

SONO•TEK Corporation

# OTC Virtual Investor Conference

October 4, 2018

Dr. Chris L. Coccio  
*Chairman and CEO*

Stephen Harshbarger  
*President*



This presentation contains forward-looking statements within the meaning of safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements involve known and unknown risks, uncertainties, and other factors that could cause the actual results of the Company to differ materially from the results expressed or implied by such statements, including delivery of profitable, dynamic growth, growth opportunities for ultrasonic spray technology, retaining and expanding industry leadership and customer base, continuing product diversity, maintaining technological advantage of the Company's nozzles over those of competitors, including faster return on investment compared to conventional spray systems, enhancing global distribution network, establishing market niche for recently developed products, market reception of new spray innovations, maintaining strong net cash position, achieving EBITDA projections, and other factors. Accordingly, although the Company believes that the expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. The Company has no obligation to update the forward-looking information contained in this presentation.

*Leading developer and manufacturer of*  
***ultrasonic coating systems***

*for applying precise, thin film coatings to protect, strengthen or smooth surfaces on parts and components for the microelectronics/electronics, alternative energy, medical and industrial markets*

Market Cap	\$41 million	Shares Outstanding	15.1 million
Recent Price	\$2.70	Institutional ownership	45%
52-Week Range	\$1.12-\$2.75	Insider ownership	15%
Average Daily Volume (3 mos.)	13,300	Founded / IPO	1975 / 1987

Fiscal Year End: February 28

*Market data as of September 28, 2018 [Source: S&P Capital IQ]; ownership as of most recent filing*

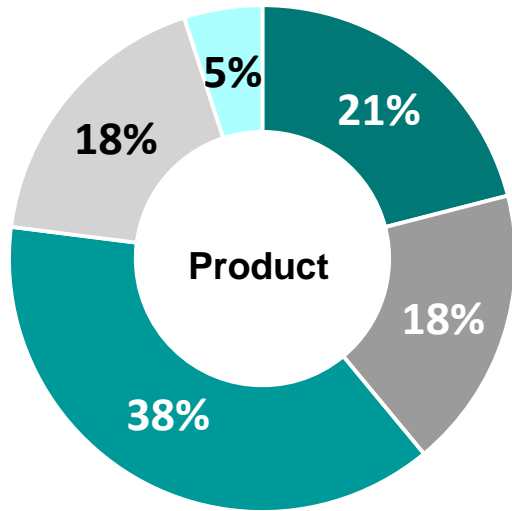
*Leverage our innovative  
ultrasonic coating technology,  
proprietary know-how and application expertise,  
unique talent and experience,  
and global reach to:*

- ✓ Increase our addressable markets through new and unique technologies
- ✓ Further penetrate existing markets
- ✓ Create customer delight through product superiority
- ✓ Drive a business model that will fund our investments in growth

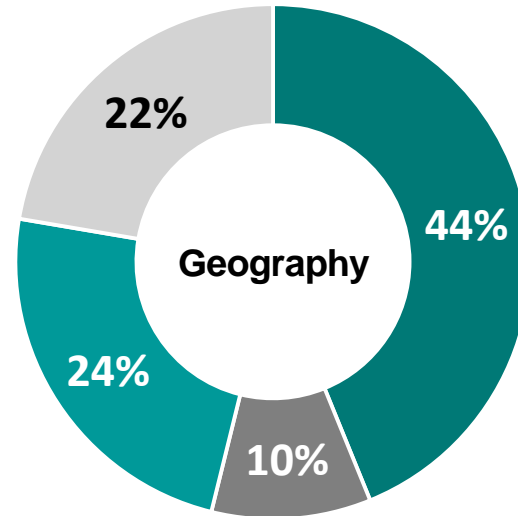
# Highly Diversified

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Q1 FY2019 TTM Sales \$11.2 million



- Fluxing Systems
- Integrated Coating Systems
- Multi-Axis Coating Systems
- OEM Systems
- Other

