

Servotronics Announces 2021 Financial Results Including EPS of \$1.68, Record Operating Cash Flow, Lower Total Operating Costs and Expenses, and Enhanced Balance Sheet Strength

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Servotronics, Inc. →
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-- Anticipated first quarter 2022 total revenue growth on improving Advanced Technology Group sales is attributed to process improvements and maintenance of production capabilities, including Servotronics' highly skilled workforce, over the last two years --

ELMA, N.Y., March 31, 2022 /PRNewswire/ -- Servotronics, Inc. (NYSE American - SVT) a designer and manufacturer of servo-control components and other advanced technology products today reported financial results for the fourth quarter and twelve months ended December 31, 2021 including net income growth and record high levels of operating cash flow and year-end cash.

The company reported net income of \$4.1 million, or \$1.68 per diluted share, in 2021, its highest level since 2015 and up from \$100,000, or \$0.04, in 2020.

Net income in 2021 reflected the impact of \$1.9 million in legal settlement expenses associated with the resolution of previously disclosed commercial litigation, which were offset by \$9.6 million in other income from Paycheck Protection Program ("PPP") loan forgiveness and



employee retention credits ("ERC"). The federal PPP and ERC stimulus programs supported successful efforts to prevent involuntary workforce reductions since the outset of the Covid-19 pandemic, as part of a strategy to recruit and retain the Servotronics advanced manufacturing employees who are essential to the company's ability to meet and exceed commercial, government, defense, and other customers' high standards for quality, reliability and on-time delivery.

"We attribute fourth quarter 2021 revenue stability and expected first quarter 2022 revenue growth to our commitment to use what we viewed as a temporary delay in Servotronics' largest-customer orders over the last two years as an opportunity for improvement," said Chief Operating Officer James C. Takacs. "We implemented a number of process-improvement initiatives, preserved inventories of essential material and components for our proprietary products, and maintained our production capabilities, including our advanced manufacturing and engineering workforce in Western New York. In 2021, we also reduced total operating costs and expenses, and enhanced the company's cash position, positioning Servotronics to rapidly respond to a recovery in Advanced Technology Group orders, deliver on long-term contracts, and pursue new markets for our products in 2022 and beyond."

As publicly announced in 2021, Servotronics Board of Directors commenced a national search for a new chief executive officer. The Board has also initiated the process of recruiting diverse, highly-qualified independent directors with experience relevant to its businesses and operations. Both of these important initiatives are well underway.

Consolidated annual revenues were \$40.6 million in 2021 compared to \$49.8 million the year prior, reflecting a reduction in units shipped by its Advanced Technology Group (ATG) and Consumer Products Group (CPG) segments, which primarily resulted from the impact of the pandemic on key customers.

Fourth quarter consolidated revenues remained relatively stable, at \$10.6 million in each of 2021 and 2020. Fourth quarter ATG revenues grew to \$8.2 million in 2021, up 8.3% from 2020, reflecting a recovery in units shipped. This offset fourth quarter CPG revenue declining to \$2.4 million, down 22.0% from the last three months of 2020.

Servotronics expects to report first quarter 2022 consolidated revenue growth, over the first and fourth quarters of 2021, driven primarily by increases in ATG revenue and units shipped under long-term prime contracts and subcontracts. The company signed two new long-term contracts in 2021 and one in the first quarter of 2022 with ATG customers.

(\$000s)	4Q21	3Q21	2Q21	1Q21	4Q20	FY21	FY20
Revenue							
ATG	\$8,182	\$8,449	\$7,823	\$7,223	\$7,554	\$31,677	\$40,782
CPG	2,373	2,466	2,205	1,837	3,041	8,881	9,062
Consolidated	10,555	10,915	10,028	9,060	10,595	40,558	49,844
Gross Margin							
ATG	\$1,467	\$1,687	\$1,581	\$1,013	\$609	\$5,748	\$7,342
CPG	-116	85	291	-20	64	240	898
Consolidated	1,351	1,772	1,872	993	673	5,988	8,240
Gross Margin							
ATG	17.9%	20.0%	20.2%	14.0%	8.1%	18.1%	18.0%
CPG	-4.9%	3.4%	13.2%	-1.1%	2.1%	2.7%	9.9%
Consolidated	12.8%	16.2%	18.7%	11.0%	6.4%	14.8%	16.5%

