

Kadant Investor Day

NEW YORK CITY | DECEMBER 1, 2016

KĀDANT

Forward-Looking Statements

The following constitutes a “Safe Harbor” statement under the Private Securities Litigation Reform Act of 1995: This presentation and our accompanying commentary contain forward-looking statements that involve a number of risks and uncertainties, including forward-looking statements about our expected future financial and operating performance, demand for our products, and economic and industry outlook. Our actual results may differ materially from these forward-looking statements as a result of various important factors, including those set forth under the heading “Risk Factors” in Kadant’s annual report on Form 10-K for the year ended January 2, 2016 and subsequent filings with the Securities and Exchange Commission. These include risks and uncertainties relating to adverse changes in global and local economic conditions; the variability and difficulty in accurately predicting revenues from large capital equipment and systems projects; the variability and uncertainties in sales of capital equipment in China; the effect of currency fluctuations on our financial results; our customers’ ability to obtain financing for capital equipment projects; changes in government regulations and policies; oriented strand board market and levels of residential construction activity; development and use of digital media; price increases or shortages of raw materials; dependence on certain suppliers; international sales and operations; economic conditions and regulatory changes caused by the United Kingdom’s likely exit from the European Union; disruption in production; our acquisition strategy; our internal growth strategy; competition; soundness of suppliers and customers; our effective tax rate; future restructurings; soundness of financial institutions; our debt obligations; restrictions in our credit agreement; loss of key personnel; reliance on third-party research; protection of patents and proprietary rights; failure of our information systems or breaches of data security; fluctuations in our share price; and anti-takeover provisions. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events, or otherwise.

The following slides and related commentary address certain current goals and targets for Kadant over the next five years. There can be no assurance that these goals and targets will be achieved and, in addition to the general risks and uncertainties of our business, they are based on a number of assumptions that may or may not prove accurate or achievable. These assumptions include our ability to identify and complete acquisitions that have the acquisition characteristics we desire and achieve the intended financial metrics, our ability and willingness to continue to pay dividends consistent with our recent practice, our ability to effect open market stock repurchases, our ability to implement our internal growth initiatives successfully and achieve the goals of such initiatives, our ability to maintain our EBITDA margins and improve SG&A leverage, a continued favorable trade environment with no new tariffs or restraints on trade, particularly with respect to China or Mexico, and a steady global macro-economic environment with unchanged interest rates, slow growth and continued low cost of capital. Additionally, these goals and targets may change at any time and we undertake no obligations to update them.

Use of Non-GAAP Financial Measures and Company Estimates

NON-GAAP FINANCIAL MEASURES

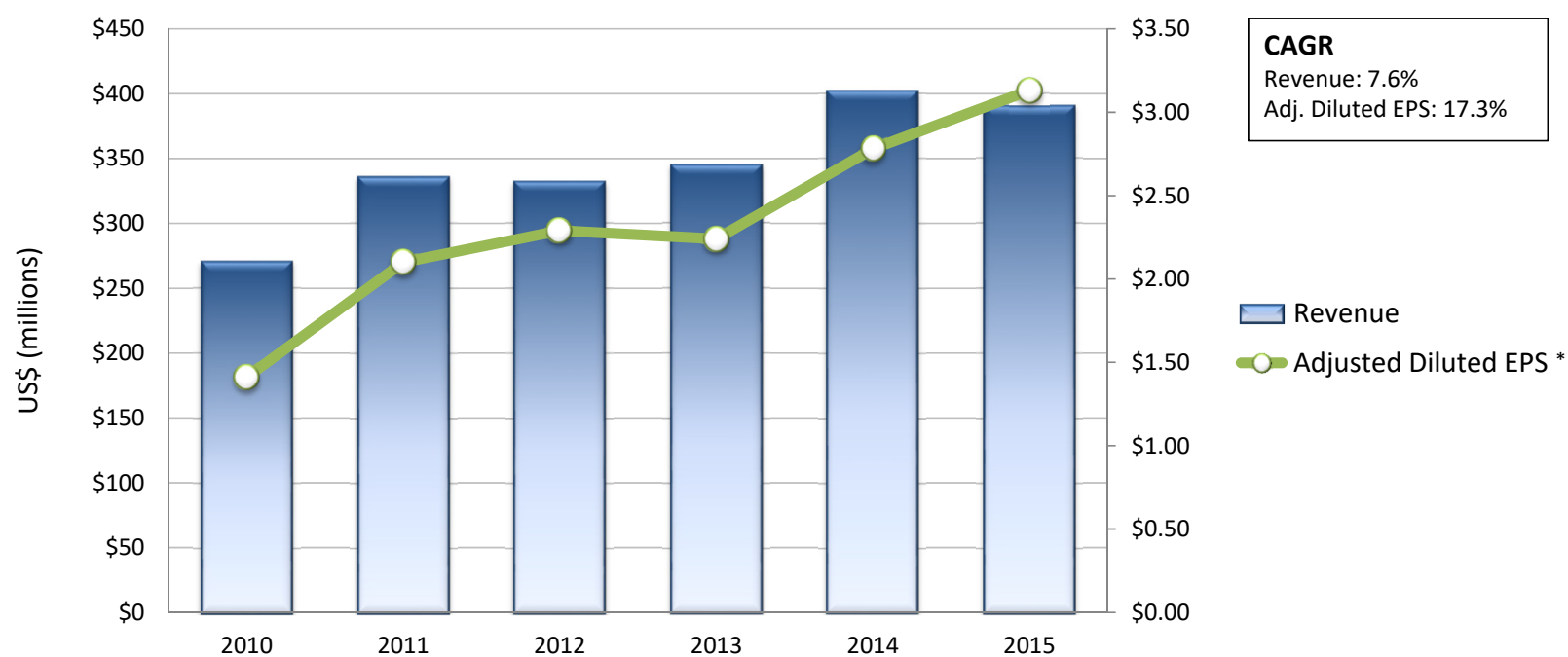
In addition to the financial measures prepared in accordance with generally accepted accounting principles (GAAP), we use certain non-GAAP financial measures, including adjusted net income, adjusted diluted EPS, and earnings before interest, taxes, depreciation, and amortization (EBITDA). A reconciliation of those numbers to the most directly comparable U.S. GAAP financial measures is shown in this presentation.

We believe that these non-GAAP financial measures, when taken together with the corresponding GAAP financial measures, provide meaningful supplemental information regarding our performance by excluding certain items that may not be indicative of our core business, operating results, or future outlook. We believe that the inclusion of such measures helps investors to gain an understanding of our underlying operating performance and future prospects, consistent with how management measures and forecasts our performance, especially when comparing such results to previous periods or forecasts and to the performance of our competitors. Such measures are also used by us in our financial and operating decision-making and for compensation purposes. We also believe this information is responsive to investors' requests and gives them an additional measure of our performance.

COMPANY ESTIMATES

Throughout this presentation, we make estimates of global market share, revenue and market opportunities and total market size for various product lines. These estimates are based on Company information and are not derived from published studies or other market data.

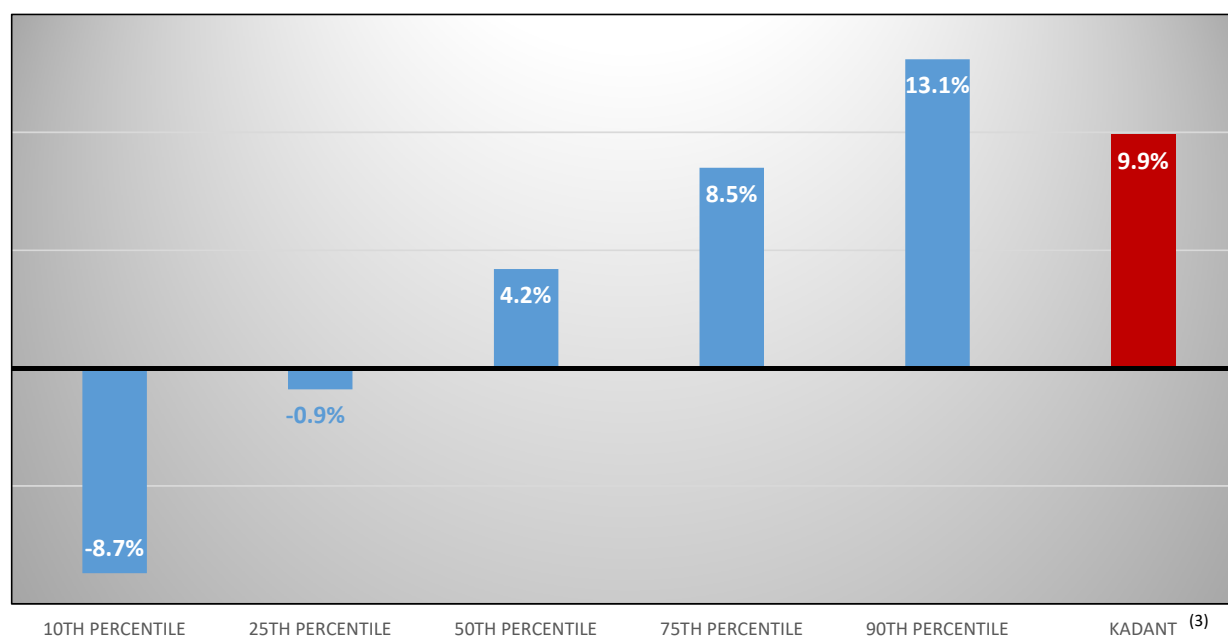
Revenue and Adjusted Diluted EPS Performance



*Adjusted diluted EPS is a non-GAAP financial measure that excludes certain items as detailed in the Appendix.

