

Ms. Karen Howard: Good morning, everyone. We are going get started. We were waiting for a few others, but we don't want to hold you up, so let's begin. First of all, welcome. We're thrilled you could be here with us this morning. I want to introduce myself. I'm Karen Howard, Investor Relations for Sun Hydraulics, and we're pleased to see you all here today or on the webcast.

I will quickly walk through your agenda, which is in the beginning of your book after the cover. We have a lot of information packed into our presentations this morning. Wolfgang Dangel, our CEO, will kick things off with an overview of the company, including our Vision 2025. He will introduce the rest of the team here this morning. You can see, we will then be talking about the Electronics segment as well as the Hydraulics segment. And we will take a short break mid-morning, about 10:15/10:30 or so, before we finish up the presentations and then open up the floor for Q&A. We've left plenty of time for Q&A. We do ask you to hold your questions until the end because, over the course of the presentations, we may answer some of them. But, just so we can keep the flow going for the presentations, please hold your questions until the end.

In addition to Wolfgang introducing you to the team, each of the presenters will also give you a little background about themselves. One other thing I want to mention – you may have seen we have a couple of product displays out in the foyer area. Be sure to check those out during the break or during lunchtime. And if you'd like an explanation, don't hesitate to catch one of the members of the Sun team. We'll be happy to walk you through what we have on display.

So, without further ado, I will get started. Before I turn it over to Wolfgang, I do have to point out that, we may make some forward-looking statements in the course of today's discussion or the Q&A, so be aware of our Safe Harbor Statement that's presented here.

And with that, I will turn the floor over to Wolfgang.

Mr. Wolfgang Dangel: Thanks so much, Karen.

Good morning, everybody. Thanks for coming to New York City today to attend our Investor and Analyst Day. I'm pretty excited to have you here. I know all of you are very busy, so you're taking a lot of time out of your schedule, and it's very much appreciated. Some of you have come a long way, too.

As Karen pointed out, I would also like to encourage you to take a look at the exhibits that we have out there, and we'll be very happy to explain to you the product details and application details during the breaks.

Before I go into the introduction of the team here, I quickly want to say something about the hurricanes. Obviously, that's of interest to everybody here. As you know, Sarasota was, unfortunately, in the path of Hurricane Irma. It changed direction continuously on Friday and Saturday and then eventually hit the region of Southwest Florida. It was around about 10:00

PM on Sunday night when it hit the Tampa Bay area. The rain and wind were pounding the area until about 4 or 5 o'clock in the morning.

We got up to speed yesterday morning relatively quickly. We were reaching out to all our people. We sent out a press release last night, and I can pretty much echo what we said in the press release. We reached out to all 600 of our employees that are based in Sarasota, Florida. We have three facilities in Florida. Most of you I recognize, have been there over the last two years. Luckily, everybody is fine. There is only damage to their personal property and so forth.

We got into the facilities relatively early yesterday morning already and also got some good news there. There was no significant damage. There was actually very minimal damage to the facility itself. So, most of the people are ready to come back to work. The only challenge we still have to overcome, we have to reinstall electricity. And I've been in touch with our colleagues all the time until just about 10 minutes ago, and they are feverishly working on reestablishing connection to the grid. So, we expect to be operational within the next two days or so.

So, let me come to the introduction of the team. Here with me today are five members of the global leadership team, and I'll start off with Tricia. Most of you probably know Tricia. She has been with the corporation for over two decades. And as Karen pointed out, each of the individual members will give a short bio prior to their respective presentation. Tricia is serving in the capacity as the CFO.

And then representing the Electronics segment here, we have Jinger McPeak, who is the General Manager, and Rick Martich who is in charge of operations on the electronics side. Electronics covers mainly the facilities in Tulsa, Oklahoma and in San Antonio here in the US and then a number of facilities globally. We'll see that as we go through the presentation slides. And on the Hydraulics side with me today are Craig Roser, who is leading the global sales and marketing activities, and Tim LaCrosse who is in charge of global engineering.

We also have with us today one of my colleagues on the Board – Professor Marc Bertoneche. Marc has been a Harvard professor for many years. Marc has been on the Sun Board since 2000, so he has been affiliated with the company for almost two decades – very good to have Marc here today.

Last but not least, just briefly about myself - so, I am European, as you can hear. I had the privilege of working for two large European companies. I've been about 16 years in the hydraulics industry and about eight years in the automotive industry. Both companies gave me the opportunity to work in four continents around the world. With the exception of Australia, I have lived and worked in every single continent for a minimum of five years.

I came to the US in 2000 for the first time, and I was running the hydraulics business of Bosch Rexroth at the time. I was the President and CEO for the North American business. Prior to that, I was running the business for Rexroth in China. I came across Sun for the first time back in 1996 when I met the lead founder, Bob Koski, back in Hong Kong, while I was

working for Rexroth. I've been a member of the Board since 2009, and I got appointed as the President and CEO on April 1st last year.

About three years ago, management and the Board really started analyzing the competitive position of the hydraulics business. If you go back and if you look at the track record of the company, I think it can be summarized very briefly in two significant statements – first of all, the company continuously produced excellent results and returns but also it's been a company that's been struggling to grow the business on a global basis in recent years.

From a Board perspective, we analyzed the overall situation about two and a half years ago and took a deeper dive on the hydraulics industry and the influencing factors from a technology perspective. We started a project doing that in great detail. And you will see two charts in my presentation here that I would describe as the high level final results of that analysis, and this is one of them. We came up with a vision statement, aiming at 2025.

Basically the goal is to stay in the technology leadership position because Sun Hydraulics has been a technology leader in designated technology, mainly cartridge valve hydraulics, for many, many years. But, we were looking broader, a little bit beyond hydraulics. So, we describe it here as the industrial goods sector, and we said we need probably an eight or ten year plan. That's how we came to 2025. And we clearly understood that we need to grow and gain critical mass, and we decided that the right number for doing so by 2025 would be to exceed \$1 billion in revenue.

Last but not least, we don't want to grow just for the sake of growing. We want to do that while maintaining best in class results for the industry. If you look at our track record and peer comparison, at least with the listed companies where we have full transparency, I think we can say that Sun is definitely one of the premium corporations in terms of producing financial results and standing for financial strength. So, not just growing for the sake of growing but also maintaining the profitability level that you guys have been used to over the years.

What are we covering today? I tried to describe it here, and it's mainly four bullet points. First of all, in the first two presentations as far as the individual business segments are concerned, we want to show you a path as to how we will double the business organically in Hydraulics as well as Electronics.

Now, getting to one billion dollars of revenue, we can only do that by becoming acquisitive, and that had been a challenge for the company in the past. I will outline to you some of the major initiatives and the attempts that we've been putting in place over the last 20 months in order to develop a DNA of becoming also an acquisitive company. That's covered in topic three here when we look at strategic acquisitions, and we go in quite some details there also during my second presentation later on this morning.

And last but not least, I think it's of utmost importance that you get access to the management team that is executing this plan on a global basis and, as I mentioned earlier,

some of them are here with us today. So, those are the four main bullet points that we would like to cover here this morning.

Let me go back to the analysis that we did two and a half years ago. We are starting with slicing and dicing the hydraulics business in great detail. And we're looking at, first and foremost, at the mega trends that might influence this business as we move forward.

Just as a mental note, at that point in time, the electronics portion of the business was very small for Sun, so we were purely talking about cartridge valve technology at that point in time. Back in 2015, we were looking at 2014 data.

We came up with three major trends that we felt are impacting us moving forward. The first one is globalization, and that will translate into population growth, which we have in most parts of the world, a little bit less in the Western world than in other parts around the globe. But, nevertheless, there is population growth.

Then we see a significant trend. We describe it as urbanization. And here I refer mainly to the Asian mega cities. I lived in Asia myself on two assignments for ten years in total, and if you have lived and worked in these mega centers, whether it's in Mumbai or whether it's in Beijing or Shanghai or in Manila or down in Jakarta, Indonesia, I think you know exactly what I'm talking about.

This trend bodes very well to the way Sun is positioned because this will translate into a ton of infrastructural projects. Those projects will translate into a lot of machinery and equipment that needs to be produced in order to make roads and in order to put this infrastructure in place.

And that brings me to the second major trend. Machinery and equipment is expected to become more efficient, more sophisticated, more productive as we move forward from here.

And last but not least, equipment needs to be safe. Also here, Sun from a hydraulics perspective has been very well positioned in the past because it caters very well to some of the strengths and the sweet spots that Sun stands for.

The two main driving elements here are productivity and efficiency at the end of the day. So, the machine and the equipment has to be more productive and efficient. The tier one and the tier two supplier with his best in class components and his systems that go into the machine has to be more efficient and more productive. In many cases, the tier one and tier two suppliers need to do the engineering work for the machine builder because the machine builder doesn't want to maintain all those expenses for the engineering resources, predominantly in this country.

It's a different mindset in Europe and in certain parts of Asia where the OEMs are still maintaining very deep engineering resources in-house, not in North America, unfortunately. On one hand, it presents an opportunity for us as a supplier. On the other hand, we see that very critically because we believe, down the road, the US OEM will lose competitiveness in

the global market place, mainly to the Europeans but also the East Asians. Productivity and efficiency in automation is the name of the game, feeding this second mega trend.

And last but not least, on the right hand side, we have computing power, and that translates into electrification and digitalization. We saw electrification creeping into hydraulics at a very high pace, particularly for those applications where the pressure requirements were not extremely high. It's more on the industrial, stationary side of the business, where electromechanical solutions, or even pure electrical solutions, will replace mechanical solutions, namely hydraulics.

That is the birthplace, by the way, of Enovation Controls. At that point in time, we made the decision on the Board to dig much deeper into this field of electrification and digitalization.

And last but not least, before I leave this chart, there is a significant trend also in the computing power called energy savings. This is the case not so much here in North America, but very predominant in Europe and in Asia, particularly in East Asia if you look at the Japanese and if you look at South Korean OEMs. They pay a lot of attention to energy consumption and energy savings.

It was very important to comprehend the threats and derive the opportunities out of that and then of course adjust, underline our thinking and our way of going to business accordingly.

The second result of the strategic analysis is this chart, and I describe this chart as the strategic roadmap 2025. I think it's a pretty easy chart for you to comprehend, because on the top line, you see the business goals that are aligned with the vision. You see the \$1 billion of sales revenue that we target by 2025. And, I talked about it before, we want to maintain superior profitability. To put this down in concrete numbers, that means exceeding EBITDA of 24 percent and an operating margin north of 20 percent.

The strategies - we built that around our differentiation. That's something where Sun is very strong. If I go back to the late founder, when he designed the first cartridge valve, he would use his very own cavity. He would not go with the standard industry cavity. We were always looking to differentiate ourselves from competition. Craig and Tim will do an in depth explanation of our differentiation.

Leadership, what it means at the end of the day – I think in any designated business we are in, we have to maintain, in my opinion, one of the top five, preferably, one of the top three positions. It doesn't make sense to be in businesses where you're number eight and number eleven. It's just a question of time until you get absorbed by challenges and problems.

And on the right hand side, and I feel we have an excellent platform here already, we describe it as customer centricity – we are pretty responsive. What it means at the end of the day, continuously think in terms of making it easier for your customers to do business with you.

On the technical side, we are looking at five main initiatives that are imbedded and flanked by these two elements here. So, a very strong human capital development approach – and I assume most of you as investors have read already the Harvard business case studies on Sun. So, that is very profound and is deeply imbedded into the thinking and the DNA of the company.

On the right hand side, we have here what we describe as unique and deeply rooted values. In some of the investor discussions, I would sarcastically refer to that as this is a clan, not a company, and there's some truth to that. But, it's a tremendous strength of the corporation.

And then in between, we have these tactics including ease of doing business, which feeds predominantly the customer centricity, and innovation and product differentiation. You will get, I think, a truly representative snapshot of these concepts today in the presentations on Hydraulics and Electronics.

Simultaneous engineering, and what does that stand for and what does it mean? It's nothing else than the capability on one hand to develop state-of-the-art products and at the same time have the in-house manufacturing capabilities to produce these products at a very competitive cost level. So, we are a strong believer in keeping a certain value-add in house, and we are basically looking at certain core technologies which we believe provide an excellent opportunity for us to differentiate ourselves from competition. If you look at it very deeply, and I had discussions with some of you – if you follow it very deeply, the value add system of Sun distinguishes itself from most of its competitors.

Global balance – we talk a lot about that. One of the big disadvantages we still have, we are still North American centric. A lot of products are still being manufactured here for distribution globally. So, you'll see a lot of initiatives how we are trying to diversify that on a global basis. We need to reach out much deeper into Europe and much deeper into Asia.

And last but not least, we want to become a little bit more outwardly focused. As a high performing and learning organization, I think there is a lot to be learned from other industries, completely different industries. I always use this as an example. Last year, I went to see a manufacturer of medical devices here in the United States, one of the leading companies. And you won't believe how much similarity there is to our type of business in hydraulics as well as in electronics. There's always something to be learned from different industries and different sectors. So, we make a very conscious attempt to reach out and try to learn from other industries.

I spent the first 15 years of my career in hydraulics, and I was believing only a hole drilled in hydraulics is a true hole. When I went into automotive for the next seven years, then I really understood what is meant by precision manufacturing. There's a lot of stuff that you can basically benchmark and learn from some of the other industries and carry them back into the hydraulics business. Same applies to the electronics business – so, there is no distinction between hydraulics and electronics at this stage.

We strongly believe in the solid foundation of brands, and here you see the five major brands that line our business. And if you go out and talk to customers, the brand recognition I think is tremendous. The brands on the left hand chart represent the electronics business. The brands on the right hand side represent the hydraulics business.

Some of those brands are almost 80 years old. I look at Murphy, an organization that got incorporated in 1939 – it has a tremendous track record. There is a tremendous level of competence and experience behind these brands. Pretty much the same applies to the hydraulic brands. We have been in business for 48 years, so we are celebrating the 50th anniversary soon.

So, what do we stand for? If you look at the exhibits outside in the foyer or some of the videos that we have been running here prior to and in between the sessions, we stand for smart solutions for demanding applications. The two business segments, Hydraulics and Electronics, to a certain degree, have an overlap if you look at the applications. It's on the mobile industrial side of the business. In Electronics, we further diversify and we reach deeper into areas such as recreational applications. Jinger will show some very good examples during her presentation.

