



**SECOND QUARTER REPORT  
TO SHAREHOLDERS**

**For the quarter ended  
June 30, 2016**



# MESTEK, INC.

260 North Elm Street, Westfield, MA 01085

(413) 568-568-9571

[www.mestek.com](http://www.mestek.com)

October 2016

Fellow Shareholders,

"Your assumptions are your windows on the world. Scrub them off every once in a while, or the light won't come in." Isaac Asimov. Mestek management strives to be both a perpetual learning machine and a better information processing machine. Our successes and failures in this regard will have a profound effect on the value of your ownership stake over time. Management is focused on this responsibility to our shareholder owners.

Second quarter results were generally acceptable but without any bragging rights attached. Revenues were up 3% excluding the Anemostat spinoffs 2015 revenues. Operating profit increased 8% excluding idle facilities expense and hedging account gains. Gross profit improved 300 basis points due to favorable product mix, several lower input costs, and the absence of historically lower Anemostat gross profit margins inherent in its business models. Lower raw material costs did not sacrifice quality in any way. Quality long-lived products remains Mestek's credo; quality was enhanced, not sacrificed.

Year-to-date revenues were down 1% excluding the spin-offs. Gross profit margin improved 247 basis points; and operating profit increased by 4.5 percent to \$13.4 million excluding non-operating gains and expenses. Net income of \$1.42 per share reflects the \$5 million pre-tax delta in hedging activities, a loss last year compared to a gain in 2016. Inventories increased seasonally as always; but inventory management was somewhat disappointing at two high inventory locations. Backlogs were flat and remain flat at this writing compared to last year. Business conditions are increasingly competitive overall, although not across the board in all product lines. We strive to carefully evaluate the pros and cons of low margin business versus physical capacity and people utilization in each product line and location, an ever changing dynamic. I'm happy to report that Mestek business leaders have exercised uniformly good judgement generally striking the right balance. Margin management is important, yet secondary to relationship management with our manufacturers' representative partners, distributors, wholesalers, contractors, architects, and consulting engineers.

A slowdown in data center construction has negatively affected several locations. Our enhanced line of commercial boilers and water heaters continues to gain traction. Our leadership position in active chilled beams is resulting in increased orders and backlog. The Linel monumental skylight and specialty panel business is becoming the clear industry leader; and we are investing substantial sums to increase capacity. Mature hydronic and gas heating products are continuing to generate fully adequate revenues and profits.

New product development initiatives continue to increase. A \$1.5 million laboratory expansion in Westfield, MA will soon be completed. Regulatory compliance costs continue to escalate at a double digit rate; after all, vast armies of federal regulators must attempt to justify their existence. The lifeblood of most manufacturers is new products, industry leading products, not "me too" offerings. Since new product development people resources are always a critical bottleneck, it is extremely important to exercise wisdom selecting priorities, and to have a disciplined process. We learn less from our successes than from our mistakes.

Management continues to pursue several interesting investment and acquisition opportunities. We continue to believe that we are the best home for quality companies in our industries, and are determined to be an even better partner to help businesses grow and prosper while preserving their unique and successful cultures.

Mestek's most important metric is the competence and dedication of our teams in each business. I believe we continue to make progress each year, and that we have highly effective teams in most all of our businesses and corporate staff. Mestek management teams are in the top echelon of the industry niches we serve, in my opinion.

With kind regards,

Stewart B. Reed  
Chairman & Chief Executive Officer

MESTEK, INC.  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

(Dollars in Thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net Sales	\$ 76,427	\$ 79,822	\$ 150,149	\$ 162,545
Cost of Goods Sold	50,043	54,663	98,318	110,457
Gross Profit	26,384	25,159	51,831	52,088
Selling Expense	10,016	9,827	19,688	21,148
General and Administrative Expense	5,798	5,580	11,344	11,335
Engineering Expense	3,841	3,518	7,440	6,827
Plant Shutdown, Hedging and Other Items	(1,108)	2,242	(2,953)	2,171
Operating Profit	7,837	3,992	16,312	10,607
Interest Income (Expense) - net	67	7	49	6
Other Income (Expense) - net	(139)	9	(178)	21
Income Before Income Taxes	7,765	4,008	16,183	10,634
Provision for Income Tax	2,573	1,532	5,507	4,084
Net Income from Continuing Operations	5,192	2,476	10,676	6,550
Less: Net Income - Non-controlling Interests	(61)	15	53	(19)
Net Income	<u>\$ 5,253</u>	<u>\$ 2,461</u>	<u>\$ 10,623</u>	<u>\$ 6,569</u>
Basic and Diluted Earnings Per Common Share	<u>\$ 0.69</u>	<u>\$ 0.33</u>	<u>\$ 1.42</u>	<u>\$ 0.88</u>
Basic and Diluted Weighted Average Shares Outstanding	<u>7,491</u>	<u>7,491</u>	<u>7,491</u>	<u>7,491</u>

MESTEK, INC.  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(Dollars in Thousands)

	June 30, 2016	December 31, 2015
<b>ASSETS</b>		
Current Assets		
Cash and Cash Equivalents	\$ 64,205	\$ 64,570
Accounts Receivable - less allowances of \$3,972 and \$3,928, respectively	46,727	45,523
Inventories - net	51,762	44,474
Other Current Assets	7,194	11,060
	<hr/>	<hr/>
Total Current Assets	169,888	165,627
Property and Equipment - net	40,792	40,969
Property Held for Sale	2,327	2,327
Deferred Tax Assets	4,210	4,192
Other Assets - net	4,686	4,744
Goodwill	21,164	20,810
	<hr/>	<hr/>
Total Assets	<u>\$ 243,067</u>	<u>\$ 238,669</u>
<b>LIABILITIES</b>		
Current Liabilities		
Current Portion of Long Term Debt	\$ -	\$ -
Accounts Payable	11,244	12,553
Accrued Payroll and Related Expenses	12,284	14,768
Customer Deposits	16,214	15,837
Current Portion of Environmental Reserves	74	231
Warranty Reserve	2,997	2,981
Other Accrued Liabilities	9,667	13,108
	<hr/>	<hr/>
Total Current Liabilities	52,480	59,478
Environmental Reserves - long term	5,170	5,222
Long-Term Debt, net of current portion	10,163	10,163
Other Liabilities	3,348	3,275
	<hr/>	<hr/>
Total Liabilities	71,161	78,138
<b>SHAREHOLDERS' EQUITY</b>		
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	177,012	166,390
Treasury Shares, at cost (878,010 common shares)	(11,294)	(11,293)
Accumulated Other Comprehensive Income	(1,211)	(1,910)
	<hr/>	<hr/>
Total Mestek, Inc. Shareholders' Equity	170,108	158,788
Non-controlling Interest	1,798	1,743
	<hr/>	<hr/>
Total Shareholders' Equity	171,906	160,531
	<hr/>	<hr/>
Total Liabilities and Shareholders' Equity	<u>\$ 243,067</u>	<u>\$ 238,669</u>