



First Quarter 2020 FAQ Supplement

Below is a summary of frequently asked questions we received from investors in connection with our Q1 2020 earnings release and the respective answers.

Liquidity and Cash Flow

Q: How resistant is EnPro's cash flow to an economic downturn?

A: We expect to generate positive free cash flow* for the year even in a 25% sales decline scenario due to:

- Actions we have taken to preserve cash
- Additional levers we will pull if demand deteriorates further
- Disciplined capital spending and working capital management

Q: What factors impacted EnPro's first quarter cash flow?

A: Q1 2020 free cash flow* was negative \$4.9 million, which reflects:

- Payments of \$15.5 million to resolve legacy environmental matters
- Working capital increase of ~\$26 million
 - Result of very strong end to Q1 in Sealing Products and \$3.2 million of receivables related to Fairbanks Morse divestiture
 - Expect working capital to decrease in Q2 2020 with declining volume and the collection of receivables related to Fairbanks Morse divestiture
- Excluding environmental payments in both periods and Fairbanks-related receivables this year, free cash flow* was \$13.8 million in Q1 2020 vs. negative \$4.5 million in Q1 2019

Q: How did EnPro's adjusted EBITDA* margins perform given the first quarter sales decline of 6.7%?

A: Margin expansion is a core focus at EnPro. Over the past year, we have reduced SG&A costs, improved productivity, and enhanced our quality control systems. We continue to maintain a relentless focus on reducing costs and improving operational efficiency across all our businesses.

- Total EnPro adjusted EBITDA margin* expanded 320 bps to 14.4% in Q1 2020
- Sealing Products adjusted segment EBITDA margin* expanded 410 bps to 19.1% in Q1 2020, driven by:
 - Acquisitions of LeanTeq and The Aseptic Group
 - Year-over-year improvements in the heavy-duty truck business
 - Cost control measures across the segment
- Engineered Products adjusted segment EBITDA margin* contracted 160 bps to 11.5% in Q1 2020
 - Driven by volume declines, partially offset by cost-reduction initiatives to right size the workforce, improve plant overhead, and decrease SG&A spending

Q: What is EnPro doing to reduce operating costs and preserve cash in response to the COVID-19 pandemic?

A: To reduce operating costs and preserve cash, we have implemented:

- Aggressive cost management initiatives
- Discretionary spending cutbacks
- Capital expenditure decreases
- Headcount reduction plans, as needed
- Strict working capital management
- Temporarily suspended buybacks

Q: What is EnPro's available liquidity, and do you foresee the need to expand that availability to fund the business in the near-term?

A: Maintaining the strength of our balance sheet is a key priority to ensure we are well positioned to navigate the current economic environment and to act on strategic opportunities when we emerge from the current crisis.

- Our balance sheet is very strong, bolstered by \$450 million in proceeds from the recent sale of Fairbanks Morse (an approximate \$60 million tax on gain will be paid in the second half of the year):
 - Q1 2020 period-end cash on hand of \$391 million
 - Full availability of a \$400 million revolver, less \$13 million in outstanding letters of credit
 - Refinanced senior notes and credit facility over the last 18 months with maturities in 2026 and 2024, respectively, subject to applicable reinvestment requirements related to the Fairbanks Morse divestiture

Q: What is EnPro's net leverage ratio, and has the impact of COVID-19 changed management's view on using additional debt versus maintaining a conservative leverage ratio going forward?

A: At 3/31/2020, our net debt to adjusted EBITDA* ratio was ~0.6x.

- Our target leverage range remains unchanged at 1.5x – 2.0x
- Plan to maintain a more conservative leverage ratio as we navigate through the current environment
- Leverage ratio expected to increase moderately as the year progresses with the expected decline in LTM EBITDA

Capital Allocation

Q: Has EnPro's view on capital spending, dividends, and share repurchases changed?

A:

- Capital spending:
 - Our priority is to ensure we maintain a strong cash position throughout the year, balancing the short-term focus on cash preservation with our long-term strategy of investing for profitable growth
 - Plan to continue to invest in growth opportunities tied to recent acquisitions
 - Expect overall capital spending to be at, or below, 2019 levels, inclusive of investments in recent acquisitions
- Dividends:
 - Remain committed to our dividend

- In Q1 2020, we increased our quarterly dividend by 4% to \$0.26 per share, paying total dividends of \$5.5 million
- Share repurchases:
 - Suspended share repurchase program in mid-March in response to COVID-19
 - Repurchased ~117,000 shares at a total cost of \$5.3 million during Q1 2020
 - ~\$30 million remains under the current \$50 million repurchase authorization

2020 Outlook and Scenario Planning

Q: What is EnPro's financial guidance for 2020?

A: Given the evolving macroeconomic climate and uncertainty surrounding the COVID-19 pandemic, we have withdrawn 2020 guidance.

Q: What is EnPro's outlook for the remainder of 2020?

