Nathan Jones, Stifel: Okay. Good morning everyone. Welcome to the Sun Hydraulics presentation. It's my pleasure to introduce, Wolfgang Dangel, President and CEO, and Tricia Fulton, Chief Financial Officer. Wolfgang has a presentation for you guys, so over to you Wolfgang.

Wolfgang H. Dangel: Thank you, good morning everyone. Thanks for showing an interest in Sun. We do appreciate that. Please be aware of our safe harbor statement on slide 2. On slide 3, here is a brief snapshot of the company, the business was incorporated back in 1970 by the late founder Bob Koski, the IPO was in 1997, and the current market cap is around $1.6 billion. We have about 31.6 million shares outstanding, with about 84% held by institutional owners.

Three years ago, we did a competitive analysis and wanted to identify the position of the business. At that point in time we were a $200 million hydraulics business focusing on cartridge valve technology.

We came out of that process with this vision statement. That's a 2025 milestone and as you can see on slide 4, we decided to grow the business to what we refer to as critical mass, $1 billion in revenue by 2025. But we did not just want to grow for the sake of growing, we also wanted to maintain superior profitability and financial strength.

On the bottom of the slide is a very important statement; historically we have been very well known as a best-in-class mechanical designer and manufacturer of hydraulic components, but at the same time in the forthcoming years we want to master the transition to becoming recognized as a designer and manufacturer of intelligent systems & controls.

Turning to slide 5, several megatrends are impacting our industry. We identified three on the very top tier of the slide. "Globalization", which is driven by population growth and a lot of the urbanization taking place in mega cities around the world, first and foremost in Asia.

In the middle section of the chart, we are referring here to "Sophistication of Safe Machinery & Equipment." We are learning from the daily interaction and collaboration with the OEMs and machine builders that they are looking for more productive and efficient equipment, maximum up-time of the equipment, and automation is playing a significant role in all of these areas.

On the right hand side of the slide, you see the megatrend we refer to as "Computing Power." That's where electrification and digitization are heavily influencing our business. Energy savings is a trend that is predominantly pushed very hard in Europe, and in places such as Japan.

Moving on to slide 6, there are some key factors driving the strong growth we have seen in recent years. Here you see 20% plus organic growth last year, 50% plus M&A growth while generating an operating margin north of 22%. We do that by maintaining a leading technology position in fast growing industrial sectors within the two segments, namely hydraulics and electronics. We have a pretty strong group of brands that make up these two business segments. We have a highly engineered approach to our business on both the design cycle and in terms of the manufacturing capabilities we have in-house in our facilities.

The first point here is that over the next couple of years, we will strongly follow a concept of bringing that engineering competence as close as possible to the customer base. You see this global presence, with our "in the region for the region" concept.

We made two significant acquisitions over the last two years. The first one back in 2016, Enovation Controls, which I'll talk about that later on. The latest acquisition we made earlier this year was the Faster Group, for which you can see details on Slide 7. The Faster Group is the number two player in quick release hydraulic couplings, so it's a nice complimentary product to the cartridge valve technology for which Sun has been known for almost half a century.

We acquired Faster Group in early April. The company is based in Northern Italy. If you look at the strategic rationale here, it advances our global technology leadership. Further, it diversifies Sun even more, because it gives us access to the agriculture ("Ag") market. Historically, we had a very weak position in Ag in both electronics and cartridge valve technology. Faster generates 65% of its business in the Ag equipment market, which was one of the strategic rationales why we bought the company.

Very similar to Sun, Faster is highly engineered and very technology driven. On the slide you can see Faster has over 80 patents registered, in addition to having a number of patents in the pipeline going through the registration process right now. You see the financial metrics on the very bottom of the slide. Again, superior profitability here, and you can see that for 2018 we're expecting EBITDA of somewhere around 27% to 28%, and the organic growth this year is anticipated to be in the range of 16.0% to 16.5%.