Consolidated gross margin was \$6.0 million or 14.8% of revenue in 2021, compared to \$8.2 million or 16.5% for 2020. ATG gross margin stability at 18.1% in 2021, up 10 basis points from the year prior, was offset by a CPG gross margin of 2.7% in 2021, down 720 basis points from the year prior.

For the fourth quarter, consolidated gross margin increased to \$1.4 million or 12.8% of revenue in 2021, approximately doubling from the \$673,000 or 6.4% reported in 2020.

The company believes that its production resources and maintenance of a highly skilled advance manufacturing workforce have positioned Servotronics well for recovering orders, which will be critical to reducing per-unit costs and sustainably enhancing gross margin. As the ATG revenue volume increases it is expected that the utilization of the production resources will improve and improve gross margin percentages similar to the first half of 2020. The company also expects to see improvement in the CPG gross margin percentages.

The company's total annual operating costs and expenses declined on lower revenue to \$45.9 million in 2021, down 7.5% from \$49.6 million the year prior to their lowest level since 2018. Fourth quarter total operating costs and expenses declined on lower revenue to \$11.7 million in 2021, down 0.7% from \$11.8 million in 2020.

Annual operating costs and expenses in 2021 declined in spite of the third quarter accrual of \$1.9 million for legal settlements resolving two previously disclosed and unrelated commercial litigation matters. This included \$1.8 million to resolve litigation commenced in July 2013 with Aero, Inc. and \$90,000 to resolve litigation commenced in March 2016 with an independent contractor for one of the company's wholly-owned subsidiaries.

Annual operating costs and expenses in 2021 also reflected initiatives designed to recruit and retain advanced manufacturing and engineering employees in what has been widely recognized as one of the most competitive U.S. labor markets in generations. For example, 2021 wage enhancements included, but were not limited to, higher minimum starting pay for new hourly employees, higher second-shift hourly pay, safety certification compensation, and implementation of a pay raise across the entire workforce. In addition, benefits enhancements include expanded time off policies, hybrid scheduling, and flexibility including an optional four-day, 40-hour work week.

Servotronics generated all-time-high annual operating cash flow of \$4.6 million in 2021, up 455.8% from 2020. The company's total cash balance grew by 60.8% in 2021 to a record year-end cash balance of \$9.5 million on December 31. Total working capital grew by 9.6% in 2021 to \$34.1 million on December 31, primarily due to the increase in our cash position.

The company believes its cash generating capability and financial condition, together with available credit facilities, will be adequate to meet future operating and investing needs. Its credit facilities include but are not limited to a \$6.0 million line of credit, of which \$4.25 million was outstanding at December 31, 2021.

During the fourth quarter of 2021 the company completed a previously disclosed remediation plan addressing internal controls over financial reporting related to inventory and post-retirement benefits. The company continues to implement a remediation plan to address internal control deficiencies related to the assessment and documentation of certain entity-

level controls and the design and implementation of certain IT general controls including information technology policies, risk assessments, offsite backup, and monitoring that were identified as of December 31, 2021 and had no material impact on Servotronics' financial position, results of operations or cash flows.

ABOUT SERVOTRONICS

The Company is composed of two groups – the Advanced Technology Group (ATG) and the Consumer Products Group (CPG). The ATG primarily designs, develops and manufactures servo controls and other components for various commercial and government applications (i.e., aircraft, jet engines, missiles, manufacturing equipment, etc.). The CPG designs and manufactures cutlery, bayonets, pocket knives, machetes and combat knives, survival, sporting, agricultural knives and other edged products for both commercial and government applications.

