

THE L. S. STARRETT COMPANY
Athol, Massachusetts

November 8, 2019

To the Stockholders:

Presented below are the comparative operating figures for the Company for the periods ended in September 2019 and September 2018.

The Company generally experiences a slow first quarter on a fiscal year basis and FY 2020 was no exception. Geo-political concerns significantly dampened manufacturing activity and the corresponding reaction in the Company's distribution channels negatively impacted incoming orders. Despite flat sales, gross margins improved \$1.0 million to 34% of sales in fiscal 2020 compared to 32.1% in fiscal 2019. The key drivers for the better performance were the Company's North American based metrology businesses offset by weaker international performance.

Operating income increased \$0.5 million, as higher gross margins more than offset increased Selling, General and Administrative expenses. Net income increased \$0.2 million from a net income of \$0.6 million or \$0.08 per share in fiscal 2019 to net income of \$0.8 million or \$0.11 per share in fiscal 2020.

Sales growth will remain a challenge in the second quarter, given that the current political and economic landscape is significantly more uncertain than a year ago; however, our expectations are to improve our financial performance.

D. A. Starrett

SUMMARY OF CONSOLIDATED RESULTS

(in thousands of dollars except share data)

	Three Months Ended September	
	Fiscal 2020	Fiscal 2019
Net sales	\$ 52,114	\$ 51,901
Cost of goods sold	34,411	35,242
Gross margin	17,703	16,659
Selling, general and administrative expenses	16,258	15,723
Operating income	1,445	936
Other income (expense)	(169)	6
Income before income taxes	1,276	942
Income tax expense	498	358
Net income	<u>\$ 778</u>	<u>\$ 584</u>
Basic and diluted income per share	\$ 0.11	\$ 0.08

The above figures are in part estimates and are subject to audit and year-end adjustments. Except for historical information contained herein, the matters discussed may involve forward-looking statements subject to risks and uncertainties that could cause actual results to differ materially, including statements concerning future financial performance, economic and political conditions, currency fluctuations and foreign operations.