

# VIRCO Investor Presentation

December, 2022



# Forward Looking Statements

This presentation contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include, but are not limited to, statements regarding: our future financial results and growth in our business; the educational furniture industry generally, including the domestic market for classroom furniture; the anticipated recovery of our customers from COVID-19 and re-opening of school districts; trends in the growth and development of our Company; the sustainability of recent growth in revenues and customers; our ability to increase production profitably; trends in shipping costs; our competitive advantages; our future revenues and operating margins; our ability to retain customer relationships and enter new markets; our near-term and long-term growth opportunities; market demand and product development; estimates of unshipped backlog; order rates and trends in seasonality; our product relevance; general economic conditions and patterns; our cost control initiatives and absorption rates; and supply chain challenges. Forward-looking statements are based on current expectations and beliefs about future events or circumstances, and you should not place undue reliance on these statements. Such statements involve known and unknown risks, uncertainties, assumptions and other factors, many of which are out of our control and difficult to forecast. These factors may cause actual results to differ materially from those that are anticipated. Such factors include, but are not limited to: uncertainties surrounding the severity, duration and effects of the COVID-19 pandemic; changes in general economic conditions including raw material, energy and freight costs; state and municipal bond funding; state, local, and municipal tax receipts; order rates; the seasonality of our markets; the markets for school and office furniture generally, the specific markets and customers with which we conduct our principal business; the impact of cost-saving initiatives on our business; the competitive landscape, including responses of our competitors and customers to changes in our prices; demographics; and the terms and conditions of available funding sources. See our Annual Reports on Form 10-K, our Quarterly Reports on Form 10-Q, and other reports and material that we file with the Securities and Exchange Commission for a further description of these and other risks and uncertainties applicable to our business. We assume no, and hereby disclaim any, obligation to update any of our forward-looking statements. We nonetheless reserve the right to make such updates from time to time by press release, periodic reports, or other methods of public disclosure without the need for specific reference to this presentation. No such update shall be deemed to indicate that other statements which are not addressed by such an update remain correct or create an obligation to provide any other updates.



# Virco Mfg. Corporation (NASDAQ:VIRC)

## Corporate Overview

- Largest manufacturer and supplier of movable furniture and equipment for the education market in the United States
- Founded in 1950 by Julian Virtue
- Founding family still owns over 30% of outstanding shares; actively engaged in day-to-day management
- Vertical business model built around 2,300,000 sq. ft. of U.S. manufacturing and distribution infrastructure
- 550,000 sq. ft. in Torrance, California services states west of the Rockies and Pacific Rim
- 1,750,000 sq. ft. in Conway, Arkansas services states east of the Rockies and Caribbean, Atlantic
- Extensive portfolio of intellectual property including patents, trademarks, proprietary tooling, equipment, operating software and technology
- Over 800 full-time employees, 40% of whom have over 20 years of experience with Virco