Moving to slide 8 you see a snapshot of the entire Sun Group. The mantra is, we're standing for smart solutions for demanding applications. Referring to our business segments, we have 75% of revenue this year tied to the hydraulics business, and 25% tied to the electronics business. We are guiding to around about $500 million in 2018 sales. As I pointed out a couple of minutes ago, two years ago we were a $200 million business.

We are generating this business at quite superior margins. As you can see, we are guiding 22.7% to 24.0% on an adjusted operating margin basis. Strong brands, and you can see the brands are clearly allocated to business segments. Sun Hydraulics is a market leader in cartridge valve technology, probably the number two player in the world. Faster, as I pointed out earlier, is the number two player in quick release hydraulic couplings. These two brands are making up the hydraulics business segment.

On the right hand side of the slide, you see a number of brands, Enovation Controls, HCT, Murphy and ZeroOff, which make up the electronics segment.

Some of our brands are really well established. Faster was incorporated almost 70 years ago. The Murphy brand was established back in 1939 and is pretty well known in the electronics industry here in the United States.

From a key markets perspective, we diversified the business significantly over the last couple of years. Whereas in the past we were only active in mobile and industrial applications, through the acquisition of Faster we added access to Ag, and through the acquisition of Enovation back in 2016, we added access to recreational end markets. I'll show you a couple of examples in a minute.

Turning to slide 9, we see a very important chart which describes the strategic execution. As you see, the X-axis is the path of migration that we have embarked on. The Y-axis indicates the degree of sophistication, which means nothing unless it translates into the requirements of the machine builder. So again, more sophisticated machinery and equipment, translates to more productive, more energy efficient and so forth.

Historically our companies are pretty much parked on the left hand side of this chart. We're known as a best-in-class traditional component supplier with a lot of expertise on the mechanical side of the business. But the industry is moving towards the right side of this chart, towards intelligent control systems. A lot of the engineering efforts we're making right now are actually centering around the section in the middle of the chart here, "smart components".

We put a lot of engineering dollars in place here in order to come up with new electro-hydraulic products that cater to what we describe here as "smart components". Over time, by 2025, we want

to gain access to the right-hand side of the chart and be a recognized player in the intelligent controls and systems arena as well.

As you can see, the Enovation Controls brand is on the right hand side of the chart as they are already playing in that field now. But the other two businesses, Sun and Faster are still pretty much located on the left hand side of this chart.

Moving on to slide 10, let's take a closer look at the hydraulics industry as a whole and look then at the positioning of our businesses. In total, we quantified the hydraulics market to be about $25 billion in size, and that would encompass everything – pumps, motors actuators, valves and so forth. About the one-third of the total hydraulics market is hydraulic valves, that is the $8 billion green bubble there, and within the hydraulic valves market about $2 billion is dedicated to cartridge valve technology, which we refer to as compact hydraulics. It's called compact hydraulics because cartridge valve technology is a more compact solution. Cartridges are smaller and lighter which is a very distinct advantage when it comes to the design of machinery and equipment, because it takes up less space and it adds less weight to a machine.

So in cartridge valve technology, we are playing in a sandbox of about $2 billion in size. You can see we're guiding at around about $260 million, $265 million, so that gives you a market share of about 13%. On the right-hand side you see the addressable couplings market is also about $2 billion. Faster is around about a $150 million business this year which gives you the equivalent market share there.

On the very bottom of slide 10, you see the addressable markets we are serving with the hydraulics segment. The largest ones are material handling and construction machinery & equipment, but we cater to a wide variety of industrial sectors. As you see under “specialized vehicles”, that fire truck example just being one. “Forestry equipment”, through Faster, provides access to all the Ag equipment, also now quite a bit of business in “renewable energy”, that’s wind and solar mainly. And then on the very bottom left using “marine/offshore”, “mining”, “factory automation”, but also sectors such as “packaging & processing”, and “machine tools/presses”.

On the right side of slide 11, let's take a brief look at the hydraulics market drivers that we're seeing out there. As indicated before, there is a lot of focus on increased productivity as well as performance of machinery and equipment. This also includes improved safety and reliability. I think that's the name of the game at this stage. We see a significant shift from pure mechanical solutions to electro hydraulics solutions here.

