



Zep Inc. Investor Presentation

February, 2015

Safe Harbor



This presentation and our commentary contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Specifically, forward-looking statements include, but are not limited to, statements relating to our future economic performance, business prospects, revenue, income, and financial condition; and statements preceded by, followed by, or that include the words "plans," "expects," "believes," "intends," "will," "anticipates," "confident," "strategy," "continuing," "to be," "opportunity," "well-positioned," "excited about" and similar terms that relate to future events, performance, or our results. Examples of forward-looking statements in this presentation include, but are not limited to, statements about our sales pipeline gaining momentum, statements about favorable demographic trends continuing, statements about having mitigated risks present previously, statements regarding our expectation to experience quarter-to-quarter gross profit margin inconsistencies from mix and promotions, statements regarding the next phase of investments in training, sales management & additional sales reps, statements about achieving full manufacturing capability by the end of the fiscal second quarter, statements regarding the continued residual effects of lost customers due to the fire on sales, statements about our increasing optimism with respect to our fiscal 2015 net sales expectation, statements regarding John K. Morgan's 10b5-1 plan, the timing of its execution and the resulting beneficial ownership, statements regarding possible benefits on raw materials purchases as a result of changing oil prices, and the timing of those benefits, statements about our intent to reduce overall inventories levels and utilize proceeds to further reduce net debt, and statements regarding low single digit revenue growth, gross profit margin of 46-48%, higher selling, distribution and administrative expenses, \$6-7 million of interest expense, total capital expenditures of \$25-\$30 million and a tax rate of 36-38% for fiscal 2015.

Our forward-looking statements are subject to certain risks and uncertainties that could cause actual results, expectations, or outcomes to differ materially from our historical experience as well as management's present expectations or projections. These risks and uncertainties include, but are not limited to:

- the ongoing impact of the fire that occurred at our aerosol manufacturing facility on May 23, 2014 on our financial results, operations and prospects;
- general economic conditions;
- the cost or availability of raw materials;
- competition in the markets we serve;
- our ability to realize anticipated benefits from strategic planning initiatives and the timing of the benefits of such actions;
- market demand and pricing for our products and/or services;
- our ability to maintain our customer relationships; and
- litigation and other contingent liabilities, such as environmental matters.

A variety of other risks and uncertainties could cause our actual results to differ materially from the anticipated results or other expectations expressed in our forward-looking statements. A number of those risks are discussed in Part I, "Item 1A. Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended August 31, 2014. Management believes these forward-looking statements are reasonable; however, undue reliance should not be placed on any forward-looking statements, which are based on current expectations. Further, forward-looking statements speak only as of the date they are made, and management undertakes no obligation to update publicly any of them in light of new information or future events.

Reconciliations of non-GAAP measures referenced in this presentation to their nearest GAAP measure are included in the earnings press release available on the Zep Inc. website and at the end of this presentation.

Zep Inc. Value Proposition

ZepInc

- Zep Inc. sells a wide-variety of highly-effective, consumable packaged chemicals that help professionals maintain, clean & protect their assets, facilities and environment.
- We market our products primarily to customers in the Transportation, Industrial/MRO and Jan/San & Institutional markets.
- Our multi-channel sales capability is valued by our customers and enhanced by an integrated supply chain and shared services structure, providing an additional competitive advantage.



We've Got a Zep® for That!™

Zep Inc



Zep Inc
VEHICLE CARE

- Largest selection of high-efficacy formulas bundled with application expertise



- Broad product line of specific use chemicals for distribution



- Pro-focused line of jan/san & plumbing products for retail



- Pro and DIY auto care products for retail



- Finest house of brands in Do-it-for-me auto care



Pro-Focused High Efficacy Formulas for Any Application

\$19B North American Market Opportunity

Zep Inc

Target Strategic Markets

% Zep
Sales

Drivers

Examples

Transportation

\$4.8B

40%



- GDP
- New Vehicle Sales
- Miles Driven
- Average Vehicle Age
- Weather

Vehicle Maint. Wash & Polish, Parts Cleaners, Degreasers, Lubricants, Fleet Wash...

Industrial / MRO & Other

\$2.7B

23%



- GDP
- Industrial Production
- Manufacturing Employment

Lubricants, Penetrants, Greases, Parts Washers, Food Processing Cleaners/Sanitizers, Metal Working...

Jan / San & Institutional

\$11.6B

37%



- GDP
- Employment
- Trends in Acceptable Practices

Air, hand & floor care, Cleaners, Degreasers, Carpet Care, Sanitizers Disinfectants, Laundry Dispensing Systems...

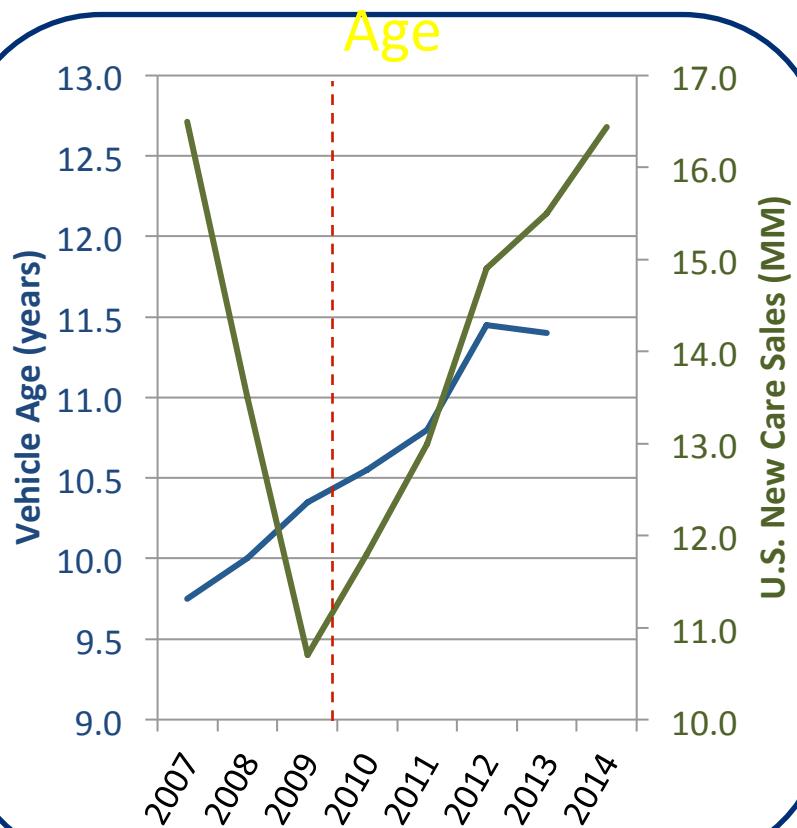
60%+ of Revenues from Transportation & Industrial/MRO