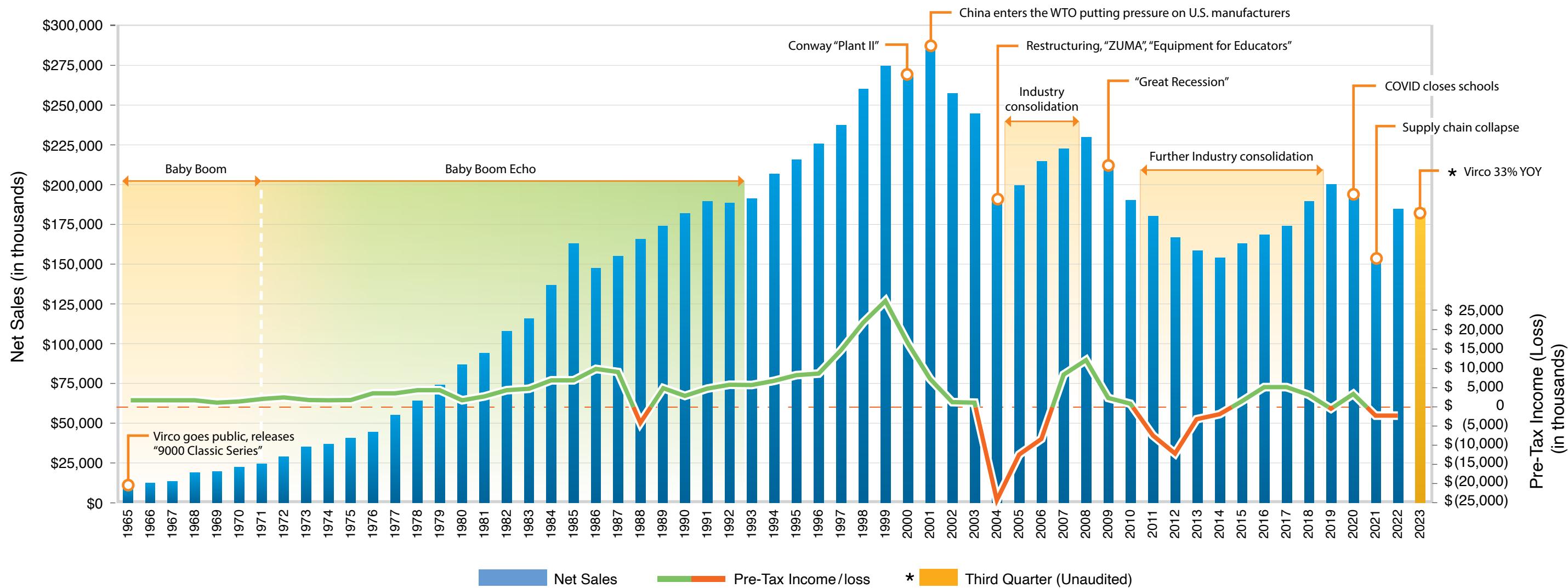
# Investment Highlights

- Exceptional brand awareness with reputation for safety, reliability and quality earned over 70+ years of serving the education market
- Well positioned to benefit from ongoing rationalization of extended supply chains
- Economic barriers to entry like seasonality and the “price/cube threshold” protect existing market of school furniture and provide growth opportunities into adjacent markets
- Large installed base of Virco furniture creates sizable annuity-like revenue stream from follow-on orders that match existing furniture
- Valuable U.S. manufacturing and distribution footprint with proven operating efficiencies; significant production increase is possible with only minimal levels of maintenance cap-ex.
- The following timeline shows why the current moment might be a positive inflection point for Virco



