

2020 Chairperson's Letter

Fellow Shareholders,

We ended 2020 in a strong position, thanks to the tremendous dedication of our global team. Together, we prioritized health, safety, and operational excellence through the year's many twists and turns. 2020 challenged businesses like no other year in recent memory. Global markets experienced significant economic volatility, important social movements were at the forefront of the public consciousness, and individuals were faced with varying challenges from the COVID-19 pandemic. Through these turbulent times, we continue to be guided by a persistent focus on our Key Factors for Success: quality, availability, service, innovation, and cost, and the contributions of each of our employees has allowed us to emerge from the year stronger and more motivated than ever before.

We leveraged impressive momentum in the back half of the year, which was capped off by record sales and earnings in our fourth quarter. We saw favorable weather conditions in North America, with some catch-up demand from the second quarter's COVID-related slowdown. Outside of the U.S., Latin America, Africa, and the Middle East outpaced other regions in organic growth for our business. Overall, our Water Systems segment showed tremendous resilience in the face of the pandemic slowdowns. Our Distribution business exhibited impressive organic growth and was able to double operating margins. This strength was driven by favorable weather in most of the U.S., some green shoots in agricultural commodities and pent-up demand for installations. The uncertainty around the pandemic impacted global capital investment in fueling stations, impacting our Fueling Systems business; however, we are confident that this business will recover in 2021 thanks to an anticipated rebound in capital investment, strong global market share, and new product innovations that protect the environment while reducing total cost of installation, operation, and maintenance.

Our strategy to grow as a global provider of water and fuel systems, through geographic expansion and product line extensions, leveraging our global platform and competency in system design, is working, and is supported by strong tactical performance. Through a steadfast commitment to increasing operational efficiencies and diligent cost management, we generated record free cash flow, improved working capital, and reduced indebtedness to further strengthen our already strong balance sheet. As a result, we have further reinforced our financial flexibility, which has allowed us to return capital to our shareholders through an increased quarterly dividend, while simultaneously facilitating our purposeful acquisition strategy. We completed two strategic acquisitions in 2020, one in the Water Treatment space in Canada and the other a key groundwater distribution business in central Texas. We are confident that each offers a robust platform for growth in 2021 and beyond.



2020 saw the release of our inaugural Sustainability Report, the first public disclosure of its kind for Franklin Electric. This report included many key environmental and social commitments and measurements, which are underpinned by the principles of sustainability that have been among the foundational tenets of our company's culture and history of success. These principles: a commitment to safety, ethical compliance with established policies, care for the well-being of our employees, a history of innovation, environmental protection, continuous improvement, and lean manufacturing practices, have never been more relevant to our business, customers, employees, shareholders, leadership, and other stakeholders. We will continue to provide updates to this report, as we maintain a dynamic stance in adapting to a continually evolving sustainability landscape.

Looking towards 2021 and beyond, personally, and on behalf of our Board of Directors, I want to thank all of our employees around the world for their continued focus on serving our customers, coworkers, and communities. We are supported by our Board of Directors, that is actively engaged in the review and approval of the long-term strategic objectives and direction of the Company, including with respect to environment, social and governance initiatives. Our Board is also a great resource for me and my management team. Together, we are excited about the opportunities that lie ahead and look forward to providing updates on our progress.

Sincerely,

A handwritten signature in black ink, appearing to read 'Gregg C. Sengstack', with a stylized flourish at the end.

Gregg C. Sengstack

Chairperson of the Board and Chief Executive Officer
Franklin Electric Co., Inc.