



**MESTEK, INC.**

**THIRD QUARTER REPORT  
TO SHAREHOLDERS**

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



# MESTEK, INC.

260 North Elm Street, Westfield, MA 01085

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

December 2016

Fellow Shareholders,

2016 has not been a year of earnings improvement from operations. Excluding the Anemostat divestitures, nine-month HVAC revenues were down 3.1% and Machinery revenues were up 4.8%, while architectural revenues were moderately higher. Operating profits, excluding non-operating activities, are down approximately 6% year to date. Backlogs are reasonably healthy at this writing, modestly higher than last year after a poor sales and profit beginning to Q4. Our high season hasn't been very high this year. Although I'm disappointed, I don't believe this is a trend; and on balance I'm optimistic about our prospects for 2017 and beyond. We have spent a considerable amount of money, millions of dollars, planting some good potential seeds that have yet to sprout.

A pause in mission critical data center orders has been painful for two of our businesses. The unit heater industry has suffered a downdraft; yet we have not lost market share. Several Mestek product lines have been eliminated due to DOE regulations. We hope President Obama has a pleasant day. International machinery sales are subdued for reasons beyond our control. In several cases, start up product lines and acquisitions have taken longer than expected to gain traction, and meaningful losses have been incurred. Regrettably, the financial results reflect the fact that down years can happen to fundamentally sound businesses.

Several Mestek businesses are having excellent years, following excellent years in 2015, including RBI and KN commercial boilers and water heaters, commercial hydronics, two very well-managed machinery companies, and our architectural flagship business Linel. I don't believe we have lost market share overall in most or all of our companies.

I expect modestly improved results for 2017, assuming normal business conditions in our industries. It is not easy to grow sales and profits in the mature industries we serve, with many mature product lines in our portfolio. Genuine new product innovation is challenging, not impossible, but challenging. Well-conceived opportunistic acquisitions are almost essential for sustained growth of our company.

I believe Mestek is the best home for quality businesses in our industries: our respect for diverse corporate cultures, management freedom to make decisions without burdensome corporate controls, quick answers and support as needed, a relatively small yet effective corporate staff readily available and capable of consistently adding value when problems or opportunities arise, and more than ample financial resources to fund R&D, new product development, and other growth initiatives. Mestek is a people oriented business, relying on people to do the right thing, not a public company trying to hype its stock price at every turn.

Thank you, our ownership partners, for your continuing support and trust in our management team.

With kind regards,

Stewart B. Reed  
Chairman & CEO

MESTEK, INC.  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

(Dollars in Thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net Sales	\$ 82,853	\$ 90,201	\$ 233,002	\$ 252,746
Cost of Goods Sold	55,965	60,136	154,282	170,593
Gross Profit	26,888	30,065	78,720	82,153
Selling Expense	10,429	11,655	30,116	32,803
General and Administrative Expense	6,073	6,731	17,417	18,065
Engineering Expense	4,014	3,443	11,454	10,270
Plant Shutdown, Hedging and Other Items	391	443	(2,562)	2,615
Operating Profit	5,981	7,793	22,295	18,400
Interest Income (Expense) - net	22	(22)	71	(16)
Other Income (Expense) - net	49	(29)	(129)	(8)
Income Before Income Taxes	6,052	7,742	22,237	18,376
Provision for Income Tax	1,915	2,633	7,422	6,718
Net Income from Continuing Operations	4,137	5,109	14,815	11,658
Less: Net Income - Non-controlling Interests	34	44	88	25
Net Income	<u>\$ 4,103</u>	<u>\$ 5,065</u>	<u>\$ 14,727</u>	<u>\$ 11,633</u>
Basic and Diluted Earnings Per Common Share	<u>\$ 0.55</u>	<u>\$ 0.68</u>	<u>\$ 1.97</u>	<u>\$ 1.55</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)

	September 30, 2016	December 31, 2015
<b>ASSETS</b>		
Current Assets		
Cash and Cash Equivalents	\$ 54,116	\$ 64,570
Accounts Receivable - less allowances of \$3,963 and \$3,928, respectively	48,666	45,523
Inventories - net	52,146	44,474
Other Current Assets	19,478	11,060
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Total Current Assets	174,406	165,627
Property and Equipment - net	40,008	40,969
Property Held for Sale	2,327	2,327
Deferred Tax Assets	4,207	4,192
Other Assets - net	4,543	4,744
Goodwill	21,107	20,810
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Total Assets	\$ 246,598	\$ 238,669
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<b>LIABILITIES</b>		
Current Liabilities		
Accounts Payable	\$ 11,439	\$ 12,553
Accrued Payroll and Related Expenses	13,742	14,768
Customer Deposits	17,046	15,837
Current Portion of Environmental Reserves	154	231
Warranty Reserve	2,931	2,981
Other Accrued Liabilities	7,699	13,108
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Total Current Liabilities	53,011	59,478
Environmental Reserves - long term	4,818	5,222
Long-Term Debt	10,163	10,163
Other Liabilities	3,383	3,275
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Total Liabilities	71,375	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	181,115	166,390
Treasury Shares, at cost (878,010 common shares)	(11,293)	(11,293)
Accumulated Other Comprehensive Income	(1,473)	(1,910)
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Total Mestek, Inc. Shareholders' Equity	173,950	158,788
Non-controlling Interest	1,273	1,743
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Total Shareholders' Equity	175,223	160,531
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Total Liabilities and Shareholders' Equity	\$ 246,598	\$ 238,669
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