# THE L. S. STARRETT COMPANY
## Athol, Massachusetts

May 15, 2023

To the Stockholders:

Presented below are the comparative operating figures for the Company for the periods ended in March 2023 and March 2022.

I am pleased with the overall strengthening of our balance sheet made in this quarter. Our teams have delivered significant improvements in cash flow and a reduction of debt, despite headwinds in our international markets and broader global economic uncertainty.

Operating cash flow in the quarter was $11.4 million, an improvement of $9.6 million compared to $1.8 million for the third quarter in the prior year. The Company retired $10 million in debt during the quarter as the result of its initiatives to reduce working capital and improve treasury operations. On March 31, 2023, the Company's debt totaled $16 million.

Net sales of $61.7 million increased 2% compared to the third quarter of the prior year. Both our International and North American markets contributed to the increase in sales.

Operating income for the quarter was 6.7% down 2.2% compared to 8.9% in the second quarter of the prior year. This was driven by lower factory utilization as a result of planned reduction in plant hours as the Company focused on working capital reduction and cash generation, considering the overall improvement in supply chain conditions compared to the prior year.

Net income for the quarter was $7.5 million, or $0.99 per diluted share, compared to net income of $4.3 million, or $0.57 per diluted share for the third quarter in the prior year. Net income for the quarter was increased by a tax credit of $5 million. This credit was a result of a reduction of the Company's valuation allowance against its deferred tax assets due to improved performance achieved and forecasted for its North American operating units and an increase in foreign-sourced royalty income resulting from amendments to the Company's transfer pricing policies.

As post-pandemic supply chains have begun to normalize, we have pivoted away from protective inventory strategies which will apply pressure on gross margins over the next several months. Our sales continue to be buoyed by a healthy backlog. End user orders based on point of sales data indicate demand for our products remains healthy in our two largest markets, the United States and Brazil. Our initiatives on working capital reduction, cash generation, and operational talent, have resulted in declines in gross margins, which may continue through the balance of the calendar year. We believe these initiatives to bolster our cash position, reduce debt, and invest in physical and human capital, are necessary to build a sustainable future for our stakeholders.

D. A. Starrett
President and CEO

***Note: This will be the last quarterly report in this format, as it is redundant to our quarterly press releases, which are available on our web-site at https://www.starrett.com/about/investor-relations***

## SUMMARY OF CONSOLIDATED RESULTS

(in thousands of dollars except share data)

| | Three Months Ended March | | Nine Months Ended March | |
|---|---|---|---|---|
| | **Fiscal 2023** | Fiscal 2022 | **Fiscal 2023** | Fiscal 2022 |
| **Net sales** | **$ 61,678** | $ 60,479 | **$ 188,914** | $ 183,311 |
| **Cost of goods sold** | **42,455** | 39,459 | **127,916** | 123,197 |
| **Gross margin** | **19,223** | 21,020 | **60,998** | 60,114 |
| **Restructuring charges** | **-** | 658 | **244** | 658 |
| **Selling, general and administrative expenses** | **15,109** | 14,988 | **46,962** | 45,750 |
| **Operating income** | **4,114** | 5,374 | **13,792** | 13,706 |
| **Other (expense) income, net** | **(602)** | 684 | **(2,399)** | 249 |
| **Income before income taxes** | **3,512** | 6,058 | **11,393** | 13,955 |
| **Income tax (benefit) expense** | **(3,961)** | 1,774 | **(1,267)** | 3,911 |
| **Net income** | **$ 7,473** | $ 4,284 | **$ 12,660** | $ 10,044 |
| **Basic income per share** | **$ 1.01** | $ 0.59 | **$ 1.72** | $ 1.39 |
| **Diluted income per share** | **$ 0.99** | $ 0.57 | **$ 1.68** | $ 1.34 |

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.