remains low
- Compliant with all covenants with significant headroom

## Healthy cash flow and access to cash facilitate organic growth investment, M&A and cash returns to stockholders

- Generated ~\$40 M of cash from operations in Q4 this year, bringing full-year operating cash generation to ~\$72 M
- ~\$428 M of availability under revolving credit facility
- Purchased University Park manufacturing facility for ~\$28 M in Q1 2022
- Other cap ex of \$25 M in 2022, including investments in our plants to add capacity and gain efficiencies through automation
- Completed acquisition of TowHaul Corporation on October 3, 2022 for initial payment of ~\$43 M
- Completed acquisition of Blasters, Inc. on January 3, 2023 for initial payment of ~\$13 M
- Paid \$5.4 M for dividends, reflecting dividend of \$0.09 per share; recently declared similar dividend for Q1 2023
- Share repurchases of \$16 M in 2022; ~\$59 M of authorization remaining under current program (~2% of market cap)

*\* Dollar amounts as of, or for the quarter ending 12/31/2022, unless otherwise noted*

*\*\* Net debt is a non-GAAP measure and is computed as total debt of \$363.0 M, less total cash and cash equivalents of \$47.5 M*

# CEO Remarks – Q4 Performance

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- Outstanding execution by both groups contributed to strong Q4 results, which included **record quarterly net sales and adjusted EPS**, and an adjusted EBITDA margin towards the high end of target range
- Environmental Solutions Group highlights:
  - Sales growth of 33%
  - Adjusted EBITDA margin of 17.7%, **up 300 basis points** vs. prior year
  - **Sequential quarterly production improvement of >20%** at our two largest facilities; supply chain showing signs of easing
- Safety and Security Group highlights:
  - Sales growth of 18%
  - Adjusted EBITDA margin of ~20%, despite week-long plant shutdown due to a power outage
  - **Increasing SSG's target EBITDA margin to a new range of 17% to 21%** from previous range of 15% to 18%

# CEO Remarks – Looking Ahead

- Order strength and record backlog provide good visibility into 2023
- Economic stimulus and infrastructure legislation expected to be catalysts for multi-year growth
- Continued investment in new product development, with momentum on electrification initiatives
  - Fully-electric street sweeper and dump truck offerings being unveiled at upcoming trade shows
- With lead times for new equipment continuing to be extended, expect demand for aftermarkets offerings to remain high
  - Replenishment of rental fleet means higher concentration of rental fleet builds during Q1 vs. prior year
  - Rental quote activity so far this year is robust
  - Geographic expansion of aftermarkets business gaining traction



*Plug-in hybrid electric Broom Bear® street sweeper*



*Fully-electric street sweeper*



*Switch-N-Go® system on electric chassis*

# Continued M&A Execution



- Fills critical product gap in road marking/line-removal business and establishes Florida location for other aftermarket opportunities
- Transaction closed on January 4, 2023

Liquidator



Certified Pre-Owned Water Blasters



Rentals



Contracting



- Manufacturer of multi-purpose, off-road municipal tractors and a variety of attachments
- Attractive aftermarket business with opportunities to leverage distribution channel
- Signed February 23, 2023; transaction expected to close during Q2 2023

MT7 Tractor



Snow Attachments



Grass Attachments



Maintenance Attachments





# 2023 Outlook

## Adjusted EPS\* ranging from \$2.15 to \$2.40

*Would represent highest EPS in Company's history and YoY growth of 10%-22%, despite aggregate headwind of ~\$0.23 from higher interest expense and normalization of tax rate*

### Key Assumptions

- Revenue of \$1.58 B to \$1.72 B; represents YoY growth of 10%-20% vs. \$1.43 B in 2022
- Double-digit improvement in pre-tax earnings
- Depreciation and amortization expense of ~\$62 M - \$65 M
- Capital expenditures of \$25 M to \$30 M
- Interest expense of ~\$18-20 M; YoY EPS headwind of ~\$0.11
- Effective tax rate resets to a normalized rate between 25% and 26%, excluding discrete items; YoY EPS headwind of ~\$0.12
- ~61-62 M weighted average shares outstanding
- YoY earnings improvement expected in Q1, although seasonal effects typically result in Q1 earnings being lower than subsequent quarters
  - *Expect Q1 2023 earnings to represent similar % of full-year earnings as in 2022*
- No significant deterioration in current supply chain environment; assumes supply chain improves throughout year, with steady flow of customer-provided chassis
- No significant increase in current input costs
- Includes nominal contribution from Trackless acquisition, expected to close during Q2

\*Adjusted earnings per share ("EPS") is a non-GAAP measure, which includes certain adjustments to reported GAAP net income and diluted EPS. In 2022, we made adjustments to exclude the impact of acquisition and integration-related expenses (benefits) and debt settlement charges, where applicable. Should any similar items occur in 2023, we would expect to exclude them from the determination of adjusted EPS. However, because of the underlying uncertainty in quantifying amounts which may not yet be known, a reconciliation of our Adjusted EPS outlook to the most applicable GAAP measure is excluded based on the unreasonable efforts exception in Item 10(e)(1)(i)(B).