Several other important hydraulics market drivers are reduced noise, vibration, harshness; a lot of environmental regulations around the world are extremely important. Zero leakage is one of the most important. The pressure applications are actually increasing, so you need to cater to higher pressure. A higher pressure environment with zero leaks is the most important, nobody wants to deal with oil leaking in a machine environment.

The next slide displays Faster itself, catering mainly to the Ag market. And here you see the groupings of the product families, so about half of the business is couplings, couplings components and you also have casting solutions. You have the MultiFaster, where we have several connecting lines to a machine, and then you have some accessories in complementary products on the very bottom. If you look from a coverage perspective, they have the broadest product range when it comes to agricultural equipment. Pretty good coverage also with regard to construction machinery and a little bit less dominance here in other industrial end markets.

On slide 13 in regards to cartridge valve technology, it breaks down the customer base. About 80% of the business is going through the channel here and about 20% on the right hand side is going through OEMs. Historically, we have been working with our own sales forces in Europe and Asia to

tackle the OEM market. In the U.S. for a very long period of time we would only work through the channel. We changed that two years ago by putting application specialists into the field. These people understand the machinery and equipment of the OEMs very well, therefore they can advise the OEMs when it comes to the next design of the machine generation and basically engineer our solutions onto the equipment.

Moving to slide 14, regarding Faster, as I said 65% of revenue is generated in the Ag business, 24% in the construction equipment market, and about 11% in other industrial end markets here. On the right hand side you see a pretty impressive array of the customer base that they are dealing with.

Turning to slide 15, let's move on to the electronics industry. With our two lines of business, power controls and vehicle technologies, we cater to a market of about $1 billion in size. On the right hand inside you see the end markets, and again here you see an overlap with hydraulics, which obviously is very good for us, as we are targeting the pull through of the entire product range of the group here in markets, such as construction, specialized vehicles, and so forth. And then from a diversification perspective, on the bottom of the chart, we have these more consumer driven end markets, including the off-road vehicles, motorcycles, marine and snowmobiles, just to mention a few of them.

On slide 16 we discuss our acquisition of Enovation Controls. We acquired them two years ago because we believe it improves and expands our technology offering. We clearly saw electrification creeping into the mechanical industry and into the hydraulics industry at a very high pace. It advances our electrification, our digitization capabilities, and it diversifies the group on a significant basis, because we get access to new end markets in consumer and transportation.

And on the very bottom, Enovation has a very impressive lineup from an engineering perspective. The company has about 360 associates, one-third of the employee base is degreed engineers. We have 30 software engineers alone on staff there. It is a very deep pool of electronics engineering that we can tap into, and it is very helpful also for developing electro-hydraulic products in our Hydraulics business segment.

On slide 17 we can see their three main product families. You have displays and infotainment on the left hand side, panels and controllers in the center of the chart, and on the right a variety of complimentary products and accessories as well. With the very deep engineering pool on staff, we are going after very complex system challenges. The mantra here is conquering complexity, so deeply embedded OEM relationships where we can deploy basically the engineering competence that we have.

Turning to slide 18 we see a brief snapshot of the customer base here. In vehicle technologies on the left hand side, you see a lot of familiar names here across those end markets that I showed you earlier on. And on the right hand side, you see an overlap with the hydraulics business into customer base we serve in hydraulics.

On slide 20 we display how we intend to achieve the targets with regard to the Vision 2025. Let me show you this pathway, or this roadmap, of how we intend to get there. First of all, I want to draw your attention to the left side of the chart. If we go back to 2005, we only had the cartridge valves business in hydraulics, totaling $117 million in size at the time, generating 16% operating margin. Between 2005 and 2017, we added about 720 basis points in terms of profitability, in the range of about 23% operating margins and the business grew on a pro forma basis last year to about $470 million in revenue.

On the very bottom, the core business had grown 6% over that time. That is about twice as fast as the market. Now take into consideration, at that point in time, we were just a purely mechanically

hydraulics-oriented organization. With the acquisition of Enovation Controls we added the electronics element that is helping to grow the legacy business in terms of designing more electro-hydraulic products, and that's why we believe moving forward from here we can increase that CAGR from 6% to 9%.