Benchmarking Kadant ROIC 2015⁽¹⁾

Baird Industrial Company Composite Percentiles for 2015⁽²⁾



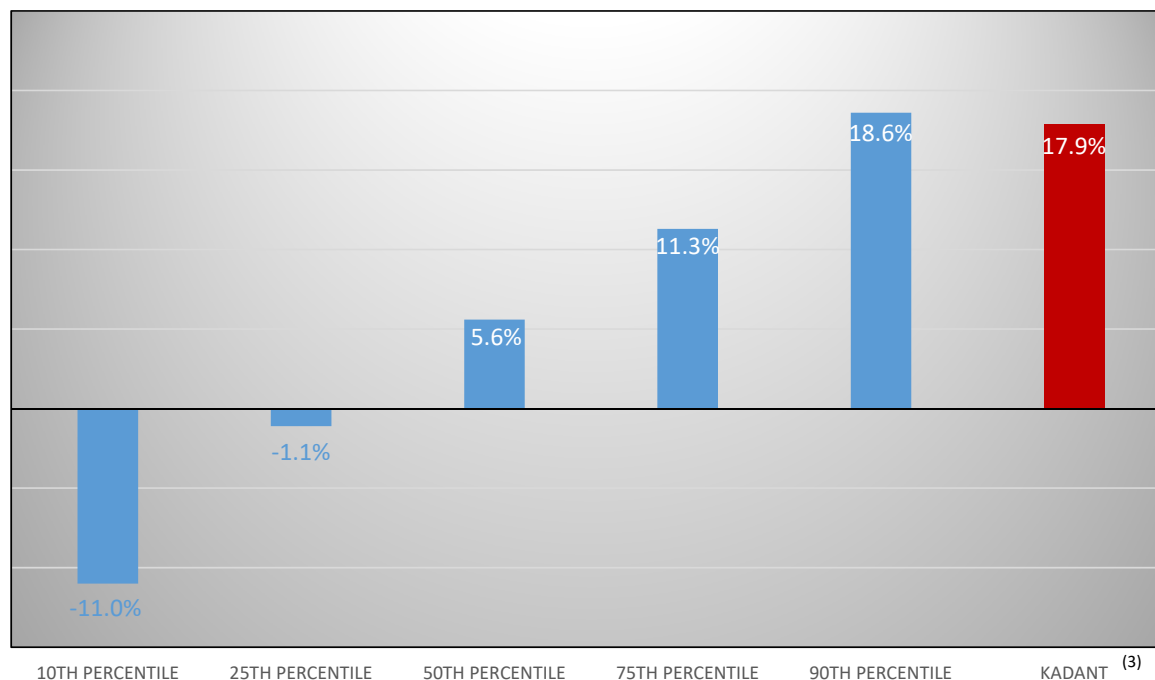
Source for all data other than Kadant: Capital IQ as of April 22, 2016.

(1) ROIC is defined as 2015 net income less 2015 dividends divided by the average of the last four quarters total capital. Total capital equals [(total assets – cash) – (current liabilities – current debt)].

(2) Baird Industrial Company Composite represents 518 companies which Baird views as indicative of the publicly traded company universe.

(3) As calculated by Company using the above definition.

Benchmarking Kadant ROIC Excluding Goodwill 2015⁽¹⁾ Baird Industrial Company Composite Percentiles for 2015⁽²⁾



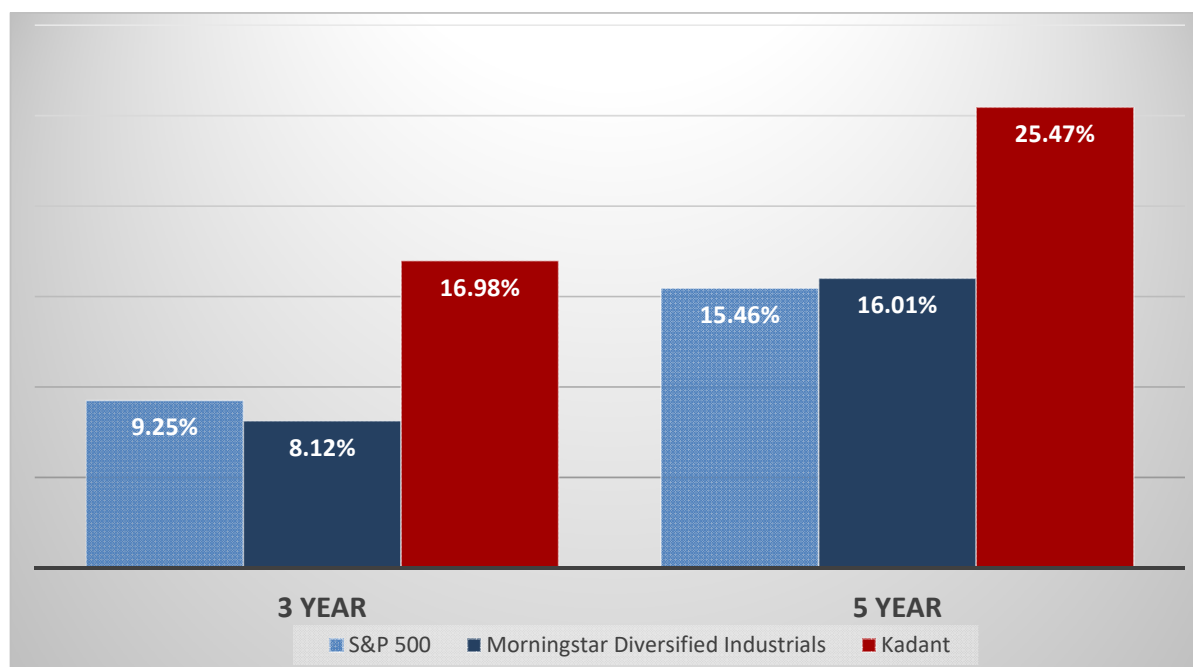
Source for all data other than Kadant: Capital IQ as of April 22, 2016.

(1) ROIC is defined as 2015 net income less 2015 dividends divided by the average of the last four quarters total capital. Total capital equals [(total assets – cash – goodwill) – (current liabilities – current debt)].

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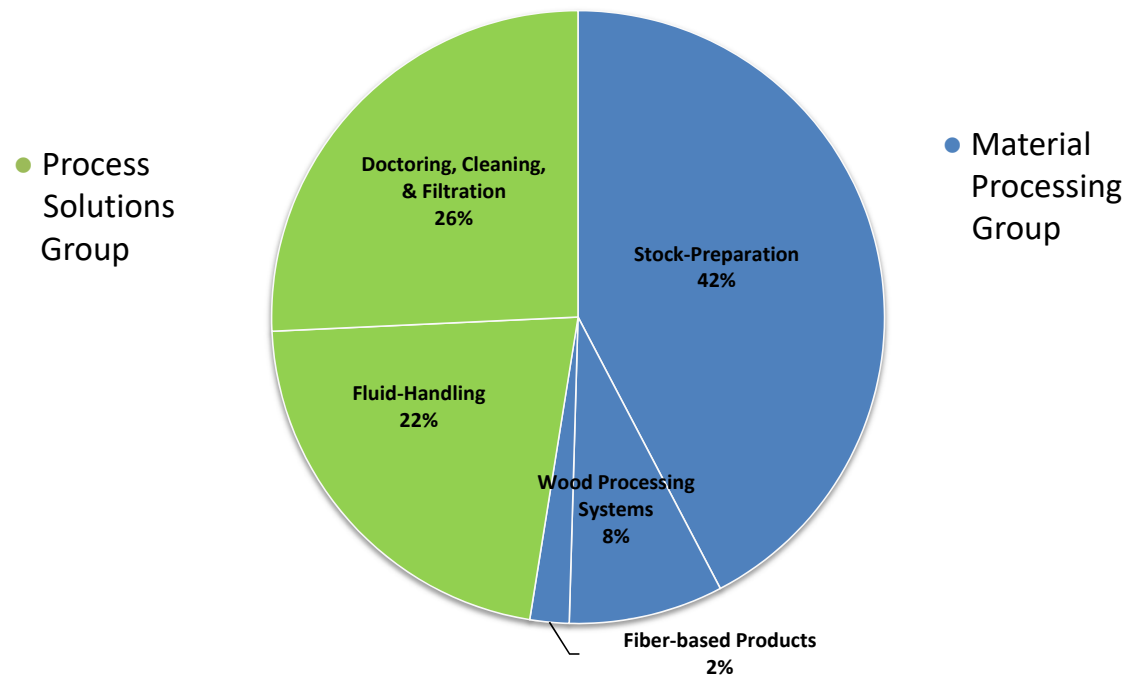
Total Shareholder Return (TSR)



Source: Morningstar as at 11/21/16



Q3 2016 YTD Revenue by Product Line



Revenue: \$314 Million

Agenda

| | | |
|-------------|-----------------------------|--|
| 2:30 – 2:40 | Welcome | Jon Painter |
| 2:40 – 3:10 | Material Processing Group | Jeff Powell |
| 3:10 – 3:40 | Process Solutions Group | Eric Langevin |
| 3:40 – 3:55 | BREAK | |
| 3:55 – 4:15 | M&A Discussion | Jon Painter, Dara Mitchell & Michael Colwell |
| 4:15 – 4:45 | Five-year financial targets | Jon Painter |
| 4:45 – 5:00 | Q&A | |
| 5:00 – 6:00 | Break-out sessions | |

Material Processing Group

Jeff Powell, Executive Vice President

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Material Processing Group: 2015 Primary Product Revenue \$195 M

- **Stock Preparation**

- Balers
 - Horizontal
 - Vertical
- Fiber Recycling
 - Brown fiber recycling
 - White fiber recycling
 - Approach flow
- Chemical pulping for virgin fiber mills
 - Re-causticizing
 - Evaporators

- **Wood Processing**

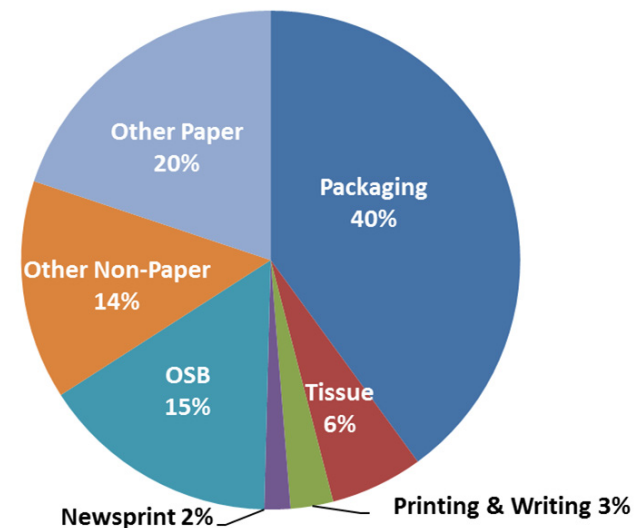
- OSB stranders
- Wood chippers

- **Fiber-based Products**

- Agriculture carriers
- Specialty products

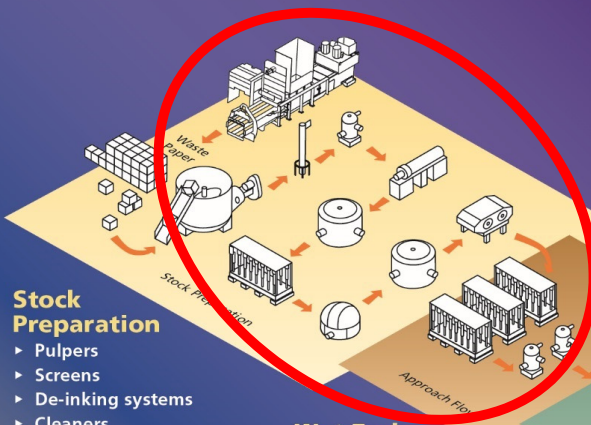
- All businesses focused on aftermarket and consumables

Q3 2016 YTD
Stock Preparation, Wood Processing, and Fiber-Based Products



Stock Preparation

Kadant is a leading supplier of balers, fiber recycling, and chemical pulping products.