What's our global footprint? If you look at our presence today we talk about 10 global locations. Don't add up the segment locations because there are two locations really in between Electronics and Hydraulics that we are combining. So, in total it's 10. We employ about 1,000 associates, and we do business with round about 200 global sales channel partners, that is mainly value add distributors and integrators that we consider to be the prolonged arm of us in any given territory around the globe.

Culture of innovation – strong focus here, and I just want to highlight three of these fields because my colleagues will dig deeper into this. On the customer service side in Hydraulics as well as in Electronics, if you call up SNHY, you still talk to a person. You're not talking to a machine or voicemail or so forth. We pride ourselves that still an individual is answering the phone.

The same applies here to the technical support base, which is pretty broad on both sides of the business, in Hydraulics and Electronics.

When it comes to fast, dependable deliveries, this is where we probably have the most significant differentiation compared to competition.

Let me give you one example, from the Hydraulics side of the business. For those of you who have been in Sarasota, you have seen that we have facilities that cater to certain business models. So, in one facility, we have the high volume series manufacturing, and in a second facility, we have what I call the onesies and twosies type of business. The average lot size of any shipment is six valves. In a business that is very volatile and you have the capability to cater to customers that require volume business as well as individual component business, this is a tremendous skill set. And on top, if you can do that in a very

fast and very responsive manner, it's definitely a differentiating factor compared to competition.

In order to keep focus, all of these initiatives are basically embedded in this eight point plan. First point, know that we are defined by a premium product. We expect our customers to pay a premium price for a premium product. So, quality is of utmost importance. We are paying a lot of attention to a zero defect approach, because a customer that pays a premium for your products is expecting quality that is fully functional and has no problems.

We focus on profitable growth and that is on a global basis.

We have a lot of initiatives in place in order to develop market driven smart components and intelligent control systems, and I'll come to that point in a moment.

We have started to embark in most businesses on a LEAN enterprise approach. And it's not necessarily--a lot of people get confused--it's not necessarily to drive down cost. That can be one advantage under certain circumstances. It's more in the context of developing a continuous improvement DNA in the organization that you never accept status quo and continuously push for improvement, irrespective where it is in the organization. That's why we call it LEAN enterprise and not LEAN manufacturing. So, this is also applicable to the white collar areas, particularly also to the engineering arena where we try to have that continuous improvement thinking, as well.

I talked about expanding the business on a much more global basis, especially in under-performing markets. And here I refer to certain white spots where we have been historically rather weak. Regions such as Latin America, Southeast Asia come to mind. Southeast Asia, very interesting market – free trade zone, 700 million people, a lot of OEMs from East Asia, Japan, China, South Korea and others in that area. Historically, we have done very little business there. We have very little coverage. So, we are trying to put these type of geographies on the map.

We are intensifying our relationships with the inbound and the outbound channels of the business. On the inbound side, with the suppliers, because we are strong believers that the suppliers need to be deeply imbedded, it also goes back to what I said earlier on – that simultaneous engineering approach. So, you need to have a very reliable supply base in order to execute perfectly. We do the same with the channel partners. Craig and Jinger will talk about that.

And then coming back to the mega trends again, we are advancing electrification, digitalization and what we call linked technologies across the board.

Last but not least, it's probably a summary of the first seven points – continuously improve productivity and efficiency, not just to be competitive from a technology perspective but also to be competitive from a margin perspective and produce exceptional results.

I close the first part of the presentation with this chart, and it illustrates the evolving strategic execution. It's reasonably easy to understand. If you refresh your memory and think back, I said the OEM equipment and the machines that our products go into need to be more reliable, need to be more efficient, need to have higher performance.

Historically, we have a very strong footprint here when I look at traditional hydromechanical components. It's applicable to both segments and you see a product mix of both. You see hydraulic valves here, and you see a pressure gauge from Murphy here. So, we have a very strong footprint, and now we are evolving towards the right hand side of the chart. Some of those products we have already. Some of you have probably seen the blue tooth that has been applied, particularly in applications where it's very dangerous for human beings to get very close to the machine, in mines and so forth.

We have new designs from electronics here. We are right now in the midst of trying to maintain our strong foundation here, developing products in the category of smart components by bringing the expertise of both technologies together.

And the landing spot, if I may describe it as such, would be the intelligent control systems here. You have an integrated package from the hydraulics side here with the valve. Those valves are in the manifold. And then electronic control is embedded here. So, we call that an integrated package.

You look at the mobile controller, you look at the display, and you will build all of that in the cloud eventually. So, that's probably the final landing spot if we look at the 2025 vision where we want to end up.

That's the end of this part of the presentation. With that, I'd like to hand it over to Jinger.

[Video presentation – Electronics Segment.]

Ms. Jinger McPeak: I'm Jinger McPeak with Enovation Controls, the majority of Sun's Electronics segment. I've been with the company about 13 years and came to Murphy when we decided we were going to have a marine market. So, we built that from zero dollars. That's kind of a cool story we could tell you on the side.

Prior to that, I was at Brunswick Corporation for about nine years, so I have a lot of experience in operations, engineering and sales in the recreational space.

Enovation Controls' evolution – in 1939, the third generation previous private owner created a product called the switch gage. He worked for a company that made gages, and he said I think we can put a screw in the back of it, and when the needle hits the screw, it will ground out the engines that would be out in an irrigation field or some engine that was unmanned, and it would save the engine from burning up. And his boss said, that's crazy, we're not doing that. So he started doing it in his garage, and the company evolved from that specific product that we still build today.

It has evolved throughout time from all kinds of mechanical gages to electronics and displays that we'll talk about as we go through.

Who are we? You've heard we exist to conquer complexity. That is the stated purpose of our company. We did a lot of work right before the carve-out on our purpose and our core values. We're going to talk a lot about that. I only have about 20 minutes. My colleagues can tell you that I can talk about the core values for way longer than that, so I'm going to try not to. But, certainly, catch me later if you'd like.

That means that we are going to engage with customers that have very complex systems and very complex problems, and we're going to consult with them to fix those problems or to find ways to develop products that specifically make it easier for them to apply their particular machinery.

We do industry leading things. We are constantly putting a product into a segment that's never been put into that segment before. That's one of the ways that we go to market is to convince a specific mid-market segment that they need one of these electronics. We build that for them, and then all of a sudden, everyone in that niche needs to have one.

We have two focused lines of business that attack the markets, and we're now going to talk about each of their driving forces and then the company's core values. Again, our core values – I could talk about this forever. Again, my colleagues can tell you that. But, this really is part of the secret sauce of how we go to market.

If you read about us or read about our customers, it's a very intense relationship that we have. We want to clear a path to catalyze the customer's success, not our success but the customer's. So, in the stories later, we'll talk about how we will take a product or take a vehicle and bring it to our facility, put our electronics in it and take it back to the company that builds it. Their engineering department will be like, how did you do that? Well, we'll show you how, and we'll do this for you on a continual basis to develop these products for you.

Being relentless – this carve-out over the last 10 months or so has been very successful, as you've seen with all of the announcements. I can tell you that one of the reasons why it's been successful is because being relentless is a huge part of our company. Rick Martich, who runs operations and is my partner in crime and keeps us all going down the right path, the people that work in his area have worked a tremendous amount of hours and put forth tremendous effort without complaint to get it done, even though demand is also up a lot compared to where we thought we would be. And so, they're having to build products and ship products and keep our customers taken care of while still doing all of these things to get the business completely carved out. I can assure you, we can tell you many stories about being relentless.

So, I'm going to go off of this slide, even though I don't want to. But, please, later, if you want to talk about it more, this is really a big part of how we filter everything that we do through this lens.

On the lines of business, we call them Vehicle Technologies and Power Controls. You'll sometimes hear us refer to them as VT or PC. Vehicle Technologies - this is the area in which we go after a specific customer and try to help them design a system. So, we do that with deep engagement with the OEM's. I talked about this a little bit already, and we'll tell some stories later with some specific examples.

We may engage with an OEM that we've decided is a good fit for us from filtering them through our core values. And we may be engaged with them for years, talking to them, following up with them, explaining to them, reading about their product, looking at their product's roadmap and being engaged with them at all levels of the company before we actually do any business with them. That's part of how we go to business, and that's done in the vehicle technology side.

If you were to meet the people in that group, they have a lot of knowledge of the niches that we're in but also they're outstanding at just developing relationships with customers.

We have a lot of engineering expertise and application development there, and we actually use the word "swarm" – we "swarm" our customers. It might sound a little aggressive, but that might be true. We actually have people, everyone from engineering to a software engineer to a technician to a business development person might go on a trip when we're talking to a customer about engaging with us. And when we walk away from there, I think that most customers are very surprised by the level of knowledge that we have about their product. So, that's part of how Vehicle Technologies goes to market and the driving force there.

Power Controls takes the technology that was built in Vehicle Technologies – so, if we're going to build a brand new platform or a brand new display, a larger display that requires a new processor, perhaps, that's going to be developed on the Vehicle Technologies side. That's going to be pushed through program management and through a business value analysis that makes sense for a specific customer or niche.

Once we've done that, we obviously want to harvest the revenue from that product for as long as possible and in as many areas as possible, so we're going to make that more of a catalog product, and we'll put some standardization around it, and then we'll release it in the Power Controls market. So, Power Controls goes to market from a distribution or a value added reseller perspective much like Sun has done in the past. There's a lot of synergies from crossover in the market spaces that we'll talk about for Power Controls with Sun Hydraulics.

This is some of the sampling of products. There's a really nice display out in the foyer and we're happy to walk through any of those with you. I can describe many things on them for you as can my colleagues from Sun on their products, so stop by there.

Vehicle Technologies addresses basically an OEM market. There's a lot of recreational space here, as you've read. We refer to the power sports vehicles or ORVs for power sports; it is not ATV. That is not the space that we play in.

Recreational marine, not to be confused with commercial marine which we do some of, both from a Sun perspective and from Enovation Controls, but the main part of this market for us is in recreational. Off road and motorcycles, engine manufacturers and emergency vehicles, those are just some of the niches. I can describe to you many other niches that we are involved in, and in fact that we're looking into, because how we're growing the business is continuing to look across the technology space and find adjacencies where this might make sense — a place where color displays that need to be rugged make sense, that we're not already in, and that's how we will grow that side of the business.

Power Controls operates in what you're more used to from a traditional space that Sun is in with construction and material handling, industrial and power units. You heard a lot about that in the video. There's some specific overlap in material handling, industrial and agriculture with some things that Craig and Tim and I have going on.

This is a sampling of some of our customers. It's clearly not a full list of them. But, you'll recognize some of the names here as large OEMs. Some of these have been our customers for decades. So, we've done business with John Deere and Cat and Cummins since the '40s and '50s, and they continue to be customers of ours. Some of them, you will see, have a great deal of overlap – Snorkel, XTREME, Genie, Altec, Vermeer. Those are areas in which we're going to sell systems, we've been selling systems already in a lot of those cases, systems meaning more than one product from us. And now we'll roll that in with the hydraulics content, as well. There have already been joint conversations with a lot of these customers to move that along.

Driving results – how do we drive results at Enovation Controls? Well, we're relentless. I think we might have mentioned that. The core values and the culture is really something that makes a huge difference. When you're growing a business the way that we have and at the pace that we have and you have all of the other things that have to happen, we're not able to concentrate on just doing that. We've got a carve-out, we've got all kinds of synergy things going on, you need to be able to communicate with people on why they would do that and why they would stay engaged. And it's amazing what we can get done when we have MVP players all over our facility.

The OEM focus is a big deal for us. The Vehicle Technologies group has been doing that for a long time. We've replicated that process, and applied it to the Power Controls side. And we've said, identify some OEMs that you'd really like to do business with or really like to grow, and we're going to take some people, and we're going to repeat the swarming process that we do on the vehicle technology side. That's been very successful, and if you catch me later, I can give you some examples of some customers where that's working out really well.

We also were able to assess the distribution plan. Before the carve-out, there were four business units, and now there are two, VT and PC. That allow us to be very focused on specific customers and specific markets. The distribution model that we had used in the past was very much focused on the business that started in 1940. So, you can imagine it had a lot of history with it.

So, in doing this carve-out, it gave us the opportunity to just reset and look at that and make sure is this the distribution network that we want. We assessed whether this is going to service our future, and how it crossed over to our Sun colleagues, as well. So, in doing that, I think we were able to align with partners that add value for our products.

Success stories – again, I could talk about these for a long time, but Karen's going to give me like the hook at some point. So, recreational vehicle customer – this customer had been working with more automotive based suppliers and other large companies that were giving them a quote of three years for development. They didn't want to wait three years for development. We love it when customers are given a three year development cycle because we come in and develop something much more quickly. We find out what they want. We will literally take one of the displays that we have and a controller, and we'll have some of our people in the group that does all the customization do a display for them. We'll walk back into the next meeting, and we'll put it on the table, and we'll turn it on, and it'll say the customer's name on it, and it will do some things that we've read that they might want to do, and everyone in the room is usually shocked.

So, that's what we did, and we were able to sign them up for a project that went from that day to revenue for them and us in 14 months. And that's production-ready product that goes out the door that meets all of the gate processes and all of the specifications that were in it. That's a really big deal, and again, that was a lot of working together to make that happen.

This was the first type of technology on these vehicles. And as we've said, we usually find a sponsor customer. And then all the other vehicles of that nature now need to have one of these. Just like cars--if you remember 10 years ago, maybe longer--there were not that many displays in cars. But now, you can get in any car of any kind and there is some sort of display. That's happening across all of these other vehicles, as well.

This next story is about MasterCraft Boats. I wouldn't normally name it. I had them take it off the picture on this slide, but these guys won't care. They're doing quite well in the stock market the last few weeks, after their earnings announcement recently. But, they're a customer that had been owned by the competitor in this space. There really was only one competitor in this space about five or six, seven years ago, and we developed product for another one of MasterCraft's competitors, and we wanted MasterCraft to come on board with us.

They were kind of hemming and hawing, and so we went and bought one of their boats, brought it to Tulsa in November, took all the electronics off of it, put our electronics back on it. On January 1st, in the middle of winter, drove it to their facility in Knoxville, Tennessee

and demoed it on the water for 40 people. It was very cold. I wouldn't recommend that timing in the future.

But, in the end, they couldn't help but realize that what we were able to do, in the time we were able to do it, and the way the product performed, was going to be a better deal for them. So, we converted their business entirely to our product, and now they're our second largest customer and do zero business with our competitor. In fact, in the tow sport business alone, when we started the marine business in vehicle technology several years ago, we had zero percent market share in this niche, and we now have between 85 and 90 percent.

