



sparton

Investor Presentation

NYSE: SPA

November 2015

Conquering Complexity™

Safe Harbor Statement



Certain statements herein constitute forward-looking statements within the meaning of the Securities Act of 1933, as amended and the Securities Exchange Act of 1934, as amended. When used herein, words such as “believe,” “expect,” “anticipate,” “project,” “plan,” “estimate,” “will” or “intend” and similar words or expressions as they relate to the Company or its management constitute forward-looking statements. These forward-looking statements reflect our current views with respect to future events and are based on currently available financial, economic and competitive data and our current business plans. The Company is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements whether as a result of such changes, new information, subsequent events or otherwise. Actual results could vary materially depending on risks and uncertainties that may affect our operations, markets, prices and other factors. Important factors that could cause actual results to differ materially from those forward-looking statements include those contained under the heading of risk factors and in the management’s discussion and analysis contained from time-to-time in the Company’s filings with the Securities and Exchange Commission.

Adjusted EBITDA and related reconciliation presented here represents earnings before interest, taxes, depreciation and amortization as adjusted for gross profit effects of capitalized profit in inventory from acquisitions, acquisition contingency settlements, certain restructuring expenses, and stock based compensation expense. The Company believes Adjusted EBITDA is commonly used by financial analysts and others in the industries in which the Company operates and, thus, provides useful information to investors. The Company does not intend, nor should the reader consider, Adjusted EBITDA an alternative to net income, net cash provided by operating activities or any other items calculated in accordance with GAAP. The Company's definition of Adjusted EBITDA may not be comparable with Adjusted EBITDA as defined by other companies. Accordingly, the measurement has limitations depending on its use.

Investment Considerations



Established Growing Business	114 year old business with market leadership in defense and medical sectors; 14% sales increase in fiscal 2015; Fiscal 2015 Q4 growth of 35% and adjusted EBITDA growth of 29%				
Continued Adjusted EPS Growth*	Fiscal 2015: \$ 1.73 Fiscal 2014: \$ 1.79 Fiscal 2013: \$ 1.27		Fiscal 2012: \$ 0.99 Fiscal 2011: \$ 0.67 Fiscal 2010: \$ 0.43		
Expanding EBITDA Margins	Fiscal 2015: 9.0% Fiscal 2014: 9.9% Fiscal 2013: 8.1%		Fiscal 2012: 7.6% Fiscal 2011: 7.4% Fiscal 2010: 4.5%		
Solid Balance Sheet	As of Sept 30 th , debt-to-EBITDA coverage of 2.7x with \$2 million of cash and \$139 million borrowed with \$136 million unused on the line of credit.				
Repositioned the Company for Growth		<u>FY12</u>	<u>FY13</u>	<u>FY14</u>	<u>FY15</u>
	New Programs	72	180	164	421
	New MDS Customers	19	12	26	42
	Potential Annualized Revenue	\$23.7	\$39.4	\$38.6	\$58.6

* Adjusted EPS on this sheet includes the Company's traditional adjusted EPS plus the tax effected impact (35%) of amortization of intangible assets per share.

Mission & 2020 Vision



Reach \$1 billion by 2020, expanding our manufacturing and design services while providing more engineered components and products to meet the needs of our customers and markets.

Mission:

Sparton provides engineered products and related services to businesses, governments, and institutions serving regulated and demanding environments.



2020 Vision:

Sparton will exceed \$1 billion of revenue by fiscal year 2020 and deliver above average shareholder returns by significantly expanding our differentiated product and service offerings and applying our business systems, resources, and talents to address the unique needs of our customers and markets.



- Sparton is in one single **line of business** called Electromechanical Devices
- Sparton is currently segmented into two financial reporting **business units**

Manufacturing & Design Services

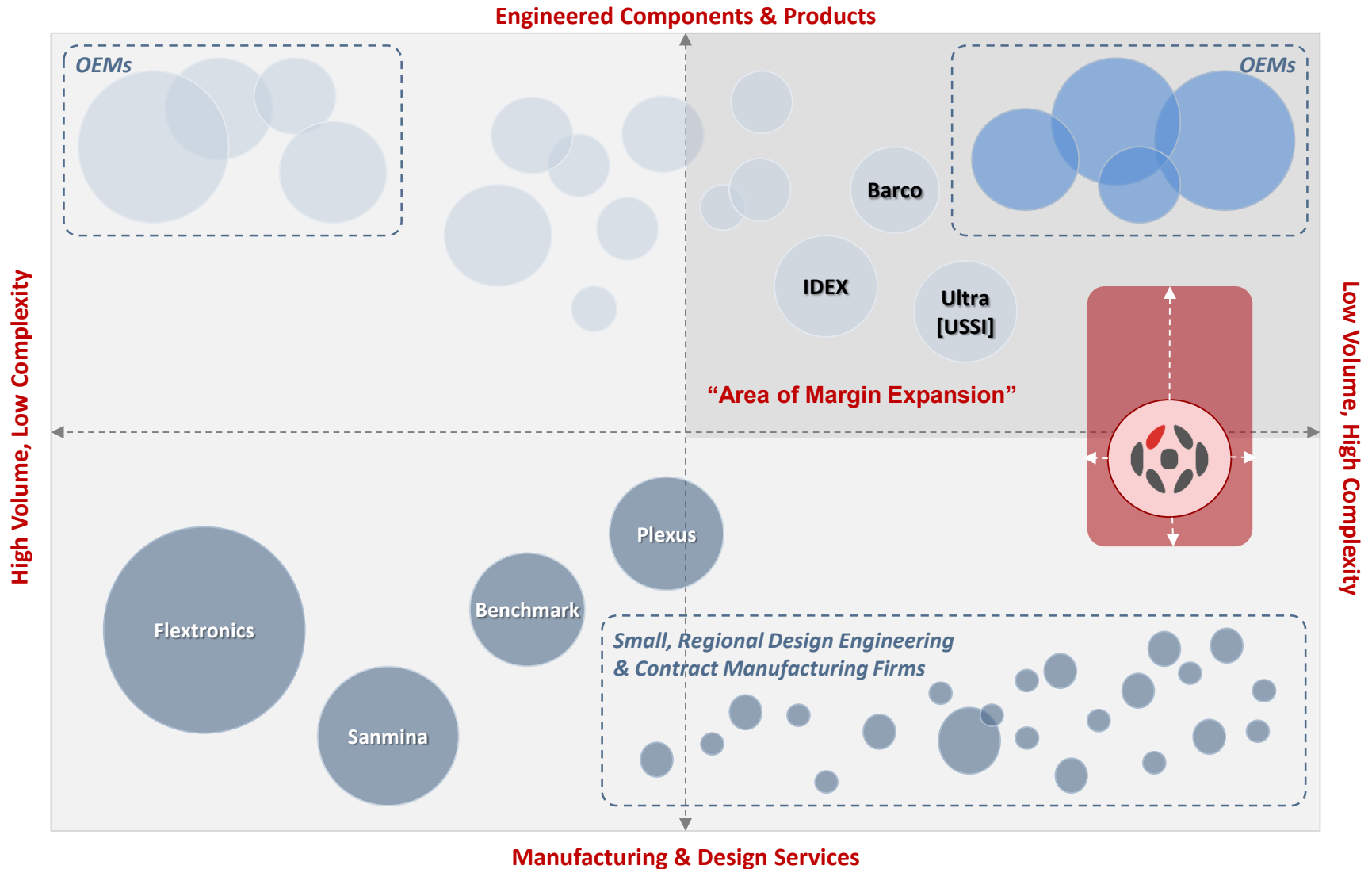
MDS represents the Company's contract manufacturing and design services where the customer owns the related IP.