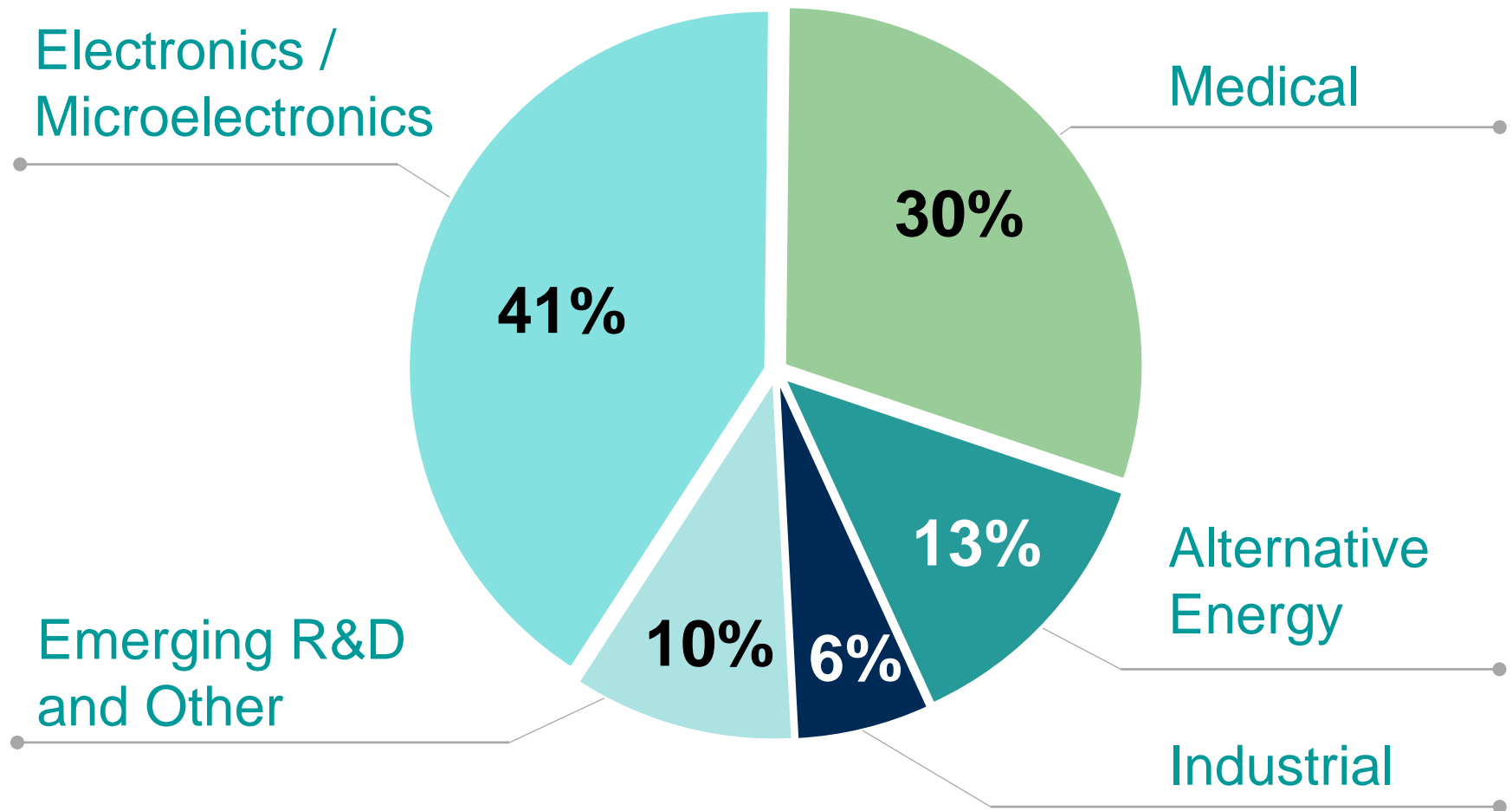


- US & Canada
- Latin America
- Europe, Middle East, Africa (EMEA)
- Asia Pacific (APAC)

