

2017 Chairman's Letter

This year was one of strategic significance for our Company. We forward integrated into distribution in the U.S. Groundwater channel, furthering our mission to be a vital global leader in the manufacturing and distribution of products and systems, focused on the movement and management of water and fuel. We continued our unabating focus on the safety of our workforce, the quality of our products and continuous improvement. We executed on our vision to be an indispensable partner to our customers. Following our strategy of leveraging our global platform and competency in system design, we introduced many new products that improve customer experience, reduce total cost of ownership and protect the environment.

After a strong year of growth in 2016, our 2017 operating profits increased modestly. Here are the highlights:

- Sales were a record \$1,125 million. Increasing 18% over 2016, primarily through acquisitions, organic growth was 4%;
- Earnings per share were \$1.65, but included restructuring and a one-time tax expense of \$0.21 per share related to the U.S. Tax Cuts and Jobs Act of 2017. Before restructuring and U.S. Tax Cuts & Jobs Act changes, 2017 earnings per share increased 17% to \$1.92 per share.
- Fueling Systems achieved record annual sales and earnings of \$246 million and operating income of \$60 million, respectively, with a 14% increase in sales outside the U.S. and Canada;
- Sales of Pioneer brand dewatering equipment increased by about 50% on the recovery of the oil & gas market in the U.S.
- Operating cash conversion, 145% in 2016, declined to 85% in 2017 principally due to inventory increases in support of our North America water business and our fueling business in China.



In 2017, we formed Headwater Companies, by acquiring three strong, customer-focused distributors competing in the U.S. groundwater channel. Headwater Companies will support the continued growth and success of the entire U.S. groundwater industry with a mission to serve and support the contractor. While Franklin is a major vendor, Headwater supplies pumping equipment from an array of suppliers, including other pump companies.

With our ownership of Headwater, we can further increase our value as a manufacturer to our end customer, the contractor. End-to-end supply chain optimization will allow us to provide greater availability at a reduced cost, and our closer contact with contractors will allow us to develop innovative new products and services, and provide necessary training and otherwise support their needs in this key end market.

In our Water Systems business, the recovery of the oil and gas market, growing brand recognition in other channels, and new products, all drove tremendous growth in our Pioneer brand dewatering pump business.

Our Water Systems business also had positive traction in the more developed markets of Europe and the U.S. with several new products. We expanded our offering of vertical multi-stage and turbine pumps, extended our submersible motor line

with the introduction of the first six-inch permanent magnet motor, providing customers double digit electricity savings, and enhanced our submersible pump drive offering.

Our strategy of geographic expansion was challenged in 2017 in two key geographies: First, after several years of profitable growth in Brazil, the political and economic uncertainty there negatively impacted our Water Systems business. Brazil is an important market for Franklin. The country sits on top of the second largest underground aquifer in the world and has a considerable amount of surface water. This combination provides a strong, long-term opportunity for growth in agricultural pumping. Second, a weather swing from dry to wet in Southeast Asia negatively impacted demand for irrigation equipment in the region. While we can't control the weather, we can and did expand our distribution in this region by opening a new distribution center in Thailand. We see additional opportunities to expand distribution in other countries in the region as well.

In 2017, our Fueling Systems business remained at the forefront of innovation, introducing several new state-of-the-art products, including the Cable Tight™ wire management system and the EVO™ 200 and EVO™ 400 tank gauges. The Fueling Systems team also continues to build on FFS PRO™, a set of professional-grade, web-based tools powered by our industry expertise. These tools are designed for the installing contractor and for distributor sales and purchasing personnel.

In addition to being innovative, our Fueling Systems products are designed to protect the environment. Over the last several years, the Chinese government has increased its attention to environmental issues. With a clear strategy to support this imperative, our Fueling Systems team captured a meaningful share of what should be a multi-year initiative to replace underground piping systems at the vast majority of gas stations in China. We expect this initiative will contribute meaningful growth to our Fueling business for several years.

Our Fueling team's focus on safety, quality, training, innovation and lowest total cost of ownership, continues to gain share of mind and market. We appreciate our customers' confidence in our Company and in our products as we achieved another record year of revenue in our Fueling Systems business.

Our customers are our partners. Franklin Electric employees understand their need for superior products that are more efficient, dependable, and connected, all while being cost effective. We consider cost in every decision we make, and we strive to control cost for the benefit of all our stakeholders. Our employees are dedicated and driven forward-thinkers who work diligently and collaboratively in cross-functional teams to ensure Franklin remains competitive and that our products and system solutions meet our customers' needs. I commend the Franklin Electric team, consisting of over 5,500 members, for their contributions to yet another successful year.

I also want to take this opportunity to thank our Board of Directors for their commitment and support. Their expertise, experience and advice, along with your participation and engagement has been invaluable to the success of Franklin Electric. The Board played an integral role in this transformative year for Franklin Electric, and I look forward to growing and building upon our global foundation in 2018.

Sincerely,



Gregg C. Sengstack

Chairman of the Board and Chief Executive Officer