Faster, we expect a CAGR of 7%, the Ag business is more stable. I would refer to that more as bread and butter business but, based on the historic success, we believe that 7% CAGR is a pretty reasonable number. And the electronics business itself on a standalone basis is expected to grow 8%. Since acquiring that business in 2016, we grew 55% over the last two years. Moving forward with a CAGR of 8% is pretty conservative.

That would leave us still with an incremental gap of about $120 million to get to the $1 billion revenue target by 2025.

How are we going to do it? On slide 21, you see a breakdown here by segment, it is pretty much the same methodology. We expect the existing market growth in hydraulics to be around global GDP of 3%, and an additional 2% to 3% will come through these new hydro-electric products where we used the engineering pools in hydraulics as well as electronics to come up with new innovative products. We have a lot of initiatives in place to cover geographies where we historically haven't done a lot of business and we are adding channel partners, and putting our boots on the ground. So far, so that is expected to add another 2 percentage points to 3 percentage points in terms of CAGR revenue growth.

On the right hand side of slide 21 we see the Electronics segment, which is pretty much the same methodology. The existing market grows there a little bit higher, at 3% to 4%, with a lot of new products; we have 8% in R&D expense to support the new product growth. On a continuous basis we are bringing out new products, launching a lot of new products in these OEM relationships that we have. That is expected to contribute about 3%. From an increased market share perspective, we only expect 1.5% because the electronics business itself is still heavily focused on North America. We can't spread our wings too wide and go too aggressively into other regions around the world, at least not until 2025. That might be something in the cards for beyond 2025.

Turning to slide 22, we have a good snapshot here with regard to how we are creating a more diversified technology platform, and I want to draw your attention to the right hand side of the charts, so if you combine the group companies together, this is the comprehensive picture. On a pro forma basis, about 75% of revenue is derived from hydraulics right now, 25% from electronics. From a geographical spread, about 50% in the Americas, and 50% in the rest of the world. We expect the Asian portion to increase here substantially by 2025.

On the very bottom, you see we have a balanced 50-50 ratio here with regard to channel-to-market, and it's exactly what we strategically pursue. We want to have 50% of the business tied to OEMs, to the trendsetters in the industry, because they challenge us from an engineering perspective, and get the best out of us. But the other 50% we want to do through the channel in order to help that superior profitability that we target.

Through slide 23 you can see our very disciplined acquisition strategy, and I just want to highlight a couple of the key elements here. We only acquire technology leaders that are successful on a standalone basis. So with respect to who the owner is, they should be successful on a standalone basis with very strong management in place, because we strongly believe successful companies are driven by strong leadership teams. Every acquisition has to be accretive from the first day onwards, that's also a very important criteria to us.

And on a near-term basis we're still looking at areas within the electronics and hydraulics to complement the technology platform we have already in place. From a mid and long-term

perspective we're looking at the areas that we refer to as Linked Technologies. These are the areas electromechanical actuation, software, IoT-related and so forth.

On slide 25 I will give a brief snapshot of the financial overview, I am going to leave a little bit of time for the questions. We have experienced significant growth momentum. Here we can see the development in terms of revenue and operating income over the last four years. On the revenue, 14% growth in 2018 pro forma over 2017, 16% growth on the operating income side, so that equates to an incremental drop of around 30%.

On slide 26 we look at the capital allocation. We financed the Faster acquisition through a term loan, we have drawn the whole $100 million, and we drew $258 million of $400 million from our revolving credit facility that is in place, holding on to a bit of operating cash here of $24 million. It gives us room with regard to liquidity, of almost $170 million. We continue to pay a quarterly dividend and want to stay the course there in alignment with the historic pattern that Sun has had.

In conclusion, as summarized on slide 27, we have a strong commitment to shareholder value creation. We have a leading position, niche position in fast growing industrial sectors within the two business segments, hydraulics and electronics, here we refer to it as intelligent controls. We have a portfolio of very well established premium brands recognized on a global basis, and a highly engineered approach with regard to what I refer to as simultaneous engineering. That means design as well as in-house manufacturing capabilities, a growth strategy that is based on organic growth as well as external growth.