# Broad Base of Markets

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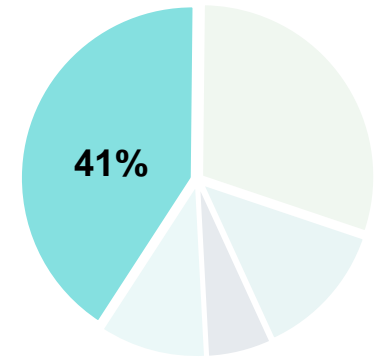
*Revenue By Market: Q1 FY 2019 TTM Sales \$11.2 million*



## MARKET POSITION

### ***Market leader***

Relatively mature printed circuit board industry  
Consistently demonstrate ***significant value advantage*** over alternative coating processes



## APPLICATIONS

- Printed circuit boards
- Semiconductors: micron-thin photo-resist layers onto complex wafers (MEMS)
- Sensors
- Display/panel glass on personal electronic devices, lenses

## DIFFERENTIATORS/ GROWTH DRIVERS

- More efficient than standard, historic processes
- Newly developed camera recognition system, InSight
- Product flexibility: full systems or subsystems
- Ability to address multi-dimensional complex geometries
- Precise control for ultra-thin layers

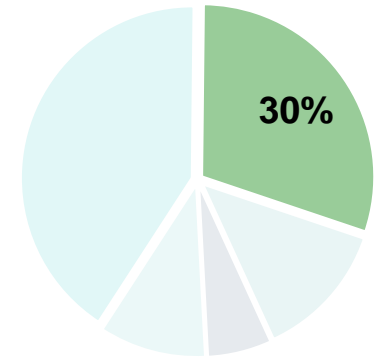
## MARKET POSITION

**Global leader** in mature stent industry

Large **installed base** & **critical application knowledge** drive market leadership

**Growth opportunities:**

- *New technologies for biologic/chemical coatings*
- *New implantable medical devices development*



## APPLICATIONS

- Implanted medical devices: stents, balloons and diabetic monitoring devices
- Blood collection tubes
- Diagnostic devices, biosensors
- Bandages/protective wraps

## DIFFERENTIATORS/ GROWTH DRIVERS

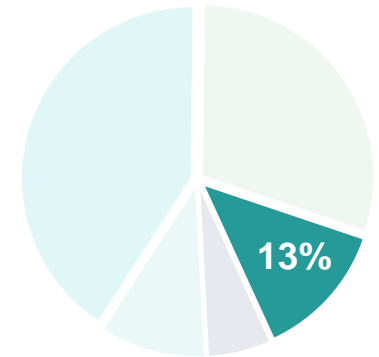
- Application expertise, engineering team and laboratory facilities
- Precise, repeatable processes, with accurate dosing
- Product and service flexibility:
  - *Full coating machines*
  - *Custom-engineered equipment*
  - *Paid coating services for application engineering, process development and pre-production volumes*



## MARKET POSITION

### ***Proven and preferred solution*** for fuel cells:

- *Membrane surface coating enables higher energy output*
- *Greater longevity compared with slot/die*



## APPLICATIONS

- Catalyst coating for various fuel cell technologies and systems:
  - *Proton Exchange Membrane (PEM)*
  - *Direct Methanol (DMFC)*
  - *Solid Oxide (SOFC)*
- Other alternative energy solutions:
  - *Solar cells*
  - *Batteries*