Engineered Components & Products

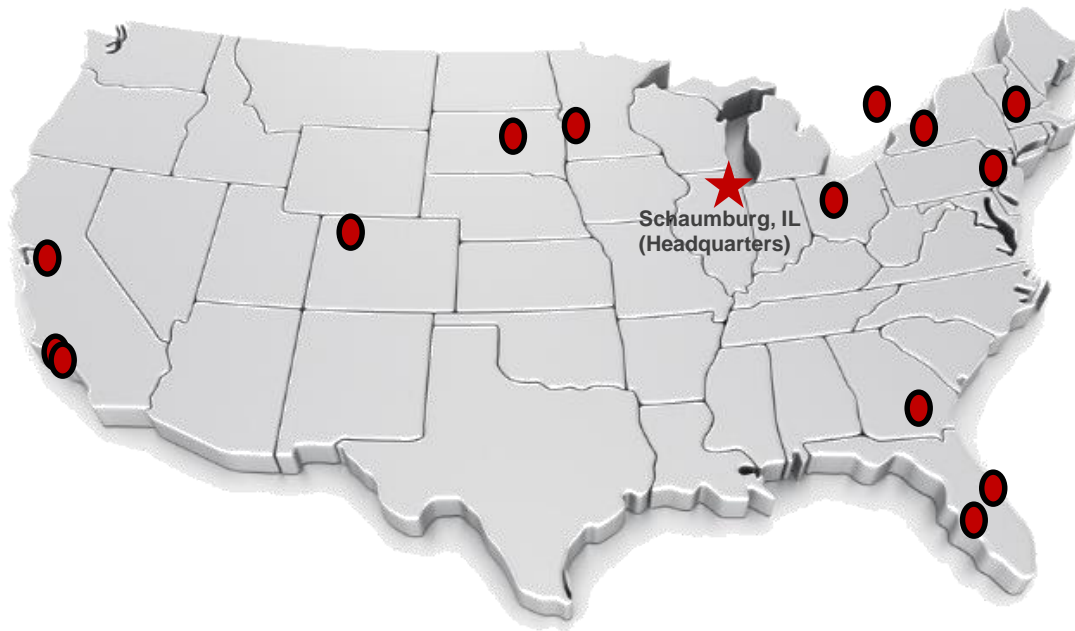
ECP represents the Company's manufacturing and design services where the Company owns the related intellectual property.

- Sparton currently serves three **electronics markets**
 - Military & Aerospace
 - Medical & Biotechnology
 - Industrial & Instrumentation

Landscape of Business Models



Strategically Located



1400+
Employees Worldwide



15
Manufacturing &
Design Facilities



100+
Engineers

Atlanta, GA

Birdsboro, PA

Brooksville, FL

De Leon Springs, FL

Frederick, CO

Irvine, CA (2)

Ho Chi Minh City, Viet Nam

Milpitas, CA

Plaistow, NH

Pittsford, NY

Plymouth, MN

Schaumburg, IL (HQ)

Strongsville, OH

Watertown, SD

Woodbridge, ON

Senior Management Team



Cary Wood
*President &
Chief Executive Officer*



Responsible for developing and implementing the Company's strategies, managing the overall operations and resources of a company, and liaison to the Board of Directors.

Steve Korwin
*Senior Vice President –
Quality &
Engineering*



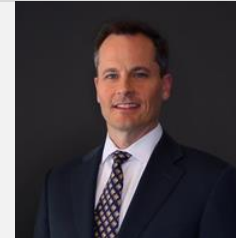
Leads enterprise-wide quality and engineering initiatives to improve business processes that increase profitability and sales.

Joe McCormack
Chief Financial Officer



Responsible for the financial management, planning and capital structure of the company. Advisor to CEO and management on corporate strategy and growth.

Joe Schneider
*Senior Vice President –
Business
Development*



Responsible for the business development and marketing efforts by continuing to strengthen our brand image in the various markets we serve.

Mike Osborne
*Senior Vice President –
Corporate Development*



Drives corporate and business unit strategic planning and development, M&A activity, business development & customer retention, and investor relations.

Larry Brand
*Senior Vice President –
Corporate
Human Resources*



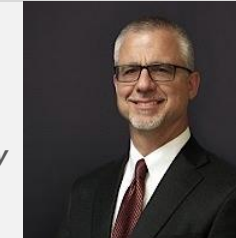
Provides strategic leadership and tactical direction for the overall Human Resources function to senior management and company leadership teams

Gordon Madlock
*Senior Vice President –
Operations*



Responsible for executing the strategic plan and overseeing daily operations as well as driving improved manufacturing quality and productivity using contemporary, lean tools.

Chris Ratliff
*Vice President –
Information Technology*



Provides strategic direction and leadership of the company's Information Technology organization. Successfully led numerous enterprise wide implementations.