# Business Dynamics and Key Trends

## Virco Timeline – 1965 to 2023



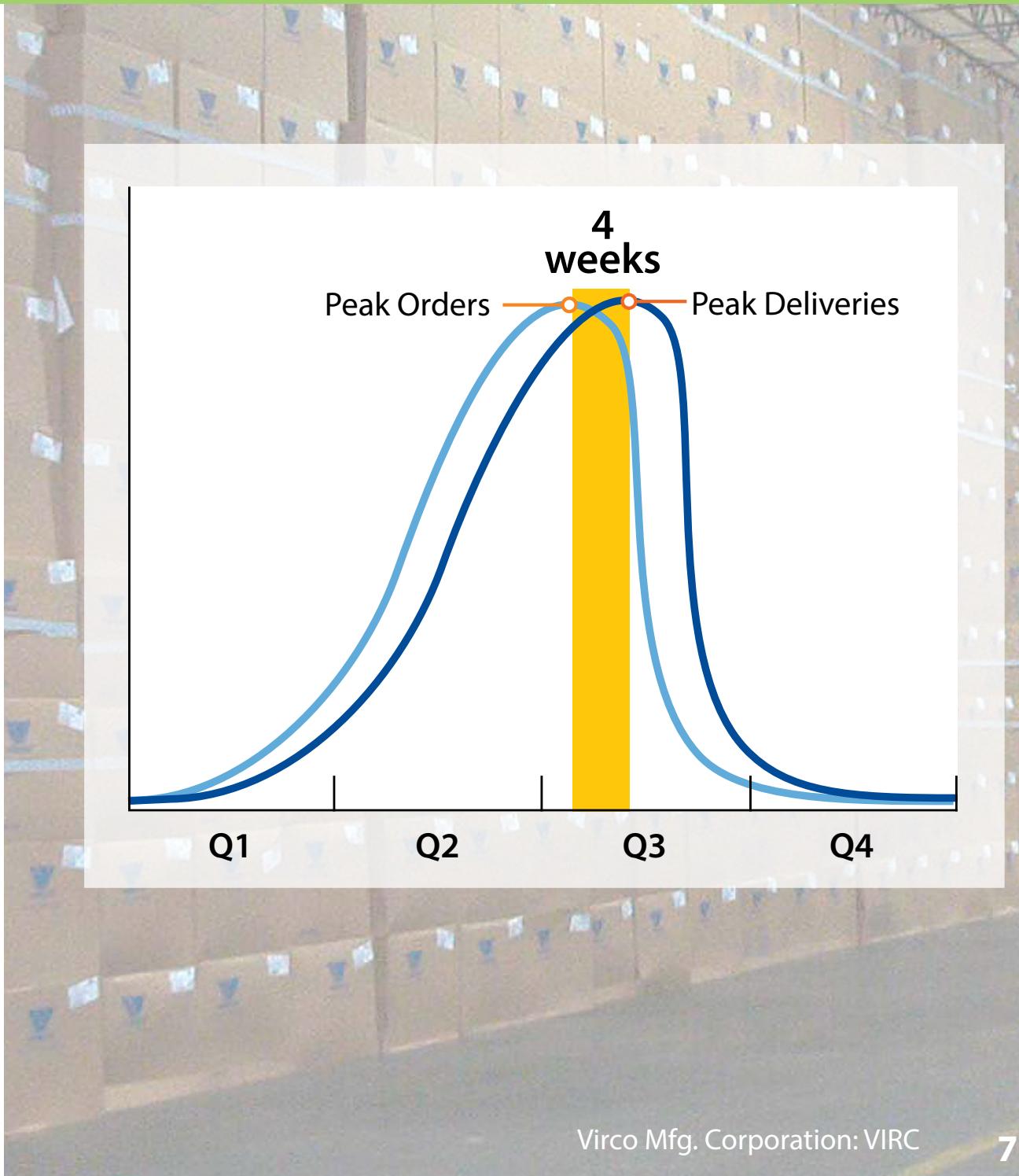
## Timeline

- Virco founded in 1950
- Virco goes public in 1965 and releases “9000” series, possibly the world’s largest-selling chair with over 60,000,000 units sold.
- Virco prospers through the long Baby Boom and its “echo.”
- 2000: Investment of over \$60mm in Conway “Plant II” to meet growing demand. Maintenance cap-ex since 2000 averages \$5mm annually
- 2001 Negative Inflection: China admitted to World Trade Organization; dot-com Recession impacts public school funding. Virco loses \$40,000,000 of commodity furniture business in a single year
- China puts “lid” on prices and revenue for next 20 years, establishing new competitive paradigm that allows U.S. distributors to source furniture from China and erode Virco’s revenue and margins
- 2002: Acquisition of Furniture Focus, a school furniture and equipment reseller
- 2004: Major restructuring to address lower revenue
- 2004: Release of “Zuma” product line and tactical emphasis of “color” and “choice” to combat imports
- 2004: Implementation of “Equipment for Educators” strategy positions Company product offering behind protective moats of seasonality and the Price/Cube Threshold
- 2004 through 2007: Revenue and margins stabilize under new strategy as many domestic school furniture makers exit the industry
- 2008-2009: Great Recession further reduces number of U.S. competitors; funding impacts on schools lag by several years but eventually impact Virco’s revenue
- 2013-2019: Company revenue and margins wobble around break-even as competition with U.S. distributors, sourcing their furniture from China, continues
- 2020: COVID pandemic closes schools, amplifies impacts of seasonality and price/cube threshold on bulky items like school furniture; final capitulation of several more competitors
- 2021: Supply chain collapse disrupts import flows, financing, and reliability, calling into question long-term sustainability of “China Model”
- 2022 Positive Inflection: Virco’s U.S. based factories and vertical business model deliver 32.9% YOY revenue growth as operating margins return to historic levels and Virco achieves cost parity/advantage over imports, with ongoing superiority in quality, reliability, and customization