On the Power Controls side, we went after an international military vehicle opportunity. This was an area where we used a standard product that already existed. We didn't have to do a lot of engineering investment. We already had this display. We went in and understood what they were trying to do. This company actually buys this display and PDM, the power distribution module, and they're able to put multiple PDMs on the vehicle and reduce all of the wiring.

Some of our programmers went and basically lived with this company for several weeks, trying to understand exactly what they needed to do to make it robust. It has been a great customer for us, and opened the door for a whole new market space with defense OEMs.

Competitors – everyone always wants to talk about our competitors. We like to think we don't have any. Doesn't everyone? But, it depends on where you're at. With Vehicle Technologies, it's very specific to whether you're talking about marine or on-road or fire and safety, but here are some examples of that. And then on the Power Controls side, it very much varies, as well. Are you talking about power generation or are you talking about an OEM display controller? These are some of those competitors.

We have a very talented workforce, a very diverse workforce. We're very engineering driven. About a third of our total people in the building are degreed engineers. We do a lot of customized products, and we own projects from cradle to grave. We have our own in-house testing that takes it to a certain point before we have to get certification. We're vertically integrated so that we can move very fast. We have our own S&P lines, our own bonding. These are some of the ways in which we can develop a product much more quickly than others.

It also allows us to continue this deep application knowledge. Ever since I came to work at Murphy 13 years ago, we've talked about deep application knowledge. It's one thing to talk about it, and it's a whole other thing to be about it.

When you see these boats--and I was talking to some folks earlier and showing them some video on boats, and they were like, so that's your personal boat? And I'm like, no, that's one of the test boats. And they asked, do you buy them, or do they send them to you? We used to buy them in the early days because that's what we had to do. Now almost every single customer sends us their product because it helps the development so much, and they realize

that we learn so much about it that they will call us to fix a problem that they know is not ours.

We recently sent an engineer out to solve a problem that we knew was not ours, they knew was not ours, but they knew that we would fix it faster than anyone. So, we said, yeah, we can spare that guy for a couple days, and they were like, well, you can charge us for it and that kind of thing.

Engineering Scrum – this is how we do engineering. The next slide is going to talk about how we get it through the gate process so that you don't think that it's all just this. But, if you're not familiar with Scrum, it's actually a very succinct way to manage the tasks in engineering so they're done in sprints. Our sprints are two weeks. So, we divide the work into very small pieces of effort that a person can say this is what it's going to take me to do it, and we actually measure them on finishing that.

You can see over here the example of the relay race, showing that someone's always waiting. Even though these guys are Olympic runners, they're waiting for their teammate to be done with their run so that they can run.

Well, that's clearly not the most efficient way to do a lot of things. So, instead of that, we Scrum so everyone is working on the same thing, everyone can take credit, and everyone is moving forward with what we're trying to accomplish.

In this case, the concept of done gives the team good morale, and the entire team can take credit for that successful sprint. And so, there's no competing, you know, I didn't run as fast as you. It's everybody contributing to get things done. And we actually measure this as part of our Overdrive Program.

We also have a product development gate process, described on the next slide, a very automotive-based APQP (Advanced Product Quality Planning) gate process where we have to go through and actually verify that we've done the things that we need to do to get this thing to production. So, those two things in tandem help our engineering process.

We're going to challenge convention to change the game to get to our 2025 revenue goal. We're going to double the revenue, and we're going to do that by developing new technologies and solutions. We're going to continue to enhance the products that we currently have at customers. It is very much our style to go in and continue to build other devices.

One more example, at MasterCraft, and at all the boat companies that do tow sports, they have ballasts. They put water in the boat to make it heavier to make the waves bigger. There was a controller for that when we started years ago, and it wasn't a very good one. Working with that company was very difficult for the OEMs and for us.

We said, hey, we can't get that right in time for production, we're going to go build our own. And they were like, yeah, whatever. So, we did, and it's called a power distribution module,

and we sell about 60,000 of them a year now. It's a great product, we're very happy with it, and our customers have never gone back to that other source. That is an example of us just needing to conquer the complexity and enhance the products for the customers.

We're going to grow system sales, as I've been describing. We're going to find more OEMs globally. The way we find OEMs is we look out in that midmarket that Tim's going to define and talk more about momentarily, and we look at customers and OEMs that need rugged devices. They have complicated systems, they may have their own engineering, they may not, and if they have their own engineering, those guys might be working on something that's not electronic. We're going to consistently reach out to that midmarket and continue to develop the new markets that make sense there for us.

My colleague Rick Martich is going to come up and talk about the operations side of the business. He has been the key to us being able to get this carve-out done, and we really appreciate him.

Mr. Rick Martich: Thanks, Jinger, and good morning, everyone. I'm Rick Martich, and I'm the Vice President of Operations for Enovation Controls, which is in the Electronics segment of Sun. I've been with Enovation Controls for over 11 years now in a variety of leadership positions. And prior to that, I spent time in the automotive and aerospace industries in different positions in engineering, finance, and operations.

This morning, I want to talk to you about what we do to drive operational excellence within our operating environment. Jinger mentioned that, in 1939, the Murphy brand was founded, which then grew into what is now Enovation Controls, and we thrived and grew for many decades.

Our growth really started to take off in the 1990s. And as part of that growth and the electrification of engines, instruments and controls, one of the things that we needed to do was build the scalability around our operating environment. That started with our Enterprise Resource Planning, ERP, system implementation, which is JD Edwards, an Oracle based system, back in the early 1990s. That created the infrastructure around which our data management for accounting and manufacturing occurs.

Then in 1998, we became ISO certified, and we further grew the capabilities of our operating system when we began implementing LEAN in the early 2000s. Then we married that with Six Sigma in 2007, to continuously drive the improvement that Wolfgang talked about as a core part of our DNA. It's not just enough to have the operating structure of the ERP system and ISO discipline, but you have to relentlessly drive improvement in those operating processes and systems, and LEAN Six Sigma is the foundation that we use, and the toolkit we use, for that.

In parallel to this infrastructure that we were building for our operating environment, we started to move, not just our product design but our manufacturing processes, in tune and aligned with the electrification of engines. That started in the early 2000s with our first

PowerView® display in 2003, our PV100. And then that grew through the years into a range of displays and electronic controls that we manufacture in Tulsa.

Then you could see, over the last 10 years, the electronics expansion really took off and grew, and I'm going to talk to that a little bit more in the slides that follow. And then obviously, in December last year, we formalized and finalized the acquisition by Sun.

Our overall operating organization – there are five global locations around the world. Our headquarters for Enovation Controls is in Tulsa, as is one of our manufacturing facilities. We have a sales application distribution and light manufacturing facility in Salisbury, England and then some sales applications engineering offices around the world, giving us a global reach. We also have distributors around the globe, but with a US concentration.

If you think about the speed at which we move, Jinger talked about a couple of things in this regard. She talked about developing displays and solutions for customers that typically would take three years, we do in 14 months or less at times. The only way you can move that quick is if you have the right people and the right seats on the bus. She talked about our core values. That's fundamental to how we filter and bring people into our organization.

Once we bring those people in and we have this operating structure of our systems and processes that we drive with LEAN and Six Sigma, we empower people, and we empower those teams to be able to make decisions. That allows us to passionately drive ownership to the lowest levels of the organization and execution. Each team within operations has a clear understanding of what their role is within that overall operating structure.

Quality is the voice of the customer. They work with sales and sales application engineering to understand what the customers need to make sure that that translates into the operating environment and processes we use.

There's supply chain and materials management, which optimizes the entire flow from suppliers' suppliers all the way through our distribution channel. There's manufacturing to manufacturing engineering, which drives innovation. We talk about innovation in the context of the products and the technical solutions that we offer customers, but it's equally important in our manufacturing systems.

Information technology becomes an enabler to the rest of the business, not just manufacturing but overall what we do to enable productivity. And then finance drives the accuracy and the timeliness of our financial results to ensure we measure the performance to sustain the high level of financial performance and results that we expect.

Jinger talked a lot about understanding and swarming our customers and understanding their applications as well as, or sometimes better than, they do. And the way we do that is we do what we work. These are pictures showing our employees actually recreating in things that are similar to the applications that our customers use and design. Our products are in all these applications, and these are our folks both having fun but at the same time

understanding and learning about those products in those applications. Having that deep understanding is what helps us to conquer complexities.

One way, and a good example of that, is we worked with the Recreational Off-Highway Vehicle Association (ROHVA). That's an association whose mission is to promote the safe and responsible use of off-road recreational vehicles. We've worked with them for a number of years, and we actually bring in certified trainers from that organization and train our employees and get them formally certified in the proper use of recreational off-highway vehicles.

You can see over in the left hand corner an example of some of our employees from a number of different functions including customer service and quality to engineering. They're actually going through a formal training that involves not just tests and understanding a body of knowledge, but actually skills, driving skills, where they learn how to use these vehicles. In doing so, they're actually learning about our products in these applications to deepen that application knowledge. So, as we design solutions or as we talk to our customers after the sale, those folks that talk to them understand our products in those applications.

At the same time, this accomplishes another core value of ours, of enriching lives. So, we're helping people to grow their knowledge and their skill set in the same process.

Jinger talked about the carve-out, and Wolfgang alluded to it in terms of the acquisition of Enovation Controls by Sun. Through this carve-out, we've really established the model by which we can execute future acquisitions, whether it's in the Electronics segment or in the Hydraulics segment.

To frame out what that carve-out has been like, we've had to take manufacturing processes that were in the old Enovation Controls facilities in San Antonio, Texas and Hangzhou, China, and we've had to take manufacturing lines that were in Tulsa relating to the old Enovation Controls and move them between those sites. We've moved no less than two dozen manufacturing lines. We've moved manufacturing lines from San Antonio and Hangzhou to Tulsa and also to our Salisbury facility. And we've moved manufacturing lines from Tulsa to San Antonio to separate and carve out the two companies.

There's a tremendous amount of complexity around that, as we carved out our two lines of business – Vehicle Technologies and Power Controls.

At the same time, we've had to start up in Tulsa the Service Mount Technology line (SMT). That's where we build printed circuit board assemblies, the electronic boards that go into our displays and controls. So, before the carve-out, that was done in San Antonio, and we've moved that capability now to Tulsa. We have one line up and running, and the second line, which is moving from San Antonio this month, will be up and running by the end of September.

All the while that we've been doing this and carving out, we've been also meeting customer demand, and our business has grown greater than 35 percent year-over-year in this time

period. So, we've been able to manage this complex carve-out of our manufacturing systems, there's tremendous growth in the business, and behind the manufacturing systems, there's all the accounting and IT and other customer service functions that had to be carved out as well. We've been able to manage that while growing significantly, which really establishes the successful model that we can replicate as we move forward with other acquisitions, whether it's in Electronics or in Hydraulics.

So, the devil's in the details. How do we accomplish that? When we look at production and operations, when we look at quality and regulatory requirements, when we look at personnel, we've had to look at each of these dimensions of the business. As part of that carve-out, we unpacked detailed plans of how we separate our operating system, how we separate our supply chains and how we separate our back office financial and quality systems as well.

In addition, we've had to become SOX compliant, going through that process in Enovation Controls, now part of Sun Hydraulics.

I want to share a couple of examples of conquering complexity within the business to accomplish that. One is when you look at the split and what happened on December 5th, 2016, within the Tulsa facility. On December 5th once the sale of Enovation Controls was complete, we had to run two separate businesses. We had to run the new Enovation Controls and its lines of business. We also had to run lines of business for the old Enovation Controls until we finished the carve-out move of all those production lines.

We had to replicate our ERP systems. We had to physically count all the inventory and physically separate it. And what you see on the screen in the lower left hand corner is an example of that separation. We took all the inventory that did not come with the two lines of business that were carved out and had to put it in a separate warehouse within the facility, within that yellow cage that you see, within Tulsa. Likewise, all the operating processes from receiving to manufacturing to shipping, we had to have duplicate processes for those two companies, the new Enovation and then lines of business that were not carved out through most of this year until we can finish the move of all the manufacturing lines between the different facilities. And we were able to do that while, at the same time, growing business by greater than 35 percent.

Similarly, I mentioned the Tulsa SMT operations. We've already started up one line from a greenfield operation. We're moving the second line that will come from the San Antonio facility that was part of the assets acquired in the carve-out of the two lines of business.

One other thing, while doing that, we've been bringing online in Tulsa within every five days a new PCBA, Printed Circuit Board Assembly, platform. As we start up that production line, it's not just turning the line on, but it's bringing on each of those successive electronics display platforms and the printed circuit board assembly platform that's associated with it.

We've been able to build the team around that all simultaneously. So, it's another good example of conquering complexity, not just in the product solutions that we offer to our

customers, but in the way we actually run the business and the ability that we've been able to do things through this carve-out.

When we look forward, how do we create the capacity to enable future growth? This is not just from here forward but also what's driven us over the last 10 plus years. We are a LEAN Six Sigma organization, and that drives us, and that's a journey. It's never ending. You know, Wolfgang talked about it being in the DNA, or this relentless pursuit of perfection. That's something that's been an integral part of our culture and organization for 15 years, continuing to drive what we do every day.

A big part of that is visual factory. If you were to visit our facilities, you would see very transparently represented the operating environment on the floor – metrics from the plant level down to the sales level – to help information flow, as well as people and material flow.

Our manufacturing execution system is another key part of the scalability to enable strong growth. All of our manufacturing lines are networked. We capture all that data in a database, and that database and that information is used to drive both an understanding of what's happening in the daily operating environment but then simultaneously to help us identify opportunities for improvement. It ensures the quality and control of our manufacturing processes so that we deliver quality product to spec to our customers.

Then, lastly, vertical integration – this has been a key strategy for us over the last 10 years. If you look over the past 15 to 20 years, the trend in manufacturing in the U.S. has been a tendency to either outsource to contract manufacturers or to take certain types of manufacturing overseas, particularly electronics. During that timeframe, Jinger alluded to it, we've actually built capabilities in. We've invested in capabilities to do bonded displays for our color displays where we take a color LCD, marry it to glass, and fill it with gel to make it more viewable in direct sunlight. Simultaneously, we've been investing in printed circuit board assembly and our SMT operations.

