

2022 Chairperson's Letter

Fellow Shareholders,

Franklin Electric employees around the globe should take great pride in their achievements individually and as a team executing our 2022 plan, marking another exceptional year both strategically and financially. Facing the significant global headwinds – supply disruptions, labor shortages, significant inflation in the U.S. and Europe, the war in Ukraine, and remnants of the global pandemic – our team maintained its focus on our Key Factors for Success: Quality, Availability, Service, Innovation, and Cost Control. In 2022, the most challenging of these factors was Availability – impacted by each of the macro headwinds as well as exceptional levels of demand, resulting in record backlog and past-due levels last summer. Even with our record financial results, our supply chain is still recovering. We expect our operational and delivery performance to continue improving.

From a financial perspective, 2022 was the most successful year in our nearly 80-year history. We achieved record sales and operating income in each of our reporting segments driven by robust demand throughout the year. Water Systems results were driven by healthy demand in residential and agricultural applications in the U.S., increased crop and metal prices, as well as global economic growth, and dry weather in some regions. Fueling Systems also experienced strong sales, driven by consolidation and marketer conversions in the U.S. and a continued focus on environmental protection globally, particularly in India. Our Distribution segment had another solid year, growing organically and through strategic acquisitions, as we continued our network expansion to more than 400 branch and OSI (On Site Inventory) locations serving contractors across the U.S.

We continue to execute on our strategy by growing as a global provider of water and fuel systems through geographic expansion and product line extensions as well as leveraging our global platform and competency in system design. Our commitment to this strategy has yielded outstanding results. In the summer of 2018, we set strategic and 2023 financial objectives. Since then, we've been focused on executing on those objectives and have exceeded our revenue goal of \$2 billion, our operating income goal of \$250 million, and our pre-tax return on invested capital goal of 20 percent in 2022, in each case a full year ahead of our initial forecasts.

With supply challenges and record demand, our inventory levels increased significantly in 2022. While our cash conversion rate has been solid over the last four years, it remains below target primarily due to this large increase. With our supply chain stabilizing and improving, we expect a reduction in inventory levels in 2023 which should increase cash generation and exceed our conversion goal of 100 percent of net income. Even with our increase in working capital investments in 2022 our leverage ratio remains low. This financial strength and flexibility enabled our Board to approve the Company's 31st consecutive annual dividend increase.



We remain focused on using our scale to gain operating leverage. We have integrated the 2021 year-end groundwater distribution acquisition and moved all our acquired water treatment businesses onto a common ERP platform. This positions us to realize better operating leverage over the months and years to come. We see water treatment as a natural extension of our groundwater business and additive to our increased focus on commercial and industrial pumping systems. We continue to identify and evaluate acquisition opportunities that extend our product lines and geographic reach.

Guiding our growth strategy, our goal is to be an indispensable partner to our customers. We deliver a positive impact to the communities we operate in by expanding the availability of clean water on a global scale, developing new innovations such as higher efficiency water and fuel delivery systems, as well as addressing the safety and lowest total cost of ownership in the maintenance and operation of fueling stations. Environmental protection and sustainability are intertwined with the long-term success of our business, and we are constantly looking for ways to communicate progress to our stakeholders.

On behalf of the management team and our Board of Directors, I want to thank our employees around the world for their commitment and service to our customers, colleagues, business partners, and communities. We have had another incredible year due to their hard work and we are blessed to work with such an engaged and enthusiastic team. We are continuing to explore opportunities to make their experience with Franklin more flexible and fulfilling and to allow their diverse experiences and perspectives to be heard and celebrated. We look forward to another successful year in 2023.

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.