Favorable Industry Trends

Zep Inc

Transportation

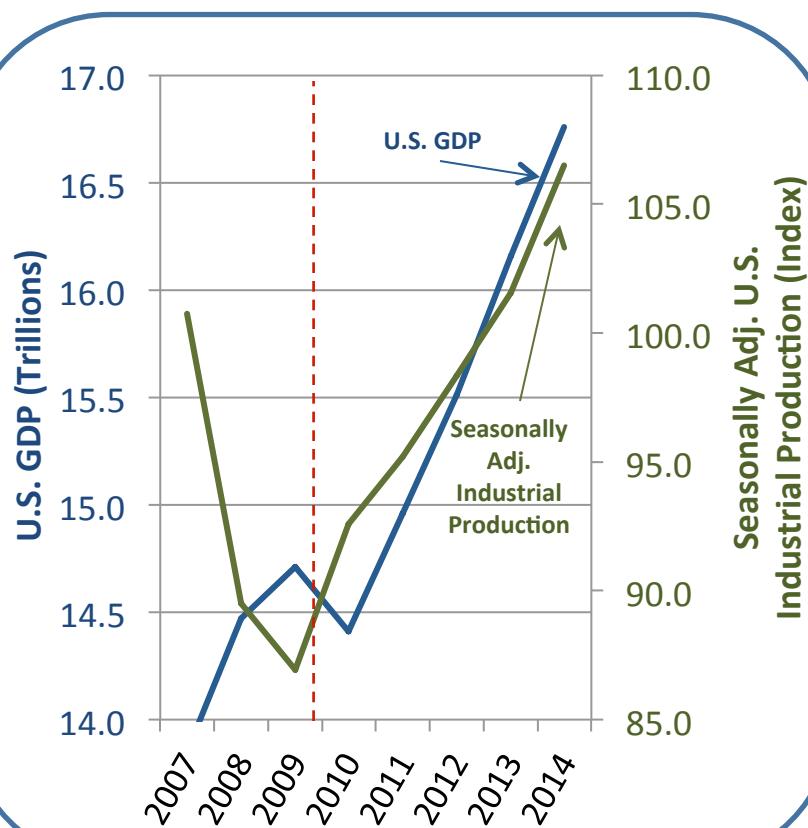
U.S. Vehicle Sales & Vehicle Age



Source: Ward's, Polk

Industrial/MRO

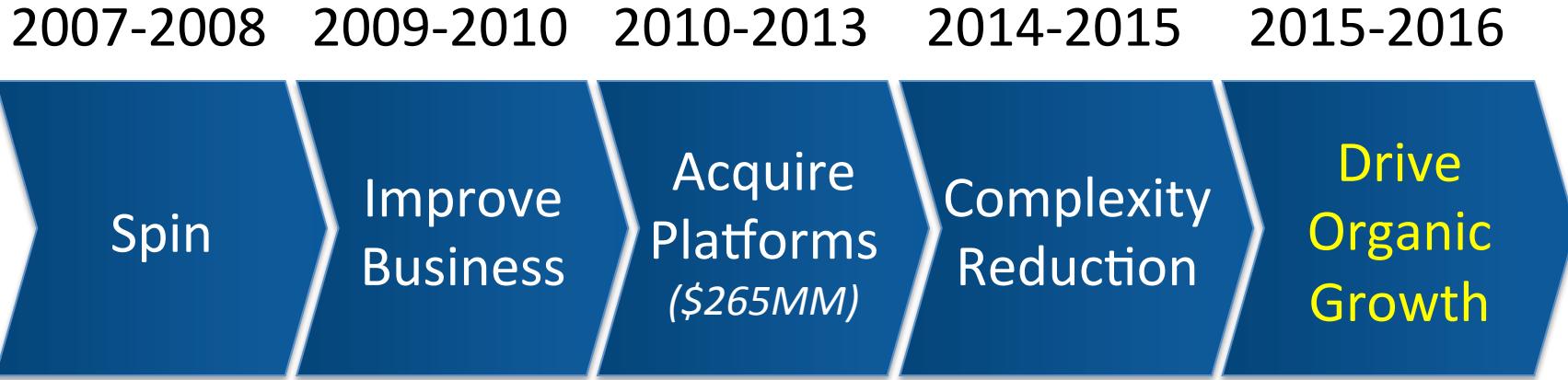
GDP & Industrial Production



Source: Federal Reserve Bank of St. Louis

Zep Inc. Life Cycle

ZepInc



- Rapidly paid down inherited debt
- Reduced break-even of the business by 30%
- Amrep
- Waterbury
- Niagara
- Washtronics
- Hale Group
- Mykal
- Ecolab Vehicle Care
- Upgraded IT
- Integrated ZVC
- Settled CA legal claims
- Align sales & support functions
- Product line rationalization
- Investing in NASS
- Invest in supply chain
 - Facilities
 - Logistics
- Focus on strategic end-markets

Investing in Growing Business Organically

Shifting Focus of Investment

Zep Inc

- **Invested \$265 million of capital in business for acquisitions to establish growth platforms**
 - Platforms have grown organically
 - Well positioned to capitalize on favorable market demographics
- **Operational capital spending elevated because of investments in new IT platforms**
- **Diverted investment from North American Sales and Service business**
 - Rep count declines
 - Sales declines

Reinvestment in NASS Business to Accelerate Organic Growth

2015 Investment Implications

Zep Inc

- **Financial Expectations:**

- Expect low single digit growth in fiscal 2015 (fire offset by organic growth)
- Investments will result in higher expenses in fiscal 2015
- Impacts to net income
 - Sales capacity, advertising & training Term Ongoing
 - Supply chain & GPTW consulting F'15
 - GHS-related OSHA compliance F'15

- \$5-6 million total impact
- Approximately ½ occurring in FY '15 only

- **Benefits:**

- Generates strong cash flow and rapid debt reduction; shifting enterprise value from debt holders to equity holders
- Measured by:
 - Return on Invested Capital (ROIC)
 - Return on Net Assets (RONA)