A: While we have very limited visibility into the balance of the year and cannot forecast the impact of COVID-19 on our business with accuracy at this time, below are details on how we're planning for the year.

- Sealing Products segment (largest served markets include medium-duty and heavy-duty truck, general industrial, and semiconductor): Anticipating accelerating weakness in trucking and general industrial compared to Q1 2020 and have started to see signs of order pushouts in semiconductor market
- Engineered Products (largest served markets include automotive, general industrial, oil and gas, and petrochemical): Anticipating the weakness experienced in these markets during Q1 2020 will accelerate into Q2
- Total EnPro: Anticipating that Q2 will see the greatest impact, followed by continued softness in Q3, and beginning of a recovery in Q4

Q: What are your 2020 scenario ranges and main drivers?

A: We have modeled a variety of different scenarios for the year based on total revenue falling from 15% to 25% compared to 2019.

- If revenues decline in this range, our scenario planning suggests our adjusted EBITDA margins* may range from 11-13% for the year
- The aforementioned expected revenue and adjusted EBITDA scenarios could vary depending on revenue mix and cost restructuring decisions
- Considers the benefits of recent acquisitions and cost actions identified for various levels of demand decline

Q: How does EnPro think about decremental adjusted EBITDA margins* in each segment as part of the planning scenarios?

A: Based on the scenario planning ranges of 15% to 25% sales decline and 11-13% adjusted EBITDA margins*, we believe decremental adjusted EBITDA margins* may be in the mid-20's percent range compared to 2019.

- Decremental adjusted EBITDA margins* expected to be better in Sealing Products than in Engineered Products due to beneficial impact of recent acquisitions and our expectation that 2020 volume declines will be less severe in Sealing Products than in Engineered Products.

Strategy and Portfolio Shaping

Q: What is EnPro's long-term strategy, and has it changed as a result of the COVID-19 pandemic?

A: Our strategy is unchanged and remains focused on:

- Leveraging the EnPro Operating System for continuous improvement to increase margins and cash flow return on investment
- Reshaping our portfolio, focusing on businesses with compelling margins, leading technology, and high cash flow return on investment in markets with favorable secular tailwinds
- Maintaining a balanced approach to capital allocation
- Increasing aftermarket exposure and recurring revenue opportunities

Q: Has EnPro's view on portfolio reshaping and M&A changed as a result of the current economic uncertainty?

A: We value a strong balance sheet and are being very strategic in evaluating any potential portfolio reshaping and/or M&A activities. During this time, we are:

- Cultivating / reinforcing strong relationships with key advisors and owners of target businesses
- Briefing key contacts on our strategy and acquisition criteria so that we will be well positioned as an acquirer of choice when owners are ready to sell

Q: What actions has EnPro taken to reshape the portfolio and how have those actions affected the financial characteristics of the portfolio?

A: The portfolio shaping we've done over the past year, including exiting several businesses and product lines that did not align with our future vision for the company, has increased our margins and improved the stability of our cash flows.

- Recent divestitures include:
 - Sealing Products:
 - Exited several heavy-duty truck businesses including our Rome, Georgia brake shoe business (Q3 2019) and our TrailerTail (Q4 2019), Aeris (Q1 2020), and AirBatRF (Q1 2020) product lines
 - These divestitures reduce exposure to the heavy-duty trucking market and support reshaping of the business to focus on higher margin product lines
 - Power Systems:
 - In January 2020, completed sale of Fairbanks Morse business (which constituted the Power Systems segment)
 - Focuses EnPro on businesses with predictable cash flow and businesses that offer highly engineered products and services to niche markets, based largely on a core competency of materials science
- Recent acquisitions include:
 - Sealing Products:
 - Acquired LeanTeq and The Aseptic Group in Q3 2019
 - Expands reach into the attractive semiconductor equipment, pharmaceutical, and biopharmaceutical industries
 - Both companies have strong competitive positions in high-growth markets, excellent margins, compelling cash flow profiles, and strong cash flow returns on operating capital

- These acquisitions align with our long-term growth strategy of focusing on businesses with technical expertise, niche market leadership, mission-critical applications, and a recurring revenue model
- Key financial data for the twelve-month period ended 3/31/20:
 - Revenue of \$1.2 billion; Adjusted EBITDA* of \$176 million (14.8% margin)
 - Adjusted Segment EBITDA Margin*:
 - Sealing Products: 18.7%
 - Engineered Products: 15.5%
- Aftermarket revenue represents 58% of 2019 sales

COVID-19 Response

Q: What actions did EnPro take in response to the COVID-19 pandemic?

A: We acted quickly to develop and implement a three-pronged response to the COVID-19 pandemic.