Primary Market Dynamics



Total Electronics Addressable Market (TAM) from 2013 to 2018 = \$1.2 trillion to \$1.6 trillion

Total 2013 EMS/ODM Outsourced Market: \$533 billion
2013 – 2018 Projected Outsourcing Growth (OG): 8.2% CAGR

Medical	Military & Aerospace	Industrial & Instrumentation	Automotive	Consumer	Communication	Computer
Highly regulated market (FDA) High growth Blue chip customers New to outsourcing Contract design, mfg, and assembly roll-up opportunity	Highly regulated market (ITAR, COMSEC) Moderate growth Blue chip customers Preferred supplier status Contract design, mfg, and assembly	Moderate growth Blue chip customers Preferred supplier status New to outsourcing Contract design, mfg, and assembly roll-up opportunity	Highest growth sector No current customers Volume & commodity pricing resulting in low margins OEMs are experts at outsourcing	High growth High volume production drives lower margins Outsourcing mostly in low cost country regions Complexity is general low	Moderate growth High volume production drives lower margins Outsourcing mostly in low cost country regions OEMs are experts at outsourcing	Moderate growth High volume production drives lower margins Outsourcing mostly in low cost country regions OEMs are experts at outsourcing
TAM: \$60B OG: 11.9%	TAM: \$67B OG: 14.0%	TAM: \$134B OG: 11.2%	TAM: \$83B OG: 13.6%	TAM: \$236B OG: 8.0%	TAM: \$256B OG: 8.2%	TAM: \$363B OG: 9.5%

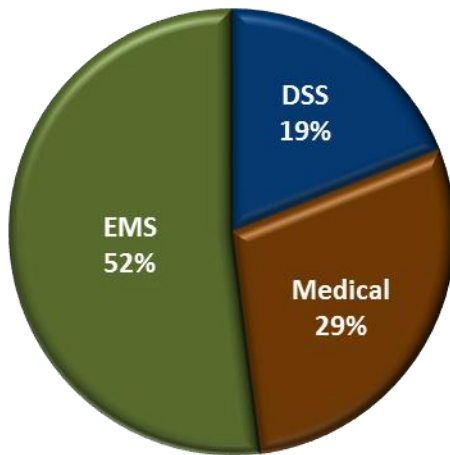
Manufacturing & Design Services

Engineered Components & Products

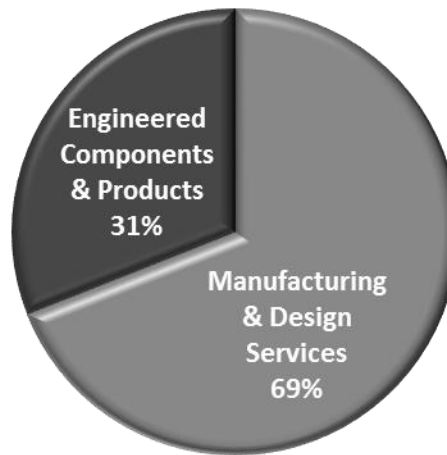
Conquering Complexity™

Source: New Venture report and RBC Capital TAMs estimates

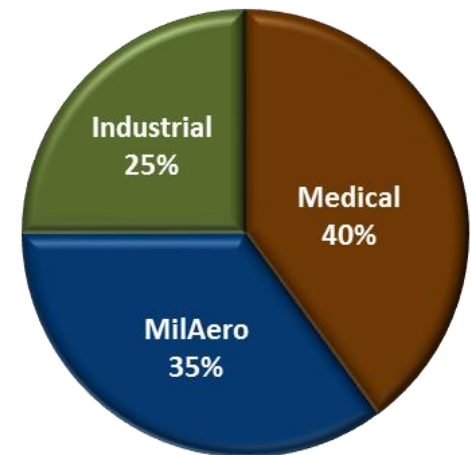
Shifting Revenue Mix



FY2009 by Segment
(Revenue of \$221 million)



FY2015 by Reporting Segment
(Proforma Revenue of \$462 million)



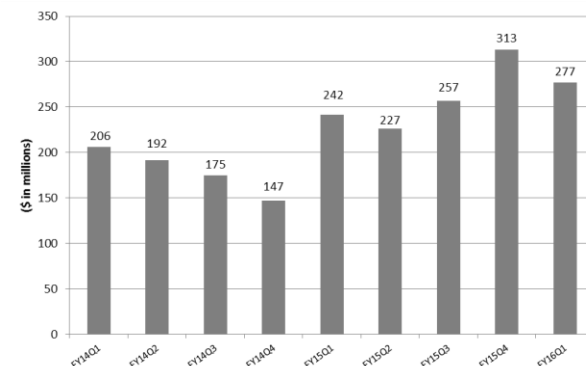
FY2015 by Market
(Proforma Revenue of \$462 million)

FY2016 Target Gross Margin by Segment

Engineered Components & Products 25% - 30% ↔

Manufacturing & Design Services 13% - 16% ↑

Backlog



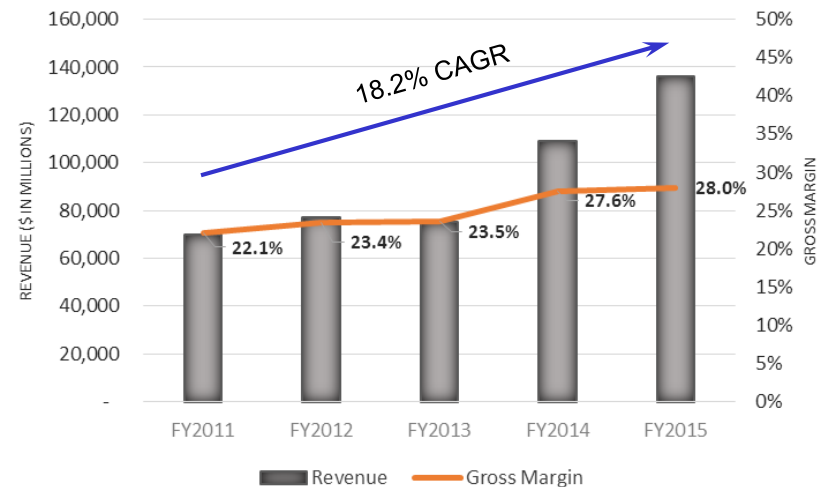
Engineered Components & Products



Segment Description

- Develop, design, and manufacture proprietary defense and security products, primarily anti-submarine warfare detection devices for the U.S. and other free-world governments
- Develop and manufacture proprietary ruggedized flat-panel monitors and systems
- Commercially develop spin-off proprietary technology for existing and alternate markets such as Navigation & Exploration, Unmanned Vehicles, and Military Laser Targeting
- FY15: 299 new programs total \$28.4 million
- Visible Backlog: \$120 million as of 9/30/15

Net Sales and Gross Margin



Notable Recent Acquisitions

Company	Revenue	Overview
Stealth.com (March 2015)	~\$8 million	<ul style="list-style-type: none"> • Develops high performance and ruggedized industrial grade computer systems and peripherals for the Industrial and Military & Aerospace markets • Located in Woodbridge, Ontario
Industrial Electronic Displays & KEP Marine (Dec. 2014)	~\$6 million	<ul style="list-style-type: none"> • Develops enhanced flat panel display and touch-screen solutions with application-critical performance criteria for the Industrial and Marine markets • Manufacturing to be consolidated into the Birdsboro, PA location