Long-Term Financial Objectives



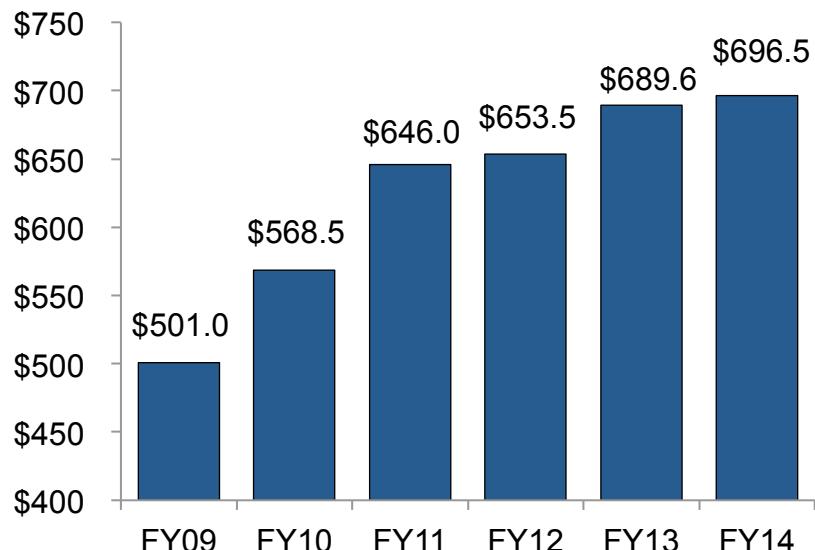
1. \$1 billion in revenue within 5 years
2. Target of 50 bps annualized EBITDA margin improvement
3. 11-13% annualized EPS improvement
4. Return on Invested Capital (ROIC) in excess of cost of capital

Growing Sales, Profitably

Zep Inc

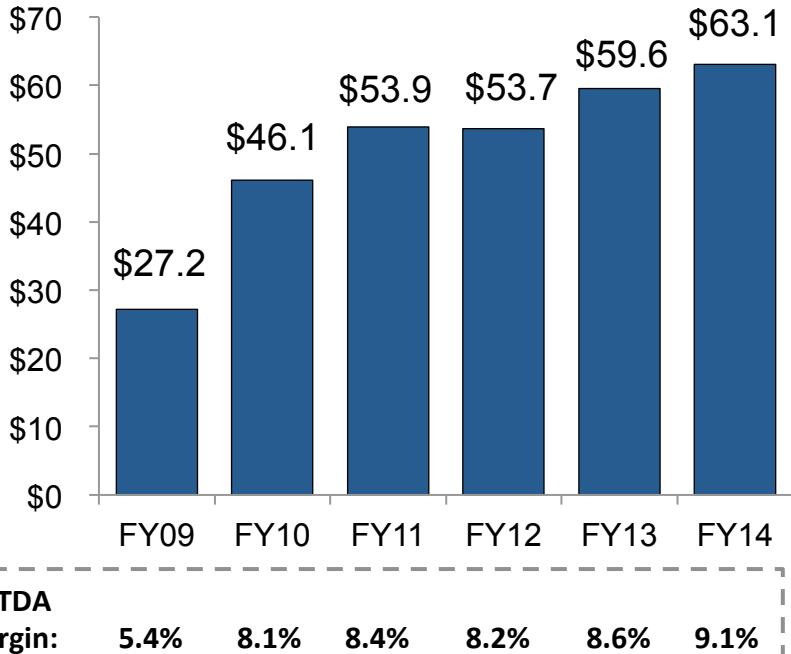
Strong Revenue Growth 6.8% CAGR

(*\$ Millions*)



Adj. EBITDA Growth 18% CAGR

(*\$ Millions*)



Consistent Revenue and Adj. EBITDA Growth

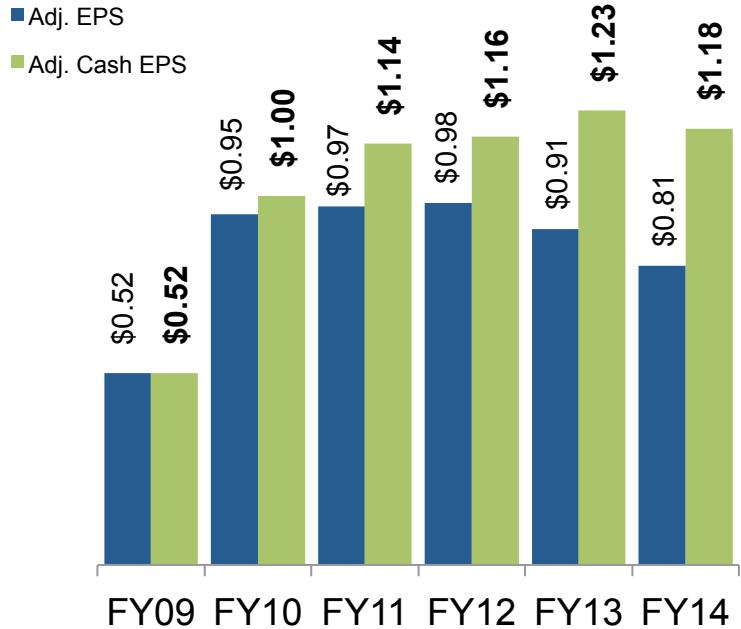
* Revenue and EBITDA excluding the effect of acquisitions based on company estimates.