## DIFFERENTIATORS/ GROWTH DRIVERS

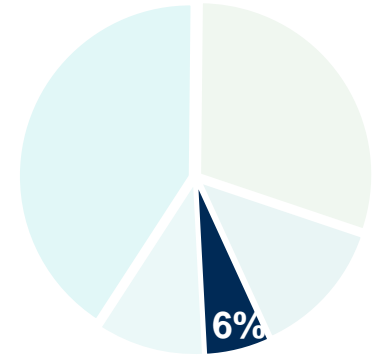
- Expanding global fuel cell market
  - *Expanded use of fuel cells: automobiles, motorcycles, power sources*
  - *China investment in fuel cell technology development*
- Highly durable, uniform, pinhole/crack-free coatings on fuel cell Proton Exchange Membranes
  - *Reduces waste of carbon-based catalyst inks*
  - *Improves energy efficiency and durability*

## MARKET POSITION

**Leading technology** for high value industrial glass manufacturers

Growth potential through expanding addressable markets:

- *New applications*
- *Supplant less efficient coating technologies*



## APPLICATIONS

- Flat (“float”) glass used for windows in buildings and vehicles
- Textiles: antimicrobial, anti-stain
- Food: antimicrobial coatings on meat products and packaging, and coatings of flavors, ingredients and other additives
- Automotive: heat exchangers and brake pads
- Aerospace/aircraft: specialty component coating

## DIFFERENTIATORS/ GROWTH DRIVERS

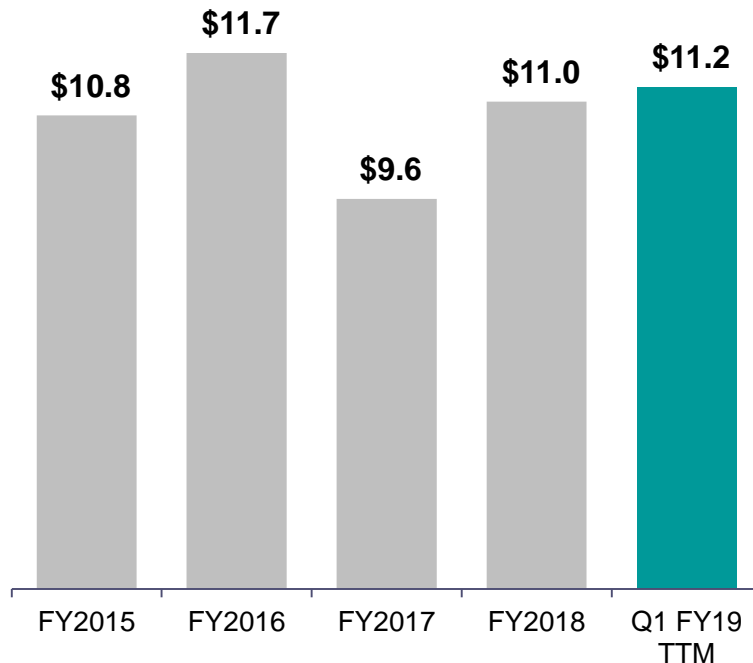
- Extensive experience in uniform layers of water-soluble organic acid solutions (anti-stain coatings)
- Transfer efficiency (reduced bounce back and over spray)
- Environmentally friendly
- Cost effective

# Sales Grew 14% in FY18

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(\$ in millions)

## SALES



- Excellent growth trends throughout FY18
- Higher volume in Multi-Axis Systems and Integrated Coating Systems



### Medical

Specialized application expertise for polymer and other active drug coatings on implantable devices



### Alternative Energy

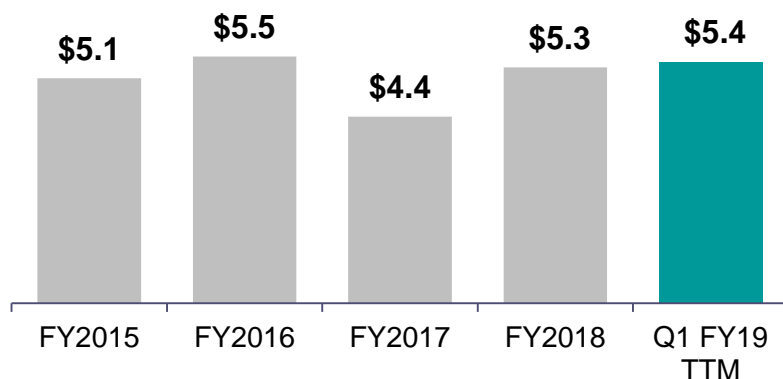
Led by fuel cell development programs in Asia