Select Customers



BAE SYSTEMS



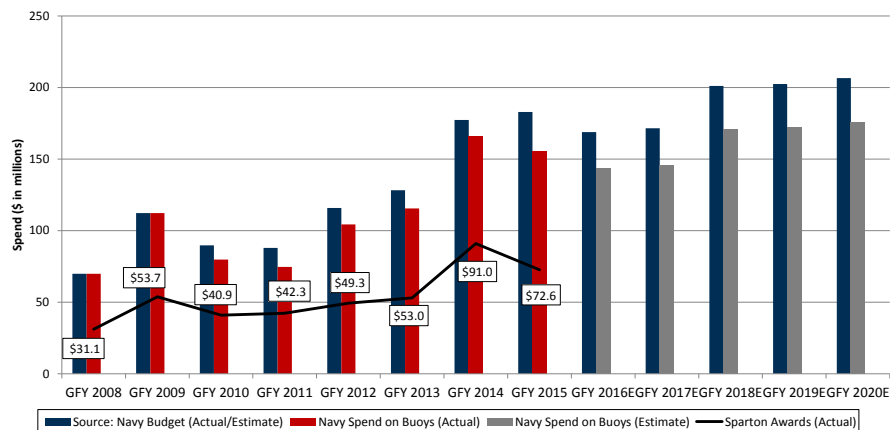
Select Products



Defense Market Outlook

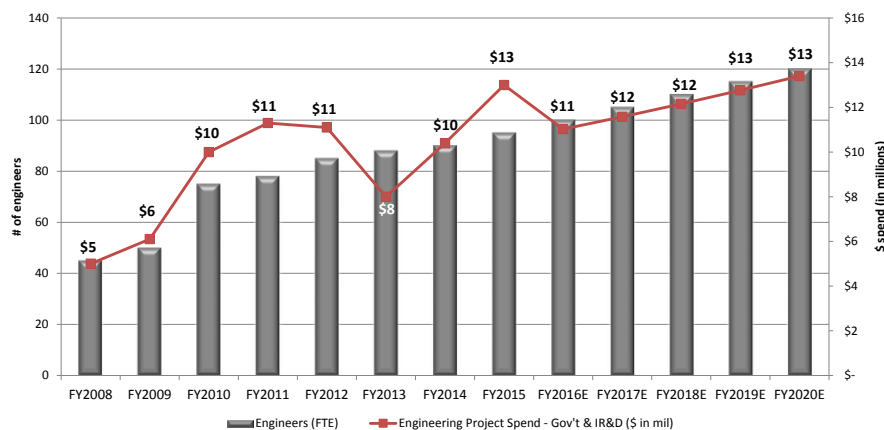


DoD Estimated ASW Budgets / SPA Historical Spend



- Won new 5-year Indefinite Delivery Indefinite Quantity (ID/IQ) contract in July 2014 valued at \$810 million; year 2 total spend to be \$152 million
 - ERAPSCO joint venture will split revenue 50/50 over the course of the contract; Year 1 split: \$91 million to Sparton, \$75 million to USSI; Year 2 split: \$73 million to Sparton, \$80 million to USSI
 - Year 2 orders awarded in Feb 2015 and May 2015: \$73 million to Sparton, \$80 million to USSI
- Limited risk of a negative impact of sonobuoy sales to the U.S. Navy if sequestration occurs
 - Anti-Submarine Warfare budget line item is less than \$250 million
 - Budget is a small fraction of the cost of a single ship
- Foreign sales are still somewhat unpredictable
 - Continued military actions taken by North Korea and China should have an impact in the use of sonobuoys in that region
 - The leak of government sensitive information may also put foreign nations on guard and require more monitoring of their territorial waterways
- The Boeing P-8 Poseidon aircraft to become the new launch vehicle for sonobuoys
 - U.S. Navy plans to buy 117 P-8A anti-submarine warfare, anti-surface warfare, intelligence, surveillance and reconnaissance aircraft to replace its existing P-3 fleet. Initial operational capability is scheduled for 2013.

DLS Engineering Activity



Manufacturing & Design Services



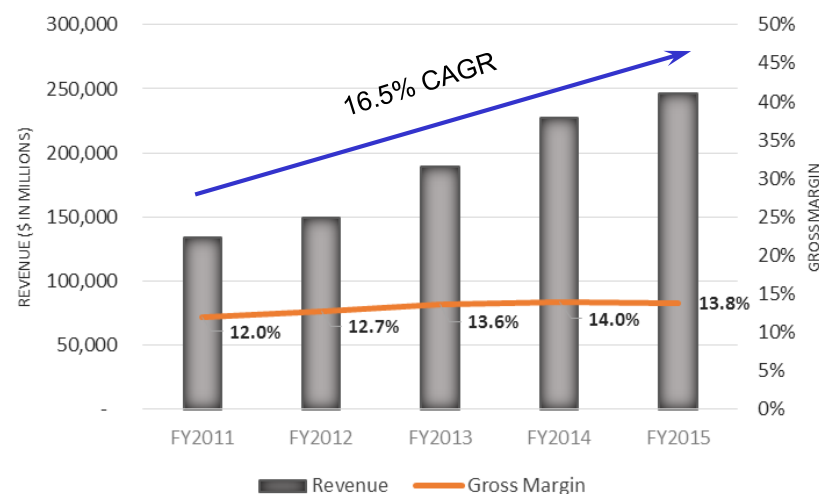
Segment Description

- Manufacturing and design services partner to OEMs of low volume, highly complex and sophisticated products in regulated or demanding environments
- Primary end markets:
 - Medical & Biotechnology
 - Military & Aerospace
 - Industrial & Commercial
- Regional footprint:
 - 8 U.S. and 1 Viet Nam manufacturing locations
 - 3 design centers
- FY15: 122 new programs total \$30.2 million
- Visible Backlog: \$157 million of backlog as of 9/30/15

Notable Recent Acquisitions

Company	Revenue	Overview
Hunter Technology (April 2015)	~\$80 million	<ul style="list-style-type: none"> • Provided manufacturing entrance into the Northern California market; Manufacturers of complex sub-assembly and full device programs
eMT (July 2014)	~\$25 million	<ul style="list-style-type: none"> • Provided manufacturing entrance into the West Coast geographic market; Manufacturers of complex sub-assembly and full device programs
Beckwood Services, Inc. (December 2013)	~\$18 million	<ul style="list-style-type: none"> • Provided entrance into the Northeast geographic market as well as adding industrial control capabilities; Manufacturers of industrial control systems, complex sub-assembly and full device programs
Aubrey Group (March 2014)	~\$8 million	<ul style="list-style-type: none"> • Designers of state-of-the-art technologies to develop new medical related products