Those capabilities, combined with our engineering capabilities collocated, are what allow us to move so quickly to market. We can take a concept design from engineering drawing and information into production not within months, not within years, but within weeks. We can take a printed circuit board assembly from design and actually have a prototype within a couple of weeks and then put that in to the form factor with the other components to actually get a functional display.

We can do things like what Jinger said. We can actually go into a customer after only having met with them a few weeks before and put on the table in front of them a solution that actually works, comes up with their name on it, and simultaneously demonstrates the capability of what potentially we could bring to the table for them in their application.

So, in order to enable these rapid new product launches, in addition to vertical integration, we also have to drive flexible and responsive supply chain partners. And we work to develop deep supply chain partnerships. Just like Jinger talked about swarming our customers, we

work to swarm our supply chain partners so we have this imbedded, deep relationship with them so that they understand our business just like we understand our customers' business.

We talked about some of the things we do, from foundational elements of our ERP system and ISO, and then also what we do with our manufacturing execution system and other types of toolkit solutions, like LEAN Six Sigma, to drive intuitive and scalable manufacturing systems.

We're also in the process, started last year, will finish next year, of agile implementation for product life cycle management. That's a system capability that will help us manage the data and flow of engineering information as we go from concept all the way through the full life cycle of a product.

And then design for reliability – this is fundamental to meet the quality expectations for the applications we sell into. We do a tremendous amount of environmental stress screening that starts actually during the design phase where we do design validation. We would do HALT testing (Highly Accelerated Life Test) and ALT testing (Accelerated Lift Test) on products, carrying into manufacturing where we have the capability to do HASS testing (Highly Accelerated Stress Screening), to drive and understand if there are conformity issues and address those issues very quickly.

Then all this is about, and it highlights what Jinger talked about, swarming our customers. That's not just on the upfront portion of what we do when we're first understanding their application, beginning to build that relationship, but it actually translates into post sales as well. Once we have that relationship, we swarm them when issues occur to drive rapid resolution.

So, if we think about our LEAN vision and strategy, our vision is to ensure that things flow, we have mistake-proof processes and we have engaged employees. And our strategy around that, is I've talked about the vertical integration, that's core to what we do for speed to market. And then we leverage the KATAs (patterns one practices to learn a skill and mindset), applying the coaching and improvement KATA, and then we champion and lead LEAN from within. This is an integral part. We believe that the people that do the work should drive the improvement, and that's at all levels of the organization. So, we very much drive LEAN from within, and then relentlessly drive improvements.

So, here are a few examples of LEAN, what we've done through the years and what we've done more recently. A few years back, we looked at our overall manufacturing facility, and that's what the top picture is. We looked at it as we grew all the different manufacturing departments. We looked at the inner-relationships and the flow of materials between those. And we identified and realized that we could better collocate along value streams. So we reorganized our facility into three distinct value streams. By doing so, we were able to open up 9,000 square feet of floor space plus eliminate a lot of material handling.

A couple other examples, and these are all examples that are more strategic in nature that allow us to leverage our capabilities from an overhead perspective and also our assets. We

call it 3P, or production preparation process, using a similar kind of methodology that Jinger talked about with Scrum and the Kaizen approach to product line development, manufacturing process development. We brought all the functions together, including manufacturing engineering and test engineering, that were needed to build a line, and we started mocking it up. That's what this picture here on the left hand side is.

What used to take six months now we're able to do in three and a half months. What used to take capital that, at times, could be north of \$200,000, we're able to do for half that cost in production line development by eliminating a lot of waste in that process.

And we've brought similar philosophies into our manufacturing tests where we look at just-in-time testing. When you look at a manufacturing process, based on the risk that's introduced at each step in the process, you think about what testing you really need to do. You want to test enough to protect the customer and ensure the integrity of the specification of the product, but not actually over-test, which would be waste.

We've been able to reduce our development time, as you see here in the results, on testers from two months to two weeks, dramatically improving it by 80 percent. We reduced development costs from \$30,000 to \$6,000 and simultaneously have been able to drive significant savings in our manufacturing operation. Those are just a few examples.

So, as we look at where we're going to support Vision 2025 as part of the overall Sun organization, we're really looking at connected displays and controls. Wolfgang talked about the Internet of Things, and we see that displays are not just going to be managing the platform but will be the ways to actually do predictive maintenance from a distance. We are working with customers to actually be able to peer into those vehicle applications, whether industrial or recreational, to understand what's happening, collecting data and using that to help the customers better manage those applications.

Similarly, we'll be able to push software upgrades to those applications, no different than you get software upgrades pushed to your phone or other electronic devices, we'll be able to do that with displays. By doing that, we'll be able to then develop and leverage a software services model which will provide and present new opportunities for revenue channels for us. Through all that, we will continue to develop our supply chain, which I talked a lot about regarding vertical integration, speed to market. Continuing to develop the speed and capability of our supply chain is going to be a critical part of that growth equation as well.

Then, lastly, we will leverage our existing technology and footprint to accomplish that. If you look at our existing footprint and what we've talked about, we have the capability to grow our revenue by greater than 50 percent in the Electronics segment. So we'll be working to get the operating leverage and benefit that comes from that.

Thank you for your time. I'm going to now introduce Craig Roser, who's going to talk about the global sales and marketing for Sun Hydraulics.

[Video Presentation – Hydraulics Segment.]

Mr. Craig Roser: I'd like to give you my welcome to this event but also tell you a little bit about myself. I joined Sun Hydraulics in 2009, but I've been associated with Sun since about 1982. My career in fluid power started, after a short stint in pure engineering, with Gulf Controls, one of our sales channel partners located in Florida and South Georgia. And so, I've worked for a Sun distributor. I've also worked for a very large competitor distributor, who handled HydraForce. I worked for HydroAir. They spent a substantial amount of time selling HydraForce products to the OEM market in the Northeast and the Mid Atlantic. My current role at Sun Hydraulics is Global Sales. I have a team of about five regionals. They're located in the region, serving the region.

I'm going to talk a little bit about the history of Sun Hydraulics, and then I'm going to talk probably most about how the sales team is going to drive the vision, the 2025 Vision, reaching \$450 million in sales by 2025 for the current Hydraulics segment.

So, in the beginning, there was Sun Hydraulics Corporation. Sun was founded by Bob Koski, as Wolfgang mentioned, in 1970. The differentiator was a cavity. The cavity is that element of an integrated package that holds the cartridge valve. The cartridge valve includes all of the working elements. It includes the structure that allows it to connect to the manifold or the integrated package.

We'll spend a little bit more time talking about the cavity, but let me first tell you that that cavity was mostly about a high performance hydraulic function. It allows higher pressures. It allows better flow rates. It allows more efficient functions, like pressure control, like flow control.

In 1970, Koski and Allen founded the company in Sarasota. The first factory in the US was built in 1980. That facility is 1500 University Parkway, and it serves as our corporate headquarters today. In 1982, we opened operations in the UK. In 1990, operations were begun in Germany in Erkelenz. A second US factory and our IPO were in 1997. Many of you will have already known about that IPO.

Each of these factory changes were to allow us to address what was happening in the marketplace. The very first facility was a mixture of both cartridge valve and manifold manufacturing. As manifolds became more important to Sun Hydraulics, we began making manifolds in the second factory when it was opened.

Then we opened a third US factory, when manifolds and integrated packages were even more important, and customers became a focus for that part of our manufacturing operations. So, when you visit, you'll see that our newest facility is centered today around manifold and integrated package manufacturing, and it will be involved heavily as we develop our capability with full systems.

In 1998, we began looking at Korea and China. In 2007, the India sales office was opened. And again, 2013 was the last US factory that I just mentioned.

In the last year, we brought in a new CEO, Wolfgang Dangel, and we acquired Enovation Controls, which rounded out and solidified our entrance to the electronics segment of our business.

As you've seen before, we have seven global locations for the Hydraulics segment, about 800 employees, 130 global sales channel partners.

We play in the \$2 billion compact hydraulics market. We serve very broad markets, which we'll talk about here in a minute, but we have a leading market position in material handling, industrial applications and construction machinery.

Even though we have leading positions in those sectors that serve us very well, we play in almost every market where there is a hydraulic function. If there is a hydraulic fluid power transmission application, then Sun products can be applied from the simplest pressure control to the most complicated electrohydraulic flow, pressure, speed and force control. You'll see markets like pulp and paper. You'll see markets like forestry, marine and factory automation. Some of these, you will have noticed, Enovation Controls is also involved in. For example, material handling – we have joint activities at JLG and Genie today because of the two segments beginning to work together.

Sun Hydraulics originally chose to go to market with sales channel partners. Sun in North America literally did not have an outside field force, application engineers in the field, until just last year. I'll talk a little bit more about that on upcoming slides. But, you can see that we've had very longstanding, loyal, profitable relationships with many of our channel partners. When you look at these 12 channel partners, including HPS, CPS, Price, Hydraulic Controls, Womack, these partners represent about 40 percent of our sales today. Most of us have been with this for multiple decades, but you'll also notice that we have a Chinese distributor, SuccessSun Hydraulics. They came on board within the last 10 years, and we have been able to work with them very aggressively, work with them very closely, develop their touch in the marketplace along with our regional guys in China, and they will likely be one of our largest distributors if not our largest distributor in 2018.

So, we have had continued success with distributors and integrators that we have had relationships with for decades, which produced the performance that you have seen up to date, but we also are growing and developing new channel partners that can get us into new markets and new customers in new regions.

We believe that we understand the competitive landscape well. We classify our competitors into three different categories. There are the full line manufacturers of hydraulic products. Parker, for instance, Rexroth, for instance – they make almost every component that would be used to create a hydraulic system, from the pump to the control products all the way through to something as simple as the fittings and the transmission lines, filters, things like this, hydraulic gages. Those are the full liners. We put those in one category. Each of those have a CVT product program, a cartridge valve technology product program, and that is what we compete against directly today with that class of competitor.

There are cartridge valve producers that only produce cartridge valve technology. Sun Hydraulics, for example, only produces CVT today. HydraForce and Delta are in this category as well.

Low cost producers are such that they're the "wannabes." They're the companies that might make a like product to Sun Hydraulics and try to pick our business off in the marketplace. They're local, regional. They serve limited markets in limited geographies with a limited product offering.

We've talked a little bit about the market trends and drivers. My colleagues have done that. But, importantly, we understand that what we have to do to remain competitive is to increase productivity, increase product reliability even further. Electrohydraulic products, electrohydraulic control is going to be very important moving forward.

One of the things that Sun is changing is that we are no longer "build it and they will come." You're going to see in the next few slides what Sun is doing to become more customer centric.

Our sales organization is evolving. We believe that we have to reach our customers more fully, we need to touch our customers more directly, we need to have sales channel accountability. Before, we built products, we promoted our products and we let customers choose the best product in the marketplace; our sales channel partners did their job by getting it sold. That's changing. Part of that's changing with what are doing with targeted applications.

We have target applications aligned. As I mentioned earlier, the number of end markets that we reach is broad, but we've chosen six that we're going to focus on. My team, the regional application specialists across the globe, will focus on these, but also Tim's team as a systems group will focus on these and allow us to get deeper into a customer, allow us to get onto a broader and provide higher quality bill of material for that customer.

You can see today that our goal, our initiative, is to increase customer interaction. We believe it needs to be in the region, for the region. You can look at the Americas and see that, in the past, we had zero field application specialists. In EMEA, we did have six. In APAC, we had zero up until about 2009. In the Americas, we now have eight, and that initiative is literally just over one year old. So, we have added eight field regional application specialists that are out calling on customers, working with our sales channel partners to drive Sun's acceptance. Their goal is to get us on the bill of materials on particular machines at particular customers and OEMs.

The build-up is well underway. It will drive operating leverage. Those eight, by the way, are very experienced hydraulic engineers, regional application specialists, that we've hired in the last year for the Americas, and that will be similar in EMEA and in APAC.

In APAC, we believe that there's a great opportunity to take market share. Today, out of Korea and the other regions in APAC, 40 percent of our sales is direct to OEMs and about

60 percent is through sales channel partners. We believe that will continue, but we will focus and be more aggressive at the OEM customer level directly. When it's appropriate, we'll involve the sales channel partner.

For APAC particularly, we believe that we will need to look at our product program. Wolfgang mentioned that we offer premium product at a premium price. We believe that we're going to have to offer in the future quality product at market pricing. Again, we still believe that our core product program is going to be very important to our success, and that will continue to have to be improved both from a performance and commercial standpoint, which means lower cost, keep the deliveries up, make sure that it meets the market with the core product program that has gotten us here to 2017.

EMEA – expand, nurture customers, sales channel partners, aggressive promotion of quality new products. We do have new products on the drawing board today that will allow us to reach into new applications and new customers.

Of course, our customer responsiveness, our customer service and our technical service, which is a hallmark today for all regions, will need to remain exactly the same if not improve. We cannot, you know, fall a notch with customer service and technical service.

Americas – we're expanding our reach and our scope. We believe that there's still market share growth opportunity. We have developed very aggressive business plans with our long-term channel partners. We've actually now begun looking at them and to make sure that, even though they're a long-term channel partner, that they still fit the bill today. Do we need to make a change in a sales channel partner at a particular region today? Are we being served well in that particular region?

Our regional applications specialists are in the field supporting our sales channel, but importantly, we're also looking at some of the OEMs. Some of the large OEMs are not interested in working with distributors today; they want direct relationships with their suppliers. In the past, we may have just shrugged our shoulders and said ho-hum. Today, that market is being looked at very, very carefully. We understand that OEMs require a different service level, and of course, we need to be able to deliver that service level before we approach them.

Again, in Americas, new product programs meaning valves and valve solutions, and our core product program has to be addressed.

By the way, there's one error in your book. You're going to see the bar for market share for U.S. and Canada only goes to 9 plus percent in your book. That should be 12 percent, as shown on this slide.

So, in summary here is how we're going to help the Hydraulics segment, how the sales group is going to get to the Vision 2025 point of about \$450 million in revenue, which represents about a doubling from where we are today. Greater accountability with existing sales channels, and that's both ways, us servicing them and them servicing us, too. You

know, we're being more demanding about the growth that we require, the focus that we require, the mindset that we require. We will add new channel partners. We will deepen the share of our existing customers, more applications, more platforms, a greater quantity of Sun product on the bill of material for the hydraulic systems of the machinery. We expect to find new customers, and again, new product programs and expanding our core products.