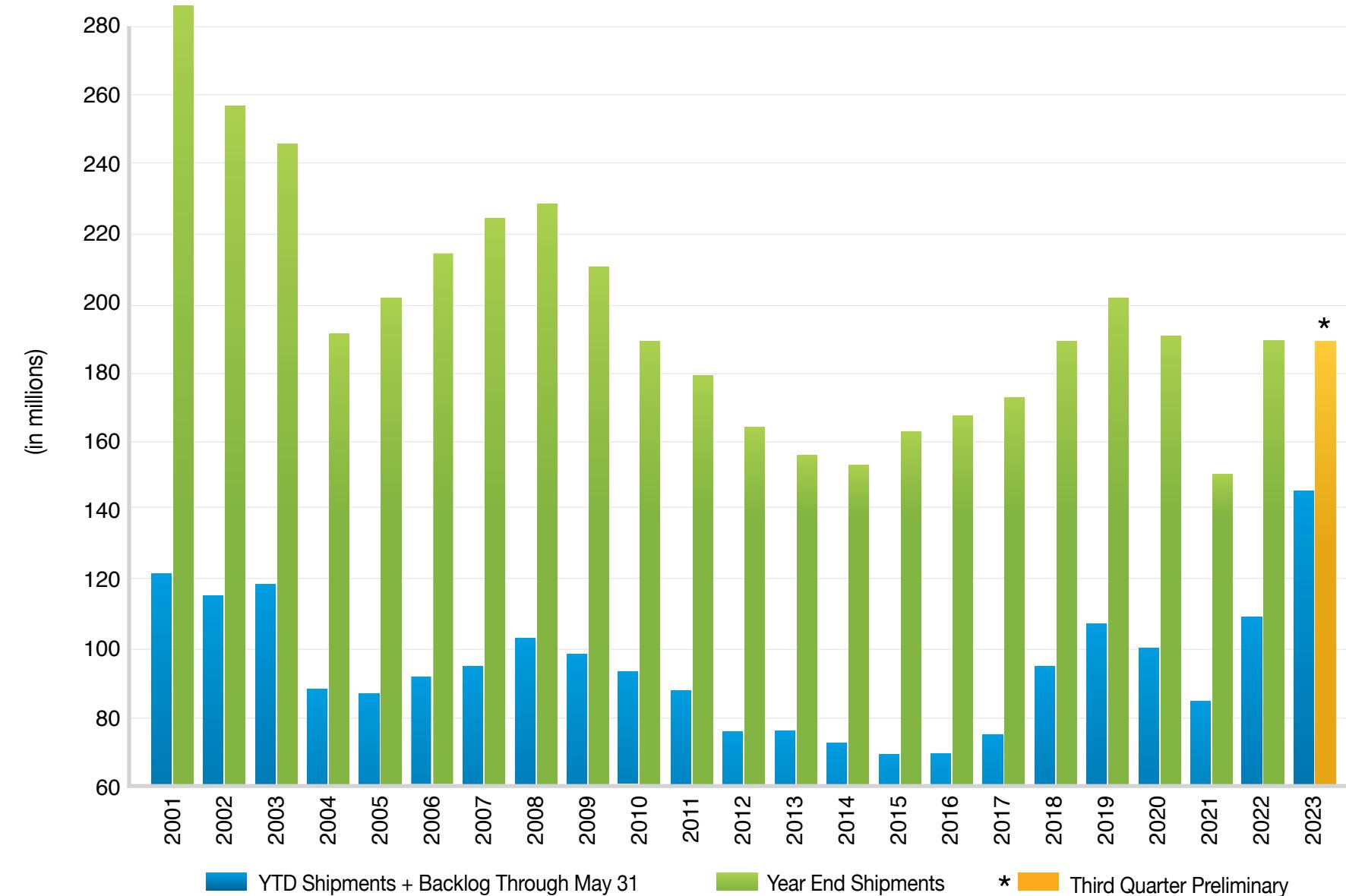
## Seasonal Impact of Education Market

- Schools typically place orders in late Spring or early Summer for delivery prior to the start of the upcoming school year
- Approximately 50% of Virco's annual sales are recognized in the months of June, July and August
- Due to seasonality, the company typically generates profits in the 2nd and 3rd fiscal quarters and losses in the 1<sup>st</sup> and 4<sup>th</sup> fiscal quarters
- “Shipments plus Backlog” is a key internal (non-GAAP) metric that allows management to correct for seasonality when planning production, staffing, inventories, and financing. It allows for a hybrid of make-to-order and make-to-stock operating strategies, thus reducing the risks of seasonality. This is a valuable proprietary metric not available to dis-aggregated, non-vertical competitors.



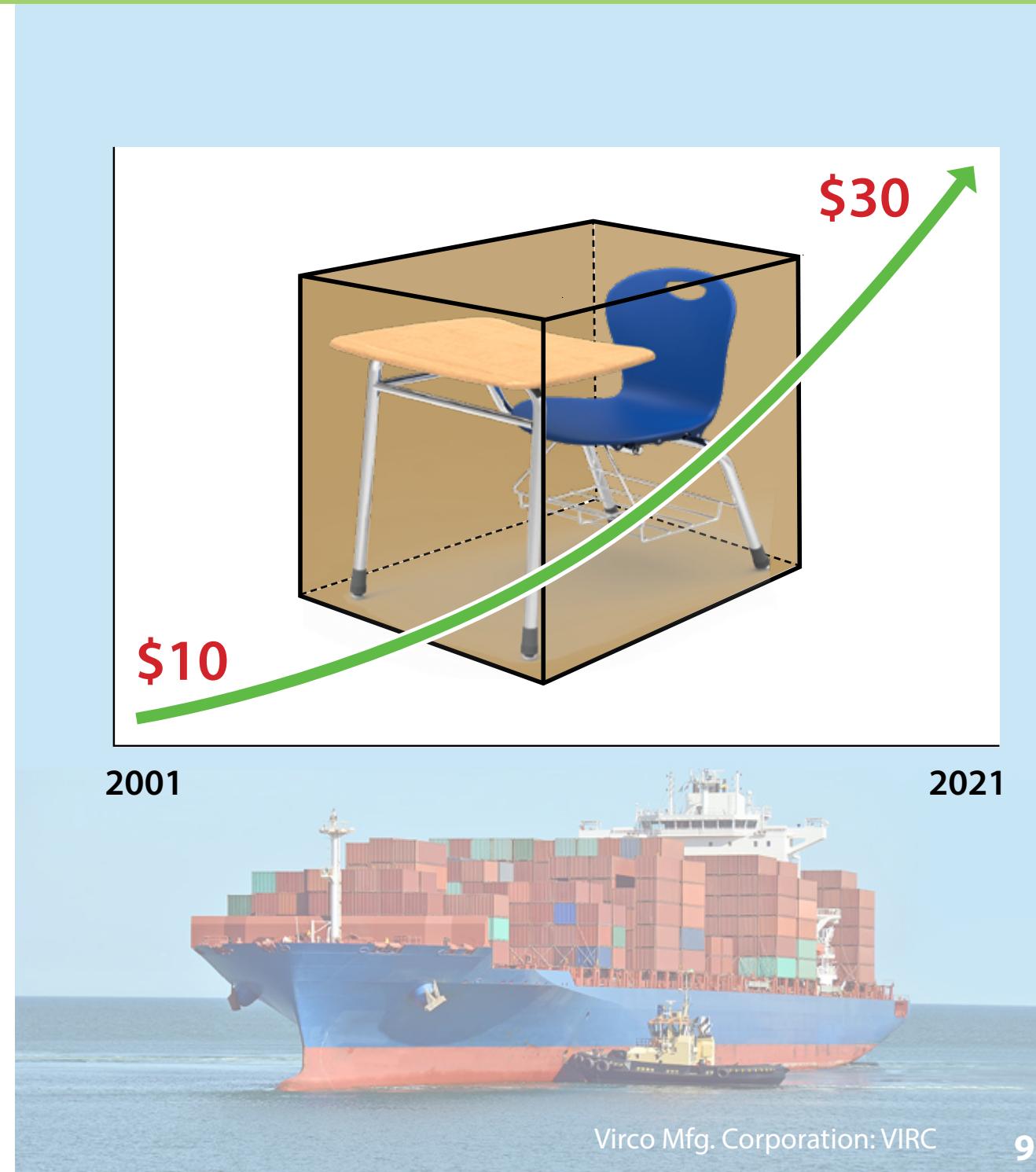
## Virco Shipments + Backlog at May 31 vs. Year-Ending Revenue: 2001-2023