Stock Preparation

- Pulpers
- Screens
- De-inking systems
- Cleaners
- Thickeners
- Filtration systems

Wet End

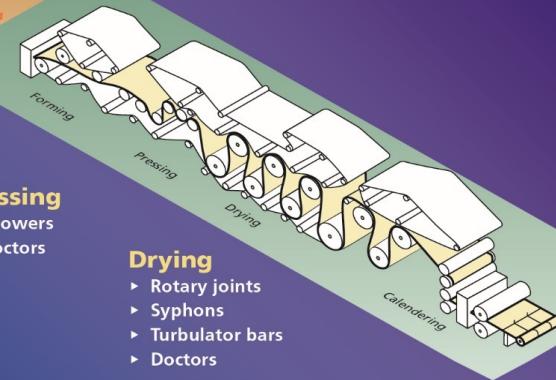
- Formers
- Formation systems
- Showers
- Filtration systems
- Doctors

Pressing

- Showers
- Doctors

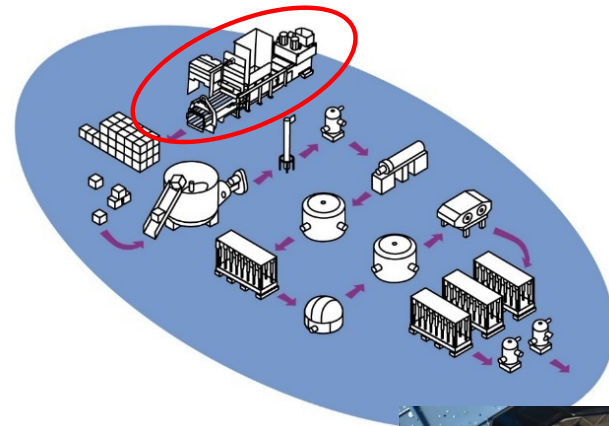
Drying

- Rotary joints
- Syphons
- Turbulator bars
- Doctors



Horizontal and Vertical Balers

- Acquisition of PAALGROUP completed on April 4, 2016
- Purchase Price: €49.7 million, net of cash acquired
- Revenue: €48 million (2015)
- Large installed base in recycling and waste management industries
- Baler is the heart of the waste recycling facility
- Aftermarket represents 30% of revenue



Full Line of Horizontal Balers for Recycling and Waste Handling

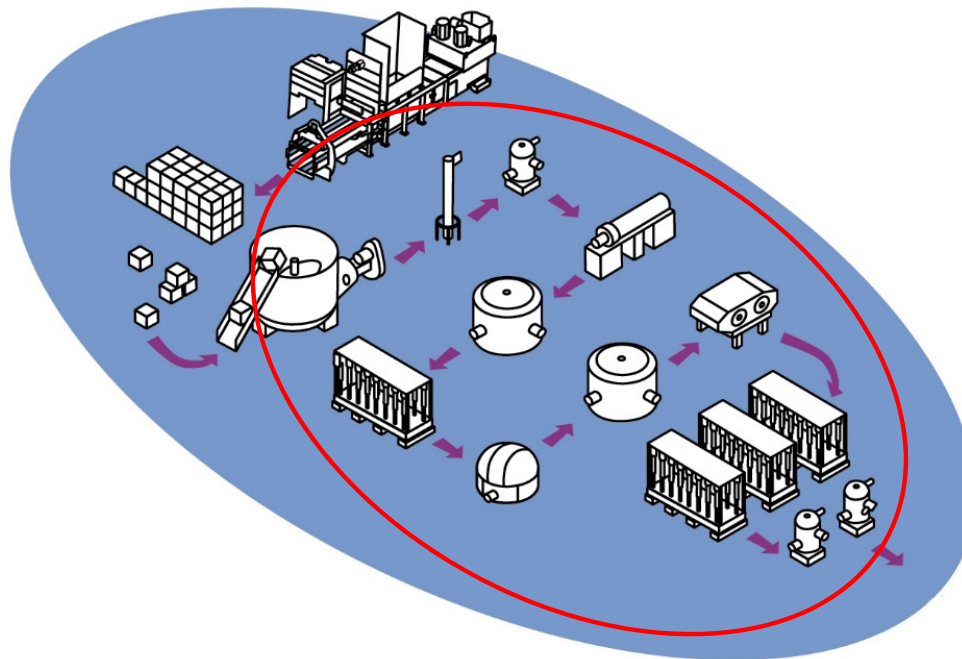


Demand Drivers for Baling Machinery

- Rising standards of living and population growth
- Shortage and cost of landfilling
- Increased recycling rates
- Environmental regulations



Fiber Recycling

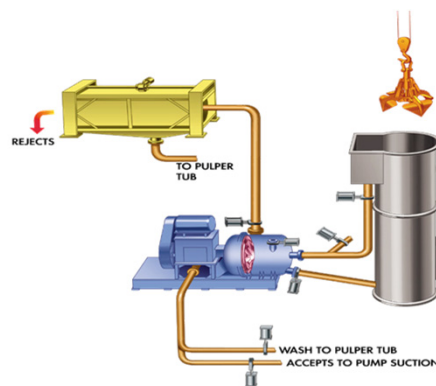


Kadant is the leading global supplier of technology for the recycling of fiber from used cardboard and paper.

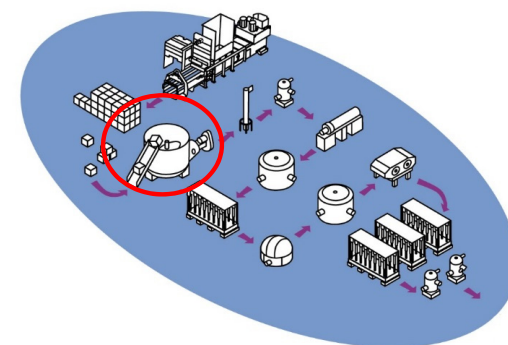
FIBER RECYCLING PRODUCT OVERVIEW

Pulping

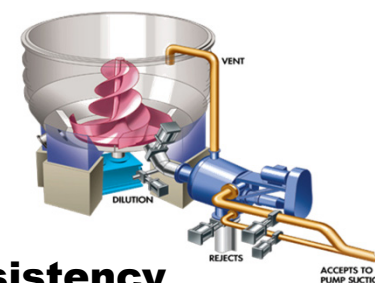
- Initial contaminant breakdown
- Price range \$0.5 to \$1 million
- Wear parts
 - Rotor – 6 month life
 - Bedplate – 6 month life



**High Consistency
Batch**

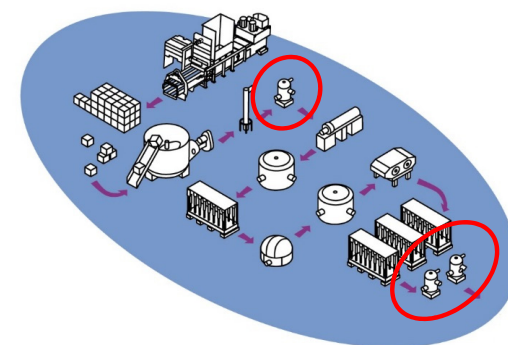


Continuous

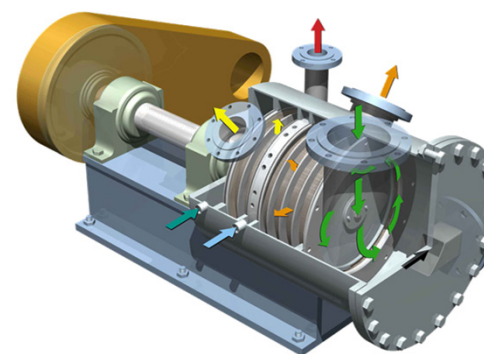
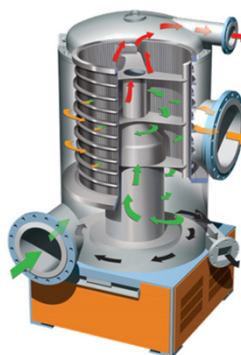


Screening

- Heart of the system
- Course and fine screening
- Screen One
- Wear Parts
 - Screen basket – 1 year life
 - Rotor – 1 year life
- Price range: \$80K to \$400K



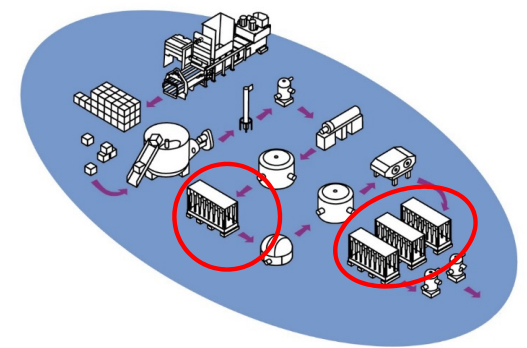
Ultra-V



FiberNet

Cleaning

- Separation based on specific gravity
- Price range: \$300K to \$700K
- Wear Parts:
 - 500,000 installed cones
 - Cones – 10 year life, 50,000 replaced a year
 - Valves – 10 year life



Chemical Pulping Products

- Recaust products
 - Reclaim caustic
- Evaporators
 - Concentrate black liquor
- Price: \$20 million for a large system

CHEMI-WASHER
FOR VIRGIN FIBER



EVAPORATORS



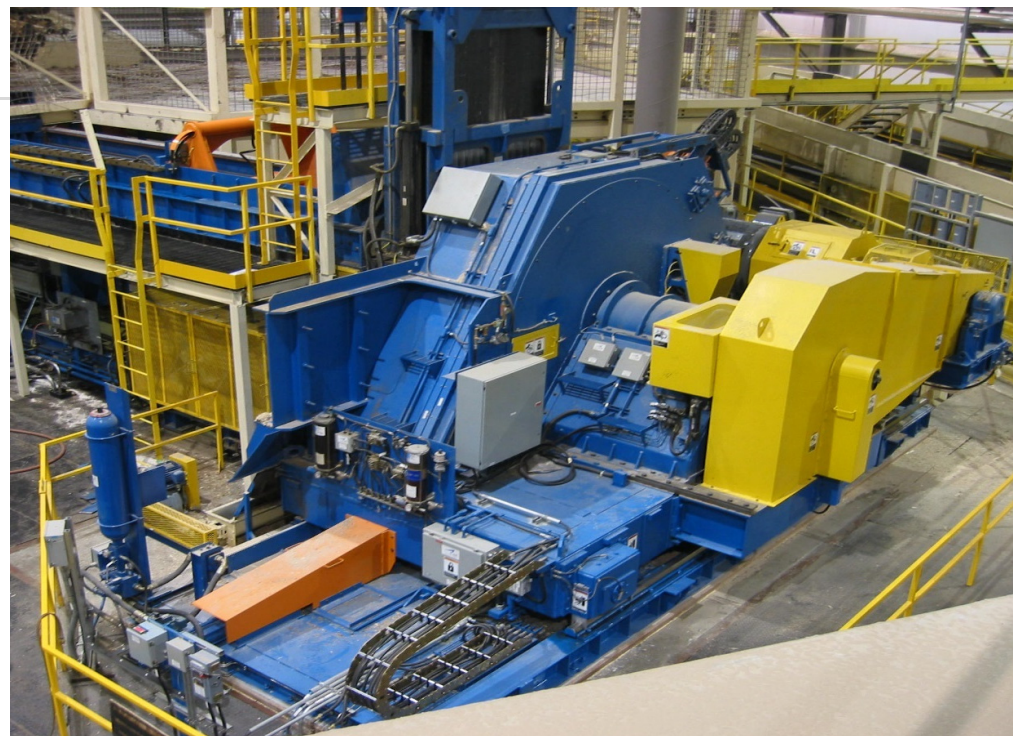
Fiber Recycling Aftermarket

- Most important part of business
 - Stock prep applications are very abrasive
 - Higher margin
 - More stable
- Leverage installed base, upgrades focused on fiber and energy



