MESTEK, INC.

FIRST QUARTER REPORT
TO SHAREHOLDERS

For the quarter ended
March 31, 2017

MESTEK, INC.

260 North Elm Street, Westfield, MA 01085 (413) 568-568-9571 www.mestek.com

May 2017

Fellow Shareholders,

GAAP accounting is useful, necessary, and a sincere attempt to portray financial reality. Still, no universal standard such as GAAP can properly present the individual nuances of a given business. Yet, GAAP is an important and somewhat accurate measure mitigating the self-serving explanations of business leaders trying to pump alternative measures of progress and their stock prices. GAAP is a good baseline to consider as a first pass to valuation. "Next year's projected operating earnings", Wall Street's favorite measure, ignores past mistakes (management of course will never make any future mistakes), botched acquisitions, so-called "one-off" costs that should be forgotten and forgiven by investors, "restructuring costs" that somehow have a nasty habit of reoccurring, and other Wall Street sell-side euphemisms.

Sometimes GAAP understates the value of an enterprise; Amazon is a good example. As long as the company's internet retail operations continue to grow at a brisk pace, Amazon is a cash generating machine. And playing the long game both in retail and web services is likely to be richly rewarded eventually. Jeff Bezos has correctly noted that acorns can grow into mighty oak trees. Alternatively, many public companies try to maximize reported earnings by pressing the limits of GAAP; FIFO rather than LIFO inventory accounting, failure to address slow moving and obsolete inventories, capitalizing every allowable operating cost, inadequate reserves, and other creative ways designed by clever CFO's holding stock options. Sometimes it's not clever accountants; it's inherent in the business model. For example, Warren Buffet noted that BNSF Railway substantially understates depreciation costs because necessary equipment replacements now cost substantially more than the equipment being replaced.

For Mestek, GAAP is a fair measure. Our accounting is conservative within the confines of GAAP and tax regulations; and business model nuances result in both pluses and minuses tending to neutralize each other. I believe gross profit is overstated by adherence to GAAP; for example manufacturers' representative sales commissions are a variable cost which should be above the gross profit line, and is put there in our internal accounting. Still, the operating profit line is accurate, if you disregard the other items line which is almost all platinum trading activities. First quarter 2017 platinum trading was $1 million positive versus $2 million positive for Q1 2016. By making this one adjustment, you will see that true operating profits were flat, nearly identical to last year. You can additionally note that without the platinum gains, after-tax operating profits would be eight cents per share lower for Q1 2017. This is not alarming; January through June is always weak compared to the July through December period due to normal seasonal sales variations in our comfort heating products. Heating equipment consisting of commercial boilers, residential and commercial baseboard, unit heaters and rooftop make-up air units, and industrial comfort heating equipment are important drivers of revenues and earnings.

First quarter sales increased modestly, 4% in HVAC and architectural and 7% in machinery. Pay no attention to the increase in selling expense since it is mostly third party commissions which logically should be deducted above the gross profit line. The $400,000 increase in engineering expense is a real comparable cost difference as we continue to step up new product development activities. Margins are being somewhat squeezed by higher raw material costs; including steel, copper, and aluminum increases. This margin squeeze will probably continue until we realize price increases to offset the higher costs, an uneven process.

No balance sheet or cash flow issues are of particular note, other than the payment of annual bonuses in March (approximately $4.7 million), and taking delivery of CME platinum warrants (approximately $4.1 million) rather than rolling forward futures contracts. Mestek regularly engages in spread transactions to minimize carrying costs and earn the equivalent of interest on its platinum holdings.

At March 31, the HVAC backlog was flat with last year; and the machinery backlog was modestly higher. Currently the HVAC backlog is 8% higher than last year; and the machinery backlog is 6% higher. We continue to quote opportunities at a relatively brisk pace; but some projects have been put on hold for various reasons we are not privy to.

Mestek management remains grateful to our shareholder owners for your patience and support, thank you; and we pledge to work diligently to improve the intrinsic value of your company.

With kind regards,

Stewart B. Reed

Stewart B. Reed
Chairman & CEO

MESTEK, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
	(Dollars and Shares in thousands, except Earnings per common share)	
Net Sales	$ 77,208	$ 73,722
Cost of Goods Sold	51,063	48,275
Gross Profit	26,145	25,447
Selling Expense	10,784	9,672
General and Administrative Expense	4,892	5,547
Engineering Expense	3,986	3,599
Plant Shutdown, Hedging and Other Items	(968)	(1,845)
Operating Profit	7,451	8,474
Interest Income (Expense) - net	28	(18)
Other Income (Expense) - net	46	(39)
Income Before Income Taxes	7,525	8,417
Provision for Income Tax	2,630	2,934
Net Income from Continuing Operations	4,895	5,483
Less: Net Loss - Non-controlling Interests	(9)	(8)
Net Income	$ 4,904	$ 5,491
Basic and Diluted Earnings Per Common Share	$ 0.65	$ 0.73
Basic and Diluted Weighted Average Shares Outstanding	7,491	7,491

MESTEK, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2017	December 31, 2016
	(Dollars in thousands)	
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 31,504	$ 35,213
Short-Term Investments	4,000	3,988
Accounts Receivable - less allowances of $2,838 and $2,843, respectively	41,230	44,952
Inventories - net	49,700	46,476
Other Current Assets	51,452	45,501
Total Current Assets	177,886	176,130
Property and Equipment - net	39,025	39,821
Property Held for Sale	2,327	2,327
Deferred Tax Assets	3,083	3,081
Other Assets - net	4,477	4,514
Goodwill	21,085	21,071
Total Assets	$ 247,883	$ 246,944
LIABILITIES		
Current Liabilities		
Accounts Payable	$ 10,462	$ 10,699
Accrued Payroll and Related Expenses	9,748	13,062
Customer Deposits	18,535	18,385
Current Portion of Environmental Reserves	137	143
Warranty Reserve	2,855	2,890
Other Accrued Liabilities	7,039	7,745
Total Current Liabilities	48,776	52,924
Environmental Reserves - long term	3,813	3,821
Long-Term Debt, net of current portion	10,163	10,163
Other Liabilities	3,685	3,685
Total Liabilities	66,437	70,593
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	5,693	5,692
Retained Earnings	187,318	182,415
Treasury Shares, at cost (878,010 common shares)	(11,293)	(11,293)
Accumulated Other Comprehensive Income	(1,524)	(1,723)
Total Mestek, Inc. Shareholders' Equity	180,611	175,508
Non-controlling Interest	835	843
Total Shareholders' Equity	181,446	176,351
Total Liabilities and Shareholders' Equity	$ 247,883	$ 246,944