Net Sales and Gross Margin



Select Customers



Select Products



Analizers



Blood Separation



Neurology

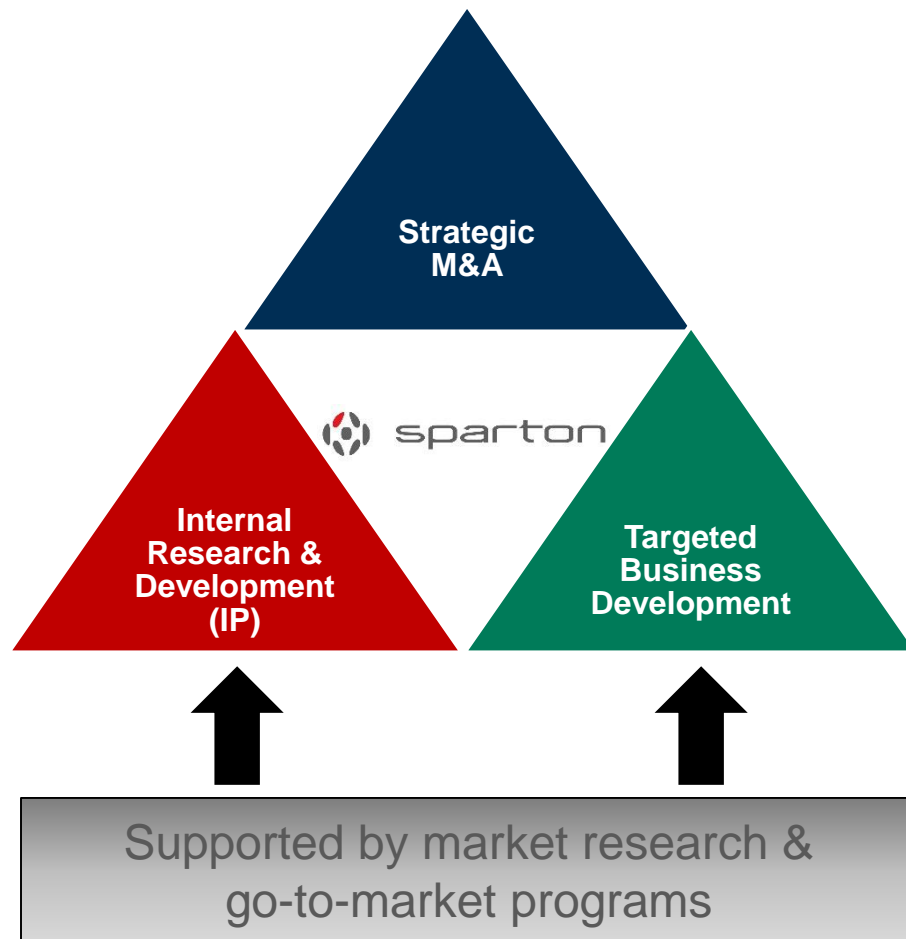


Box Build



Complete System

Growth Investments Summary



Acquisitions

Fiscal 2011	Fiscal 2013	Fiscal 2014	Fiscal 2015
Delphi Medical	Onyx EMS	Aydin Displays	eMT
Byers Peak	Creonix	Beckwood Services	IED
		Aubrey Group	Argotec
			Real Time
			KEP Marine
			Stealth.com
			Hunter Technology

New Business Awards

	FY12	FY13	FY14	FY15
New Programs	72	180	164	421
New MDS Customers	19	12	26	42
Potential Annualized Revenue	\$ 23.7	\$ 39.4	\$ 38.8	\$ 58.6

Internal Research & Development

Fiscal 2015	
Hammerhead	3" submarine UAV launcher
Fiscal 2014	
Aydin IMU-10	Various new ruggedized displays Harsh environment inertial sensing system
Fiscal 2012	
AHRS-8	Temperature compensated attitude heading reference system
Fiscal 2011	
GEDC-6	Gyro-enhanced digital compass
PHOD-1	Hydrophone

2010 Strategic Growth Plan Results (FY2010 - FY2015)

17% revenue CAGR, 32% adjusted EPS CAGR (net of the tax-effected amortization of intangible assets)
14 completed acquisitions
Multiple new products launched

FINANCIAL HIGHLIGHTS



- Revenue growth was up 39%, with the legacy business organic growth being 7%.
- 240 new program or product wins were awarded with a first time revenue potential of \$23.5 million as compared to 78 new product or program wins with a first time revenue potential of \$16.0 million in the prior year quarter.
 - 100 in MDS with a first time revenue potential of \$10.7 million versus 10 with a first time revenue potential of \$7.9 million in the prior year quarter.
 - 140 in ECP (ASW, Aydin and NavEx) with first time revenue potential of \$12.8 million versus 68 with a first time revenue potential of \$8.1 million in the prior year quarter.
- Quarter end sales backlog of approximately \$277 million, representing a 14% increase over the prior year quarter.
- Total sales to the U.S. Navy increased to \$24.5 million from \$18.4 million in Q1 fiscal 2015; sonobuoy sales to foreign governments increased to \$4.4 million from \$1.0 million.
- Consolidated gross margin was 19.8%, compared to the 16.7% in the prior year quarter.
- The debt-to-EBITDA leverage as calculated under the Revolving Credit Facility as of September 27, 2015 was 3.00 compared to 3.47 as of June 30, 2015 as a result of the improvement in operating results on a trailing twelve month basis.