STRANDERS, CHIPPERS, DEBARKERS

WOOD PROCESSING

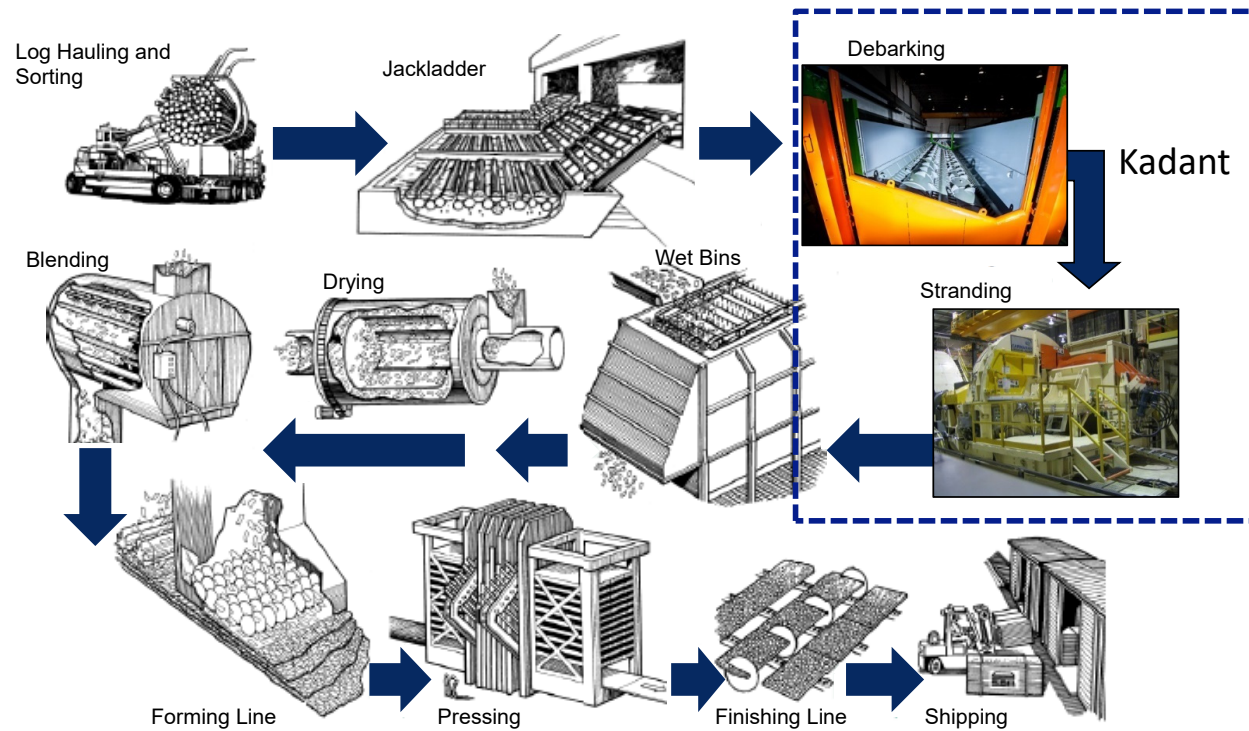


Oriented Strand Board (OSB) Overview

- OSB is a structural panel similar to plywood
- Often made from managed forests
- Lower fiber input costs than plywood, which requires larger, mature trees
- Greater portion of log converted vs. plywood
- End product is 96% wood and 4% resin
- Environmentally sustainable
- North American OSB market has grown exponentially since introduction
- OSB is underdeveloped globally
- Increasing range of industrial applications



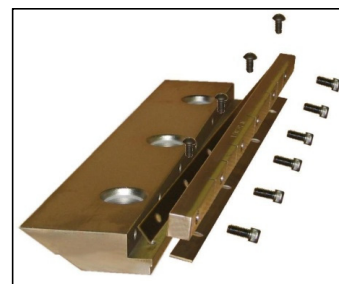
OSB Production Process



Source: RBC Capital Markets

“Razor / Razorblade” Business Model

- Kadant stranding machines have a multi-decade lifespan
- The parts and service outlay over the life is >3x original cost
- Service team conducts annual strander inspections
- 95%+ market share in wearing parts*; 70% of installed base using disposable knives
- Safety and performance risk is a barrier to entry for non-OEM parts providers
- Disposable knife product has been revolutionary to industry



*Company estimate

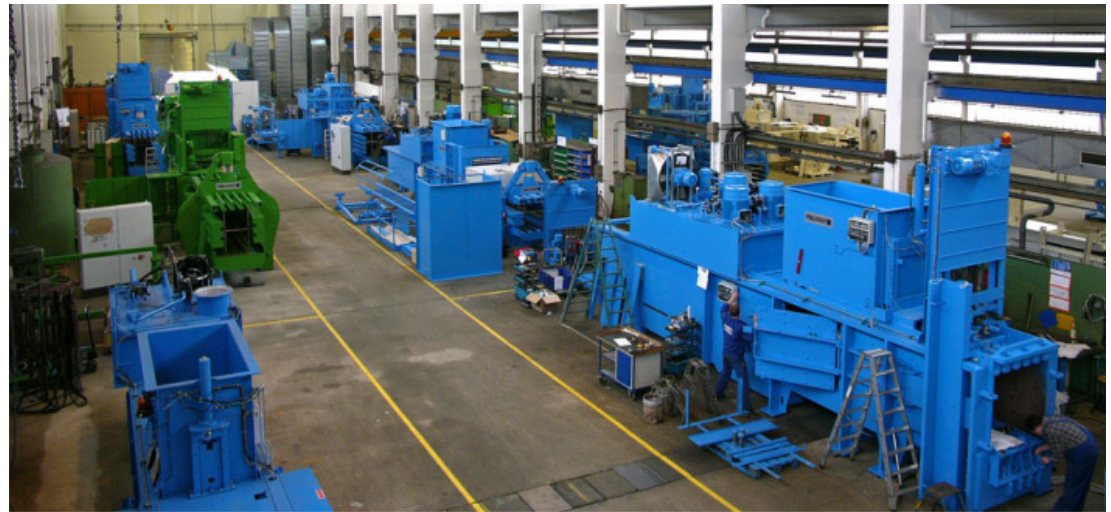
MATERIAL PROCESSING GROUP

GROWTH INITIATIVES



Baler Growth Programs

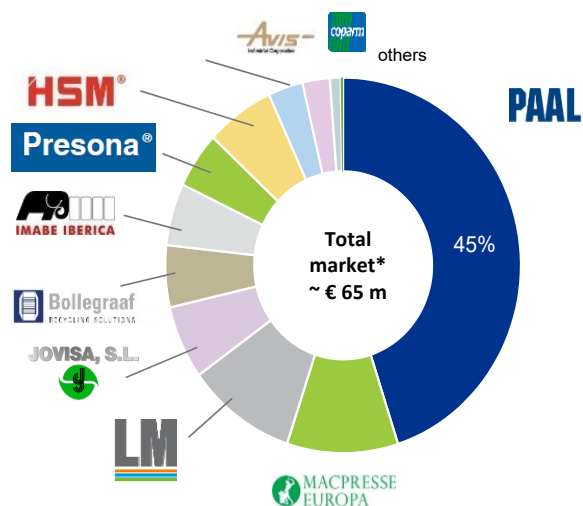
- Enter the USA market
- Lower sourcing cost by using Kadant China manufacturing



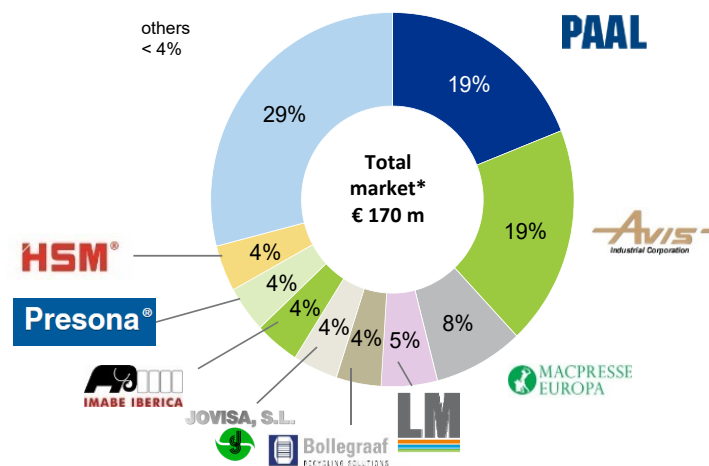
Competitive Positioning: Horizontal Balers

US Horizontal Balers: Market Opportunity \$36 M/year*

EUROPEAN MARKET*



GLOBAL MARKET*



*Source: Androschin & Partner Management Consulting GmbH

Kadant China Manufacturing

Vertical Balers: Market Opportunity \$10 M/year*

- Vertical balers are high volume products – approx. 200 units sold per year
- Dedicated manufacturing cell in China; potential for significant cost reduction
 - Increases GM on product
 - Increases competitive position of product
 - Enables Kadant to be competitive in a broader range of small balers

*Company estimate



Fiber Recycling Growth Programs

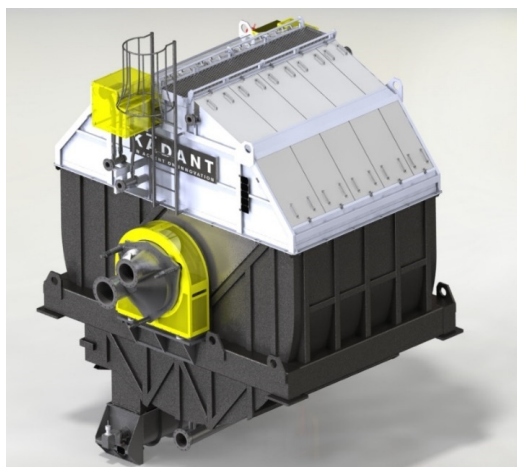
- Fill out product line offering
- Introduce innovative new technologies
- Geographic expansion in emerging markets
- Dedicated focus on growing aftermarket business