# Gross Margin Improvement

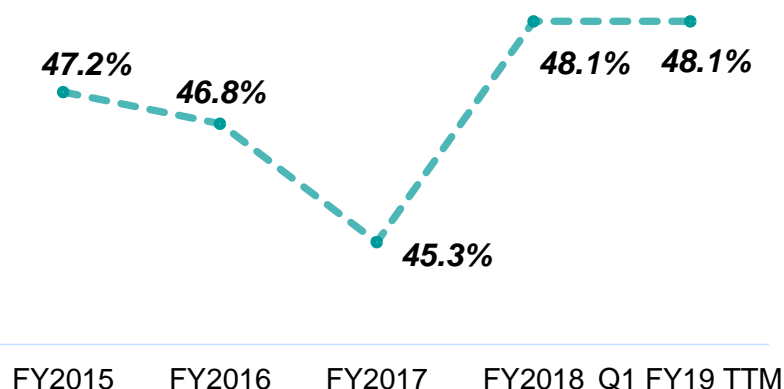
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(\$ in millions)

## Gross Profit



## Gross Margin



## Gross margin

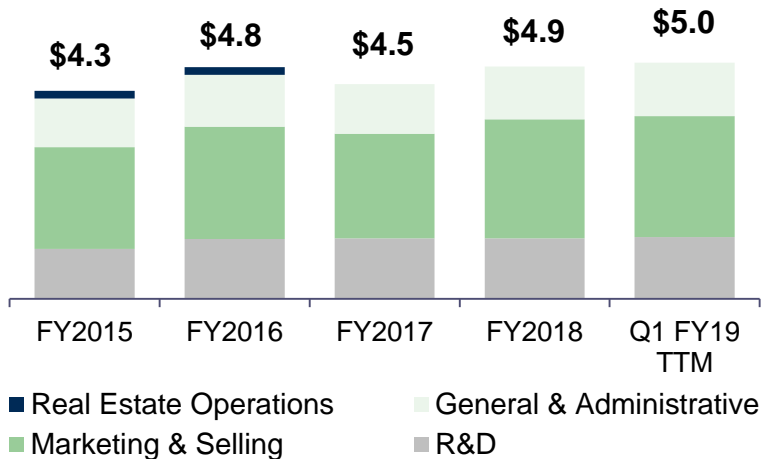
Up 280 bps in FY18 driven by product mix and volume

- Higher volume on slightly lower fixed costs
- Generating industry leading gross margin\*
- Results of LEAN
  - Improved deliveries
  - Visibility through digitization
  - Reduced inventory

\*Source: Capital IQ peer group average gross margin of 43.7%

## OPERATING EXPENSES

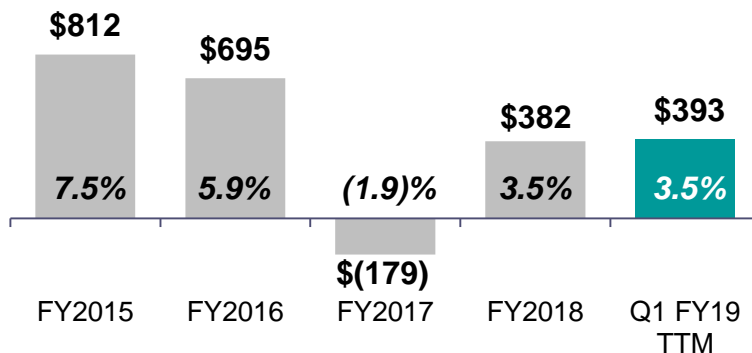
(\$ in millions)



