FEDERAL SIGNAL
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Federal Signal Q2 2021 Earnings Call
July 29, 2021





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Safe Harbor

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, economic conditions in various regions, product and price competition, supply chain disruptions, work stoppages, availability and pricing of raw materials, 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.

This presentation also contains references to certain non-GAAP financial information. Such items are reconciled herein and in our earnings news release provided as of the date of this presentation.

Q2 Highlights *

- Net sales of $335 M, up $65 M, or 24%
- Operating income of $38.5 M, up $7.2 M, or 23%
- Adjusted EBITDA of $51.9 M, up $6.5 M, or 14%
  - Adjusted EBITDA margin of 15.5%, compared to 16.8%
- GAAP EPS of $0.48, up $0.13, or 37%
- Adjusted EPS of $0.50, up $0.08, or 19%
- Orders of $361 M, up $159 M, or 79%
- Record backlog of $437 M, up $104 M, or 31%
  - Backlog up $133M, or 44% vs. Q4 2020

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** Comparisons versus Q2 of 2020, unless otherwise noted*

Group and Corporate Results

$ millions, except %		Q2 2021	Q2 2020	% Change
ESG	**Orders**	**299.7**	**157.7**	**90%**
	Sales	**281.3**	**214.2**	**31%**
	Operating income	**38.5**	**28.6**	**35%**
	Operating margin	*13.7%*	*13.4%*	
	Adjusted EBITDA	**50.6**	**40.9**	**24%**
	Adjusted EBITDA margin	*18.0%*	*19.1%*	
SSG	**Orders**	**60.8**	**43.6**	**39%**
	Sales	**53.4**	**55.9**	**-4%**
	Operating income	**7.8**	**10.4**	**-25%**
	Operating margin	*14.6%*	*18.6%*	
	Adjusted EBITDA	**8.7**	**11.7**	**-26%**
	Adjusted EBITDA margin	*16.3%*	*20.9%*	
Corporate expenses		**7.8**	**7.7**	**1%**
Consolidated	**Orders**	**360.5**	**201.3**	**79%**
	Sales	**334.7**	**270.1**	**24%**
	Operating income	**38.5**	**31.3**	**23%**
	Operating margin	*11.5%*	*11.6%*	
	Adjusted EBITDA	**51.9**	**45.4**	**14%**
	Adjusted EBITDA margin	*15.5%*	*16.8%*	

Consolidated Statement of Operations

$ millions, except % and per share	Q2 2021	Q2 2020	$ Change	% Change
Net sales	$ 334.7	$ 270.1	$ 64.6	24%
Gross profit	81.6	70.3	11.3	16%
SEG&A expenses	42.8	37.4	5.4	14%
Acquisition and integration related expenses	0.3	0.3	-	0%
Restructuring	-	1.3	(1.3)	NM
Operating income	38.5	31.3	7.2	23%
Interest expense	1.1	1.8	(0.7)	-39%
Other (income) expense, net	(0.3)	2.0	(2.3)	-115%
Income tax expense	8.0	6.1	1.9	31%
Net income	29.7	21.4	8.3	39%
Diluted EPS	$ 0.48	$ 0.35	$ 0.13	37%
Diluted adjusted EPS	$ 0.50	$ 0.42	$ 0.08	19%
Gross Margin	24.4%	26.0%		
SEG&A expenses as a % of net sales	12.8%	13.8%		
Effective tax rate	21.2%	22.2%		

Adjusted Earnings per Share

($ in millions)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Net income, as reported	$ 29.7	$ 21.4	$ 51.9	$ 44.8
Add:				
Income tax expense	8.0	6.1	13.0	13.3
Income before income taxes	37.7	27.5	64.9	58.1
Add:				
Acquisition and integration-related expenses	0.3	0.3	0.5	0.6
Pension-related charges (1)	0.3	2.5	0.3	2.5
Restructuring	-	1.3	-	1.3
Coronavirus-related expenses (2)	0.3	1.4	1.2	1.8
Purchase accounting effects (3)	0.3	0.1	0.4	0.3
Adjusted income before income taxes	38.9	33.1	67.3	64.6
Adjusted income tax expense (4)	(8.3)	(7.3)	(13.5)	(14.7)
Adjusted net income	**$ 30.6**	**$ 25.8**	**$ 53.8**	**$ 49.9**
Diluted EPS, as reported	$ 0.48	$ 0.35	$ 0.84	$ 0.73
Adjusted diluted EPS	**$ 0.50**	**$ 0.42**	**$ 0.87**	**$ 0.81**

(1) Pension-related charges in the three and six months ended June 30, 2021 and 2020 relate to charges incurred in connection w ith multiemployer pension plan w ithdraw als. Such charges are included as a component of Other (income) expense, net on the Condensed Consolidated Statement of Operations.