That was quick. We do have an hour for questions and answers later, but I'd like to introduce Tim LaCrosse, Global Engineering for Sun Hydraulics.

Mr. Tim LaCrosse: Okay. Thanks, Craig.

My name is Tim LaCrosse. I've been with Sun since December of 2016, so I'm the newest member of the leadership team here with you today. I have 22 years of previous experience in the industry, primarily in engineering, operations and business development roles.

So, if we take a look at Sun Hydraulics, we manufacture cartridges, manifolds, electrohydraulics, and then we put those into integrated packages, which are basically subsystems for our customers.

Craig talked about the Sun cavity advantages of high reliability, high installation torque and low pressure drop, and I wanted to take a few minutes and go back to what Wolfgang had said earlier in terms of the mega trends, and this is, I think, unique. So, we talk about those mega trends in terms of higher power density, right? We talk about energy efficiency, productivity and those types of things. Sun's cavity and product program are uniquely positioned to deliver on those trends.

This is in contrast to our competitors' products, we have a smaller size cavity. The industry common cavity inherently is not as energy efficient as the Sun cavity.

The other point here regarding the higher installation torque, as system pressure and power density increases, system pressures are going to go from 3,000 PSI to 5,000 PSI. That requires higher load-holding in your components. Our installation torque handles that better than our competitors products, which tend to loosen over time when subjected to those higher pressures. So, we are uniquely positioned to handle these trends.

If we look at our product program, we have 950 valve base models, 183 load-holding valves. We are the market leader, the unquestioned market leader, there in load-holding. Flow rates to 300 GPM (Gallons Per Minute), flow pressures to 5,000 PSI (Pound-force per Square Inch) – we can handle virtually any application in the mobile and industrial markets.

We also offer various stainless steel alloys – zinc, nickel, special steels for special applications, some of which were shown earlier in the presentation.

So, let's take a look at a couple of applications where Sun is providing efficient, safe and reliable hydraulic control. This first one is called a reed stacker. Second one is obviously a windmill. The customer need was efficiency and reliability. The solution provided to them

by Sun is called a loadmatch valve – there's a product example out on the display in the foyer – and a pitch pressure control valve. The loadmatch valve gives optimum energy efficiency for that application. The pitch pressure control valve provides safety for the application in terms of the system if the primary valve should fail.

The second set of applications, again, focuses on safety and reliability. The first photo shown here is an aerial lift. I'm sure everybody's seen these around. If you see a man in the air, that is undoubtedly our valve holding that guy in the air and keeping him safe and allowing that machine to work on a very precise control basis.

Second photo shown here is more of an industrial application, and it is showing a press. This is where some of the safety legislation which is primarily generated out of Europe is coming from. It is expected to drive into the Americas and the rest of the world. There's safety legislation requiring a redundancy in the valve and the system to have an electronic signal and a hydraulic signal work together. And this is where we're starting to use some of our technologies and marry them together to provide customer solutions. In this case, we have a directional control valve, which is what DCV stands for, and we're integrating some sensor technology to make sure the customer has the right solution to keep their machines in compliance.

The third set of applications here shows a rooftop buller. This is a mining application. And then this one here is an ROV, which is a remote operated vehicle. It works under subsea conditions, pretty tough and demanding environments, making sure first of all that the products are safe, that the control is there. And so, in these two applications, we're controlling boom and on positions, but again, very tough, demanding applications where we provide that precision performance and control.

If we look at how we're going to organize for growth relative to our Vision 2025, from an engineering perspective, we are organizing globally. The first team is our systems team. The systems team is focused on six target applications. Craig showed them in his presentation. We are adding expertise in all areas of the globe, and their primary focus is to really talk about conversion of electronic and hydraulic know-how into the system for those six targeted verticals.

Our second team is the innovation team. This is a new team. It's five dedicated engineers which are totally isolated from the day-to-day operations. They're focused on innovation, speed, quality execution and getting products to market. So, the other thing that they focus on is developing disruptive technology, and so they have time to work on that outside of the day-to-day operations, they are totally isolated.

The third team is the sustaining engineering team. Craig talked about some of the activities that this team works on on a daily basis. They do modifications and extensions to current products. So, if a customer calls today, we want to give them a solution tomorrow. Platform performance increase and optimization, this is where we're basically taking our core product program and continuing to improve its performance to protect it from competition. We're also looking to reduce cost.

All of these teams will be supported by development of our global research and development capabilities, and we will use that capacity on a global basis.

If we take a look at our Vision 2025, what is the role of all of these teams? All of these teams are really responsible for delivering a unique selling proposition to the customer, which really fulfills an unmet need in the application. So, for example, increased system productivity, reliability and performance - we talked about that earlier. We're providing increased power density, 5,000 PSI across the board, but not only 5,000 PSI across the board, it's 10 million load cycles. So, that's the reliability piece.

We're increasing the degree of freedom – so, what this means is, in general, if you looked at the hydraulic industry in the past, typically, control was done with spool valves. And spool valves were used because the flow dynamics within those valves are easily understood. Now, as we increase our intelligence of how to control valves better, there's a natural migration from spool valves to cartridge valve technology. Again, Sun is uniquely positioned to handle that technology. So, that's what it means in terms of increasing degree of freedom.

Prognostic diagnostics – we talked about electrohydraulic embedding sensor technology, easy to use system hardware and system software.

Improved safety – we are the market leader in safe applications and very, very difficult applications. We have an outstanding reputation there. We want to make sure, from a regulatory compliance standpoint, we are staying ahead of what is needed from our customers.

Finally, OEM value creation and reduced system cost – our focus is on our new product program, to make sure we're designing to market price but also providing unique selling propositions (USPs) that our customers will identify in our product that are advantages over our competition.

The other thing that this team is really focused on, and we talked about it, is intelligent system and subsystem designs. A trend that OEMs are facing today is increasing system intelligence. If you look at the data quality and availability of data which are coming off of applications, it is increasing at a very rapid pace. At the same time, the analysis of that data, the complexity of analyzing that data is increasing. And so, what that allows our OEMs to do is basically go from basic reporting and analysis of data to detection, predictive, prescriptive analytics and then eventually operational optimization.

From a Sun perspective, we want to be the provider that those OEMs go to to solve these problems and give them the enabling technology they need to make this happen. As Jinger talked quite a bit about the Enovation Controls piece of the business, we talked about some of the displays, the controllers. But, the unique thing there is the application expertise and how they get into their customer applications. So, that's bringing that side of the table to the house, in terms of our systems approach, that electronics know-how.

We've talked a little bit about our unique position in the market with our product and our technology, and what we're doing to improve on that. We have the hydraulics know-how. We want to bring the controls know-how from Enovation Controls, together with the hydraulics know-how from Sun Hydraulics to really deliver to customers an optimized system. For that optimized system, our target is in between the small niche suppliers and the high volume OEMs, our sweet spot is right in the middle – medium volume and medium mix, resulting in superior margins.

We talk about LEAN enterprise being an important contributor to our evolving culture. Rick talked about it quite a bit in his presentation. In the Hydraulics segment, we're not as far along in that LEAN journey, but we are starting down that path. I want to give you an example of what we're doing within the Sarasota facilities to improve our performance.

If we take a look at this, this is one example of our 701 shipping team. On the left is our actual layout and how we shipped product. So, a lot of square feet, productivity was 85 units per labor hour, and there were quality non-conformities associated with this type of motion and this type of process.

Take a look at the "After" diagram and see what the team was able to produce. Rick talked about this, as well, in his presentation where we're opening up square feet as a result of the LEAN process. We reduced square feet required to do this activity within the plant by 51 percent, we increased our productivity by 34 percent and improved our quality non-conformances by 69 percent. I think the key here, we talk quite a bit about this, Rick as well, is really the people that actually executed on this initiative. It's not a top down management thing. This is driven from the grassroots level. The people shown in the picture are the ones that actually did the work here. There's a lot of training that goes on in terms of what LEAN means, techniques, tools, processes and systems. We help our employees along with that in terms of the knowledge, and they execute the plans.

We've got a long way to go. I think Rick put it appropriately that you're never at the finish line. It's a continuous improvement thing. But, we are driving that at the grassroots level within all of our facilities.

We talk about LEAN. We want to create production flow. We want a system intolerant of abnormalities. Create full production and pace to customer demand, which minimizes waste and reduces our lead time. That is a competitive advantage for us already at Sun Hydraulics. We want to continue to improve on this.

With this and what we've talked about relative to the Hydraulics and the Electronics and our systems approach for Vision 2025, we feel we can absolutely double sales and maintain superior profitability and financial strength.

Mr. Wolfgang Dangel: So, we are quite nicely on schedule. We want to keep everybody on time here, as well. We'll continue the discussion with the topic around external growth. Obviously, and as I pointed out during the opening presentation, a substantial portion of

getting to \$1 billion in revenue by 2025 has to come through acquisitions. So, that's a topic we want to cover here next.

I want to start off the presentation basically with one demonstrated success, and that's Enovation Controls. Even though it's still early, to be quite honest, I mean, we are 10 months into all of this. We signed the purchase agreement in November last year and closed the acquisition in December. I hope that you're getting a good impression this morning and you saw the gap from a strategic standpoint and how Enovation Controls is serving that very specific purpose.

So, if you look at some of the objectives that we listed here, it's basically proof of solid integration, first and foremost advancing us from a hydraulics perspective into the electronics field and vice-versa. We're using the electronics competence that was showcased already this morning in order to influence product development on the hydraulics side. Jinger pointed out the electronics business, a leader in electronic controls display and instrumentation solutions. One of the very important strategic rationales was that it will diversify the business of SNHY to a much, much higher degree.

If you refresh your memory, and in the presentation of Craig, he said we have leading positions on the hydraulics side in material handling, construction machinery, and stationary applications, so all industrial applications. And if you go back and look at the development of those end markets over the last couple of years, it was actually challenging for the company to grow. Once the construction machinery market went down predominantly in China, it was a significant setback.

Unfortunately, as these are very volatile end markets, some other markets went down. Agriculture went down and so forth, and that was not very helpful.

Through the addition of Enovation Controls, we are expanding our reach into other end markets. Some of the success stories that we saw were on the recreational vehicle side that Jinger talked about in much more detail.

This is also all about money at the end of the day, and we have to justify to our shareholders a reasonable return on the investment. If you look at some of the metrics noted here, we are coming in at an EBITDA multiple of below 10, which I think is, for the kind of acquisition we made and the kind of capabilities that we got, a very reasonable price.

The transaction price was \$200 million. That was the purchase price. There is an earn-out attached to it of another \$50 million. We assume at this point in time, because the company is performing extremely well, that the earn-out will be fully earned. So, we're expecting 100 percent of the earn-out to be paid out. The earn-out is tied very strongly to our KPIs that you saw on the strategic roadmap earlier this morning. That means through revenue and profitability. It's a three phase earn-out, three times nine months, so it's an earn-out period of 27 months in total.

I just came out of a discussion with some of you out there during the break, and I want to share a story with everybody here in the room. When we did the due diligence, Enovation Controls came up on our radar screen after a pretty comprehensive analysis done during the second half of 2015. It was the outside help of somebody actually based here in New York, somebody that has a lot of experience in the electronic controls arena, helped us to identify the potential targets around the world.

The first list we were looking at was a list comprising 472 companies around the world. So, we continued going through the process and slicing and dicing this until we ended up with six potential targets, and Enovation Controls was topping that list of six. There were three North American and three European targets on that list.

Jinger mentioned one of the very impressive elements of the company that convinced us at the very early stages, one-third of the entire workforce are degreed engineers. If you just look at the software capabilities they have in-house, it would have taken Sun probably decades to get to that level, if at all.

So, we believe that growing the business from a CAGR perspective double digits is probably pretty realistic. What we also did during the due diligence process was we did a so-called strategic fit analysis. And what we did in that regard, we were very eager to get direct feedback from the customers. So, a neutral third party went in and basically surveyed these customers for us because we heard it from the previous owners of Enovation Controls, and we knew it from the analysis we had done, but we wanted to also hear it from the receiving end, which are their customers. And the feedback there was very convincing, and it underlined exactly what Jinger presented this morning.

If you just think about that swarming approach and that swarming philosophy, that's exactly what the customers appreciate. And I think the second most important thing was the speed and the agility this organization has. They just are able to out-pace competition.

So, based on that, we had a strong belief that, over time from a CAGR perspective, this business will grow double digits.

If you look at it from the objective of efficiency of the integration and the skills and the knowledge, we showed you a couple of examples earlier on. Tim talked about it, how this strong influence of electronic controls on the product development for the hydraulics side, what that could look like. I think that's probably also quite a significant piece of proof. We believe we are developing into an organization that is capable and that can be very acquisitive. And again, I make the disclaimer that this is still early, but we are very confident.

What you see here is the targeted technology structure and the company structure. I don't want to talk about the company structure, particularly because that by itself will be influenced by legal and tax considerations. That's not so important. We are driven by technologies. And we are looking at the following technology arenas.

Historically, for 47 years, we have been in hydraulics, and we have been in hydraulics with cartridge valve technology, referred to as CVT, as you heard several times this morning. So, that is existing today.

Now, this whole building here – I refer to this as the strategic house, by the way. It's the electronics business that came in through the acquisition of Enovation Controls. So, what we are trying to do is we are trying to strengthen our existing capabilities. On our hydraulics side, we are looking at what we refer to as adjacent product offerings here.

Craig pointed out that we are looking at probably a market of \$2 billion in terms of CVT. That's a pretty small sandbox to play in. And as we want to grow this business proportionally, we are looking at adjacent markets and adjacent products that can broaden that sandbox of \$2 billion to a higher number.

At the same time, it gives us opportunity to make acquisitions here still within electronics, I think probably down the road, after the carve-out is completed and we are drawing to an end reasonably soon, as Rick pointed out. I think the organization is probably ready for plugging on acquisitions on the electronics side, as well.

Thirdly, we are looking at an area that we refer to as linked technologies. These are technologies that feed either of the two business or technology arenas. I pointed out this morning that it can be in the arena of electromechanical actuation because we see a strong trend of converting pure mechanical actuation into electromechanical or even electric actuation. So, that could be in the field of electromechanical actuation. It could be in the field of factory automation. Please refresh your memory, that goes back to the trend of more sophistication, more efficiency, more productivity of equipment in general. That bodes well right there. Or, it could be in the arena of software technology or anything else that is IoT relevant.