- Managed operating expenses
- Maintained research and product development investment
- Expanded sales & marketing  
Building market presence  
Largest expense is talent

## OPERATING PROFIT AND MARGIN

(\$ in thousands)

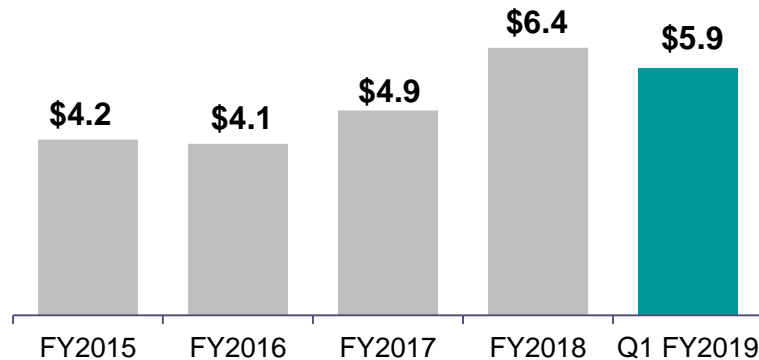


# Strengthened Balance Sheet

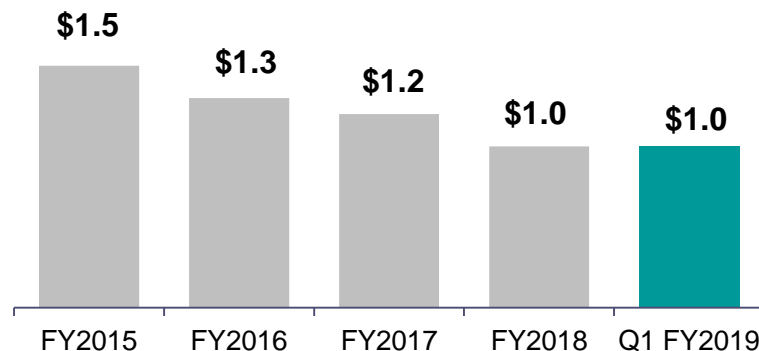
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(\$ in millions)