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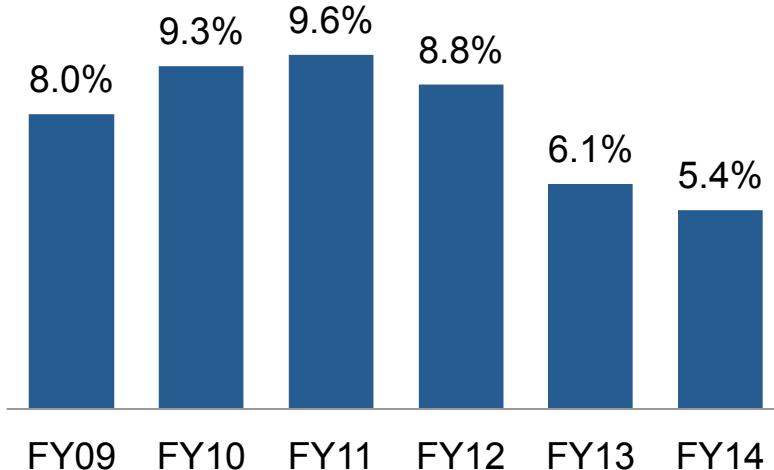
Growing EPS and ROIC

Zep Inc

Adj. EPS Growth 9.3% CAGR



ROIC Impacted by Acquisitions



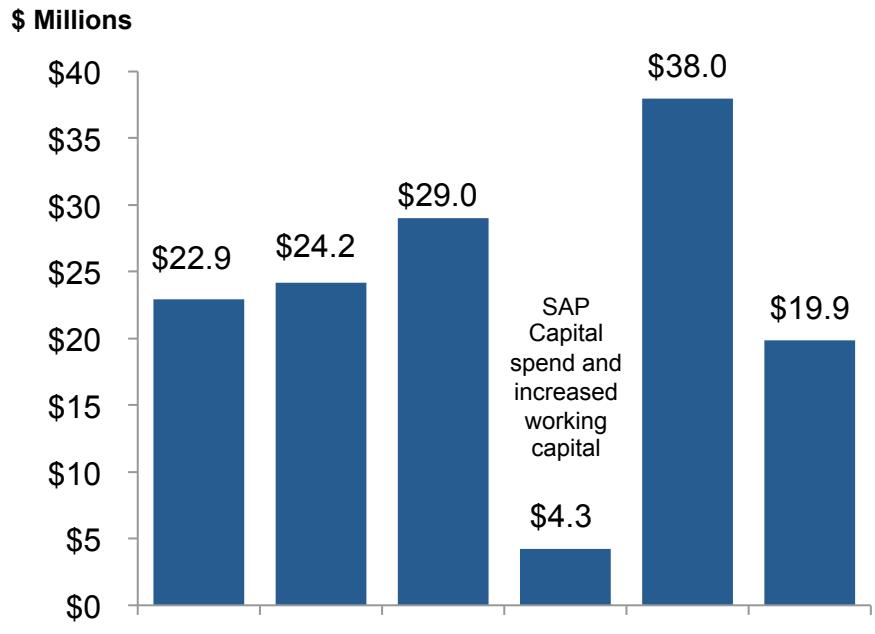
Fully diluted Earnings per Share, as adjusted

Return on Invested Capital (ROIC) is calculated as after tax operating profit divided by Invested Capital.

Strong/Consistent Cash Flow Generation

Zep Inc

Strong FCF Important Characteristic of Zep Model



Use-of-Cash Strategies

- Fund normal operations
- Fund dividend
- Pay down long-term debt

Noteworthy FCF Generation While Investing in Strategic Growth Initiatives

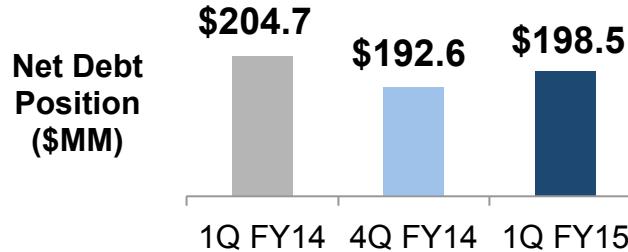
- Capex \$7.5 \$9.8 \$8.9 \$18.4 \$12.1 \$9.6
- **\$23 million average annual free cash flow during the past six years**

1) 2011 Free Cash Flow includes \$0.9 million proceeds from the sale of property, plant, and equipment

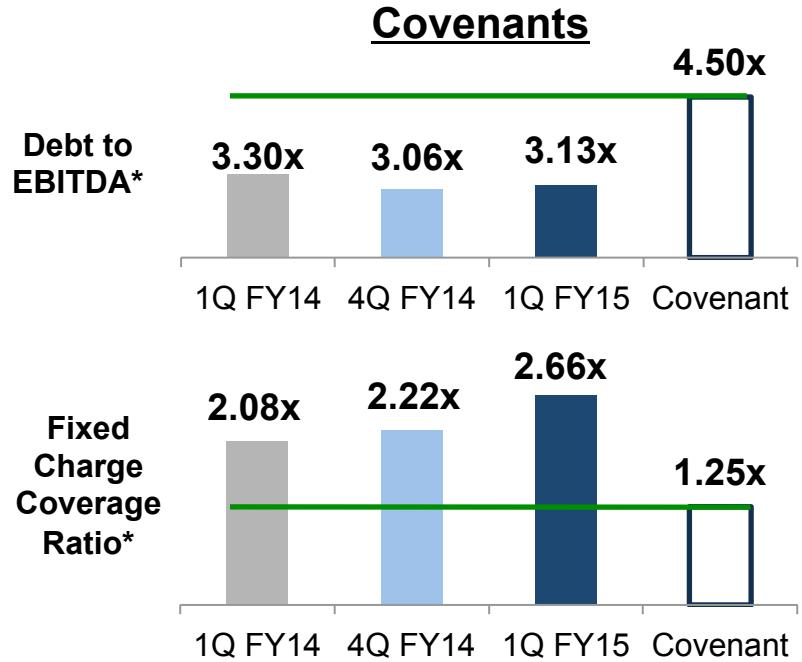
2) Free Cash Flow is defined as Net Cash Provided by Operating Activities less Capital Expenditures plus Proceeds from Sale of Property Plant and Equipment.

