



MESTEK, INC.

**FIRST QUARTER REPORT
TO SHAREHOLDERS**

**For the quarter ended
March 31, 2016**



MESTEK, INC.

260 North Elm Street, Westfield, MA 01085

(413) 568-568-9571 www.mestek.com

Fellow Shareholders,

First quarter sales declined 11% compared to last year for three clearly identifiable reasons. The Anemostat spinoffs completed in 2015 accounted for half of the reduction. A pronounced slowdown in the mission critical data center market caused all of the remaining decline. In addition, warm winter weather limited demand for some replacement products, most notably gas fired unit heaters. Machinery revenues were flat; and architectural products registered a 17% increase. While somewhat disappointing overall, our competitive market position remains intact or improved in each industry we serve, HVAC, architectural, and machinery.

Gross profit improved to 34.5% from 32.5% due to a more favorable product mix, notably a lower mix of OEM products, and the successful completion of several large complicated projects under budget, primarily but not exclusively in our machinery business. Additionally, Anemostat's gross profit percentage has historically been lower than most other Mestek businesses, inherent to the labor intensive and competitive industry niches it serves.

Operating profit remained flat at \$6.6 million, excluding non-recurring hedging gains, thanks to higher gross profit and contained SG&A expenses. Backlogs excluding Anemostat are comparable to last year. The new Laceyville, PA manufacturing plant is now operating smoothly; and we are making progress building the team at our relocated and enlarged Hebei, China manufacturing business. Regrettably, international markets for the machinery built in China remain very soft. Mestek is well-positioned to participate in a general economic recovery domestically and worldwide. Our willingness to increase R&D spending and judicious property, plant, and equipment additions, despite subdued industry conditions is core to our culture. Maintenance of a strong balance sheet allows us to implement this belief without pause, unlike leveraged private equity or companies devoting vast sums to stock buy-backs. We remain a Main Street business, with no need to devote time, energy, and resources pleasing Wall Street's short term orientation.

The outlook for the remainder of 2016 is stable; I expect a relatively flat year overall. We continue to explore acquisition and partnership opportunities, several of which look interesting and synergistic at present. Mestek is always eager to pay equitable prices for quality businesses in our industries, and is determined to be the best home for employees of these companies by offering freedom, stability, and opportunity. Concurrently, we focus on improving existing businesses by building stronger teams and more efficient high quality manufacturing operations. Our continuous improvement culture is core to value creation for our employees and shareholders.

With kind regards,

Stewart B. Reed
Chairman & CEO

MESTEK, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(Dollars in Thousands)

	Three Months Ended	
	March 31,	
	2016	2015
Net Sales	\$ 73,722	\$ 82,722
Cost of Goods Sold	48,275	55,794
Gross Profit	25,447	26,928
Selling Expense	9,672	11,321
General and Administrative Expense	5,547	5,755
Engineering Expense	3,599	3,309
Plant Shutdown, Hedging and Other Items	(1,845)	(71)
Operating Profit	8,474	6,614
Interest Expense - net	(18)	(1)
Other Income (Expense) - net	(39)	11
Income Before Income Taxes	8,417	6,624
Provision for Income Tax	2,934	2,552
Net Income from Continuing Operations	5,483	4,072
Less: Net Loss - Non-controlling Interests	(8)	(4)
Net Income	\$ 5,491	\$ 4,076
Basic and Diluted Earnings Per Common Share	\$ 0.73	\$ 0.54
Basic and Diluted Weighted Average Shares Outstanding	7,491	7,491

MESTEK, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Dollars in Thousands)

	<u>March 31,</u> 2016	<u>December 31,</u> 2015
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 60,704	\$ 64,570
Accounts Receivable - less allowances of \$3,953 and \$3,928, respectively	42,661	45,523
Inventories - net	48,356	44,474
Other Current Assets	<u>12,383</u>	<u>11,060</u>
Total Current Assets	164,104	165,627
Property and Equipment - net	41,158	40,969
Property Held for Sale	2,327	2,327
Deferred Tax Assets	4,199	4,192
Other Assets - net	4,719	4,744
Goodwill	<u>21,098</u>	<u>20,810</u>
Total Assets	<u>\$ 237,605</u>	<u>\$ 238,669</u>
LIABILITIES		
Current Liabilities		
Current Portion of Long Term Debt	\$ 180	\$ 180
Accounts Payable	11,707	12,553
Accrued Payroll and Related Expenses	9,822	14,768
Customer Deposits	15,947	15,837
Current Portion of Environmental Reserves	166	231
Warranty Reserve	2,983	2,981
Other Accrued Liabilities	<u>11,932</u>	<u>13,108</u>
Total Current Liabilities	52,737	59,658
Environmental Reserves - long term	5,199	5,222
Long-Term Debt, net of current portion	9,983	9,983
Other Liabilities	<u>3,311</u>	<u>3,275</u>
Total Liabilities	71,230	78,138
SHAREHOLDERS' EQUITY		
Common Stock, no par, stated value \$0.05 per share, 20,000,000 shares authorized 8,368,726 shares issued	417	417
Paid in Capital	5,184	5,184
Retained Earnings	171,880	166,390
Treasury Shares, at cost (878,010 common shares)	(11,293)	(11,293)
Accumulated Other Comprehensive Income	<u>(1,550)</u>	<u>(1,910)</u>
Total Mestek, Inc. Shareholders' Equity	164,638	158,788
Non-controlling Interest	<u>1,737</u>	<u>1,743</u>
Total Shareholders' Equity	<u>166,375</u>	<u>160,531</u>
Total Liabilities and Shareholders' Equity	<u>\$ 237,605</u>	<u>\$ 238,669</u>