So, we take this thought process of the strategic house to the next level now on the next chart, and we look at the acquisition strategy or the three decisive pillars of the acquisition strategy. First of all, let's look at the goals again. As pointed out on numerous occasions this morning, technology leadership that will broaden the technology offering – that's one very important aspect. Then the next two bullet points are also important, as well, for the strategy. We pay a lot of attention to very strong, best in class components because we believe that's the solid foundation to move into the solutions business. If people enter too quickly into the solution business without having the foundation on the components side, you run into tremendous problems.

First and foremost, we look at companies that have a very strong position here as far as best in class components are concerned. Obviously, we want to leverage talent. Another goal is primarily we look at proprietary acquisitions. Last but not least, as I pointed out several times now, we want to further diversify the access to other end markets and industrial sectors. We are still too narrow if you look across both business segments.

If we look at the target attributes, and I would say Jinger and Rick are a good example of that, we look at very strong management in those acquisition targets because Sun historically is not in a position to come in and lead any other business. We don't want to do that because I'm a strong believer businesses are successful for the most part because of people, and it starts with the people on the top. We want to acquire the people on the top of the business. We don't have an interest of acquiring a company and getting rid of the people on top. As I pointed out before with regard to Enovation Controls, we took over everything, everybody. Nobody lost a job there.

Solid customer relationships, that goes back to the strategic fit analysis we did with Enovation Controls. We want to have representative feedback from the customers any target is doing business with. I want to hear it from the horse's mouth at the end of the day. We'll probably apply the same philosophy here.

We talked a lot about quality. Premium quality philosophy is an absolute must, as is the culture of an organization that supports innovation.

You heard a lot about LEAN this morning. So obviously, we are paying a lot of attention to any potential target out there that has a LEAN DNA in its way of thinking and operating. It's actually not just on the operational side. It's the LEAN enterprise approach. It has to go across the functional areas.

If you look at the successful LEAN implementations and the successful LEAN principles, particularly if you go to Japan, it's always a full enterprise approach. It might start in manufacturing, but you've got to have a holistic approach across all the functional areas. Engineering being an integral part is extremely important because this is where you set the foundation of the products that you are going to manufacture down the value chain.

Superior profitability – in alignment with Vision 2025, as I pointed out this morning, we don't want to grow just for the sake of growing and getting bigger. There is no value to that. We have to maintain the profitability levels. Again, I will refresh your memory, that means north of 24 percent EBITDA margin and north of 20 percent operating margin.

Strong capability of generating free cash flow, and probably the sweet spot target generates today somewhere between \$50 and \$150 million in revenue. People might ask why not more than 150 million? I think the reason for that is also this chart here. As I pointed out for electronics and with Enovation Controls, we are approaching that number over the next few years. I think the combination of strong management and the technology capabilities, that's a very good size of company to add on acquisitions by itself.

The strategic house here, by the way, as you see, the buildings are segregated, and that goes back to what we point out later on in the integration model. Because we want to have these companies successful on a standalone basis, I will not enter into any transaction from my experience that is justified on synergies. As a matter of fact, we do the opposite. Any acquisition needs to justify its existence on a standalone basis. If I go back, and as I mentioned a couple of minutes ago, a company that has the standalone capability to grow

double digit on a continuous basis brings that capability to the table. I don't want to justify any deal in front of you guys or anybody else, including the Board, based on synergies.

We are taking advantage of synergies and low hanging fruit, yes, we do that. But, it's not the driving element to make the acquisition because it will not work at the end of the day, from my experience.

Driving the innovative culture goes very much back to what we said here. There has to be a DNA within the company that supports innovation. We have to continuously replenish the pipeline of product development with any other area in the company to innovate, to become better, to question status quo, to drive continuous improvement.

We keep the talent. And again, I pride ourselves that we kept everybody in Enovation Controls, and our intention is to do exactly the same with the next potential target. And we pay a lot of attention to those customer relationships, as I pointed out, and I refer again to that strategic fit analysis.

Earlier this morning, I also said we believe in strong brands, and successful companies are normally based, also amongst others, on very strong brand recognition. So, I'm not a big believer in streamlining the brands and just throwing stuff together. I think there is a reason why companies are successful, and brands are one driving element for that. Enovation Controls, by the way, is a very good example. We've talked about the Murphy brand being almost 80 years in existence.

We want to leverage the engineering expertise. The example you saw this morning coming from Tim's presentation, where we showed quite well how we want to leverage the expertise on the electronics side and bring it into the product development cycle of hydraulics.

And then, as I said, take advantage of the low hanging fruit, but I want to emphasize again, synergies will not be the driving element of any acquisition.

Let's move to the strategic filter, and there are three criteria that are important – technologies, markets and geographies, and value. On the technology side, closing product gaps, enhancing the offering, I talked about that a lot. But also, besides bringing best in class components along, it help us to drive solutions and systems business.

Markets and geographies – Craig talked about the target markets, the six verticals, he called it this morning. The intention is to provide complete product packages for those verticals, for those six markets there.

In those markets, we have to reach critical mass. Compared to our competitors, as I pointed out before, I'm a strong believer that we need to be at minimum number five, better even to be the number three position, in those markets.

And in the region for the region – we have a high interest of expanding our footprint on a global basis, and we will accelerate the activities with regard to setting up a presence and getting closer to our customers on a worldwide basis.

From a value perspective – again, I'm repeating myself now – looking at superior financial strength, that capability to generate the free cash flow to meet those KPIs of exceeding 24 percent EBITDA margin and 20 percent operating margin.

At this stage, I can share with you, this has been an ongoing process. I pointed out earlier how we started looking for electronic controls candidates two and a half years ago. Ever since, we have refined the process, probably learned a lot in the meantime, as well. We are building up capabilities also, on an in-house basis, how to do that.

Right now, if we look at the three technologies that I showed you before, hydraulics, electronics and linked technologies, we're looking at round about 45 to 50 prospects. Purposely want to refer to them as prospects, varying at different levels of evaluation. It goes without saying, we have talked to a number of companies, but there are also the large majority of companies, and those we are just monitoring, slicing and dicing the information, gathering a lot of intelligence on a global basis in order to learn about these companies. They might not be an acquisition candidate today, but that could change down the road, on a middle or even long-term basis. We are building up that database at the end of the day, gathering intelligence and information about any target that fits the filter here.

It has to be strategically additive to what we explained this morning, a strong push for more globalization and global opportunities. I pointed out the value add and a lot of the competencies still in North America. That's a great foundation, but in many end markets, Europe and Asia are extremely attractive, not just from a size perspective but also from a profitability perspective. So, we want to align our competence and our skill set accordingly.

And that brings me back to the chart that I showed already this morning, and I think this is a great illustration to demonstrate what we are trying to do. I repeat again the key elements. From an OEM machine perspective, it's productivity, efficiency, reliability and performance, better performance than is requested. As a tier one and tier two supplier, we have to align our self with that way of thinking.

We have an outstanding foundation here historically, going back to 1939 on the Murphy side and back to 1947 on the Sun Hydraulics side in hydromechanical components. We refer to them as traditional components. We have started to embark on this path of migration. We are pulling the expertise of both technologies together, we want to come up with much more smart components that pay tribute to that electrification and digitalization we talked about earlier on. And the landing spot, if I may refer to that as such, probably on a mid- and long-term basis, is to profile the company here as an intelligent controls system provider.

That's the end of this presentation. With how we finance all of that and who will pay for that, Tricia will give you more information. Tricia, come forward.

Ms. Tricia Fulton: Hi, everyone, and good morning. Thank you for joining us today. I'm Tricia Fulton, Sun's Chief Financial Officer. I've been with Sun for 20 years, and I've been the CFO since 2006. So, I've had the pleasure of speaking with most of you in the room at some point over the last decade. So, thank you for your ongoing and new support of SNHY. We appreciate it.

We are obviously undergoing change here with our Vision 2025. We're investing in growth to support that new vision, and we're going through some of what those initiatives are. We have an updated vision. We are executing on that vision. We have a new management team, and we have some managers that have been with Sun that are in new roles. So, we're going through a lot right now, but a lot of really good things.

The need for change is evident in this chart below. The chart starts here in 2007, but for those of you that have followed Sun a little bit longer, you'll know that we grew very nicely from 2003 through 2008, as did most of our competitors in our markets, as well. And then we hit 2009, which was a 45 percent decline in revenue for the company. But, we came out of that very well in the next two years up to 2011.

From 2011 to 2016, revenues were very stagnant, and it was in this period, as Wolfgang mentioned, that the board embarked on looking at a new strategy and a new growth pattern. So, you can see for 2017, now that we have added Enovation Controls to the portfolio, we have a nice growth pattern. We expect to add over \$100 million to the top line with the Electronics segment, and the Hydraulics segments is expected to be up about 16 percent as well.

Enovation Controls helped us diversify into electronics so that we aren't just a hydraulics company any more, but it's also broadened overall growth opportunities by expanding addressable markets for the hydraulics products as well. Tim talked about that and how we will bring together electronics and hydraulics going forward, for new customer solutions.

The 2017 incremental revenue increase that you saw in the previous chart adds tremendous operating leverage for us. Here on this chart, we have operating profit and operating margins over the last five years. We had very strong operating profits and margins in '13 and '14, but we were not investing in the business at that point. In 2015, we saw a decline in the revenue and also a decline in the profit. And then in '16, we started making some pretty significant investments that we've talked about today. That's brought down our profitability but really has resulted in some very nice margin accretion in 2017. So, those investments are starting to pay off.

And as we've talked about in some of the other presentations, the premium products and solutions and customer responsiveness from us getting out into the field are really the things that are going to create the additional leverage that we have going forward on an operating basis.

The leverage models for each of the two segments are a little bit different. If you're familiar with the Hydraulics segment, you know that we have a fairly large fixed cost base in the

gross margin area through equipment and facilities at that level. When you look at the Electronics segment, there's less at that level but more in the engineering. Jinger mentioned that a third of the workforce is engineering, so that segment has a much bigger fixed cost base in the SEA. So, both segments have large fixed cost bases, but they are in different parts of the P&L. We may see that going forward as changing, but it's something to note, regarding the two segments at this point in time.

Turning to working capital, the working capital models are also a little bit different for Hydraulics and Electronics. The charts here show five annual periods worth of data, and you'll notice the last bar is based on the year-to-date Q2 numbers. We had good working capital utilization actually across all of the segments. But, with the addition of the Electronics segment in 2017, we are starting to see a little bit of a change in the components of the working capital.

Looking at the inventory days on hand, you'll see the historic Hydraulics segment was running somewhere around 40 on a pretty consistent basis. At the end of 2016 and into '17, when we added the Electronics segment, there is a little bit more inventory on hand, and that's a function of how Electronics is purchasing inventory as well as differences in lead times in some of the products we have in that segment. We have to hold more inventory there.

As Rick pointed out, we've also been going through some pretty big transitions in moving the lines between the Enovation Controls existing business and the business that did not come to Sun. So, we believe that we have some working capital optimization that might come out of that after we are able to focus a little bit more on that. The team's done a fantastic job of managing through that, but it's also been a bit of a distraction I think in some of these areas on the working capital side that we could see some improvement on possibly into '18.

On the receivables DSO side, you also see an increase in '16 and '17. That is, to a large degree, a function of how the Electronics segment customer base is different from what the Hydraulics segment has been, traditionally. Electronics has a lot more OEM-based sales business, which tend to have longer lead times. Sun, on the traditional Hydraulics side, gives a very good discount for early payments from distributors, which is what kept these numbers relatively low in the earlier years. We're still very happy with where we are, and we have absolutely no collection issues in either of the segments.

On the DPO side, you'll also see we have a jump in the DPOs. The cash conversion cycle actually stayed pretty much the same through this transition, but again, with the addition of Enovation Controls, the payables side of the business changed a little bit and they increased the terms under which they have negotiated with most of their suppliers.

Overall, we're very happy with the working capital effectiveness that we have, and we do believe that we could make even further improvements with this.

Sun continues to have very strong cash flow. On the charts here, we have cash from operations for 2013 through '16 and year-to-date Q2 '17. The bottom graph is cumulative cash from operating activities over this period, which is just the cumulative sum of each of those periods. But, it does show that, over four and a half years, we were able to generate \$220 million in operating cash flow.

You'll see here, our cash flow went down a bit in 2016. Those were investments that were being made on the Hydraulics side as well as some of the expenses that we had related to acquisitions. And on a year-to-date basis, halfway through the year, we're very pleased with the cash generation that we're getting out of the combined businesses. But, like I said, we do believe we have some opportunity for improvement in that going forward.

There are a couple of items that are impacting overall cash flow in 2017. We were able to repay \$16 million in debt in Q1. We'll get to the debt chart in a minute. But, we're happy that we were able to make that repayment. And in Q4 of this year, we are expecting to make a full earn-out payment on the acquisition of Enovation, amounting to \$16.7 million. The total earn-out will be over three installments, over 27 months. So, this is the first of the three installments. We do anticipate that we will make all three full payments on the earn-out, which will amount to \$50 million, plus interest.

Sun has a very strong balance sheet. Here we see the cash and short-term investments. While not specifically shown here, we actually peaked in Q3 of '16 with our cash and short-term investments at about \$144 million. Shortly after that, we used \$60 million of the cash that we had in the US to make the acquisition of Enovation Controls, and we also at that time took on \$140 million in debt related to that acquisition. We're very pleased to say that we've been able to lower that debt with the repayment and still have been able to build cash in the first half of 2017.

You might ask, why didn't you repay more, or use more cash as opposed to debt at the time of the acquisition? A lot of the cash that we have on hand is either in the US and will be used for capital and the earn-out payment, or it sits outside the US, and without repatriating that money, we really can't get at it. We could pay the taxes and repatriate it, but we have not opted to do that. Given the acquisition strategy and the fact that some of our targets are outside the US, we feel it is more prudent to leave that cash outside of the US and potentially be able to use it for acquisitions rather than pay the government the tax money to bring it back here.

Looking at shareholders equity, it's continued to grow even with some pretty big investments that we've been making in the business, sitting at just over \$250 million in equity at the end of Q2. Net debt to total capitalization – at the end of Q2, we were down to under 14 percent. But, if you look at the net debt to market capitalization, we're at 3 percent. So, we think that's an important number to also keep in mind. We do plan to pay down the debt as quickly as possible.