Debt Position

Zep Inc



- Credit facility refinanced August 2014 with favorable terms and greater financial flexibility
- Temporarily higher inventories increased net debt position in Q1



Inventory Reductions in 2H FY15 Will Generate Cash Flow

Conclusion



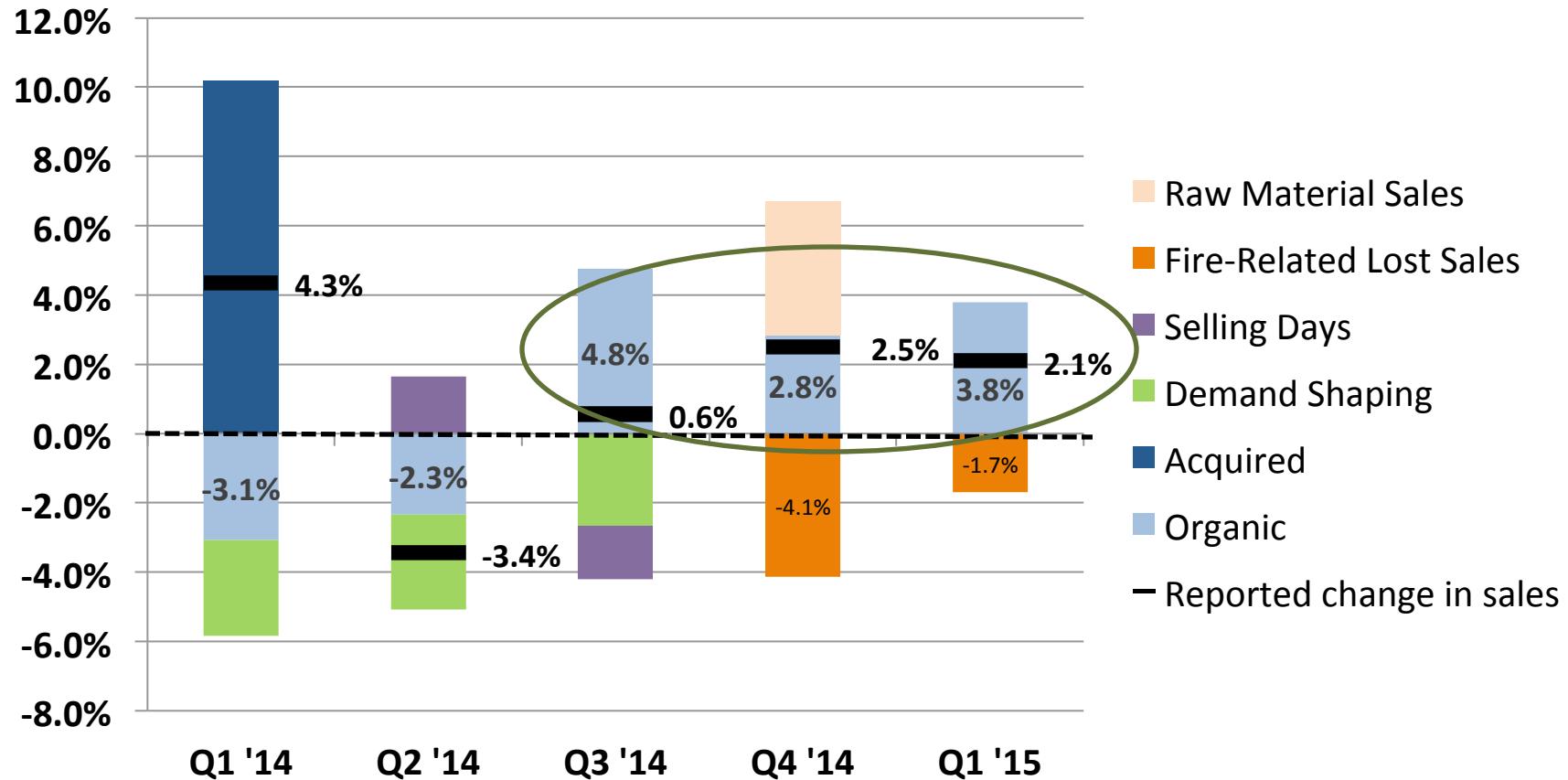
- Business continuity effort – regain full aerosol production capacity
- Continuing momentum of recent sales wins due to disciplined sales pipeline process
- Excited about investments to organically grow NASS, distribution and retail businesses
- Distractions subsiding, momentum building and early results are positively influencing our determination

Exciting to be Investing in Organic Growth Again!

Appendix

Quarterly Composition of Revenue

Zep Inc



Organic Revenue Growth Returned in the 2nd Half of Fiscal 2014

Fiscal 1st Quarter 2015 Summary

Zep Inc

- Results broadly in-line with our expectations
 - Gross profit margin, operating profit and EBITDA reflected
 - Evolving business mix
 - Investments in organic growth initiatives
 - Expect quarter-to-quarter inconsistencies from mix and promotions

	<u>Q1 '15</u>	<u>Chg.</u>
Revenue	\$168.3	+2.1%
Gross margin	46.8% <i>(130bps)</i>	
Operating profit	\$7.4	+\$0.1
Adj. EBITDA	\$13.4	(\$0.6)