- Shipments + Backlog is a non-GAAP internal metric used by management to plan production, staffing, inventories, and seasonal working capital
- The metric is especially valuable in early-season planning, before peak summer shipments
- As Virco's seasonal pattern progresses through the year, the weight of this metric shifts from backlog to shipments
- The pattern has been robust over two decades, and is proprietary to Virco



# Shift in Price/Cube Threshold Creating Additional Opportunities for Virco

- Following China's entry into the WTO, many furniture and equipment markets shifted to Chinese suppliers to take advantage of lower cost labor and production
- Education market was less impacted as large, bulky items required for schools (i.e., items that can't be stacked) were too expensive to ship from China
- Initially following China's entry into the WTO, items that sold for less than \$10/cubic foot were not profitable enough to be manufactured and shipped from China
- In recent years, rising production and shipping costs have increased the price/cube threshold to \$30/cubic foot
- The increase in the price/cube threshold has made domestic manufacturers more competitive and opened up new market opportunities for Virco



## Main Product Categories

---

Chairs



Desks



Tables



# “Education” Encompasses A Diverse Number Of Venues

**Virco supplies furniture and equipment for all of these venues, many of which offer growth opportunities into adjacent markets with similar characteristics.**

- Classrooms
- Administration
- Cafeterias and Food-Service
- Science Labs
- Libraries & Media Centers
- Clinics
- Performing Arts
- Break Rooms
- Seminar
- Career Training and Technology
- Hospitality
- Places of Worship