# Federal Signal Q4 2022 Earnings Call

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## Q&A

*March 1, 2023*

Jennifer Sherman, President & Chief Executive Officer  
Ian Hudson, SVP, Chief Financial Officer



# Investor Information

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**Stock Ticker - NYSE:FSS**

**Company website:** [federalsignal.com/investors](https://federalsignal.com/investors)

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## HEADQUARTERS

1415 West 22<sup>nd</sup> Street, Suite 1100  
Oak Brook, IL 60523

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## INVESTOR RELATIONS CONTACTS

630-954-2000

**Ian Hudson**

SVP, Chief Financial Officer  
IHudson@federalsignal.com

# Federal Signal Q4 2022 Earnings Call

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## Appendix

# Consolidated Adjusted EBITDA

## Consolidated

\$ millions, except %

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Net income	\$ 34.6	\$ 19.5	\$ 120.4	\$ 100.6
Add (less):				
Interest expense	4.4	1.2	10.3	4.5
Pension settlement charges	-	10.3	-	10.3
Acquisition and integration-related expenses (benefits)	0.5	(3.0)	(0.5)	(2.1)
Coronavirus-related expenses	-	-	-	1.2
Debt settlement charges	0.1	-	0.1	-
Purchase accounting effects *	-	-	-	0.3
Other expense (income), net	0.1	(0.6)	(0.5)	(1.7)
Income tax expense (benefit)	7.4	(0.3)	30.5	17.0
Depreciation and amortization	14.0	12.9	54.7	50.4
Consolidated adjusted EBITDA	<u>\$ 61.1</u>	<u>\$ 40.0</u>	<u>\$ 215.0</u>	<u>\$ 180.5</u>
Net Sales	<u>\$ 391.5</u>	<u>\$ 301.4</u>	<u>\$ 1,434.8</u>	<u>\$ 1,213.2</u>
Consolidated adjusted EBITDA margin	<u>15.6%</u>	<u>13.3%</u>	<u>15.0%</u>	<u>14.9%</u>

\* Excludes purchase accounting expense effects included within depreciation and amortization of \$0.2 million and \$0.4 million for the three and twelve months ended December 31, 2021, respectively.

# Segment Adjusted EBITDA

## ESG

\$ millions, except %

	<u>Q4 2022</u>	<u>Q4 2021</u>
Operating Income	\$ 44.7	\$ 24.1
Add:		
Acquisition and integration-related expenses	0.1	0.1
Purchase accounting effects *	-	-
Depreciation and amortization	12.8	12.0
Adjusted EBITDA	<u>\$ 57.6</u>	<u>\$ 36.2</u>
Net Sales	<u>\$ 325.3</u>	<u>\$ 245.5</u>
Adjusted EBITDA margin	<u>17.7%</u>	<u>14.7%</u>

\* Excludes purchase accounting expense effects included within depreciation and amortization of \$0.2 million for the three months ended December 31, 2021.

## SSG

\$ millions, except %

	<u>Q4 2022</u>	<u>Q4 2021</u>
Operating Income	\$ 12.1	\$ 10.1
Add:		
Depreciation and amortization	1.1	0.9
Adjusted EBITDA	<u>\$ 13.2</u>	<u>\$ 11.0</u>
Net Sales	<u>\$ 66.2</u>	<u>\$ 55.9</u>
Adjusted EBITDA margin	<u>19.9%</u>	<u>19.7%</u>

# Non-GAAP Measures

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- Adjusted net income and earnings per share ("EPS") - The Company believes that modifying its 2022 and 2021 net income and diluted EPS provides additional measures which are representative of the Company's underlying performance and improves the comparability of results between reporting periods. During the three and twelve months ended December 31, 2022 and 2021, adjustments were made to reported GAAP net income and diluted EPS to exclude the impact of acquisition and integration-related expenses (benefits), pension-related charges, coronavirus-related expenses, debt settlement charges and purchase accounting effects, where applicable.
- Adjusted EBITDA and adjusted EBITDA margin - The Company uses adjusted EBITDA and the ratio of adjusted EBITDA to net sales ("adjusted EBITDA margin"), at both the consolidated and segment level, as additional measures which are representative of its underlying performance and to improve the comparability of results across reporting periods. We believe that investors use versions of these metrics in a similar manner. For these reasons, the Company believes that adjusted EBITDA and adjusted EBITDA margin, at both the consolidated and segment level, are meaningful metrics to investors in evaluating the Company's underlying financial performance.
- Consolidated adjusted EBITDA is a non-GAAP measure that represents the total of net income, interest expense, pension settlement charges, acquisition and integration-related expenses (benefits), coronavirus-related expenses, debt settlement charges, purchase accounting effects, other income/expense, income tax benefit/expense, and depreciation and amortization expense. Consolidated adjusted EBITDA margin is a non-GAAP measure that represents the total of net income, interest expense, pension settlement charges, acquisition and integration-related expenses (benefits), coronavirus-related expenses, debt settlement charges, purchase accounting effects, other income/expense, income tax benefit/expense, and depreciation and amortization expense divided by net sales for the applicable period(s).
- Segment adjusted EBITDA is a non-GAAP measure that represents the total of segment operating income, acquisition and integration-related expenses, coronavirus-related expenses, purchase accounting effects and depreciation and amortization expense, as applicable. Segment adjusted EBITDA margin is a non-GAAP measure that represents the total of segment operating income, acquisition and integration-related expenses, coronavirus-related expenses, purchase accounting effects and depreciation and amortization expense, as applicable, divided by net sales for the applicable period(s). Segment operating income includes all revenues, costs and expenses directly related to the segment involved. In determining segment income, neither corporate nor interest expenses are included. Segment depreciation and amortization expense relates to those assets, both tangible and intangible, that are utilized by the respective segment. Other companies may use different methods to calculate adjusted EBITDA and adjusted EBITDA margin.



**FEDERAL SIGNAL**

*Moves. Cleans. Protects.*