(2) Coronavirus-related expenses in the three and six months ended June 30, 2021 and 2020 include direct expenses incurred as a result of the coronavirus pandemic, that are incremental to, and separable from, normal operations. These expenses primarily related to the Company's employee w ellness initiatives, including incremental paid time off and reimbursement for certain coronavirus-related expenses.

(3) Purchase accounting effects relate to adjustments to exclude the step-up in the valuation of acquired JJE equipment that w as sold subsequent to the acquisition in the three and six months ended June 30, 2021 and 2020, as w ell as to exclude the depreciation of the step-up in the valuation of the rental fleet acquired.

(4) Adjusted income tax expense for the three and six months ended June 30, 2021 and 2020 w as recomputed after excluding the impact of acquisition and integration-related expenses, pension-related charges, restructuring activity, coronavirus-related expenses and purchase accounting effects, w here applicable.

Financial Strength and Flexibility *

Strong capital structure	• Cash and cash equivalents of ~$55 M • Net debt of ~$169 M ** • In July 2019, we executed a five-year, $500 M revolving credit facility, with flexibility to increase by additional $250 M for acquisitions • No debt maturities until July 2024 • Net debt leverage remains low • Compliant with all covenants with significant headroom
Healthy cash flow and access to cash facilitate organic growth investment and cash returns to stockholders	• Generated ~$13 M of cash from operations in Q2 this year, bringing year-to-date operating cash generation to ~$39 M • ~$268 M of availability under revolving credit facility • Anticipating full year cap ex of $20 M-$25 M, including investments in our plants to add capacity and gain efficiencies through automation • Paid $5.5 M for dividends, reflecting dividend of $0.09 per share; recently declared similar dividend for Q3 2021 • $0.2 M of share repurchases in Q2 2021; ~$90 M of repurchase authorization remaining under current programs (~4% of market cap)

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** Dollar amounts as of, or for the quarter ending 6/30/2021*
*** Net debt is a non-GAAP measure and is computed as total debt of $223.6 M, less total cash and cash equivalents of $54.5 M*

CEO Introductory Comments

- Reports late yesterday of a bipartisan infrastructure deal being reached
- Components reported to be part of the deal, which includes a total $550 B in new federal investment in U.S. infrastructure, include:
  - $110 billion for roads
  - $73 billion for power infrastructure
  - $65 billion to expand broadband access
  - $55 billion for water infrastructure
  - $46 billion for environmental resiliency
  - $11 billion for transportation safety
- We are optimistic that an infrastructure package including such areas would provide funding that would support the use of most of our product offerings, including equipment sales and rentals of dump truck and trailers, safe digging trucks, road-marking equipment, sewer cleaners and street sweepers
- We are well positioned to respond to the anticipated increase in demand for our products

CEO Remarks – Q2 Performance

- Meaningful improvement in net sales and earnings during Q2
- Q2 adjusted EBITDA margin towards high end of target range, despite widespread supply-chain disruption and unprecedented commodity cost environment
- Continuing to realize benefits from diversification of revenue streams and end markets in recent years
  - Q2 aftermarket revenues up $26 M, or 46%, year-over-year, increasing to 30% of ESG's revenues
- Higher rental utilization and improved used equipment/stock unit sales helped to partially mitigate impact of increases in commodity costs and freight charges in Q2
- Despite several pricing actions, unfavorable YoY price/cost headwind of ~$3 M in Q2

CEO Remarks – Market Conditions

- Demand for our products remains strong, with Q2 orders of $361 M
- $1.9 T of recently-passed economic stimulus with $350 B earmarked to go to state, local and territorial governments. Among other things, stimulus package targets the maintenance of essential infrastructure, such as sewer systems and streets
  - 1st tranche (50%) of $350 B started to be distributed in May; 2nd tranche expected next year
  - As a provider of equipment used to support these essential services, we are well positioned to benefit from such investment
- Municipal dealer partners energized about market conditions in 2H 2021 and 2022; with impact of recent federal stimulus and better than expected tax collections, municipalities have greater stability in their revenue sources
- Industrial markets improving
- Q2 orders for dump truck bodies and trailers more than double intake in Q2 last year
- Record backlogs entering 2H 2021, but monitoring headwinds associated with:
  - Continued impact of global semiconductor shortage and associated supply chain disruption
  - Currently expect price/cost impact in Q3 to be in same neighborhood as in Q2; expecting to see improvement beginning in Q4 with more price realization as backlog turns
- Access to labor remains good in most geographies
- COVID-related disruptions diminishing with improved company-wide employee vaccination rates