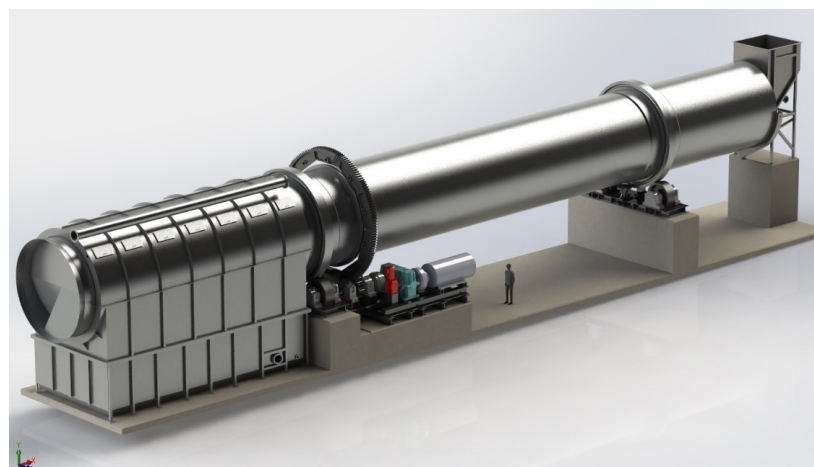
Fiber Recycling Growth Programs

Fill out product line offering: **Market Opportunity \$70 M/year***

DISC FILTER



DRUM PULPER

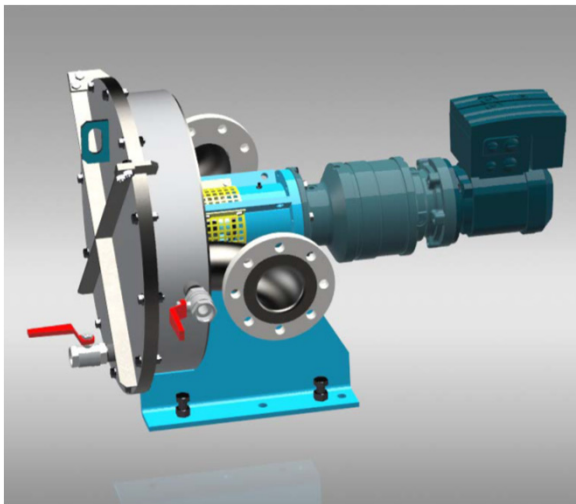


* Company estimate

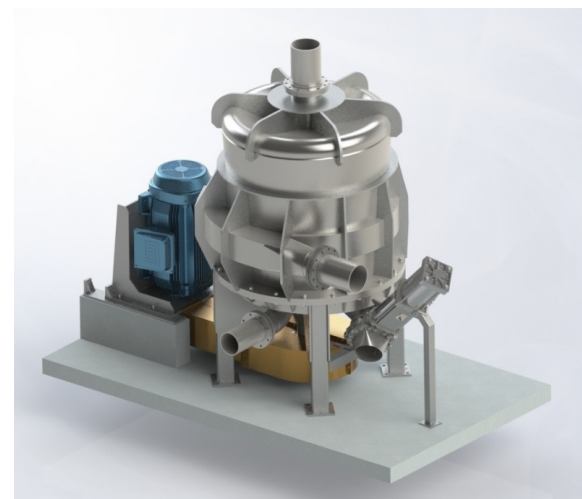
Fiber Recycling Growth Programs

New product development: Market Opportunity \$40 M/year*

BOOSTEK



HYDRAFLOW



* Company estimate

Fiber Recycling Growth Programs

Dedicated focus on parts and consumables: [Market Opportunity \\$130 M/year*](#)

CONSUMABLES



PARTS



* Company estimate

Wood Processing Growth Programs

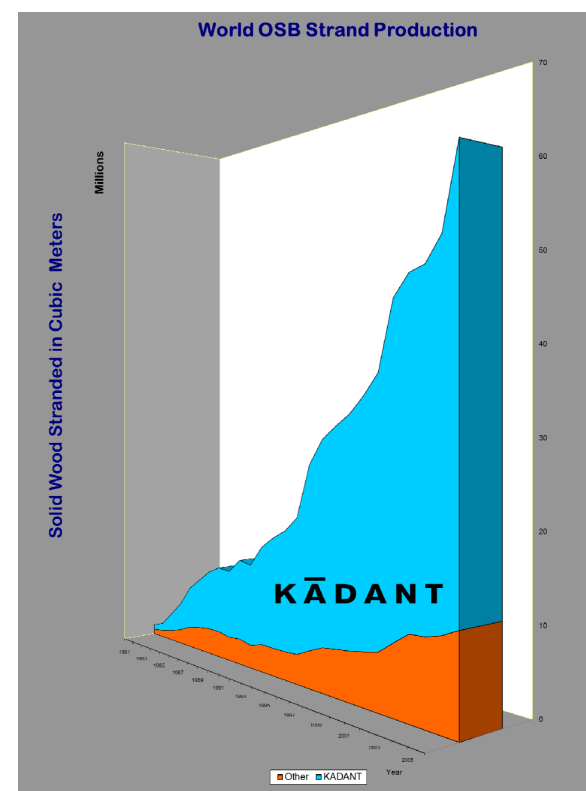
- Geographic market expansion
- Convert plate knives to disposable knives
- Introduction of integrated scoring knives



Kadant Market Share in OSB Stranders*

| PRODUCT | MARKET | MARKET SHARE | POSITION |
|---------------|--------------------|--------------|----------|
| OSB Stranders | North America | 85% | #1 |
| | South America | 100% | #1 |
| | Europe / Russia | 45% | #2 |
| | Asia & New Zealand | 75% | #1 |

*Company estimate

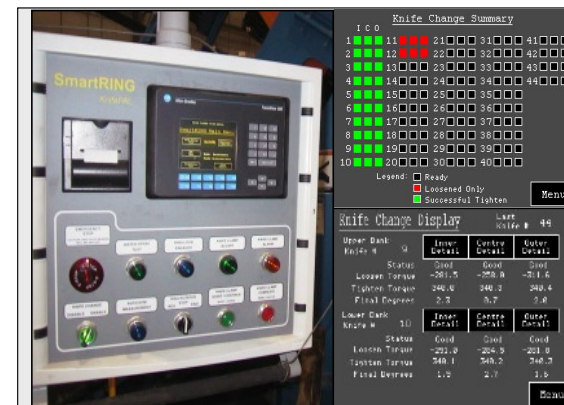


Kadant Ring Upgrades

Ring Conversion: Market Opportunity \$46 M*

Ring Conversion Parts: Market Opportunity \$9 M/year*

- Why customers convert
 - Improved wood yield and strand consistency
 - Lower operating costs
 - Significantly safer operation
 - Rapid wear part changeover
- Process to convert competitor machinery, allowing customers to utilize Kadant parts and service offerings



Kadant technology provides real-time information to machine operators



SmartRING installation

* Company estimate

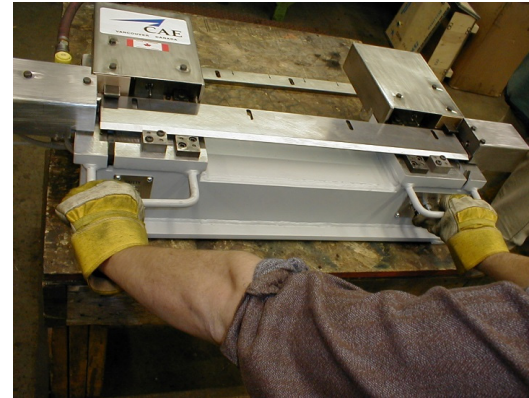
The Story of Kadant Disposable Knives

The Old Way

- Knife pack mass: 45 lb
- Safety issue, Quality challenge

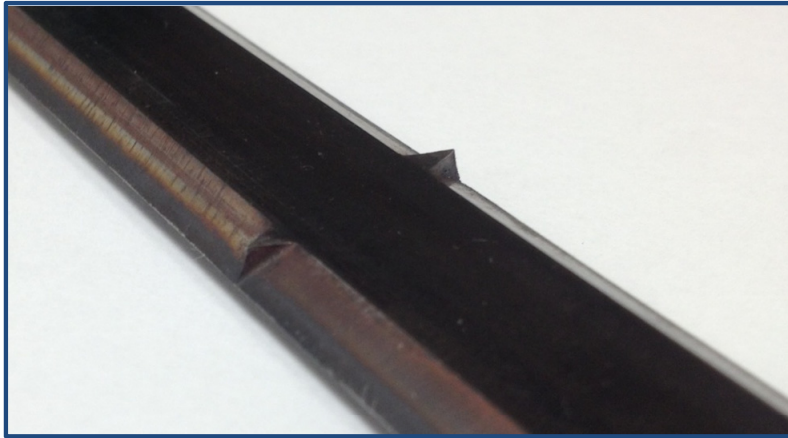
The new way: Disposable Knives (DKS)

- Light, safe, lower labor cost
- 70% of Kadant machines run DKS
- And a new leap is coming...



Integrated Scoring Knife (ISK)

Converting all OSB machines to ISK: **Market Opportunity \$30 M/year***

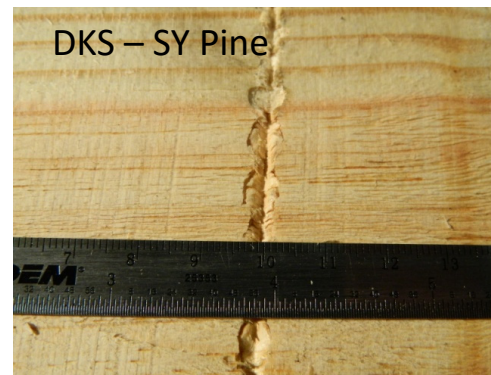


Benefits to Customers

- Eliminates scoring bars and tips
- All scoring tips are replaced on every knife change
- 80% of mills variable cost is fiber and resin
- Fines reduction due to scoring tip alignment
- Productivity Improvement of \$2 to \$3.5M per year, per mill, with NO capex required

* Company estimate

Scoring Impact on Fiber



VS



Material Processing Group Growth Initiatives

- Balers opportunity: \$46 M/year
- Fiber Recycling opportunity: \$240 M/year
- Wood Processing opportunity:
 - Ring conversion opportunity \$46 M(one time)
 - Spare parts opportunity \$40 M/year