## CASH & MARKETABLE SECURITIES



## TOTAL DEBT



- LEAN manufacturing practices drove strong cash generation

\$1.8M in cash from operations, up 75% in FY2018



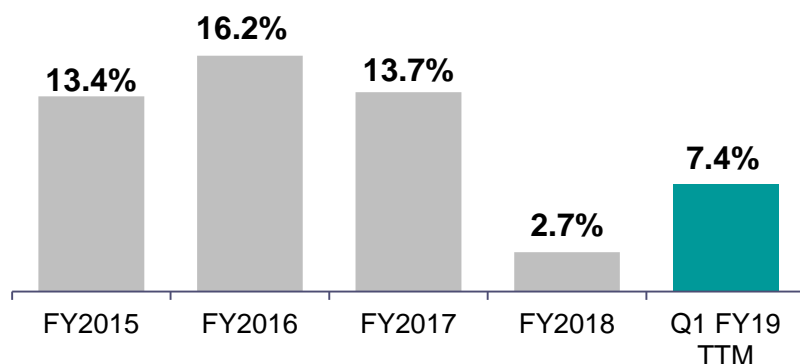
## Total debt

Down \$150 thousand in FY18

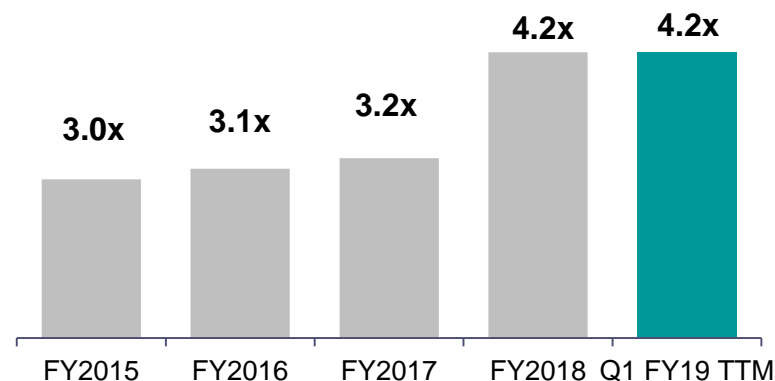
Consists of mortgage

- Debt to total capitalization: 10.5%

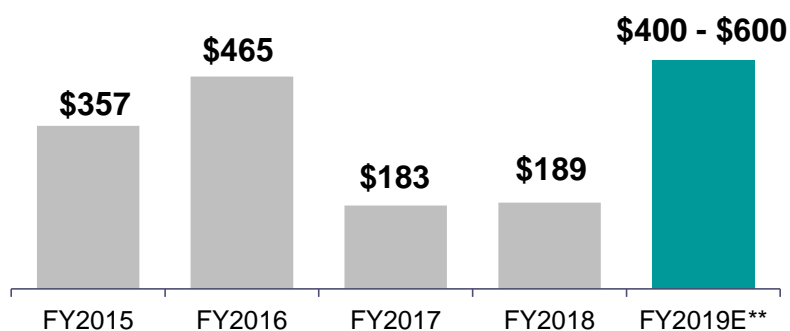
## MANAGED WORKING CAPITAL AS A PERCENT OF SALES\*



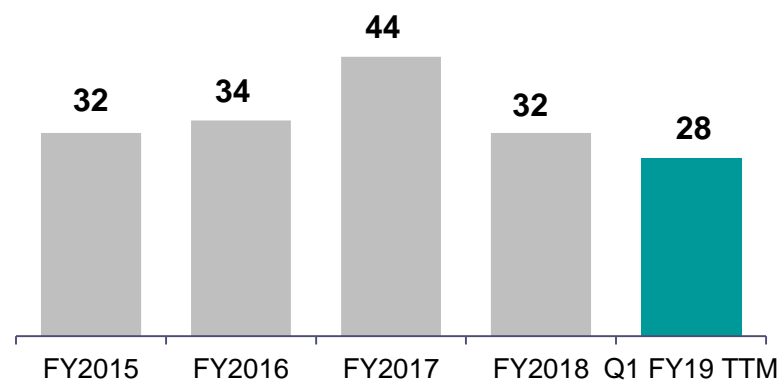
## INVENTORY TURNOVER



## CAPITAL EXPENDITURES (\$ in thousands)



## DAYS SALES OUTSTANDING



\*Defined as current assets (excluding cash and cash equivalents and marketable securities) less current liabilities (excluding current debt obligations) divided by annual sales

\*\*FY2019 capital expenditures expectation provided on July 16, 2018

## Complex Fuel Cell Coating Lines

- New production scale machines address size requirements and speed to drive volume
- Customers moving from R&D to low rate production with plans to scale volume to high rate production in near future
- Go-to-market strategy:
  - Strong relationships with membrane manufacturers
  - Direct sales and expert distributor channels
- Creating internal ability to scale rapidly
- High value machines: \$300k to \$400k





## Universal ALIGN

- Designed to provide minimal components for successful coating
- Flexible and modular: Easily integrates into customer supplied machinery
- Higher price and higher value compared with just nozzle and generator
- Designed using LEAN engineering principles