Consolidated Financial Results

Fiscal 2016 1st Quarter



	(Reported) For the 1st Quarter of FY		(Adjusted) For the 1st Quarter of FY		(Adjusted) Total YoY Variance (\$)	
	2016	2015	2016	2015		Total YoY Variance (%)
Net Sales	\$ 106,691	\$ 77,025	\$ 106,691	\$ 77,025	\$ 29,666	39%
Legacy Business	82,605	77,025	82,605	77,025	5,580	7%
Acquired Business	24,086	-	24,086	-	24,086	
Gross Profit	21,138	12,853	21,138	12,951	8,187	63%
% of sales	19.8%	16.7%	19.8%	16.8%		
Selling and Administrative Expense	13,624	10,584	13,624	10,002	(3,622)	-36%
	12.8%	13.7%	12.8%	13.0%		
Internal R&D Expense	513	100	513	100	(413)	
Amortization of intangible assets	2,503	1,340	-	-	-	
Operating Income	4,498	829	7,001	2,849	4,152	146%
% of sales	4.2%	1.1%	6.6%	3.7%		
Interest expense	(885)	(746)	(885)	(325)	(560)	
Interest (expense) income and other, net	2	2	2	2	-	
Income Before Provision For Income Taxes	3,683	231	6,186	2,672	3,514	
Provision For Income Taxes	1,289	35	2,165	875	(1,290)	
Net Income	\$ 2,394	\$ 196	\$ 4,021	\$ 1,797	\$ 2,224	124%
% of sales	2.2%	0.3%	3.8%	2.3%		
Income per Share (Basic)	\$ 0.24	\$ 0.02	\$ 0.41	\$ 0.18	\$ 0.23	128%
Income per Share (Diluted)	\$ 0.24	\$ 0.02	\$ 0.41	\$ 0.18	\$ 0.23	128%

(\$ in 000's, except per share)

Consolidated Financial Results

Adjusted EBITDA

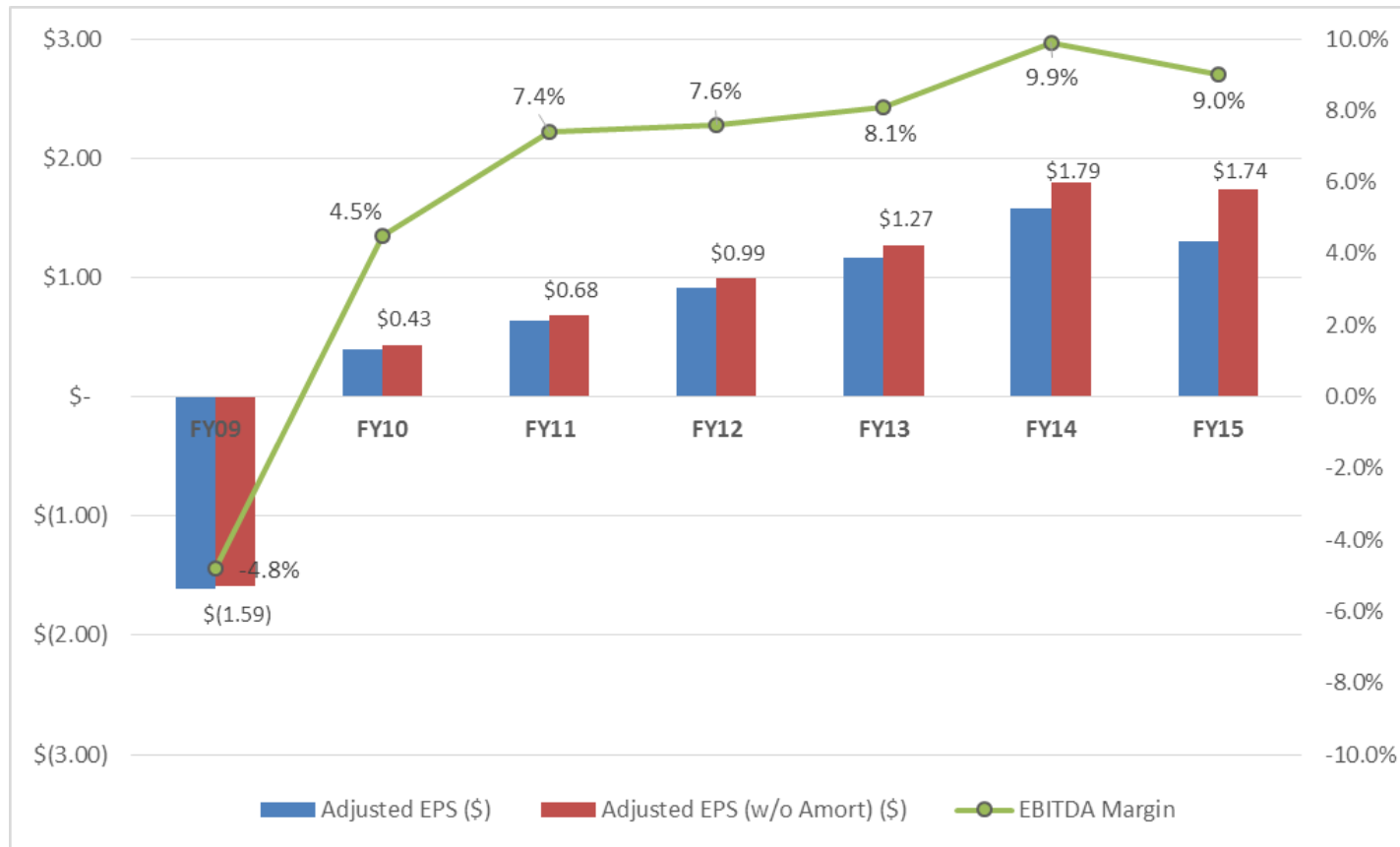


	For the 1st Quarter of Fiscal Year		
	2016	2015	Variance
Net Income	\$ 2,394	\$ 196	\$ 2,198
Interest expense	885	746	139
Interest income	(2)	(2)	-
Provision for income taxes	1,289	35	1,254
Depreciation and amortization	3,695	2,458	1,237
Capitalized profit in inventory from acquisition	-	98	(98)
Success based acquisition finder's fee	-	430	(430)
Restructuring	-	152	(152)
Stock based compensation - Non-Directors	432	449	(17)
Adjusted EBITDA	\$ 8,693	\$ 4,562	\$ 4,131
% of sales	8.1%	5.9%	

(\$ in 000's)