So, if we work through the growth that we expect with Vision 2025, our capital allocation strategy is also evolving. Here we'll look at capital expenditures in 2013. This contains a

fairly large portion of the third building that Craig referenced that was built in Sarasota, and then we had three years that were primarily just maintenance machinery and equipment for Hydraulics segment. And then this year, we have pretty substantial growth in the capital investments that we're going to make. As we disclosed last month, we're accelerating some of those, given the growth that we've seen in both of the segments this year.

First, we're going to look at APAC. Craig showed a chart that shows the level of growth that we want to have there to gain significant market share by 2025. So, we have purchased property in South Korea to build our own building. We're in a leased facility right now. The new building will give us a lot more room to be able to manufacture more products locally in the region for the region, which also complements our expansion plans for China because we believe that we can sell products out of Korea into China very easily, as well.

We also are going to be purchasing the facility in Tulsa. That is a rented facility right now. But, now that we're getting through the carve-out and recognize the flexibility that we have with that building, we want to make that purchase and ensure that that becomes a North American electronics center of competence for Sun going forward.

Turning now to dividends, you'll see we had a couple of spikes in dividends in 2012 and 2014. There were substantial special dividends issued in both of those years. As we accumulated cash on the balance sheet, the Board made a decision to disburse that through special dividends to the shareholders. We do not anticipate, given our Vision 2025, that we will issue special dividends in the foreseeable future. We intend to use the cash and debt that we have available to make investments in the acquisitions and the existing businesses in both the Hydraulics and Electronics segments. However, we do anticipate that we will continue to pay a normal quarterly cash dividend, as we have every quarter since we went public in 1997.

Looking at capital allocation priorities, the items that we're focused on to help us reach the 2025 goals are to delever the balance sheet, organic growth, acquisitive growth and to support the dividend, as I just mentioned. So, by delevering the balance sheet and paying down the debt as quickly as we can, we provide flexibility for us to execute the acquisition strategy that Wolfgang just spoke about. On the organic growth side, we do want to double the Electronics and Hydraulics businesses over the next eight years. We will need to make investments in new product development to augment that growth. We're also putting forth some pretty significant effort in integrating the Electronics and Hydraulics know-how, and Tim touched on that, for products and specific customer applications. But, those do require investments in the systems, teams and such, and work between the two segments of the business.

We also want to support the product platforms of existing products and trying to drive down the cost in those. That was referenced, as well, in Tim's presentation.

On the acquisitive growth side, Wolfgang did address this, but we need to make \$350 million worth of revenue investment in acquisitions to get us to the 2025 Vision of

\$1 billion. We have a chart on that, that might make it a little bit easier to see, but those are our estimates right now, that we need revenue from acquisitions of \$350 million by 2025.

We are looking for companies that will help us expand our product offerings and our technical capabilities. This is a very important part of the strategy on the acquisitions and of the vision, that we maintain technology leadership.

This is our revised guidance for 2017 that was issued in August. I'm sure most of you have seen it, but just to recap, we do expect revenue to be up in both segments pretty significantly from our original estimates. That incremental revenue is then adding additional operating margin that allowed us to increase the range for operating margin, as well. We were able to tighten up the range on the interest expense calculations, given what we know now about some of the variability of the interest rates on the debt. And again, you see the capital expenditure increase from what would have been a normal year of about \$8 to \$10 million, now up to \$20 to \$25 million, given the investments in the two facilities that we discussed.

Let's close now with a look at our plans for the revenue growth and margin expectations of Vision 2025. You can see here, in the decade between 2005 and 2015, this is just the Hydraulics segment. That was all that Sun had at that point. We had about a 6 percent compound annual growth rate in that decade. What we're looking at now from 2015 to 2025, in the gray bar for the Hydraulics segment, is about an 8 percent CAGR, which amounts to a more than doubling of that business. And if you go all the way to the top, including what we expect from the Electronics segment and the acquisitions, it's an 18 percent compound annual growth rate.

On the Electronics piece, we're going from about \$100 million now to \$200 million, also significant growth in that period.

So, we're targeting revenue of \$1 billion, operating margins in excess of 20 percent, EBITDA margins in excess of 24 percent. We recognize that, as we bring on acquisitions, these are the things that we need to focus on to make sure that the acquisitions are sufficiently accretive and adding to the strong profitability profile of Sun.

We have expected returns on acquisitions of greater than 12 percent. We believe that our returns should exceed our WACC rate, which we believe is between 10 and 11 percent at this point, as well as sustained return on invested capital. So, we expect ROIC greater than 10 percent after dividends and net of cash, and we believe that this will help maximize shareholder return. Vision 2025 is an aggressive strategy but one that we firmly believe that we can achieve.

Ms. Karen Howard: Thanks, Tricia. That does conclude our formal presentations, and we are now going to call the entire management team up to the front to be responsive to your questions. We have allocated a fair amount of time for Q&A, so please don't hesitate to raise your hand if you have a question. We have two people who will be holding on to mics. Because we're webcasting, we want to be sure we do use a mic to capture your questions

and then also the answers. In addition to the folks in the room, we will also open up to those on the webcast for any questions, so we'll keep that in mind, as well.

And with that, let's open up the floor for our first question. There's one in the back.

Mr. Todd Wakefield, The Boston Company: Thank you. So, I guess the question is about employee turnover – a lot of focus on the cultures at both companies and, a fair amount of change, a lot of success. I'm just curious relative to the past how has employee turnover been? You made a comment you didn't let anyone go, but I'm curious if there's been any turnover and how it compares to the past.

Mr. Wolfgang Dangel: Let me start with the Hydraulics side. If I look at the Hydraulics side and I do the regional comparison, overseas, we have literally no turnover, even in the emerging markets, which is remarkable. We haven't had turnover in China for – I can't think of anyone – same in Germany. In the UK, we forced some turnover last year. In Sarasota, I think we are probably the benchmark company in all of Southwest Florida. If you go with anything between the Tampa Bay area down to Naples, I think we are probably the benchmark, very little turnover.

Electronics, Jinger?

Ms. Jinger McPeak: Rick can probably speak to the hourly force a little better. We actually have a brand new payroll system that we can get this information out of it, and I just got a report last week, so they must have had insight that you were going to ask that. When we did the carve-out, we actually went line by line, person by person on who was going to be in the former company, and who was going to be at Enovation Controls. So, that was a very intense process.

And so, when we were done with that, we set the budget with what we were expecting. And as you've seen, we're 35 percent over that through the first half of the year. So, we've been running quite lean. And so, we actually added people versus losing any, and we've had a couple of people leave from an attrition perspective, but that's really it. I can only think of two, and some of that was perhaps, you know, the change wasn't exactly the direction that they wanted to comply with. So, it's been very successful and in operations, we have had very little turnover. We do have some temporary staff that we used to augment any spike, so that helps, also.

Mr. David Goldsmith, Baron Capital: Wolfgang, when you mentioned looking for the Electronics segment, you narrowed down that whole list of potential acquisitions to six and then ended up with Enovation Controls. So, those six were just in electronics, and therefore, you settled on Enovation Controls, or are those others still open to acquisition?

And then another acquisition where Asia seems like a big focus for the company going forward – what do you need there most? Do you need to acquire distribution or, lower tier technology, or maybe just explain the strategy in Asia – what would fit? Thank you.

Mr. Wolfgang Dangel: Very good. The first question, so the six targets that ended up on the final list were all electronic controls targets, as I said, three in Europe and three here in North America. With regard to the Asian question, it can be both. It can be in the channel. If the channel has the profile that fits, as we pointed out, from a technology perspective, that helps us to provide coverage in those white spot areas, it could be channel. Otherwise, I think it has to be in value add, so more the simultaneous engineering approach capabilities in product development as well as manufacturing because we want to bring the value add in the region for the region.

It's better if we become less U.S. centric from a manufacturing standpoint and also, by doing so, limit the exposure to currency fluctuations.

As I pointed out before, first of all, I am extremely happy with the Electronics segment. If we find another one, we'll buy it. I think, as we are approaching the end of the carve-out, which has been very successful as Rick pointed out, we are probably ready for acquisitions within Electronics.

Mr. Joe Grabowski, Baird: Regarding the Enovation Controls case study on recreational boats where the market share went from zero percent to 80 percent, what's next? Are there adjacent technologies within that end market? Can you grow geographically? Or, is it now just going to go up and down with end market demand?

Ms. Jinger McPeak: So, that is one segment of the boat industry, the tow sports. It's a very small segment. I was talking to someone earlier about Brunswick. I was at Brunswick before, you know, and there was a downturn in 1999, you'll remember. They went from about 350,000 brand new recreational boats a year built to around 150,000 or 200,000.

In that niche, the boating market, there's commercial, which we're not talking about, and then there's, tow sports, runabouts, salt water fishing, yachts, etc. Over the years, we've dabbled in some of those other spaces but haven't really gone deep and swarmed them the way that we have in the tow sports market. One, the tow sports market will continue to change. Every year, they change electronics, and they upgrade, and we're a part of that. And so, every year, there's more content and more things. In fact, everything on those boats that's connected to a wire is us except for the amps and speakers in most cases.

There's opportunity for more content. There's also opportunity in other niches as we develop some other types of products to go into those niches. There's also certain other aspects or inventions, which is what we like to work on, that would apply to those boats that might be in our wheelhouse that we're looking at that would be even more content.

Mr. John Protos, Royce: As we think about you having a majority of your sales in systems, how do we think of that evolution, and where are you now in terms of offering your first system of an electronic controller display attached to an electronic valve?

Mr. Wolfgang Dangel: So, John, and Tim can jump in later on, I think first of all, it's an evolutionary process. You asked, where are we with regard to systems? The majority of our sales are still component and integrated package based.

The second answer is an integrated package that we offer today where a cartridge valve is screwed into the manifold with an electronic controller is a system by itself. So, we are moving along that equation already in the system business.

With regard to the last question, we have basically had sessions between the two engineering teams brainstorming and developing future product solutions, and that has commenced already a couple of months ago. Joint product development activities are underway. Let me put it that way.

Mr. John Protos: Is this all based on the DLV (discharge line volume)?

Mr. Wolfgang Dangel: No, no, it's nothing to do with the DLV.

Mr. John Protos: Okay.

Mr. Wolfgang Dangel: It's completely separate from the DLV.

Mr. Tim LaCrosse: Yeah, and I'll add to that. So, in terms of the slide I showed where we have the Electronics and the Hydraulics coming together to provide a complete system, we actually have a live opportunity that we're working on today. It's probably sooner than I thought it would come, but the two teams are working together to develop the opportunity.

This is a great example of increasing our bill of material content in terms of, not only the components, but the know-how of how to do this. We're also expanding, in that particular application, our hydraulic content. So, it's a great example, in terms of systems, how we will grow and fill up our bill of materials that we're completely missing at this point.

Ms. Jinger McPeak: Craig may add to this as well, but I would just add that some of the OEMs that we're already working with and that Sun works with, there's a lot of crossover there. We've had active conversations with them about their product roadmap. Some of this isn't going to be immediate but more of that whole sales process that we talked about, working with them on what that's going to look like in a year, or two, or three. We have active conversations with several OEMs together.

Mr. Todd Wakefield, The Boston Company: So, Wolfgang, you mentioned the mega trends were favorable for you because of the cavity size. I think I heard that right. I'm just trying to understand, what are the barriers to your competitors replicating what you have? I don't know if it's patent protected or not, but just trying to understand the barriers and how long you'll have that advantage.

Mr. Wolfgang Dangel: First of all, on the mega trends, we talked about three significant mega trends. The one that bodes well for us is urbanization and population growth, that

translates into demand for infrastructure, which translates into demand for sophisticated machinery and equipment. Second one was productive and efficient and sophisticated machines as such, and the other one was computing power. Those were the mega trends.

I think the second part of your question is referring to the presentation of Tim when we talked about the uniqueness of the Sun cavity and the competitive advantages it has for higher pressure applications.

With regards to your question, how much advantage we do have there, Todd, I would say it depends on the application at the end of the day because I think we also have to be honest. There are also downsides of the Sun cavity because the customer will be locked into an existing design and cannot interchange freely as he can if he would use an industry cavity. But, I think from a performance standpoint, Todd, there is definitely still an advantage compared to industry, general industry cavities.

Mr. Tim LaCrosse: That's correct. We're uniquely positioned to handle those higher pressures and provide that energy efficiency. Could somebody copy it? Yes, they could copy it. But, I think we are very far down the road in terms of how to do that technology.

The other thing that I will add to that is we are continuously updating our products in terms of driving our costs down to make sure we're optimized in terms of that performance. And the other things that we will continue to do, I talked about those unique selling propositions. As we improve our products and improve our performance, those unique selling propositions will be protected with intellectual property as we go forward.

Mr. Wolfgang Dangel: Compact size basically, size and weight being an advantage, being the smaller package compared to other solutions. The designers of machines pay a lot of attention to weight and size of the end machine. Compact solutions come into play here and are an advantage.

Mr. Tim LaCrosse: Yeah, and you can see that out in the display in the lobby here where we take a standard integrated package, and apply our expertise to it, you can see the size difference between the two.

Mr. Will Hamilton, Manatuck Hill Partners: Question for Craig on the sales force and your plans there – could you elaborate a little bit more on the type of people you're hiring, where they're coming from, what are the expectations in terms of sales contribution by time or amount.

Mr. Craig Roser: Every one of the regional application specialists that we've hired is very experienced. They have come either from another manufacturer of CVT technology, or in some cases, they've worked for a Sun distributor, and so they've had substantial experience with Sun products already.

Our region leader for North America has had a long career in CVT technology. He led another manufacturer's CVT sales program for a bit.

To talk about what we're expecting of each of them, when we talked about the aggressive business plans, we actually ask all of them, our sales channel partners, working with our regional application specialists, to look at 15 percent year-over-year growth. And that is not just in North America. That is globally.

We are further along in North America with addressing those business plans, just because of the focus here in Sarasota. But, the other regions, both in EMEA and in APAC, are following suit very quickly, very nicely. We've got some distributors that are growing much more than 15 percent, and we have some laggards, of course.

Mr. Will Hamilton: What's been the interaction with the regions?

Mr. Craig Roser: Each regional application specialist is assigned a region, and every regional application specialist will have one to a few distributors that they focus on. Our sales channel has just been thrilled. When Sun started showing up in their offices, they just loved it. They want us to be present. Prior to involving this group of people in North America, it was the odd visit from a particular person, maybe an executive at Sun Hydraulics or a member of the marketing team. Having somebody that's in the field, in the region, they get a call and someone needs to be onsite in a day or two, our sales channel just across the board loves our attention.