FORWARD-LOOKING STATEMENTS

This news release contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, including statements the Company makes regarding expected operating results, the utilization of production resources and liquidity to fund its business operations. Forward-looking statements involve numerous risks and uncertainties which may cause the actual results of the Company to be materially different from future results expressed or implied by such forward-looking statements. There are a number of factors that will influence the Company's future operations, including: uncertainties in today's global economy, including political risks, adverse changes in legal and regulatory environments, and difficulty in predicting defense appropriations, the introduction of new technologies and the impact of competitive products, the vitality of the commercial aviation industry and its ability to purchase new aircraft, the willingness and ability of the Company's customers to fund long-term purchase programs, and market demand and acceptance both for the Company's products and its customers' products which incorporate Company-made components, the Company's ability to accurately align capacity with demand, the availability of financing and changes in interest rates, the outcome of pending and potential litigation, the severity, magnitude and duration of the COVID-19 pandemic, including impacts of the pandemic and of businesses' and governments' responses to the pandemic on our operations¹⁸

and personnel, and on commercial activity and demand across our and our customers' businesses, and on global supply chains and the additional risks discussed in the Company's filings with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on forward-looking statements, which reflect management's analysis only as of the date hereof. The Company assumes no obligation to update forward-looking statements, whether as a result of new information, future events or otherwise.

SERVOTRONICS, INC. (SVT) IS LISTED ON NYSE American

SERVOTRONICS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(\$000's omitted except share and per share data)

	December 31, 2021	December 31, 2020
Current assets:		
Cash	\$ 9,546	\$ 5,935
Accounts receivable, net	7,198	7,636
Inventories, net	20,132	23,406
Prepaid income taxes	792	483
Other current assets	647	383
Total current assets	<u>38,315</u>	<u>37,843</u>
Property, plant and equipment, net	10,557	12,017
Deferred income taxes	900	137
Other non-current assets	321	331
Total Assets	<u><u>\$ 50,093</u></u>	<u><u>\$ 50,328</u></u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$ —	\$ 2,334
Current portion of equipment financing and finance leases	276	301
Dividend payable	—	12
Accounts payable	663	1,599
Accrued employee compensation and benefits costs	1,759	1,649
Current portion of post retirement obligation	136	—
Other accrued liabilities	1,414	874
Total current liabilities	<u>4,248</u>	<u>6,769</u>
Long-term debt	4,750	7,293
Post retirement obligation	5,729	2,529
Shareholders' equity:		
Common stock, par value \$0.20; authorized 4,000,000 shares; issued 2,614,506 shares; outstanding 2,435,032 (2,416,683 - 2020) shares	523	523
Capital in excess of par value	14,500	14,481
Retained earnings	25,858	21,803
Accumulated other comprehensive loss	(3,908)	(1,356)
Employee stock ownership trust commitment	(258)	(359)
Treasury stock, at cost 122,839 (126,079 - 2020) shares	(1,349)	(1,355)
Total shareholders' equity	<u>35,366</u>	<u>33,737</u>

Total Liabilities and Shareholders' Equity

\$ 50,093 \$ 50,328

SERVOTRONICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(\$000's omitted except per share data)

	Years Ended	
	December 31, 2021	December 31, 2020
Revenue	\$ 40,558	\$ 49,844
Costs and expenses:		
Costs of goods sold, inclusive of depreciation and amortization	34,570	41,604
Gross margin	5,988	8,240
Operating expenses:		
Selling, general and administrative	9,423	7,998
Legal settlement awards	1,890	—
Total operating expenses	11,313	7,998
Operating (loss)/income	(5,325)	242
Other income/(expense):		
Employee retention credit (ERC)	5,622	—
Paycheck Protection Program loan forgiveness	4,000	—
Loss on sale of equipment	(98)	—
Interest expense, net	(187)	(180)
Total other income/(expense)	9,337	(180)
Income before income tax provision	4,012	62
Income tax benefit	(43)	(38)
Net income	\$ 4,055	\$ 100
Income per share:		
Basic		
Net income per share	\$ 1.68	\$ 0.04
Diluted		
Net income per share	\$ 1.68	\$ 0.04

SERVOTRONICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$000's omitted)

	Years Ended	
	December 31, 2021	December 31, 2020
Cash flows related to operating activities:		
Net Income	\$ 4,055	\$ 100
Adjustments to reconcile net income to cash provided by operating activities:		
Paycheck Protection loan forgiveness	(4,000)	—
Depreciation and amortization	1,368	1,442
Loss/(Gain) on disposal of property	98	(1)
Stock based compensation	106	339
(Decrease) in allowance for doubtful accounts	(57)	(149)
Increase in inventory reserve	22	283
Increase/(Decrease) in warranty reserve	129	(38)
Deferred income taxes	(84)	(30)
Change in assets and liabilities:		
Accounts receivable	495	5,696
Inventories	3,252	(3,538)
Prepaid income taxes	(309)	(67)
Other current assets	(264)	139
Accounts payable	(948)	(2,859)
Accrued employee compensation and benefit costs	110	(634)
Other accrued liabilities	412	(126)
Post retirement obligation	105	168
Employee stock ownership trust payment	101	101
Net cash provided by operating activities	4,591	826
Cash flows related to investing activities:		
Capital expenditures - property, plant and equipment	(267)	(729)
Proceeds from sale of assets	270	—
Net cash provided (used) by investing activities	3	(729)
Cash flows related to financing activities:		
Principal payments on long-term debt	(1,334)	(547)
Principal payments on equipment financing lease obligations	(452)	(294)
Proceeds from equipment note and equipment financing lease	384	—
Proceeds from line of credit	500	750
Purchase of treasury shares	(81)	(100)
Proceeds from paycheck protection program	—	4,000
Net cash (used) provided by financing activities	(983)	3,809

Net increase in cash	3,611	3,906
Cash at beginning of year	5,935	2,029
Cash at end of year	\$ 9,546	\$ 5,935

SERVOTRONICS, INC. AND SUBSIDIARIES
BUSINESS SEGMENTS

(\$000's omitted except per share data)

	<u>ATG</u>		<u>CPG</u>		<u>Consolidated</u>	
	<u>Years Ended</u>		<u>Years Ended</u>		<u>Years Ended</u>	
	<u>December 31,</u>		<u>December 31,</u>		<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Revenues from unaffiliated customers	\$ 31,677	\$ 40,782	\$ 8,881	\$ 9,062	\$ 40,558	\$ 49,844
Cost of goods sold, inclusive of depreciation	(25,929)	(33,440)	(8,641)	(8,164)	(34,570)	(41,604)
Gross margin	5,748	7,342	240	898	5,988	8,240
Gross margin %	18.1 %	18.0 %	2.7 %	9.9 %	14.8 %	16.5 %
Operating expenses:						
Selling, general and administrative	(7,661)	(6,245)	(1,762)	(1,753)	(9,423)	(7,998)
Legal settlement awards	(1,800)	—	(90)	—	(1,890)	—
Total operating expenses	(9,461)	(6,245)	(1,852)	(1,753)	(11,313)	(7,998)
Operating (loss)/income	(3,713)	1,097	(1,612)	(855)	(5,325)	242
Other income/(expense):						
Other income: employee retention credit (ERC)	4,584	—	1,038	—	5,622	—
Other income: PPP loan forgiveness	4,000	—	—	—	4,000	—
Interest expense	(185)	(170)	(2)	(10)	(187)	(180)
Loss on sale of equipment	(98)	—	—	—	(98)	—
Total other income/(expense)	8,301	(170)	1,036	(10)	9,337	(180)
Income (loss) before income tax provision	4,588	927	(576)	(865)	4,012	62
Income tax provision expense/(benefit)	78	492	(121)	(530)	(43)	(38)
Net income/(loss)	\$ 4,510	\$ 435	\$ (455)	\$ (335)	\$ 4,055	\$ 100

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SOURCE Servotronics, Inc.