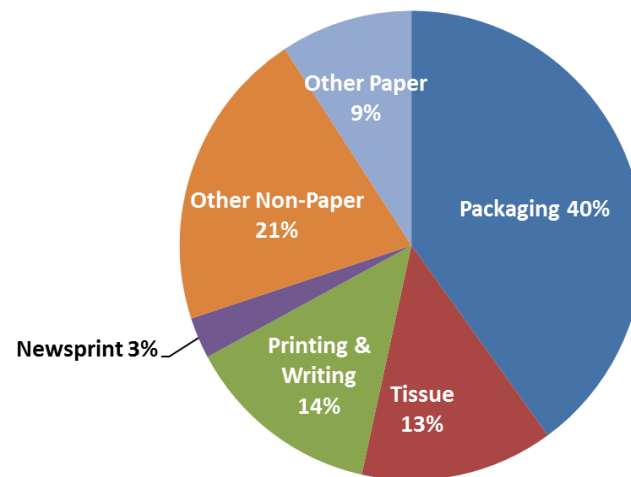
Process Solutions Group

Eric Langevin, Executive Vice President and COO

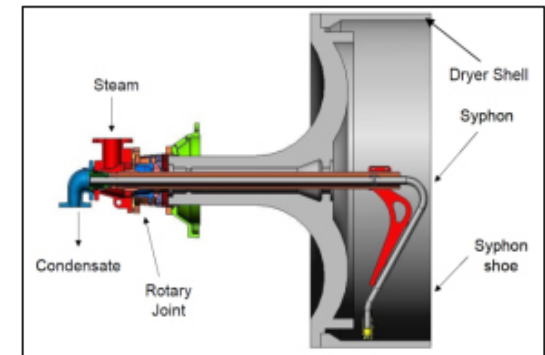
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Process Solutions Group: 2015 Primary Product Revenue \$195M

- Doctoring, Cleaning & Filtration (DCF)
- High-pressure Fabric and Belt Cleaning
- Fluid Handling



YTD 2016 REVENUE SOURCE

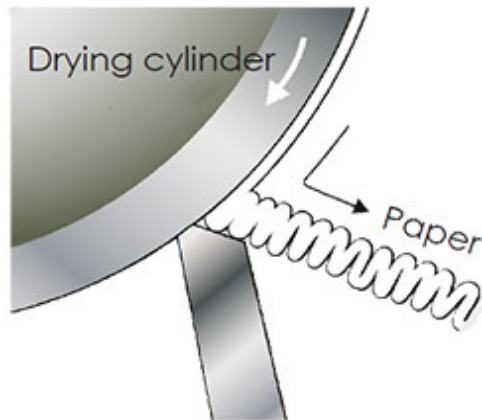




DOCTORING, CLEANING & FILTRATION (DCF)

What does DCF equipment do?

- Removes contaminants and water from process allowing higher quality product and production rates
- Removes product (e.g., tissue, food) from dryer or roll



Kadant Razor Blade Model

Razor blade is equivalent of

Doctor and Creping Blade

Replaced daily or weekly

Razor cartridge is the equivalent of

Holder

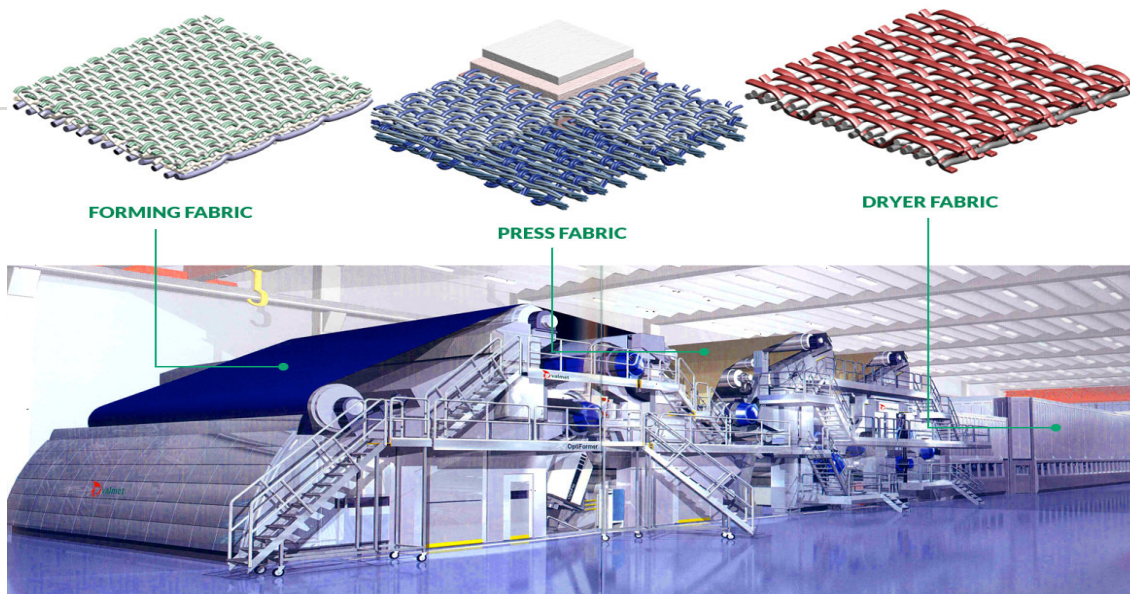
Replaced every 1 to 5 years

Razor handle is the equivalent of

Doctor

Replaced every 15-20 years

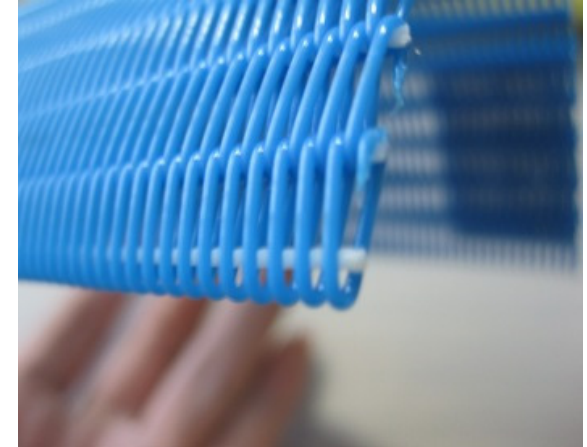




WATER MANAGEMENT & M-CLEAN FABRIC CLEANING GROUP

What does fabric cleaning equipment do?

- Removes contaminants from forming fabric extending useful life
- Global market leader in liner/packaging

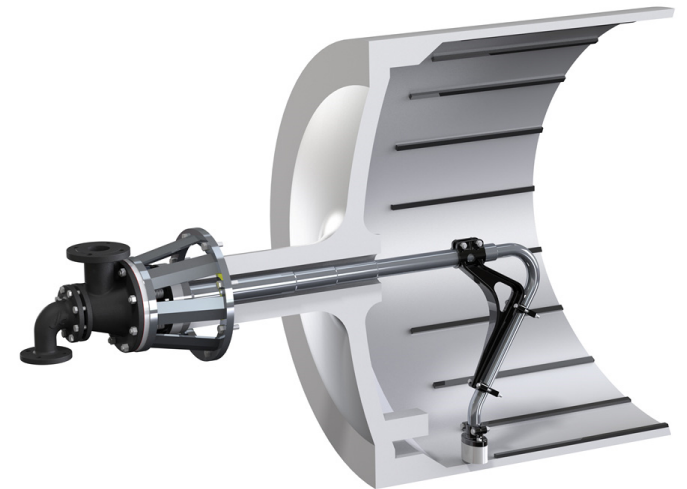
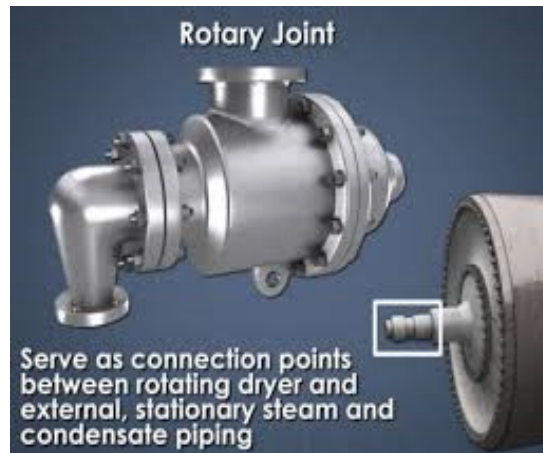




FLUID HANDLING PRODUCTS

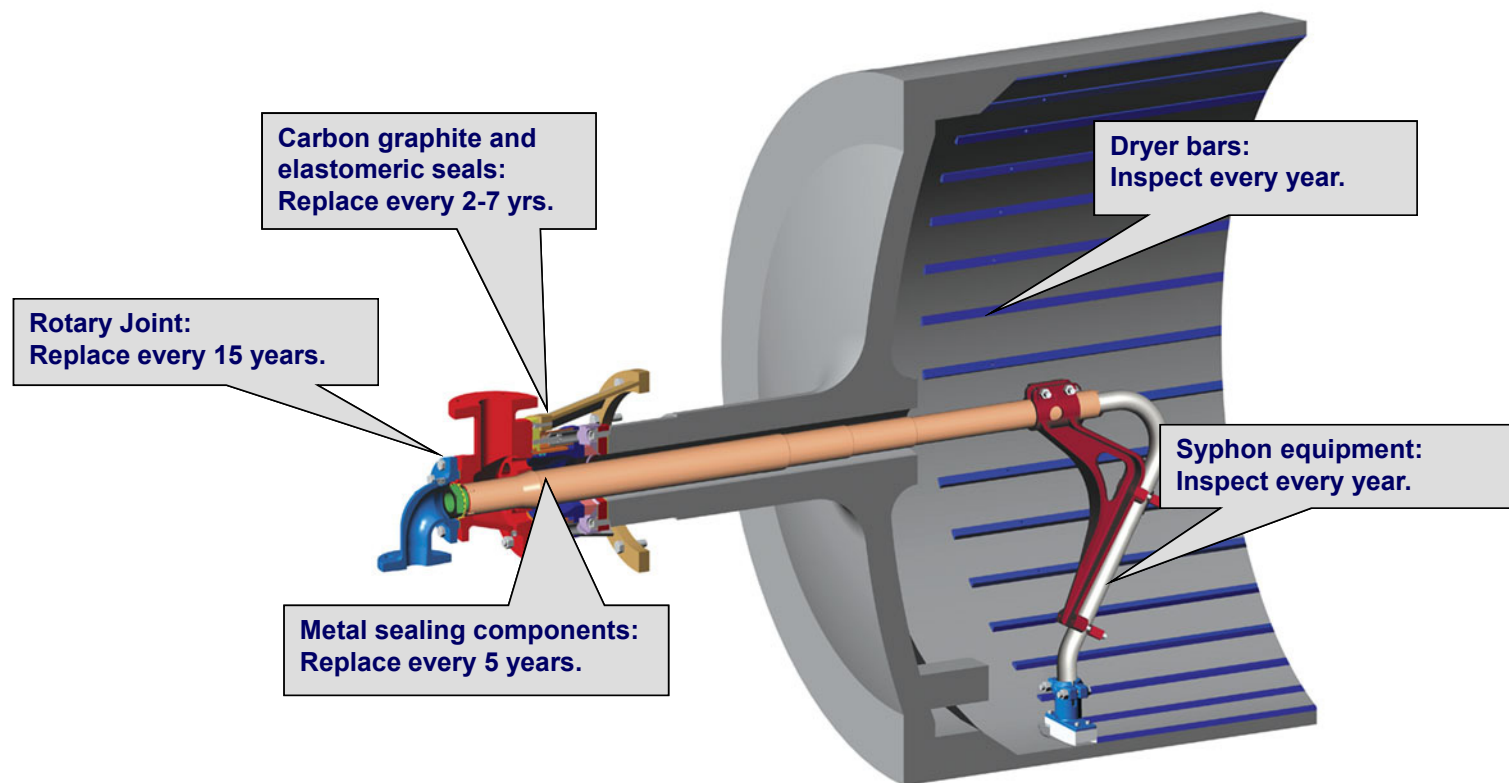
What does fluid handling equipment do?