Results Broadly In-Line with Our Expectations

1st Quarter '15 Revenue Drivers

Zep Inc

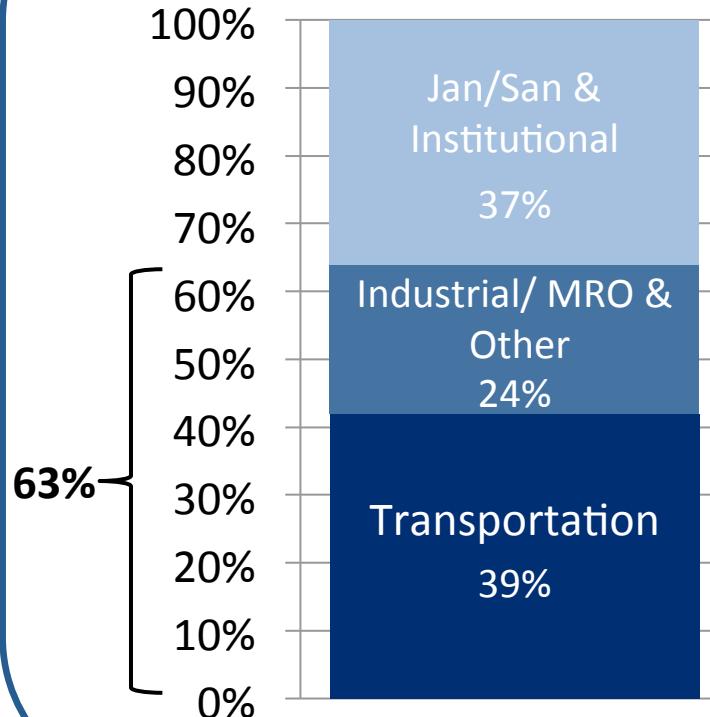
Increases ↑

- Auto/OEM
- Auto/Aftermarket
- Home Improvement
- Oil & Gas
- Food Processing

Decreases ↓

- Distribution
- Generalist Direct Sales
- Zep Vehicle Care

% of Q1 2015 North American Revenue



Q1 Growth

4.8%

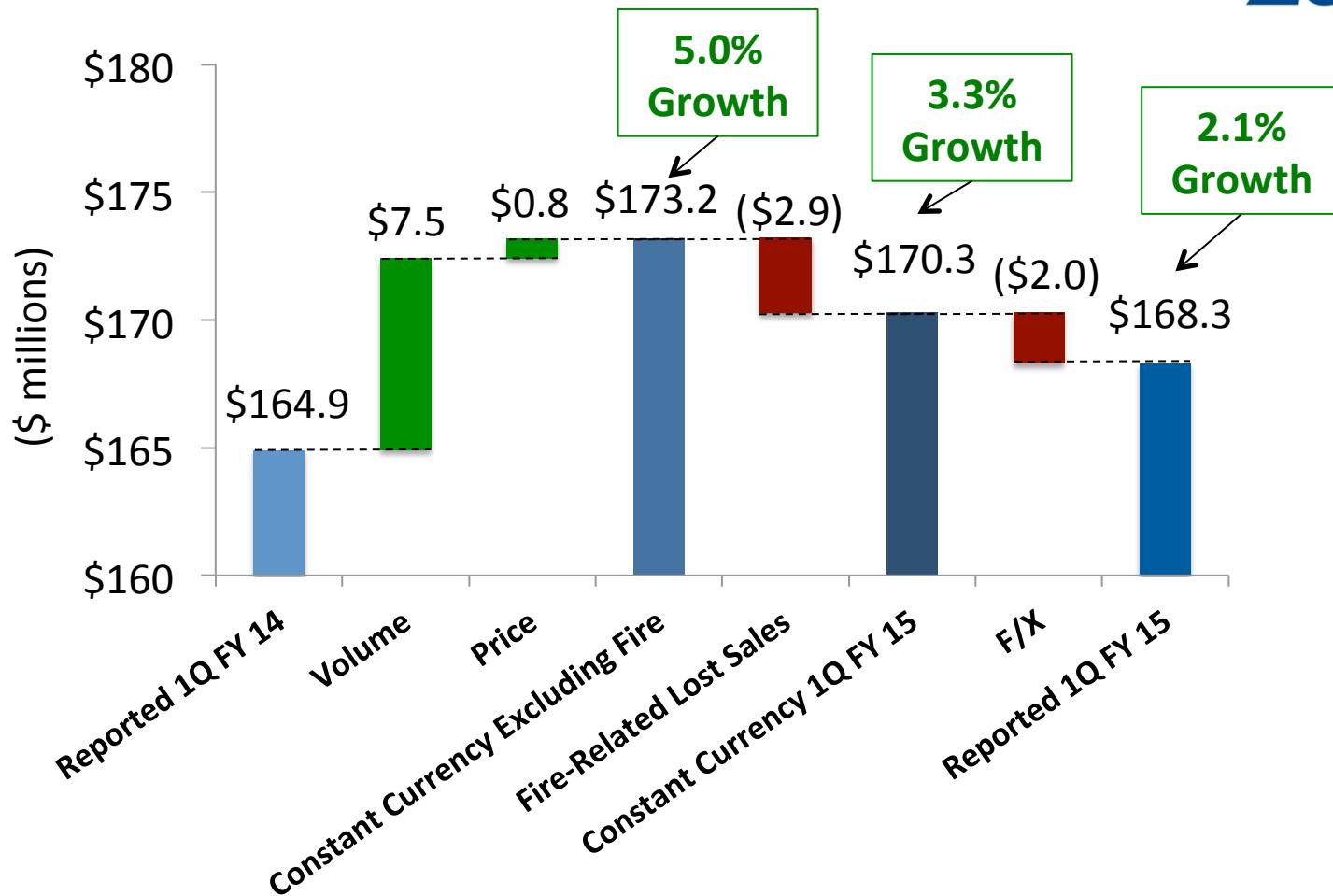
2.0%

1.9%

Growth in All Three Major End-Markets

1st Quarter '15 Revenue Drivers