- Protecting our people:
 - Suspended all non-essential travel
 - Implemented flexible work options, where feasible
 - Expanded IT infrastructure to enable working remotely and virtual meetings
 - Restricted visitors to EnPro facilities
 - Trained employees in enhanced cleaning and disinfecting protocols
 - Provided supplemental PPE at facilities
 - Implemented safe operating procedures such as temperature scanning, use of masks, and social distancing
 - Created a dedicated internal website for updates on the actions we are taking, status of all of facilities, and FAQ's
- Protecting our business:
 - Aggressive cost management initiatives
 - Discretionary spending cutbacks
 - Capital expenditure decreases
 - Headcount reduction plans, as needed
 - Strict working capital management
 - Temporarily suspended buybacks
- Protecting our community:
 - Distributed thousands of medical grade (N95) masks to doctors and hospitals in the United States and Europe
 - Connected institutions with EnPro suppliers to source difficult to find materials like infrared thermometers and masks
 - Enabled employees to access urgent medical supplies for themselves and their families' immediate need within COVID-19 afflicted areas

Q: What is EnPro's plan to navigate through the COVID-19 pandemic?

A: We developed a four-phase approach to protect our people and organization as we continue to navigate through the COVID-19 pandemic.

- Phase 1 – Health and Safety:
 - Mobilized COVID-19 Response & Support Team
 - Developed 'global safe work playbook', a standardized approach for COVID-19 pandemic preparedness and response
 - Enacted preventative measures in line with recommendations from global and local authorities
 - Implemented flexible and remote work options

- Enacted safe operating procedures, including temperature screenings, additional PPE, physical plexiglass workspace barriers, and enhanced visual management to support social distancing
- Phase 2 – Business Stability and Progression:
 - Planning for several contingency scenarios
 - Planning for running business in adverse conditions, resetting business to new demand levels, managing liquidity, and being responsive to customers
 - Taking decisive, informed actions to prevent the spread of COVID-19
 - Developed playbooks to respond to changing demand levels
 - Supply chain focused on stability, progression, and risk mitigation
- Phase 3 – Process Improvement:
 - Monitoring and improving:
 - Processes
 - Procedures
 - New ways of working
 - Finding solutions to allow employees to thrive in new environment
 - Enhanced customer experience
- Phase 4 – Post-pandemic Period:
 - Adapting to the new normal
 - Refocusing on our core strategy
 - Digital transformation of workplace and work routines
 - Supply chain reconfiguration

***Non-GAAP Financial Information**

This supplement contains financial measures that have not been prepared in conformity with generally accepted accounting principles in the United States (“GAAP”). They include free cash flow, adjusted EBITDA, and adjusted EBITDA margin, as well as segment adjusted EBITDA and segment adjusted EBITDA margin. Tables showing the reconciliation of historical non-GAAP financial measures to the comparable GAAP measures are included in our [first quarter earnings press release](#) and [first quarter earnings presentation](#). Management believes these non-GAAP metrics are commonly used financial measures for investors to evaluate the company’s operating performance and, when read in conjunction with the company’s consolidated financial statements, present a useful tool to evaluate the company’s ongoing operations and performance from period to period. In addition, these are some of the factors the company uses in internal evaluations of the overall performance of its businesses. Management acknowledges that there are many items that impact a company’s reported results and the adjustments reflected in these non-GAAP measures are not intended to present all items that may have impacted these results. In addition, these non-GAAP measures are not necessarily comparable to similarly titled measures used by other companies.

Forward-Looking Statements

Statements in this supplement that express a belief, expectation or intention, as well as those that are not historical fact, are forward-looking statements under the Private Securities Litigation Reform Act of 1995. They involve a number of risks and uncertainties that may cause actual events and results to differ materially from such forward-looking statements. These risks and uncertainties include, but are not limited to: impacts from the COVID-19 pandemic and governmental responses to limit the further spread of COVID-19, including impacts on the company’s operations, and the operations and businesses of its customers and vendors, including whether the company’s operations and those of its customers and vendors will continue to be treated as “essential” operations under government orders restricting business activities or, even if so treated, whether site-specific health and safety concerns might otherwise require certain of the company’s operations to be halted for some period of time; uncertainty with respect to the duration and severity of these impacts from the COVID-19 pandemic, including impacts on the general economy and the markets served by the company’s customers; other economic conditions in the markets served by EnPro’s businesses and those of its customers, some of which are cyclical and experience periodic downturns and disruptions, such as the recent disruptions in the pricing of oil and gas; prices and availability of its raw materials; the impact of fluctuations in relevant foreign currency exchange rates; unanticipated delays or problems in introducing new products; announcements by competitors of new products, services or technological innovations; changes in pricing policies or the pricing policies of competitors; the impact of the acquisition of LeanTeq on its existing customer relationships; and the amount of any payments required to satisfy contingent liabilities related to discontinued operations and the discontinued operations of its predecessors, including liabilities for certain products, environmental matters, employee benefit obligations and other matters. EnPro’s filings with the Securities and Exchange Commission, including its most recent Form 10-K and Form 10-Q, describe these and other risks and uncertainties in more detail.

Statements in this supplement are made as of May 5, 2020. EnPro does not undertake to update any forward-looking statements made in this supplement to reflect any change in management's expectations or any change in the assumptions or circumstances on which such statements are based.