

THE L. S. STARRETT COMPANY

Athol, Massachusetts

February 7, 2023

To the Stockholders:

Presented below are the comparative operating results for the Company for the periods ended in December 2022 and December 2021.

Our improved performance is the result of solid execution at the operating level, including our international operations, which are facing more hurdles than our North American businesses, who benefited from continued high demand for precision granite products and stable demand for the Company's portfolio of precision measuring tools and saw blades sold through industrial distribution.

Net sales in the second quarter were \$66.8 million, an increase of \$5.5 million or 9% compared to \$61.3 million in the second quarter of the prior year. North American businesses continued to outperform the prior year, delivering an increase in net sales of 21%. This more than offset a 5% decline in the Company's international operations, which were negatively impacted in Europe as a result of economic conditions and the on-going war in Ukraine.

Operating income for the quarter increased \$1.7 million to \$5.9 million or 8.9% compared to \$4.2 million or 6.9% in the second quarter of the prior year. Primary drivers were improved gross margin and reduced selling, general and administrative expenses as a percentage of net sales from 24.1% in the second quarter last year to 23.3% in the second quarter this fiscal year.

Net income for the quarter was \$3.1 million or \$0.42 per diluted share, an improvement of \$0.6 million or 23.9% compared to net income of \$2.5 million, or \$0.34 per diluted share for the second quarter in the prior year.

While the macro-economic landscape remains volatile and the geopolitical climate uncertain, our associates around the world continue to navigate the challenges and are focused on continuing our positive trajectory in the second half of our fiscal year.

D. A. Starrett
President and CEO

SUMMARY OF CONSOLIDATED RESULTS

(in thousands of dollars except share data)

	Three Months Ended December		Six Months Ended December	
	Fiscal 2023	Fiscal 2022	Fiscal 2023	Fiscal 2022
Net sales	\$ 66,775	\$ 61,318	\$ 127,236	\$ 122,832
Cost of goods sold	45,199	42,368	85,460	83,737
Gross margin	21,576	18,950	41,776	39,095
Restructuring charges	54	-	244	-
Selling, general and administrative expenses	15,561	14,749	31,855	30,762
Operating income	5,961	4,201	9,677	8,333
Other (expense), net	(1,121)	(662)	(1,797)	(436)
Income before income taxes	4,840	3,539	7,880	7,897
Income tax expense	1,709	1,011	2,693	2,137
Net income	\$ 3,131	\$ 2,528	\$ 5,187	\$ 5,760
Basic income per share	\$ 0.42	\$ 0.35	\$ 0.71	\$ 0.80
Diluted income per share	\$ 0.42	\$ 0.34	\$ 0.69	\$ 0.77

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.