- Provides critical connection between fluid supply (steam, hot oil, water) and rotating equipment
- Commands over 70% global market share in paper drying segment*



* Company estimate

Steam Joint System: Replacement Parts





IOT INITIATIVE ACROSS ALL PRODUCT LINES

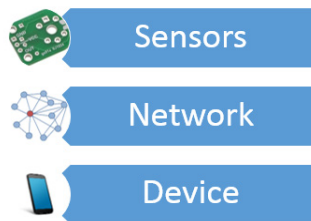
Why IoT?

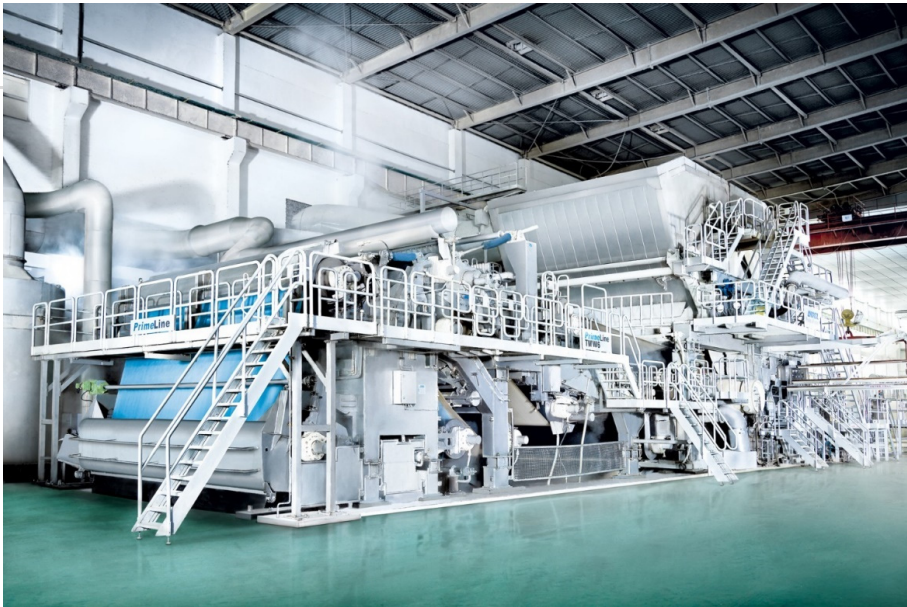
- IoT program
 - Several pilot projects underway with customers
 - Partnered with Emerson Controls (established solution provider)
 - Retaining corporate resources with skills in IoT projects
 - Long term project
- Product differentiation
- Protection from pirates
- Promote spares
- Closer ties with customers and process
- Big data opportunities



IoT Pilot Program: Smart Connected Products for Tissue

- Kadant creping doctor is the heart of tissue making
- Partnered with Emerson Controls
- In our pilot site we are using IoT to:
 - Identify when blades need to be changed
 - Identify service needs before they occur
 - Enables tissue maker to produce consistent quality





GROWTH INITIATIVES

Estimated \$140M to \$160 M Market Opportunities*

* Company estimate

Three Major Growth Initiatives

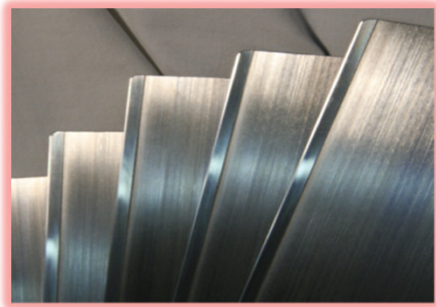
- Tissue
 - \$80 M Market Opportunity*
- Packaging and Corrugated
 - \$30 to \$40 M Market Opportunity*
- Industrial Markets
 - \$30 to \$40 M Market Opportunity*



* Company estimate

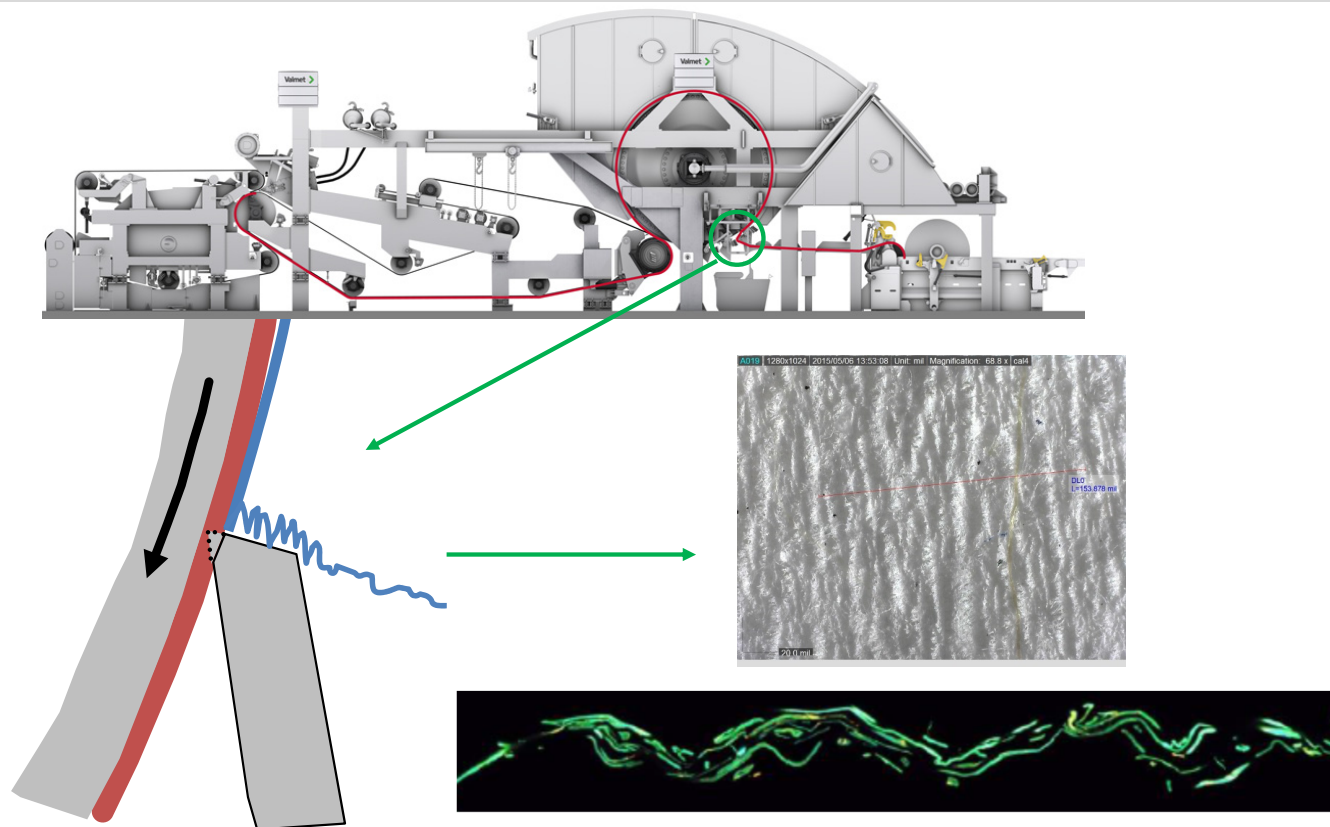
Why tissue?

- Market is stable and growing
- Kadant is recognized as a process expert and premium supplier
- Our holders have dominant global market share



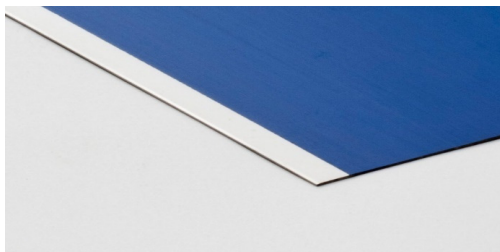
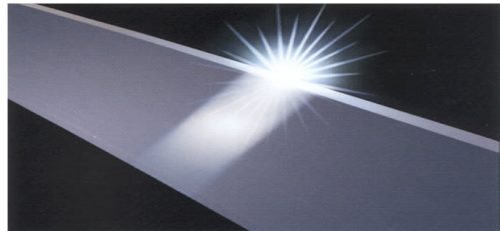
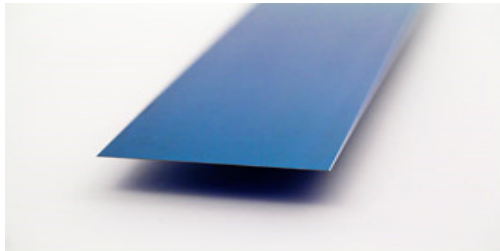
* Company estimate

Ceramic Creping Blades: \$60 M Market Opportunity*



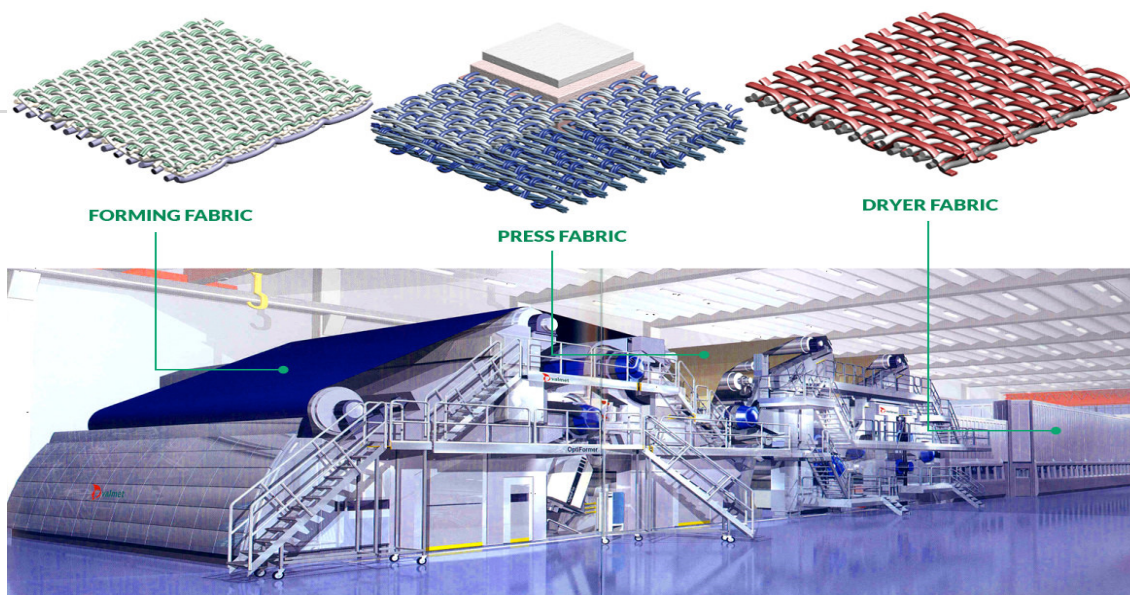
* Company estimate

Three Types of Creping Blades



- Steel
 - Current Market Share 20%*
 - \$25 M Total Market*
- Tool Steel (Mid Range)
 - Current Market Share 60%*
 - \$5 M Total Market*
- Ceramic Long Life
 - Current Market Share 0%
 - \$60 M Total Market*

* Company estimate



TISSUE FABRIC CLEANER

\$20 M Market Opportunity*

* Company estimate

M-Clean Tissue Fabric Cleaning

- Forming fabrics for tissue
- Current market leader in liner/packaging
- Extend fabric life AND improve machine uptime
- Improve quality by reducing/eliminating pin holes caused by contaminants (stickies) adhering to fabric





CORRUGATED AND PACKAGING INITIATIVE

\$30 to \$40 M Market Opportunity*

* Company estimate

Why corrugated and packaging?