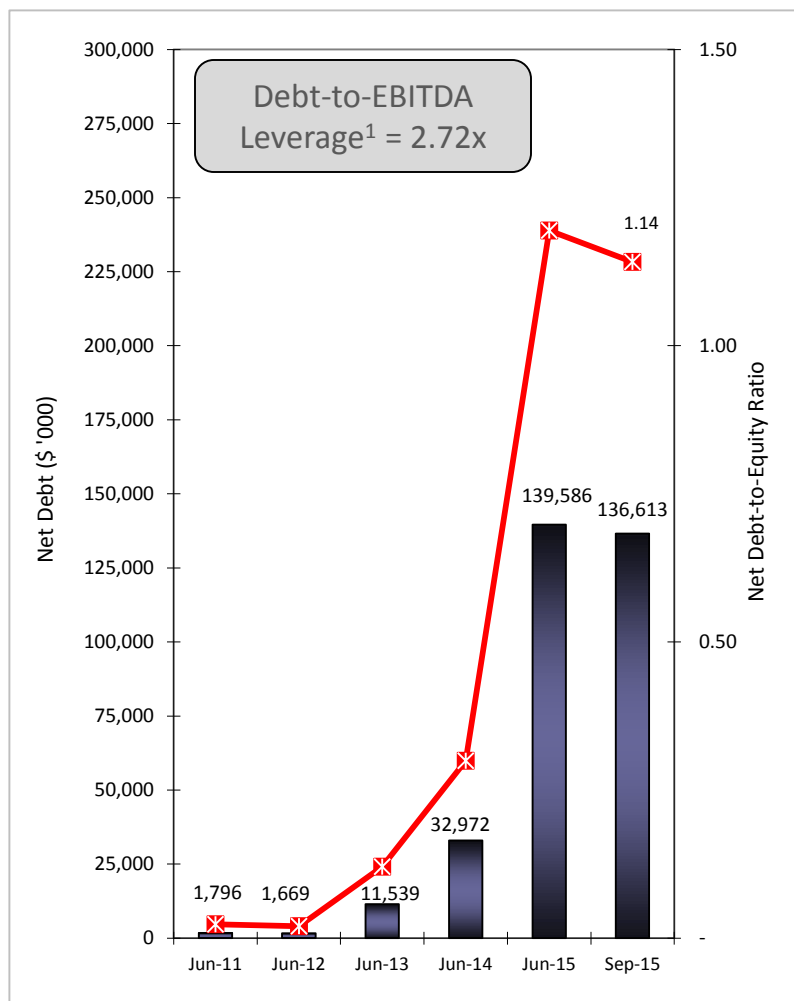
Historical Performance

EBITDA Margin & EPS



- EBITDA margins and adjusted EPS results are based on as adjusted financial statements.
- Adjusted EPS (w/o Amort) includes the Company's traditional adjusted EPS plus the tax effected impact of the amortization of intangibles per share.

Liquidity & Capital Resources



(1) – As calculated under the Credit Revolver Agreement.

Cash Availability					
(\$ in '000)	Sep-14	Dec-14	Mar-15	Jun-15	9/27/15
Cash and equivalents	6,546	3,236	5,581	14,914	2,187
Credit Availability*	158,000	141,500	120,000	119,800	135,800
Total	164,546	144,736	125,581	134,714	137,987

Debt					
(\$ in '000)	Sep-14	Dec-14	Mar-15	Jun-15	9/27/15
Credit Revolver	42,000	58,500	80,000	154,500	138,800

Inventory					
(\$ in '000)	Sep-14	Dec-14	Mar-15	Jun-15	9/27/15
Net Inventory	57,201	56,333	64,340	79,503	86,589
Net Inventory Turns	5.1	5.0	4.9	4.8	4.6

* As of June 2015, Credit Availability takes into account outstanding Letters of Credit.

Note: Turns are calculated as sum of TTM COGS divided by the average of L4Q ending inventory.

- Accelerate organic growth initiatives
 - Supported by a solid new business funnel and a planned increase in domestic and foreign sonobuoy sales
- Complete the integration and cost synergies of the latest acquisitions
 - Rugged Electronics platform in ECP
 - Hunter Technology in MDS
- Expand our margins
 - Continued cost reduction and synergy initiatives
- Group and manage ECP by product platform with our existing product lines as well as the identification and development of new product platforms that support both segments
- Execute the 2020 Vision (Phase II of Sparton's Strategic Growth Plan)

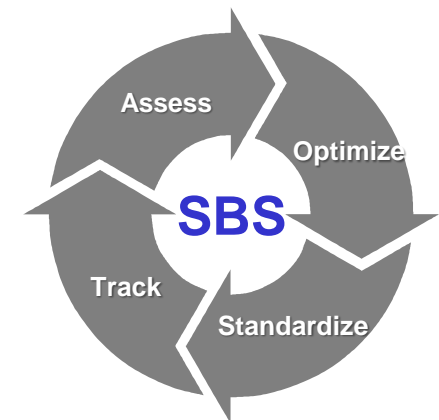
2020 VISION



By 2020 Sparton will achieve significant growth (revenue in excess of \$1 billion) and increased profitability (EBITDA at or above 12%)

Three strategies will be executed to achieve the Vision:

- I. Maintain focus on regulated and demanding environments
- II. Pivot our business model to include a higher concentration of differentiated offerings
- III. Apply the Sparton Business System (SBS) to unlock value



Strategy I:

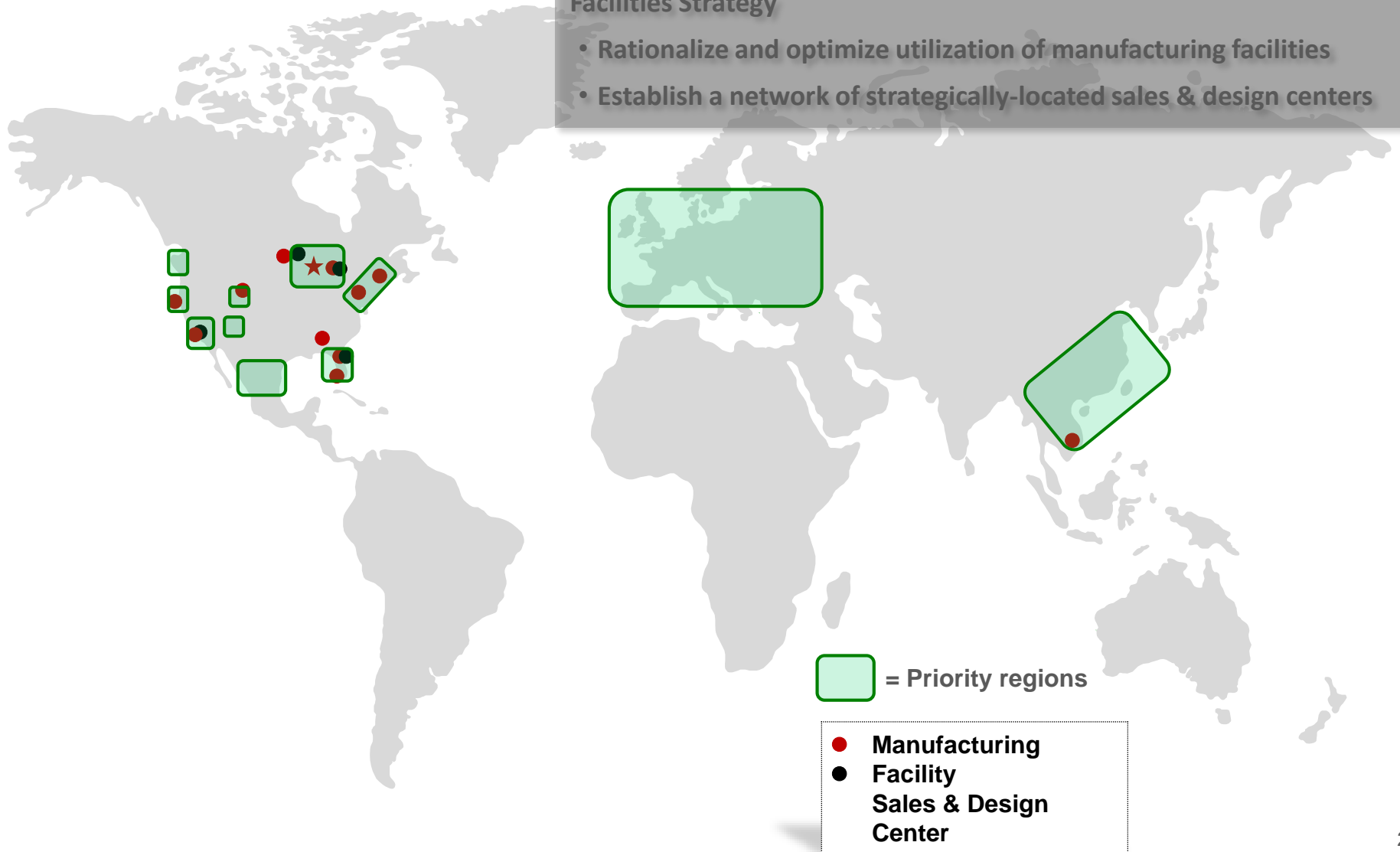
Maintain focus on regulated and demanding environments