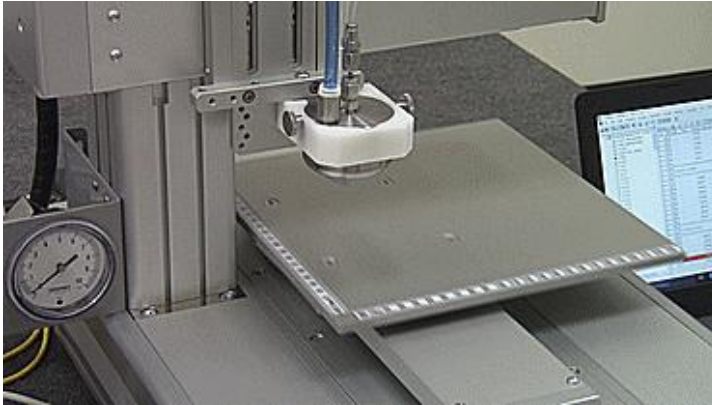


## SonoBraz

- Handles challenge of thick liquids and difficult flow
- Strategic partner to gain traction
- Primarily used by automotive industry
- Reduced component costs



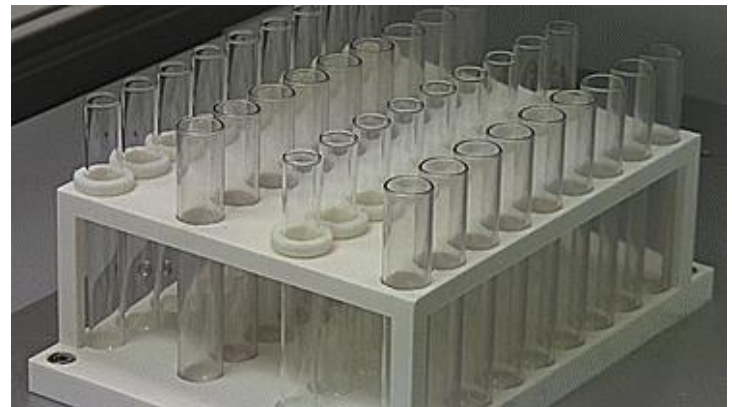
## SimCoat Multi-Axis Coating System



- Captures market previously missed
- Well received for a wide range of university level R&D needs
- Simple, flexible design
- Low cost, aimed at university R&D

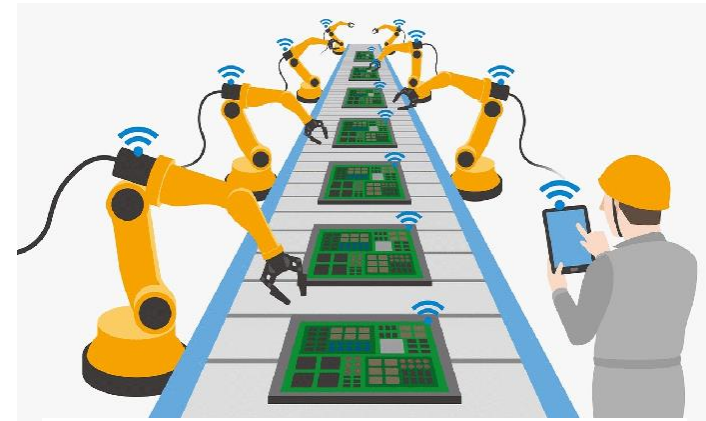
## MedXT

- Growing worldwide diagnostic market
- Requirements more demanding  
(*in terms of speed and repeatability*)
- New technology gaining solid traction



## The Future of Manufacturing is IIOT and Industry 4.0

- Integrating smart technology into products
  - Enables system feedback for operating improvements
  - Integrates into overall customer information system
- Applying 4.0 internally too
  - Digitization driving simplified and accelerated workflow



Anticipate solid growth in revenue for fiscal year 2019

- New products and applications
- Strong global economy
- Fiscal improvements in the U.S.
- Record proposal and quote levels

Highest level of lab activity experienced: ~70% converts to sales



*\*Outlook provided as of July 16, 2018*

**Strong brand** and reputation: known for high quality and consistency.

**Continued strengthening of application expertise**, process development laboratories, new products, and technological advancements.

**Expanding addressable markets** and applications to broaden customer base.

Advantages of ultrasonic coating is becoming more broadly recognized to **capture a larger segment of coatings equipment market**.



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