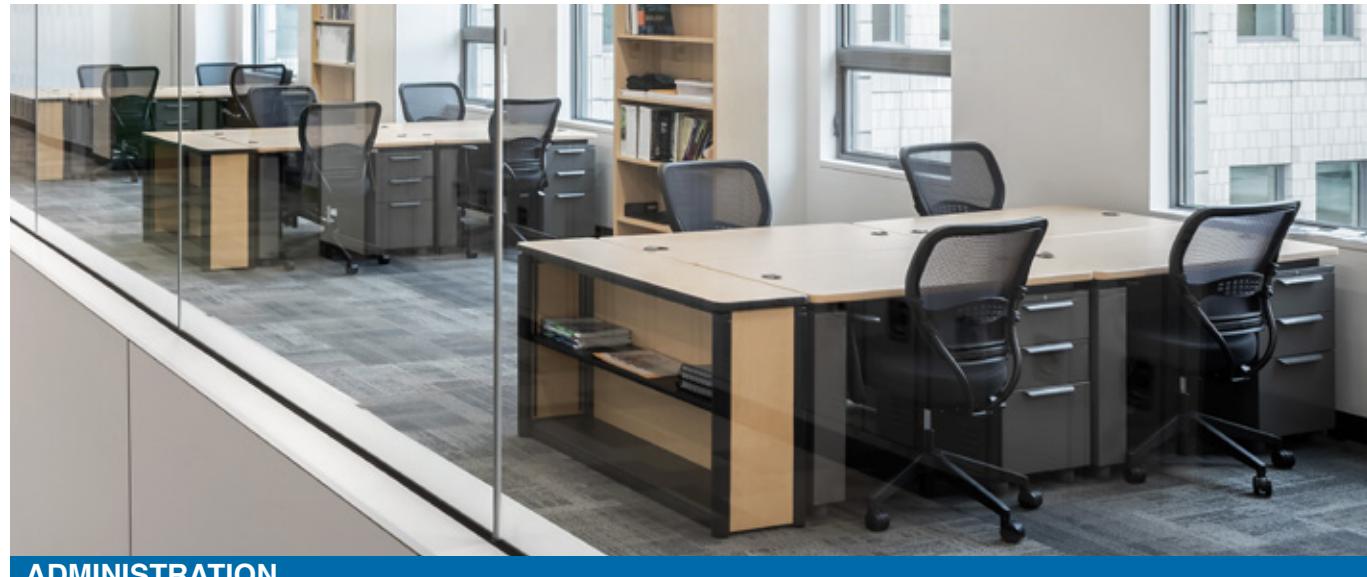
# Business Overview



CLASSROOMS



CAFETERIAS AND FOOD-SERVICE



ADMINISTRATION



SCIENCE LABS

# Business Overview



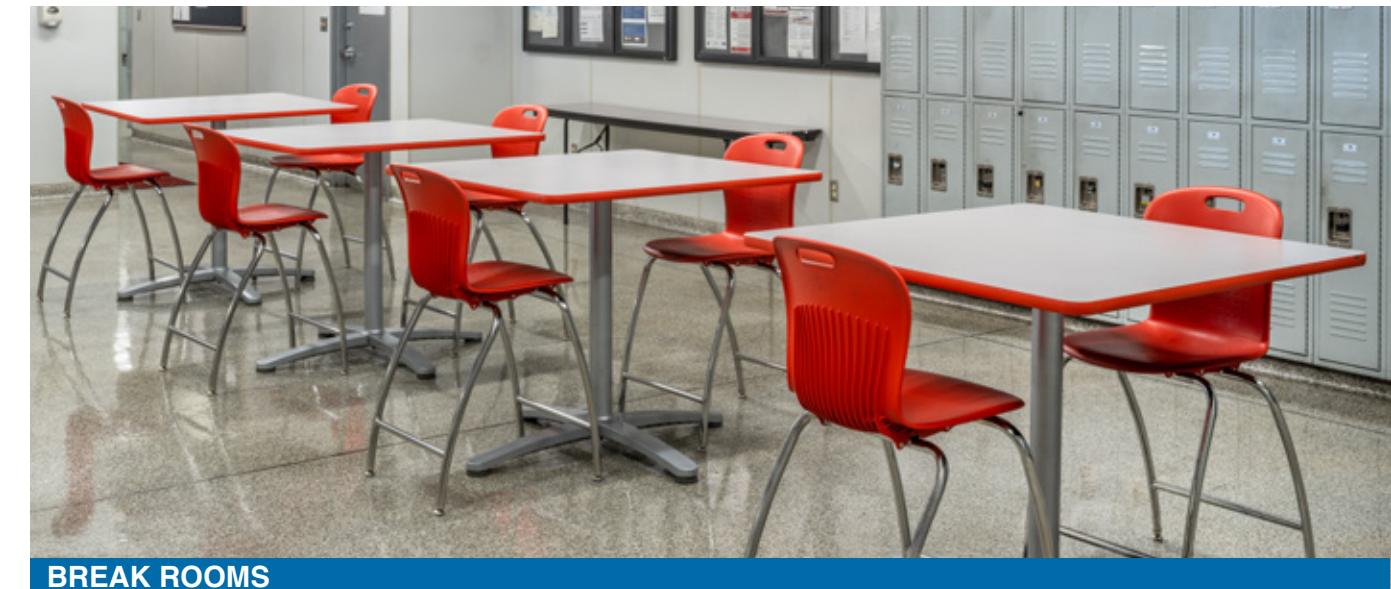
LIBRARIES & MEDIA CENTERS



PERFORMING ARTS



CLINICS



BREAK ROOMS



# Business Overview



SEMINAR



HOSPITALITY



CAREER TRAINING AND TECHNOLOGY



PLACES OF WORSHIP



# Virco's Vertical Business Model Offers Visibility And Control Of The Order-To-Cash Cycle.

- Virco sales managers work directly with educators to specify products, provide layout and design, establish service and delivery expectations.
- Pricing is confirmed with the nation's leading public procurement contract for educational furniture and equipment.
- For large projects such as new schools or customized refurbishments, Virco's personnel use proprietary PlanSCAPE software to provide project management from concept to cash collection.
- Orders are immediately communicated to Virco's U.S. factories and made to order from raw materials like steel, plastic resin, and wood. No guessing about specifications or details. No risky reliance on extended supply chains.
- Virco's logistics and service teams confirm site-readiness, coordinate delivery, and perform last-mile installation on campuses.
- Change orders and final punch-list items are resolved in real time, insuring completion so schools can open on time.
- Cash collections peak in late summer and fall. Virco has virtually no bad debt.