- A. Continue to scale in medical & mil/aero
- B. Target low-volume, high-mix needs in demanding segments of the commercial and industrial markets
- C. Grow contract manufacturing services at acceptable margins

Geographic Expansion

Facilities Strategy

- Rationalize and optimize utilization of manufacturing facilities
- Establish a network of strategically-located sales & design centers



Strategy II:

Pivot the business model to include a higher concentration of differentiated offerings

- A. Acquire and grow engineered component & product companies
- B. Expand the breadth and depth of design & engineering services; promote & grow offerings
- C. Expand U.S. footprint to cover major product development corridors

Acquire engineered component & product companies, optimize and scale



**Wiring
Harnesses**



**Microfluidic
Valves**



**Electronic
Circuit Cards**



Displays



Pumps

Value Chain Expansion – R&D

Government Funded R&D



Sonobuoys



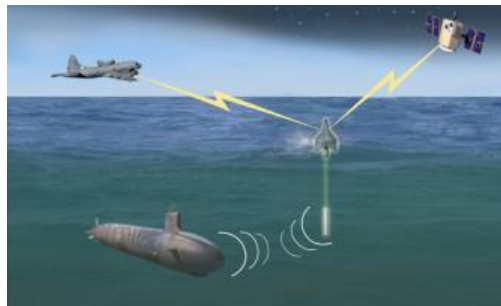
Remote Mine-hunting



Payload Delivery



Undersea Communication

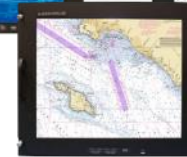


Internally Funded R&D

Military



Industrial



Civil Marine



Displays & Cameras



Rugged Cameras



Air Traffic Control

Inertial Sensors



DC-4E



AHRS-8



GEDC-6E



IMU-10



GAINS-10

Strategy III:

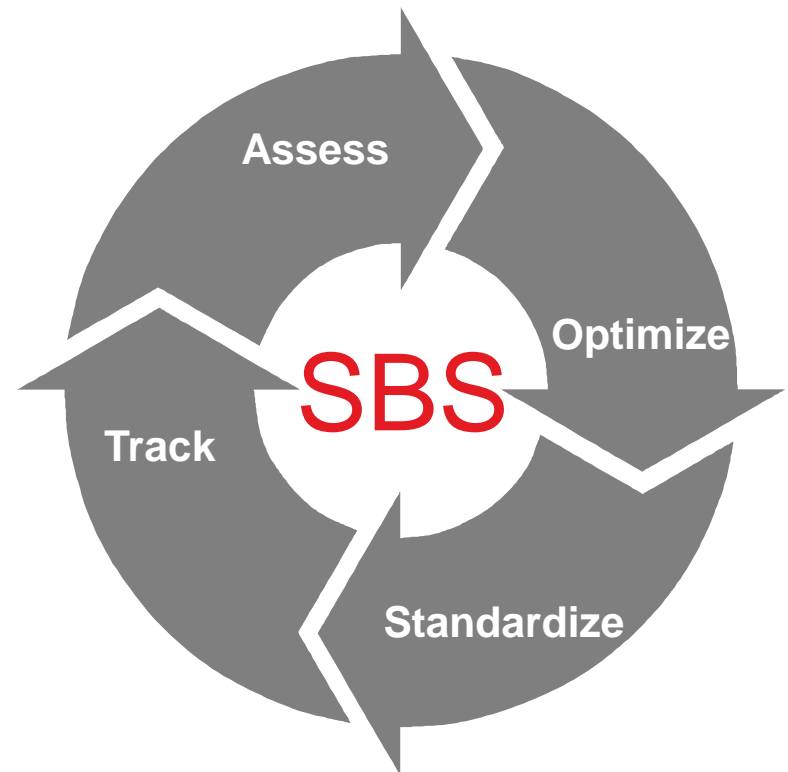
Apply the Sparton Business System (SBS) to unlock value

- A. Expand the Sparton Production System to more comprehensive business system, including acquired tools, practices, and resources
- B. Deploy best practice processes & analytical tools
- C. Provide access to financial resources & human capital

The Sparton Business System (SBS) is a proprietary set of practices, tools and principles which are strategically applied to core business processes to drive performance excellence across the enterprise.

SBS is Sparton's proprietary engine for value creation, with applications that:

- Reduce cost
- Improve efficiency
- Ensure quality
- Foster innovation
- Support growth
- Enable a predictable performance path



“Reach \$1 billion by 2020, expanding our manufacturing and design services while providing more engineered components and products to meet the needs of our customers and markets”

Mission:

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Vision:

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Strategy I:

Maintain focus on regulated & demanding environments

Strategy II:

Pivot the business model to include a higher concentration of differentiated offerings

Strategy III:

Apply the Sparton Business System (SBS) to unlock value

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