- Market is stable and growing with market consolidating
- Kadant well known and trusted by major players
- Increased recycle content provides opportunity
- New machines are faster and more demanding



What does Kadant equipment do?

- Provides better drainage (lowering operating cost)
- Allows use of higher recycled content (lower input cost)
- More efficient steam system design (lowers energy cost)
- Enables producers to lower basis weight (lower cost)





INDUSTRIAL INITIATIVE

\$40 M Market Opportunity*

* Company estimate

Why industrial applications?

- Market is hungry for Kadant technology and expertise
- Expands current industrial business with existing salesforce
- Kadant well known and trusted by OEMs
- Current market opportunities
 - Rolled & coated metal \$10 M*
 - Food \$15 M*
 - Synthetic fiber \$10 M*
 - Carbon fiber \$5 M*

* Company estimate



Industrial Applications for Kadant Roll and Belt Cleaning Products

- Industrial bakery ovens
- Cereal flakers
- Starch production
- Steel and aluminum production



Carbon and Synthetic Fiber Production



Summary

- Strong market position within stable markets
- Great aftermarket business with high barrier to entry
- Initiatives provide significant growth opportunity
- We are taking our existing expertise into new product areas and new markets



Three Major Growth Initiatives

- Tissue
 - \$80 M Market Opportunity*
- Packaging and Corrugated
 - \$30 to \$40 M Market Opportunity*
- Industrial Markets
 - \$30 to \$40 M Market Opportunity*



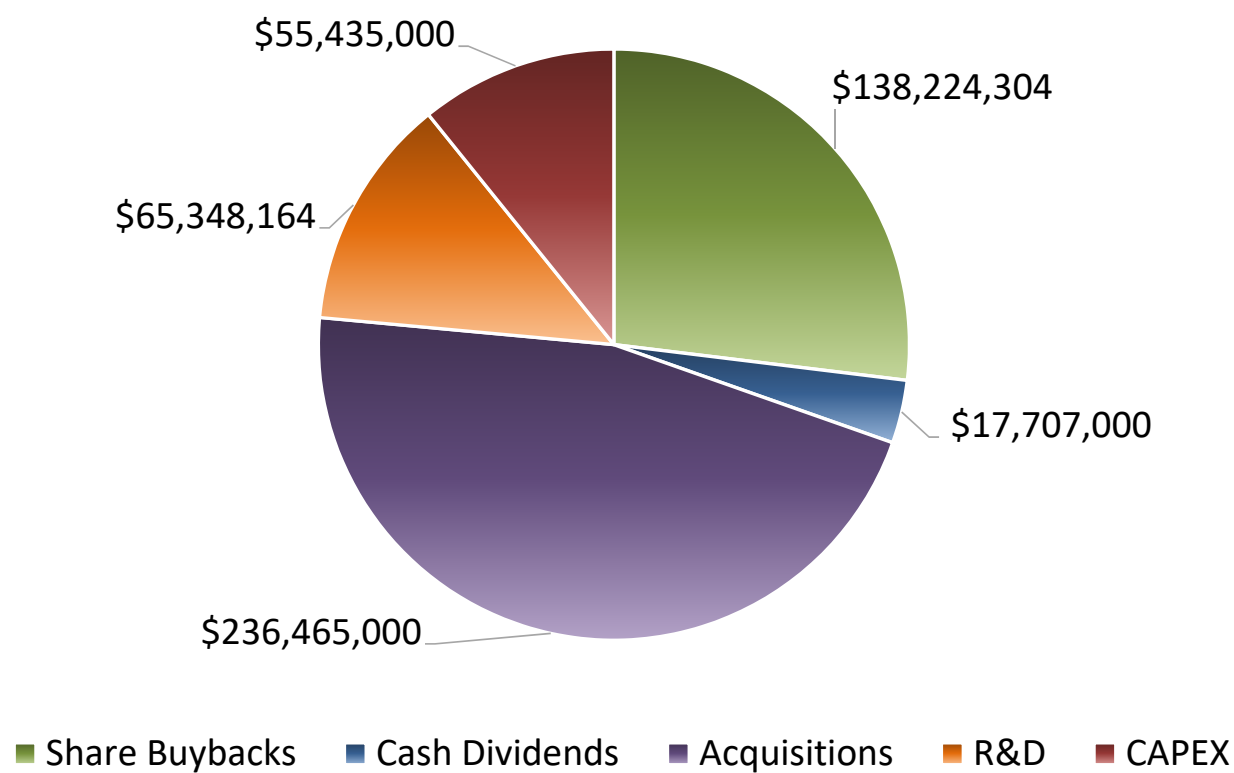
* Company estimate

ACQUISITION DISCUSSION

Key Acquisitions



Capital Allocation 2005 - 2015



Acquisition Criteria




- Serve process industries
 - High impact product
- History of stable earnings
 - Large spare parts business
- Strong stable market position
 - High market share
 - “Sticky” customers, ability to raise prices
- Target 9% IRR hurdle



Estimated Returns for Acquisitions Completed 2012-15

| | Estimated 2016 Pre-Tax ROTI ^{(1) (4)} | Estimated 2016 ROIC ^{(1) (5)} | Estimated IRR ^{(1) (2) (6)} |
|---------------------------|---|--|---|
| Weighted Average Returns* | 27% | 14% | 17% |

* Calculated by the Company using the consideration paid, which includes the acquisition purchase price, plus acquisition costs and restructuring costs as anticipated at the time of closing, for the acquisitions completed during the period 2012-2015 excluding the technology acquisition of Radiance in January 2014. Also excludes the 2016 acquisition of the PAAL Group.

| Acquisition | Purchase Price ⁽³⁾ | Date |
|--|-------------------------------|---------|
|  CBTI | \$8.6m | Apr '13 |
|  ROSS | \$7.2m | May '13 |
|  CARMANAH Energy & Watermarking Inc. | \$52m | Nov '13 |
|  Screen Baskets | \$9.2m | Nov '14 |
| Total Cost | \$77.0m | |

- (1) Represents the projected return for fiscal year 2016, as estimated by the Company using its most recent internal forecast.
- (2) Based on each acquisition's actual results since the acquisition date plus the Company's estimate of financial results for fiscal 2016 using the Company's most recent internal forecast.
- (3) Represents the actual purchase price paid and does not include acquisition costs and restructuring cost as estimated at the time of closing.
- (4) Based on operating income over the sum of consideration paid plus the change in net operating assets less intangible amortization.
- (5) Based on adjusted net income over the sum of total capital plus consideration paid less cash.
- (6) Based on the consideration paid plus the sum of net income generated plus depreciation and amortization expense less capital expenditures plus an estimated terminal value for the business.

FIVE-YEAR FINANCIAL TARGETS

Assumptions Underlying Five-Year Financial Targets

- Macro-economic environment
 - Slow but steady global growth
 - Continued low cost of capital
- Organic growth
 - Numerous internal growth programs
 - Goal is 2% to 3% internal revenue growth
- Acquisitions
 - Continue to target companies that meet criteria
 - Could add additional 9% to 11% revenue growth



Financial Targets 2021

| | Target for 2021 |
|----------------|-----------------------|
| Revenue | \$700 - \$800 million |
| EBITDA | \$100 - \$125 million |
| Diluted EPS | \$5.00 - \$6.00 |
| Free Cash Flow | \$70 - \$80 million |
| Net Debt | \$60 - \$140 million |

Other Potential Changes

- Gross margins drop due to acquisitions
- SG&A Leverage improves due to economies of scale and acquisitions
- EBITDA margins maintained
- Focus on spare parts and consumables will continue, but percentage of revenue will likely drop
- Percentage of business serving pulp and paper will likely decline to below 50%

Risks and Upside

RISKS

- Economic cycle
- Acquisitions underperform
- Increasing asset valuations (acquisitions, Kadant stock)
- Trade restraints with China or Mexico
- Social or economic shock to China or Europe
- Higher interest rates
- Currency headwinds

UPSIDE

- Acquisitions perform better than expected
- Complete more acquisitions than anticipated
- End markets and internal growth initiatives perform better than expected
- US tax rate drops
- Stimulative impact of potential tax cuts and infrastructure spending on US economy
- Market volatility creates opportunities for value-creating stock buy-backs

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Kadant Investor Day

NEW YORK CITY | DECEMBER 1, 2016

KĀDANT

APPENDIX

Adjusted Diluted EPS Reconciliation

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|----------|----------|-----------|---------|---------|-----------|
| Diluted EPS, as reported | \$ 1.48 | \$ 2.74 | \$ 2.73 | \$ 2.07 | \$ 2.56 | \$ 3.10 |
| Income from Discontinued Operation, net of tax | \$ - | \$ - | \$ (0.07) | \$ - | \$ - | \$ (0.01) |
| Diluted EPS from Continuing Operations | \$ 1.48 | \$ 2.74 | \$ 2.66 | \$ 2.07 | \$ 2.56 | \$ 3.09 |
| Restructuring Costs and Other Expense (Income), net of tax | \$(0.07) | \$(0.13) | \$ 0.03 | \$ - | \$ 0.05 | \$ 0.03 |
| Amortization of Acquired Profit in Inventory and Backlog, net of tax | \$ - | \$ - | \$ - | \$ 0.17 | \$ 0.17 | \$ 0.01 |
| Benefit from discrete tax items | \$ - | \$(0.51) | \$(0.40) | \$ - | \$ - | \$ - |
| Adjusted Diluted EPS* from Continuing Operations | \$ 1.41 | \$ 2.10 | \$ 2.29 | \$ 2.24 | \$ 2.78 | \$ 3.13 |

*Adjusted Diluted EPS is a non-GAAP financial measure.