And we still have some upside here for future acquisitions that are articulated in the Vision 2025, evolving around the technology leadership position in order to bring us to or exceed the $1 billion goal that we put up there two years ago. Not just growing for the sake of growing, we want to maintain a best-in-class financial profile, and I think if we look across the two business segments, we have pretty experienced people in place with the proven track record to expand these types of businesses for many years around the world. Thank you very much.

Nathan Jones, Stifel: Any questions from the audience?

Q&A

Q: [Question Inaudible]

Wolfgang H. Dangel: Yes, what you have to remember, we are in transition, so this strategy was defined in 2015, about three years ago. In 2016, we were still a $200 million business. We started with acquiring these two significant companies in terms of size, considering that we were only a $200 million business.

We have a lot of opportunities here still for organic growth to increase market share, because in most businesses, we are probably somewhere in the range between 13% and 16% in market share, and the $1 billion derived from an analysis that was done three years ago, and you have to understand we were $200 million in size and a number of people considered us crazy to put a $1 billion target up there. So we are pretty pleased with where we are, but I think we also have to be careful and prudent here as there is still a lot of work to do.

Q: [Question Inaudible]

Wolfgang H. Dangel: The distributors actually, we refer to them as value-added houses. We want them to be aligned to our way of thinking very strongly, driven by an engineering approach. The channel is not the classical channel you would see with some of our competitors. They are more integrators than highly engineered companies.

Q: [Question Inaudible]

Wolfgang H. Dangel: Mainly, in new equipment, yes. The vast majority goes into new machinery and equipment.

Q: [Question Inaudible]

Wolfgang H. Dangel: That's correct. It is a good observation. Yeah, because also, the channel serves a lot of smaller and medium-sized OEMs. So, the majority of the business is going into new equipment applications.

Q: [Question Inaudible]

Wolfgang H. Dangel: It's a very small percentage. Unfortunately, these are all premium products, premium quality products that don't break often enough to generate enough aftermarket sales, that's the downside of the concept here. But if I had to give you a number, I would say it's probably around 10%, not more. Anything else from the audience?

Q: [Question Inaudible]

Wolfgang H. Dangel: Yeah. I think that at least we are counting on that and everything we have been seeing, there could be an upswing, I think coming. However, Faster has done exceptionally well also during the downturn, and they have been growing the business on an annual basis. So, even when the Ag market was declining double-digit, they managed to grow the business and maintained these extraordinary higher margins. But you're right; I mean we're pretty hopeful that we are seeing an upswing there on the Ag side of the business.

Nathan Jones, Stifel: I'm going to get one in here. Sun had been – I guess from the outside – you would say a sleepy company over the few decades before 2015 that since then has had significant transformation going on. How has the organization reacted to all of the change that you're driving into and through the organization over the last few years?

Wolfgang H. Dangel: It's a very good question and I will bring Tricia in here. She has been in this company for 22 years. She can answer that much better than I can. But from my observation is, the people really have strongly embraced the change, because I think the people are very proud of the tradition at Sun, and Sun is an outstanding brand and had established itself as one of the premium hydraulic manufacturers in the industry. But people are also seeing the opportunities that probably were not taken on in the past, and the people are pretty excited and embracing the transformation, I would actually not call it change, I call it the transformation with overwhelming support. But I'll Tricia chime in here.

Tricia L. Fulton: Yeah. I think people did embrace that, and it was time for change. We hadn't grown for six years or so on the top-line, but I remember after we made the Enovation acquisition, people were like "whew, guess we are done with that now", and they had no idea what else was coming. I think, as we roll out the vision, there is going to be continued change, and I think the people have really started to want to know what's coming next. That's the important part of making sure that we're able to achieve what we're laying out here.

Nathan Jones, Stifel: Okay, thanks for coming everybody.

Wolfgang H. Dangel: Thank you.