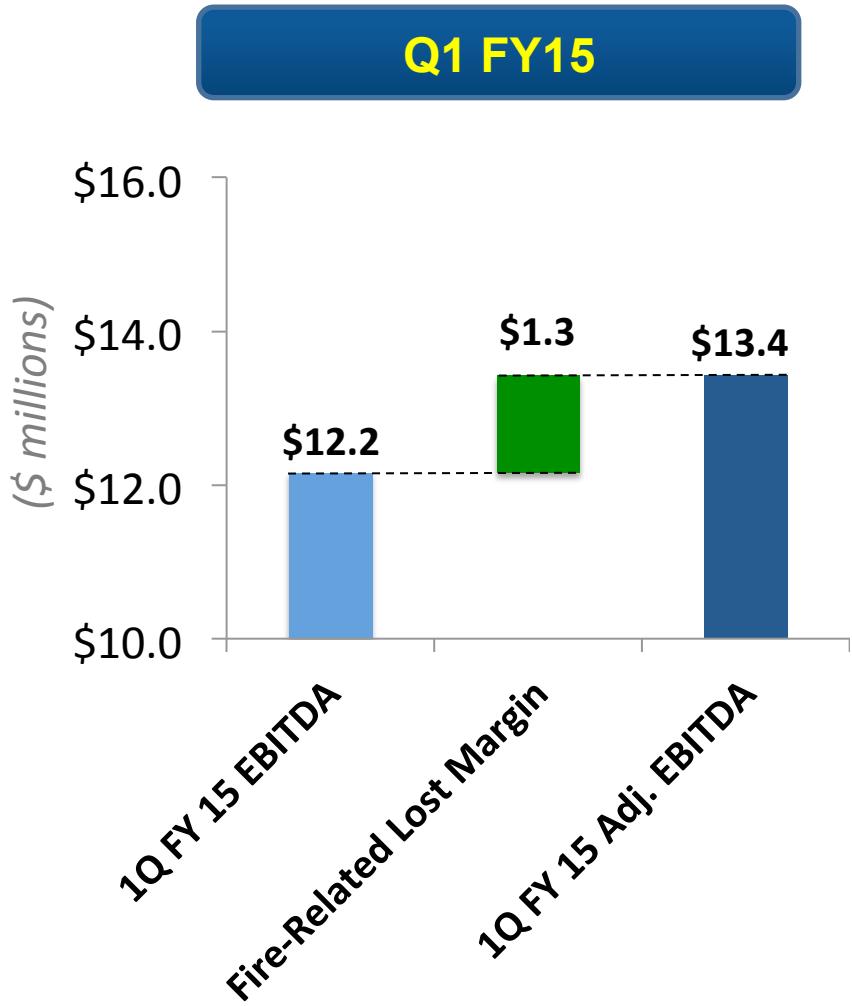
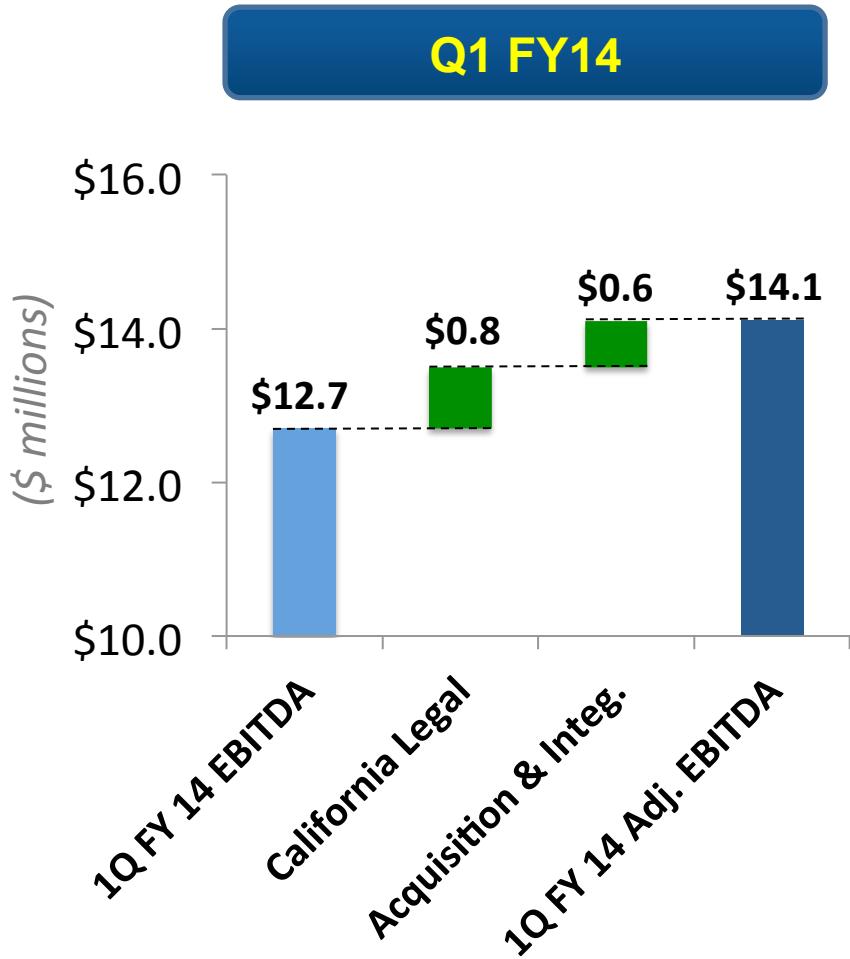
Zep Inc



Record First Quarter Revenues

EBITDA & Adjusted EBITDA

Zep Inc

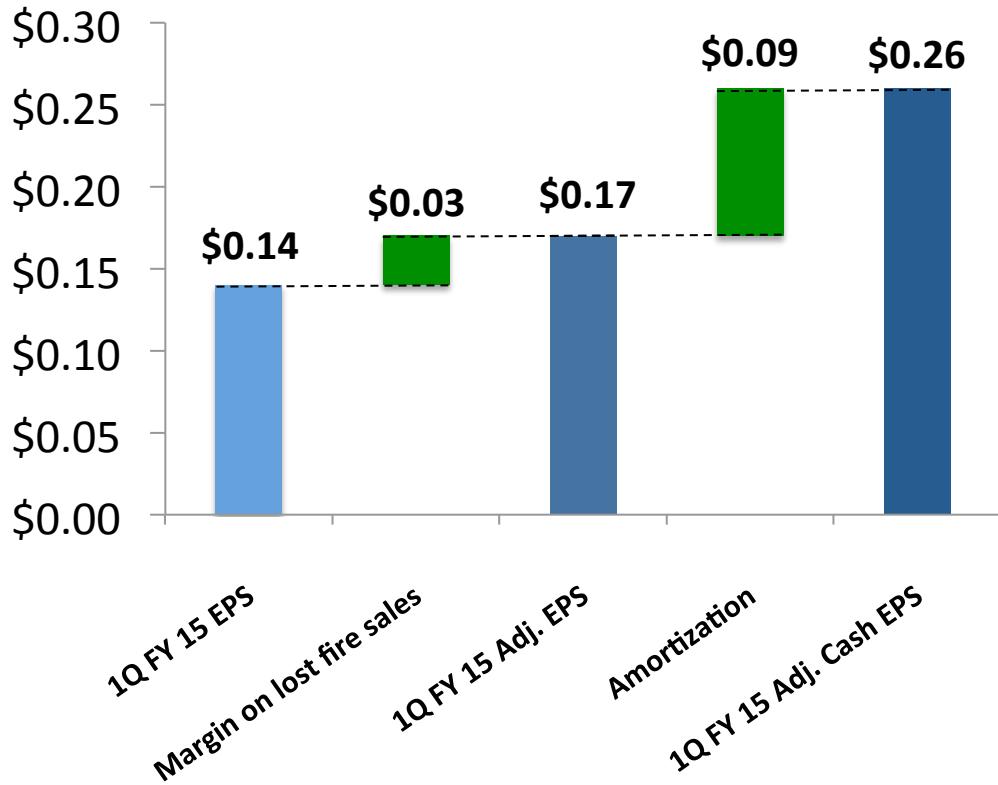


1st Qtr. EPS, Adj. EPS & Adj. Cash EPS

ZepInc

Three Months Ended
November 30,

	<u>2014</u>	<u>2013</u>
Diluted EPS	\$0.14	\$0.14
Adjustments	<u>\$0.03</u>	<u>\$0.03</u>
Adjusted diluted EPS	\$0.17	\$0.17
Amortization	<u>\$0.09</u>	<u>\$0.09</u>
Adj. Cash EPS	\$0.26	\$0.26