CEO Remarks – Growth Initiatives

- We remain bullish about the long-term prospects for "safe-digging"; monitoring further developments on the regulatory front
  - Safe-digging trends improving with uptick in industrial markets
  - New applications for use of our equipment
  - Significant environmental benefits
- Gaining traction on new product development
- OSW integration ongoing with ETI training sessions completed during the quarter
- Current M&A pipeline remains active
- Well-positioned for growth, once supply chain disruptions normalize, with recent capacity expansions at several facilities

Our safe digging equipment can access underground utilities without damaging tree roots

Raising 2021 Outlook

Raising Adjusted EPS* outlook to a new range of $1.78 to $1.90, from the prior range of $1.73 to $1.85

New range represents increase of 7% to 14% over 2020*

Key Full-Year Assumptions

- Revenue growth
- Double-digit improvement in pre-tax earnings
- Depreciation and amortization expense to increase by ~$6 M to $8 M
- Capital expenditures of $20 M to $25 M, including ongoing plant expansions
- Interest rate of 2-3%
- Effective income tax rate of ~23%, including estimated discrete tax benefits
- ~62 M weighted average shares outstanding
- Assumes no significant delays in our receipt of chassis from suppliers in 2H 2021

*Adjusted earnings per share ("EPS") is a non-GAAP measure, which includes certain adjustments to reported GAAP net income and diluted EPS. When reporting adjusted EPS in 2021, we have made, and would expect to continue to make, certain adjustments to exclude the impact of acquisition and integration-related expenses, pension-related charges, coronavirus-related expenses and purchase accounting effects, where applicable. In prior years, we have also made adjustments to GAAP net income and diluted EPS for restructuring activity, hearing loss settlement charges and special tax items. Should any similar items occur in 2021, we would also 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).

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Q&A

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Ian Hudson, SVP, Chief Financial Officer

Investor Information

Stock Ticker - NYSE:FSS

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Appendix

Consolidated Adjusted EBITDA

$ millions, except %	Q2 2021	Q2 2020
Net income	$ 29.7	$ 21.4
Add:		
Interest expense	1.1	1.8
Acquisition and integration-related expenses	0.3	0.3
Restructuring	-	1.3
Coronavirus-related expenses	0.3	1.4
Purchase accounting effects *	0.2	-
Other (income) expense, net	(0.3)	2.0
Income tax expense	8.0	6.1
Depreciation and amortization	12.6	11.1
Consolidated adjusted EBITDA	$ 51.9	$ 45.4
Net Sales	$ 334.7	$ 270.1
Consolidated adjusted EBITDA margin	15.5%	16.8%

** Excludes purchase accounting expense effects included within depreciation and amortization of $0.1million and $0.1 million for the three months ended June 30, 2021and 2020, respectively*

Segment Adjusted EBITDA

ESG

$ millions, except %	Q2 2021	Q2 2020
Operating Income	$ 38.5	$ 28.6
Add:		
Acquisition and integration-related expenses	0.1	0.1
Restructuring	-	0.7
Coronavirus-related expenses	0.2	1.3
Purchase accounting effects *	0.2	-
Depreciation and amortization	11.6	10.2
Adjusted EBITDA	$ 50.6	$ 40.9
Net Sales	$ 281.3	$ 214.2
Adjusted EBITDA margin	18.0%	19.1%

** Excludes purchase accounting expense effects included within depreciation and amortization of $0.1million and $0.1 million for the three months ended June 30, 2021and 2020, respectively*

SSG

$ millions, except %	Q2 2021	Q2 2020
Operating Income	$ 7.8	$ 10.4
Add:		
Restructuring	-	0.3
Coronavirus-related expenses	-	0.1
Depreciation and amortization	0.9	0.9
Adjusted EBITDA	$ 8.7	$ 11.7
Net Sales	$ 53.4	$ 55.9
Adjusted EBITDA margin	16.3%	20.9%

Non-GAAP Measures

- Adjusted net income and earnings per share ("EPS") - The Company believes that modifying its 2021 and 2020 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 six months ended June 30, 2021 and 2020, adjustments were made to reported GAAP net income and diluted EPS to exclude the impact of acquisition and integration-related expenses, pension-related charges, restructuring activity, coronavirus-related expenses 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. Other companies may use different methods to calculate adjusted EBITDA and adjusted EBITDA margin.

- Consolidated adjusted EBITDA is a non-GAAP measure that represents the total of net income, interest expense, acquisition and integration-related expenses, restructuring activity, coronavirus-related expenses, purchase accounting effects, other income/expense, income tax expense, and depreciation and amortization expense. Consolidated adjusted EBITDA margin is a non-GAAP measure that represents the total of net income, interest expense, acquisition and integration-related expenses, restructuring activity, coronavirus-related expenses, purchase accounting effects, other income/expense, income tax 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, restructuring activity, 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, restructuring activity, 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.


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