Mr. Wolfgang Dangel: I think to your first question, Will – if my memory serves me right, the eight people that Craig showed in the presentation, I think they bring 150 years of industry experience to the table. They are coming from either competition, channel partners or machine builders, which is even more important. So, we understand the equipment of the OEM because we want them to be very close to that type of equipment in order to gather intelligence about the next design of the machine and channel to bring that back into Tim's group from a product development perspective.

Mr. Craig Roser: So, it's interesting. We do not call them our sales force except in passing. They are regional application specialists, and their goal is to help Sun get on the bill of materials of those OEMs. Now, of course, they're following very closely the commercial aspects – you know, our price point, what our commercial circumstances need to be and then what the supply channel, what the distributor or integrator, needs to do from a commercial standpoint.

They are also positioned to start evaluating some of the larger OEMs and open the discussion – is it appropriate for the distributor or integrator to be involved or should Sun start looking at them as a direct type customer? We have begun initiatives to serve those OEMs direct where distributors, where integrators would have never had an opportunity in today's day and age.

Mr. Kevin Sonnett, RK Capital: Rick, you talked about starting up the PCBA line. Is that the first of many, and are you being constrained by the lines that haven't come up yet?

Mr. Rick Martich: Kevin, no, we haven't been constrained, to address the second part of your question. As we looked at bringing on that PCBA line, or sometimes what I also refer to as SMT, surface mount technology, line in Tulsa, there was a transition plan that we had. That transition plan was with our partner in the old Enovation Controls, the site in San Antonio where one of our assets, one of our PCBA lines currently resides. So, in order to derisk that process, we actually came forward, and we looked at our growth going forward beyond just the acquisition in this year and put forward a plan to add a second line. That line's already in place in Tulsa and up and running. That's the one I referred to earlier.

By bringing that online, what we were able to do was actually augment the capacity of our line in San Antonio, which has been building product for us through this transition, while bringing the line in Tulsa up to speed, transitioning product to it. We're not having to build stock and shut the line down and then have this risk period where you have to stop and hope you get it back up. We've actually had this line in Tulsa, this asset up and running, bringing on board capacity and production and then slowly ramping down the production on the line in San Antonio. And that's just coming to a final phase of completion. Actually, September 18th, next week, our operations team will be down there packing that line up and bringing it up.

That helped to derisk the whole transition process. That line should be up and running by the end of September, early Octoberish at the latest, that we should actually have it. But, that helped us to derisk that whole process. It hasn't impacted us and our ability to be able to run production.

Mr. Kevin Sonnett, RK Capital: So, Wolfgang or Craig, maybe you can talk a little bit about what you're seeing in some of the different markets. You know, Wolfgang, you talked about since, I think it was, the fall of last year, the end markets starting to come back, and you're in a lot of different end markets across the globe. It sounds like most or almost all are either improving or have improved or have stabilized. Maybe you can just give us a sense of what you're seeing by the largest end markets for the company.

Mr. Wolfgang Dangel: Sure. I think in the key end markets, Kevin, that you are in right, there is quite a considerable amount of tailwind, I would say. Construction machinery started to pick up substantially around the world, probably driven by China already mid of last year.

You are right on the hydraulics side. We were up as of Q3 last year. We had positive numbers again if we made comparisons to the previous year. We see a pretty strong market environment in material handling. We still see a pretty sluggish development on the agricultural side, but we are not very deeply engaged on the agricultural side. So, I think that market is probably coming back a little bit later. I think there's a lot of hope for 2018 and 2019.

And I think we have, Craig, a pretty good environment as far as stationary applications are concerned on the industrial side. We see a solid market environment there actually across the globe, Europe, here, as well as in Asia.

Mr. Kevin Sonnett, RK Capital: Thanks. I think this question is for Jinger. The growth in Enovation Controls has been pretty stunning this year, and I'd like to think it's a combo of end markets plus market share gains. And I guess if you could give us a sense of what the future markets or opportunities are – there's a pipeline of opportunities. Are we draining the pipeline with this tremendous growth this year, or is there still good opportunities over the next few years?

Ms. Jinger McPeak: We've talked about that a lot, and in fact, most of the things that are happening this year are projects that were worked on or products that were developed over the last 12 to 18 months. So, we're going into production usually at a model year. A lot of the end markets that we're in have a model year, and what happened over the period of time is that, with that OEM, if we had contracted to build them a product for a specific line, in the meantime, we were able to convince them that, this would really go well on the other vehicle, as well, or perhaps we should displace this particular technology.

So, what happened is that here's where we thought we were going to be based on the contracts or the plans that we had. And then we were able to up-sell them along the way to get more content, which is a great story and is attributed to the OEM sales group that we have, a very good team within that Vehicle Technologies group that work really hard at that.

As far as the future, we are constantly looking to fill that funnel and constantly working on, short, medium and long-term opportunities like that. And the team that is addressing that. We've duplicated to also go and find and do the same process on the Power Controls side. We will continue to bring in those funnel opportunities and will continue to make sure that that's full. That is really an area that Enovation Controls has worked hard at and has a core competency in. And I think that Craig, and Tim and Jim Saunders, who is in charge of the Power Controls line of business for us, have spent a lot of time together talking about how to use that process and that relationship with the OEMs to continue to grow the content across those businesses.

So, I think that we're in good shape. We spend a lot of time motivating the folks who are in charge of getting those things in the filter, to make sure that keeps happening.

Mr. Andrew Fones, Brown Capital: Thanks. I have a couple of questions. First, actually for Jinger, you mentioned that you are looking to go to market, you're talking to a few OEMs jointly with some of the Sun people. Just wondering if maybe you're talking to the same people you might have otherwise in terms of existing relationships or how the person or the team that you're meeting with has changed?

And then the second question is for Tim – as the company becomes more forward-leaning in terms of solving problems, are you going to have to invest in engineering?

Ms. Jinger Peak: So, for my part of it, the answer is yes to all and all the above, kind of. For certain OEMs, we have certain contacts, and Tim and Craig's team had different contacts, and we've tried to bring those together and have a conversation. In some cases,

we have a stronger relationship with a specific OEM or already have content there that we can then bring Sun in on.

I think Tim mentioned an example that's going very well. So, it's kind of both, and it's a continuation. Craig could speak to the process after Tim answers his part – the process that we're using to share the intelligence of the funnel through both organizations.

Mr. Tim LaCrosse: So, in terms of the investments for engineering, yes, we're investing and have invested in both people and infrastructure to execute quicker. That investment is taking place, it's continuing to take place and in the future will also continue to take place. And that's on a global scale. That's not just where I'm from in Sarasota. So, we're working on a global scale, and we're leveraging our capacity globally.

Mr. Craig Roser: Regarding your question about how we work together and who we contact at OEMs, it actually works three different ways. In some cases, we go together because who deals in the technologies, hydraulics and electronics at the OEM want to talk with us at the same time. There are OEMs, though, that have an electronics segment, and they really only want to talk electronics. And then there are other OEMs that are a mixture and we try to drive them to one solution or another.

Our process today, in addition to trying to identify systems work, is we are actively sharing leads. I think today our greatest success has been where we've gathered some intelligence in one segment that we've shared with the other segment that allows that segment to jump on the opportunity, the sales opportunity. That's a live lead, if I can call it a lead sharing process, and literally, that gets published at the end of every week if not prior. If one of the Hydraulics segment's specialists doesn't pick up the phone and call because it's that hot, they'll at least find out within five business days.

It's a little bit of a mix right now. You can imagine that our Hydraulics guys are coming to know what we now have in the Electronics segment and vice-versa. We are learning how to gather field intelligence and then share it to be profitable for both segments.

Mr. Tyler Hojo, ACK Asset Management: I was just curious, within the Enovation Controls business, you talked about the portion that isn't sold in vehicles really going through distribution and just being a more standardized product. I'm curious how much of the business goes through distribution and essentially what your visibility is in regards to channel inventory.

Ms. Jinger McPeak: So, I'd have to defer that to Tricia because I don't think we break it down to that level. Being new to this, I'm going to make sure that's a valid disclosure. To the point as far as how we do it, and then we can come back to whether we break it down to that point, Tim had a great slide about the mid market. We're not trying to sell to automotives in the tens of millions or millions. That's not really a space that we try to play in. It's that mid market where people have some engineering or maybe they have a lot or they're moving very fast, and they're a lot more nimble.

That exists in that under 5,000 unit range, as well. So, these distributors or value added resellers, we give them the tools. We actually have a product called PowerVision, which is our own configuration tool, that allows anyone to go and develop a program to put on those displays. You can make it look however you want. And that is deployed to these distributors and value added resellers to allow them to scale their resources to be able to sell five at a time or 100 at a time or 500 at a time, work that we wouldn't want to do in-house, but we enable them to do it in order to scale to their needs.

We do have pretty good visibility because there are not that many of these distributors and value added resellers, and we also have a regional sales force that are involved with them very regularly, and we feed back that information.

Mr. Wolfgang Dangel: Tyler, if I understand your question correctly, if you look at the two different lines of business, they pretty much are the same size. Let's round the numbers here – \$50 million in size. So, Vehicle Technologies is the vast majority of OEM driven business. Power Controls, the vast majority is channel partner driven business. And your question was about that percentage and the inventory in the market.

On the Power Controls, the vast majority is channel driven. It's a \$50 million business. They serve, to a high degree, the same end markets as Craig and the team does. The channel, I can't answer the question how much inventory is in the channel. I just know on the Hydraulics side, inventory levels have not changed a lot if we compare from now to end of last year, so I assume it's probably pretty much the same in Power Controls.

Mr. Joe Grabowski, Baird: Getting back to the hurricane, production's going to be down for a while, I guess. Do you think it'll have an impact on volume of shipments in the third quarter?

Mr. Wolfgang Dangel: It's very difficult to say at this stage. I don't have any updated information compared to what I told you at 8:30 this morning. I think if we get electricity back today, we should be up to speed reasonably quick. If it takes a little bit longer, it could have a minor impact on third quarter, but it's not too significant, I think. And if it does, we'll make it up in October very quick. So, we'll make it up at the early stages of fourth quarter.

Mr. Joe Grabowski, Baird: You talked about the trend toward remote vehicle diagnostics and internet of things. Can you provide some examples of applications that are in place today and where you see the best opportunities looking over the intermediate term?

Ms. Jinger McPeak: We were talking a little bit outside during the break. One of the things that we were talking about is the connected display. We talked a little bit about that, and I'm not sure that you were in that group. What has been a challenge throughout the years as people have talked about telematics and the internet of things, it's hard to determine what's real and what isn't real. And, you know, I'm in that camp, too, and we study it very specifically.

I think you probably saw the article from Tesla that they turned on the range of their vehicles remotely to help people get out of Florida which, by the way, was an extra 30 miles, which I thought was an interesting story.

We think that there's a data management that has been keeping that from going big. As you all know on telematics, if it's an imbedded SIM card or it has a satellite chip, those all have to be provisioned just like your phone, right? So, there's a line, and there's provisioning and how much data and how much cost. And how many of you buy a brand new car and you get the free XM or whatever for a year, and then it expires, and how many of you re-up that? Exactly. No one.

That's the issue with telematics in general. We all want it, and all these automotive companies haven't been able to solve that problem, per se. I think the solution of the problem will be coming with the fact that data is going to become more of a commodity. As we all have our unlimited data plans back that we didn't have before, we had it, and they took it away, and now they've given it back, of course, it's going to be throttled once your teenager gets to the gazillion million point.

The same thing is that, because that's going to be unlimited, as an individual person, I can have a SIM card or a line that is dedicated to all of my other stuff, right? I can have it in my car, or I can have it in my motorcycle, perhaps in my boat. If I have a piece of equipment or if I have several pieces of equipment, perhaps I only have to share this data amongst those.

So, that's going to be a pivot point. And in the marine space, that is something that's been talked about for a while. There's a trade show in Tampa next week called IBEX (The International Boatbuilders Exhibition & Conference) where we will be announcing some technology and some customers that will be moving forward with that.

Mr. Tim LaCrosse: I'll add to that. I think if you look at most major OEMs, the technology and being able to do the analysis that I showed on that chart is pretty immature still. I think there's a lot of data analysis and streaming going on. I don't think people are to the point yet where they're doing a lot of predictive and prescriptive.

I think what we showed here in our vision was the ability to take what we can do well on the electronics side, what we do well on the hydraulics side and marry those together for future systems. We're moving in that direction, getting prepared for that trend and for that implementation. But, at this point, I don't know of too many OEMs that are doing that operational optimization. That vision is coming.

If you look at most major OEMs that are in say the construction space, they're getting prepared to do that, and their systems are being designed to handle that type of information. But, I think it's still pretty early.

Mr. Craig Roser: I might want to add that one of the very first systems that we've been involved in, our customer operated it without employees nearby. I mean, that is where it's going. We've done wired remote control vehicles. From a wireless standpoint, we have

customers that are positioning themselves to put that technology on their machines, and we absolutely want to be ready when that actually comes to be.

Mr. Tim LaCrosse: That's a great example, Craig, because the system that we're working on together today, the OEM is asking us to provide the complete solution, and then he's saying, hey, down the road, I want to do remote vehicle diagnostics, I want to run unmanned, I want to do all these things. We're on the leading edge of that, which is great from a systems perspective and tying all these technologies together.

So, I think it's out there. I think it's coming. I think it's coming relatively quick. But, I don't think it's fully mature in the marketplace today.

Mr. Wolfgang Dangel: Goes probably back to what we said earlier this morning. If you look at the automotive industry and your car, what it does today, it's probably very likely that a lot of these features and functionalities are creeping into the equipment and machinery we are talking about. It's just a question of time.

Ms. Karen Howard: Any other questions in the room? And we do not have any on the webcast, so I'll remind the folks on the webcast, if they have a question to submit it quickly. Pause for a moment. It looks like no. Well, it looks like you guys did an awesome job addressing everyone's questions. So, why don't we wrap up? We are having lunch set up in the same room where we had breakfast, so I invite you all to join us for lunch. We can continue to socialize and network with the team here. The product displays are still out in the foyer there, so please check those out, and anyone from the team would be happy to discuss those with you. If you have any follow up questions, our contact information is in the back of your booklets. Once again, we thank you for coming. We really appreciate your attention to Sun Hydraulics and look forward to talking with you again. Thanks so much. Have a great day.