Q1 FY 15 Adj. Cash EPS of \$0.26

2015 Investment Detail & Guidance

Fiscal 2015 Investments



- **Transformative Set of Policy Changes and Investments in North American Sales and Service Business**
 - Compensation and policy changes effective January 1, 2015
 - Reward growth
 - Simplify ordering, freight, order status & equipment
 - Sales management, recruiting & training
 - Increase sales management
 - Develop skills & drive accountability
 - Increased focus on vertical markets
 - Increase Zep rep new hiring
 - Stabilize rep count in fiscal 2015

Fiscal 2015 Investments *(continued)*



- **Investments in Zep Vehicle Care, Distribution & Retail Businesses**
 - Sales capacity
 - Zep Automotive
 - Jan/San & MRO distribution
 - Marketing & advertising
 - Zep Commercial
 - Zep Automotive

Fiscal 2015 Guidance

Zep Inc

<u>Item</u>	<u>Expectation</u>
■ Net Sales	Low Single Digit Growth
■ Gross profit margin	46-48%
■ Selling, distribution & admin. <i>(16-18% variable)</i>	41-43%
■ Interest expense	\$6-\$7 million
■ Capital expenditures	
■ Normal rate	\$10 million
■ Restoration of aerosol capacity	<u>\$15-20 million</u>
■ Total	\$25-\$30 million
■ Tax Rate	36-38%

Fire-Related Information

Insurance Coverage

ZepInc

- Casualty & business interruption \$1.0MM deductible
 - Damage to facility
 - Increased costs to produce
 - Profit on lost revenue
 - General liability \$1.5MM deductible
 - Damage to 3rd parties
 - Prepayments against claim
 - Received \$5MM in June
 - Received \$11.9MM in September
 - Expect to file claims quarterly and a mismatch between spending and insurance settlements
 - Final resolution of claim not expected for at least a year

Effect of Lost Revenue

Zep Inc

- Business interruption insurance will cover lost profit on lost sales
- Coverage period:
 - Based on when existing aerosol facility should return to normal operation
 - Benefit from extended coverage for an additional 365 days
- Quarterly financial impact:
 - Potential to reduce reported profits for several quarters
 - Once claim is approved, realize income for lost profits

Effect of Higher Costs

Zep Inc

- Higher manufacturing costs during the recovery period
 - Presented net of insurance proceeds
- Expect higher manufacturing costs and general costs to be offset by insurance recoveries in the same period
- Coverage period:
 - Based on when existing aerosol facility should return to normal operation

Incident–Related Costs Should Have Little or No Net Effect
on the Gross Margin or S, D & A Expense Lines

Reconciliations

Reconciliations



The unaudited consolidated financial statements presented in accordance with accounting principles generally accepted in the United States ("GAAP"), available as part of the Company's earnings press release available online at www.zepinc.com in our investor section under webcasts and presentations, are supplemented by a table that reconciles EBITDA, adjusted EBITDA, adjusted earnings per diluted share, adjusted cash earnings per diluted share, free cash flow and adjusted net sales, which are non-GAAP financial information that are referenced in this presentation, to the nearest GAAP measure. This non-GAAP financial information is provided to enhance the user's overall understanding of our financial performance. Specifically, management believes that EBITDA, adjusted EBITDA, adjusted earnings per diluted share, adjusted cash earnings per diluted share, free cash flow and adjusted net sales may provide additional information with respect to our performance or ability to meet our future debt service obligations, capital expenditures and working capital requirements. This non-GAAP financial information should be considered in addition to, and not as a substitute for, or superior to, results prepared in accordance with GAAP. Moreover, this non-GAAP information may not be comparable to EBITDA, adjusted EBITDA, adjusted earnings per diluted share, adjusted cash earnings per diluted share, free cash flow or adjusted net sales reported by other companies because the items that affect net earnings that we exclude when calculating these measures may differ from the items taken into consideration by other companies.

Reconciliations



Zep Inc.

RECONCILIATION OF NON-GAAP MEASURES

(Unaudited; in thousands; except per share amounts)

	<u>Three Months Ended November 30,</u>	
	<u>2014</u>	<u>2013</u>
Net income	\$3,138	\$3,097
Interest expense, net	1,796	2,311
Income tax provision	1,802	1,740
Depreciation and amortization	<u>5,423</u>	<u>5,523</u>
EBITDA	\$12,159	\$12,671
Acquisition & integration costs	\$ -	\$614
Restructuring	(71)	-
California legal matter	43	772
Margin on lost sales – fire related	<u>1,291</u>	<u>-</u>
Adjusted EBITDA	<u>\$13,422</u>	<u>\$14,057</u>
Adjusted EBITDA margin	<u>7.8%</u>	<u>8.5%</u>

Reconciliations



Zep Inc.

RECONCILIATION OF NON-GAAP MEASURES

(Unaudited; in thousands; except per share amounts)

	<u>Three Months Ended November 30,</u>	
	<u>2014</u>	<u>2013</u>
Diluted earnings per share	\$0.14	\$0.14
Acquisition & integration costs, net of tax	-	0.01
California legal matter, net of tax	-	0.02
Margin on lost sales – fire related, net of tax	<u>0.03</u>	<u>—</u>
Adjusted diluted earnings per share	<u>\$0.17</u>	<u>\$0.17</u>
Amortization	<u>0.09</u>	<u>0.09</u>
Adjusted diluted cash earnings per share	<u>\$0.26</u>	<u>\$0.26</u>

Reconciliations



Zep Inc.

RECONCILIATION OF NON-GAAP MEASURES

(Unaudited; in thousands; except per share amounts)

	<u>Three Months Ended</u> <u>November 30,</u>		<u>Growth Rate</u>
	<u>2014</u>	<u>2013</u>	
Net sales	\$168,290	\$164,892	2.1%
Fire-related lost sales	<u>2,893</u>	<u>-</u>	
Adjusted net sales, fire related	<u>\$171,183</u>	<u>\$164,892</u>	3.8%

	<u>Three Months Ended</u> <u>November 30,</u>		<u>Growth Rate</u>
	<u>2014</u>	<u>2013</u>	
Net sales	\$168,290	\$164,892	2.1%
Foreign currency impact	<u>1,994</u>	<u>-</u>	
Adjusted net sales, constant currency	<u>\$170,284</u>	<u>\$164,892</u>	3.3%