# Proprietary PlanSCAPE® Software & Project Management

*Virco's Direct Sales Force Uses PlanSCAPE to Help Schools Design and Plan Projects*

## Comprehensive Project Management Process



# Significant Competitive Advantages

### One-stop shop

- Product line expansion has enabled Virco to provide all furniture and equipment needs for schools and meet the desire for one vendor relationship

### Full-service capability

- Layout planning, delivery and installation services differentiate Virco from competing manufacturers

### Shorter time to delivery

- Average of 1 month from order to shipping compared to 4 months for overseas competitors

### Direct sales force with deep relationships in local education communities

- Nationwide sales force with average of 20 years of experience with the company
- Deeply embedded in local education communities with knowledge and understanding of where funding is available for new school development and refurbishing projects

### Customization capabilities

- Ability to efficiently make modifications to existing products to respond to customer requests
- Extensive color palette and selection of materials creates thousands of SKU possibilities from each design
- Products resulting from modifications are frequently added to catalog in following year

### Effective supply chain management

- Most materials sourced from within the U.S. results in superior and reliable supply chain



# Virco Has Substantial Manufacturing And Logistical Strength

- Facilities are designed, operated, and strategically positioned to support extreme throughput during peak summer season.
- Torrance, California operation is 10 miles from Port of L.A./Long Beach and serves the western U.S. plus Pacific Rim (California is currently ranked as the world's 4th largest economy and remains the Company's largest state by revenue).
- Conway, Arkansas operation is centrally located to serve the states east of the Rockies.
- In the three months of June, July, and August, 2022, the Company delivered 21,000,000 pounds and over 3,400,000 cubic feet of furniture and equipment.
- More than half of this volume was installed on campuses and inside classrooms.
- This high volume of last-mile service differentiates Virco from:
  - Manufacturing competitors who rely on fragmented, third-party distributors for last-mile customer service and
  - Distribution competitors who rely on offshore factories during the highly compressed delivery season



Conway, AR - 1.75mm sq.ft.



Torrance, CA - 0.55mm sq.ft.

### Long-Term Value of Customer Base

- Largest installed base of furniture in U.S. education market creates significant annuity stream resulting from reorders
- End users are 55,000,000 public and private school students plus 7,000,000 teachers and support staff
- Reorders driven by need to maintain consistent look when ordering additional furniture or replacements
- Approximately 80% of customers place an order each year
- Sticky nature of customer relationships expected to result in sustainably higher revenue due to significant growth in customers in FY 23



## Financial Review and Growth Opportunities

**Recent Trends appear to have Restored Revenue and Operating Margins to Historic Levels of Profitability**

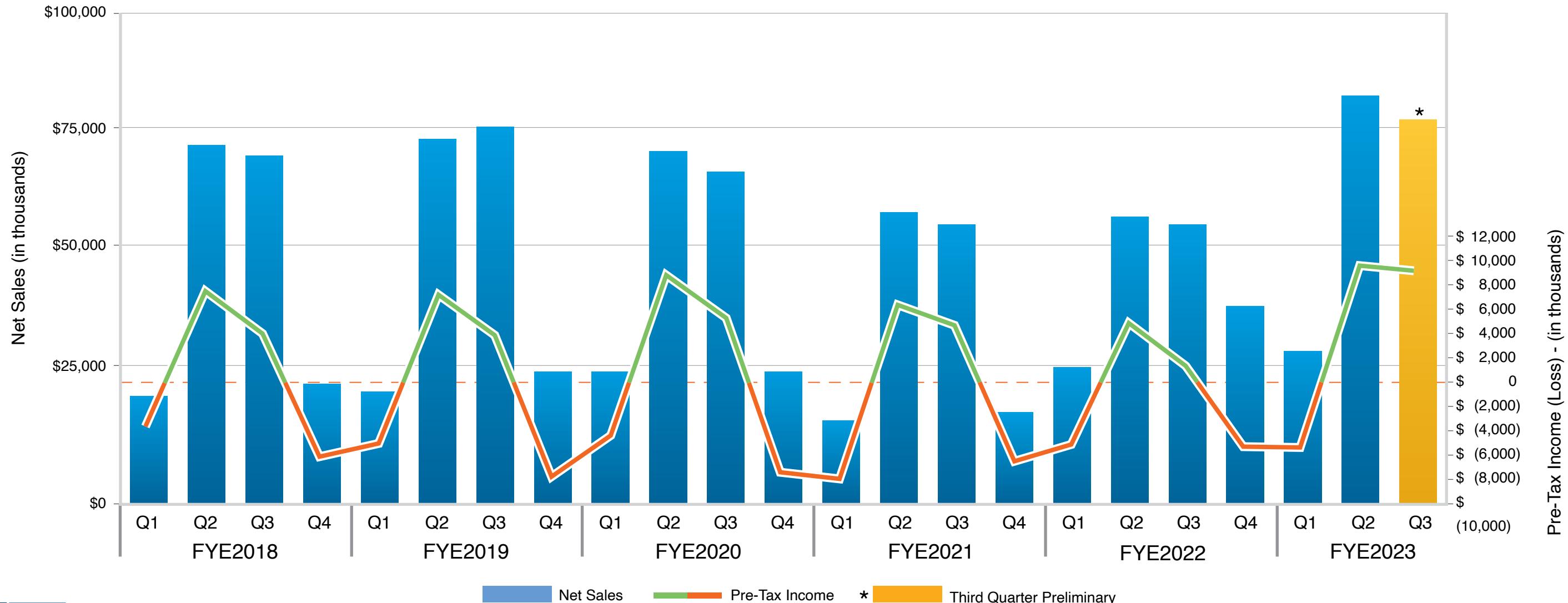
**Financial Results of nine-month period ended October 31, 2022 compared to the same period in the prior year (Unaudited)**

- Net sales increased 32.9% to \$192.3 million.
- Gross margin increased from 34.8% to 37.6%.
- SG&A declined from 31.8% to 29.7%.
- Operating income increased from \$4.3 million to \$15.2 million.



# Financial Review and Growth Opportunities

## Quarterly Revenue & Pre-Tax Income (Loss), FYE 2018-FYE 2023 (Unaudited)



# Financial Review and Growth Opportunities

## Strong Balance Sheet

(Dollars in Thousands)	As of 10/31/2022	As of 1/31/2022	As of 10/31/2021
<b>Trade Accounts Receivable, Net</b>	<b>\$28,028</b>	<b>\$17,769</b>	<b>\$24,824</b>
<b>Inventories</b>	<b>\$57,465</b>	<b>\$47,373</b>	<b>\$40,483</b>
<b>Current Assets</b>	<b>\$89,547</b>	<b>\$68,847</b>	<b>\$69,056</b>
<b>Total Property, Plant &amp; Equipment</b>	<b>\$171,650</b>	<b>\$170,042</b>	<b>\$170,606</b>
<b>Current Liabilities</b>	<b>\$43,219</b>	<b>\$36,284</b>	<b>\$33,506</b>
<b>Long Term Debt, Less Current Portion</b>	<b>\$14,444</b>	<b>\$14,173</b>	<b>\$12,547</b>

## Key Takeaways

- Minimal long-term debt
- Operations are largely self-funding
- Improved working capital management resulting in lower year-over-year inventory levels despite increase in net sales



### Near-Term Growth Opportunities

- Total addressable education market increasing to as much as \$1 billion due to stimulus funding<sup>(1)</sup>
- Stimulus funding driving long-delayed refurbishment projects among aging schools
- Rising costs and increased delivery times among foreign competitors resulting in more customers turning to domestic suppliers
- Improved ability to pass through price increases to customers
- More orders including services component (accretive to gross margin)
- Product development continuing to expand product categories and respond to market demand for flexible, mobile furniture that supports dynamic movement

(1) (Company estimate)



# Long-Term Strategies for Improving Financial Performance and Enhancing Shareholder Value

- Penetrate legacy markets over next 3-5 years
  - Prior to China entering WTO, furniture for retail market accounted for ~\$40 million in annual sales (major customers included Walmart and Home Depot)
  - Increase in price/cube threshold provides opportunity to compete in the retail market again
- Increase sales to non-education markets in Q1 and Q4 to reduce seasonality and generate profits each quarter
- Increase full year capacity utilization of existing production facilities to better absorb fixed costs and improve gross margin



# Financial Review and Growth Opportunities

## Summary

-  Market leading company with seasoned leadership, strong balance sheet, and valuable infrastructure
-  Favorably positioned to capitalize on multiple positive catalysts and generate near-term growth in revenue and earnings
-  Longer-term opportunities to expand into additional markets that will positively impact profitability and reduce seasonality in earnings
-  Low-risk growth strategy that will not require acquisitions or dilutive capital raises
-  Contact: Doug Virtue, President, [dougvirtue@virco.com](mailto:dougvirtue@virco.com)  
Bob Dose, CFO, [robertdose@virco.com](mailto:robertdose@virco.com)

