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sun hydraulics

Differentiated Results

- **Profitability** – every year since 1972
- **EVA®** – consistently creating value
- **Consistent cash flow** – ability to invest and fund our future
- **Total ownership return**

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Thank you all for joining us today. Over the next twenty minutes, I will explain what it is that allows Sun to produce differentiated

results and why Sun's profitability, returns, cash flows and overall shareholder return are sustainable and make an investment in SNHY worthy of your consideration. Let me begin by describing the products we make.

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Sun Hydraulics designs and manufactures screw-in hydraulic cartridge valves, manifolds, integrated-packages and associated electronic devices. The products at the bottom are cartridges. They are installed in the rectangular manifolds above to create integrated

packages. In our world, these are the hydraulic equivalent of an electronic integrated circuit. We also make electronic devices that are used to control and interface our hydraulic systems with electrical control systems. Increasingly, electronics are being used by machine manufacturers to communicate with hydraulic systems. All of our products are used to control motion in machinery and equipment.

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Customers/Markets

- OEMs building machinery for:
 - Capital goods
 - Manufacturing
 - Infrastructure
 - Resources
 - Energy
 - Entertainment

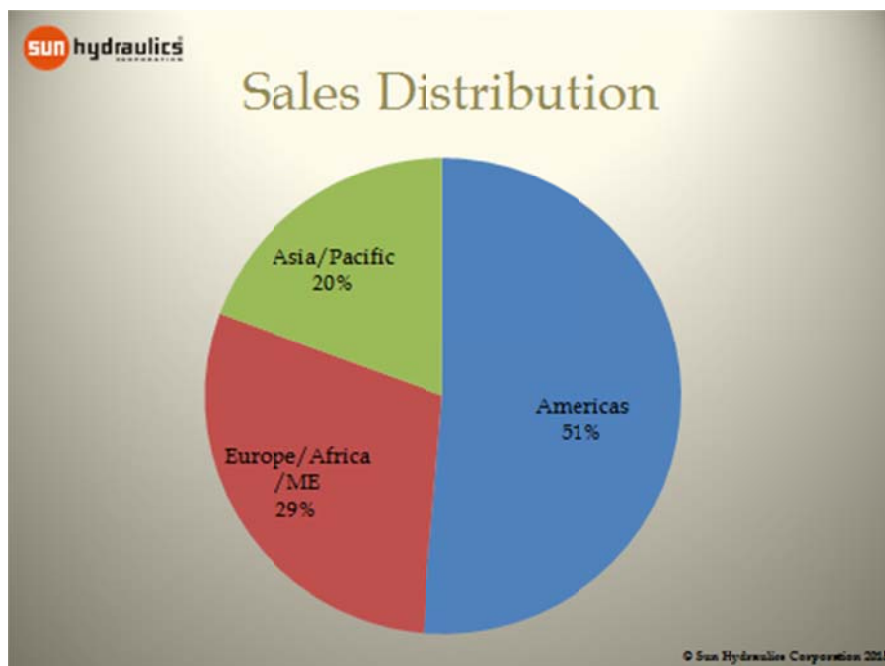
Anywhere efficient, safe and precise motion control is required.

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The markets and customers we serve are capital goods industries that build machinery for manufacturing, construction, mining, material handling – a whole host of industries. Our products are an important piece of a hydraulic system - they regulate pressure and speed and control the direction of fluid flowing in the system.

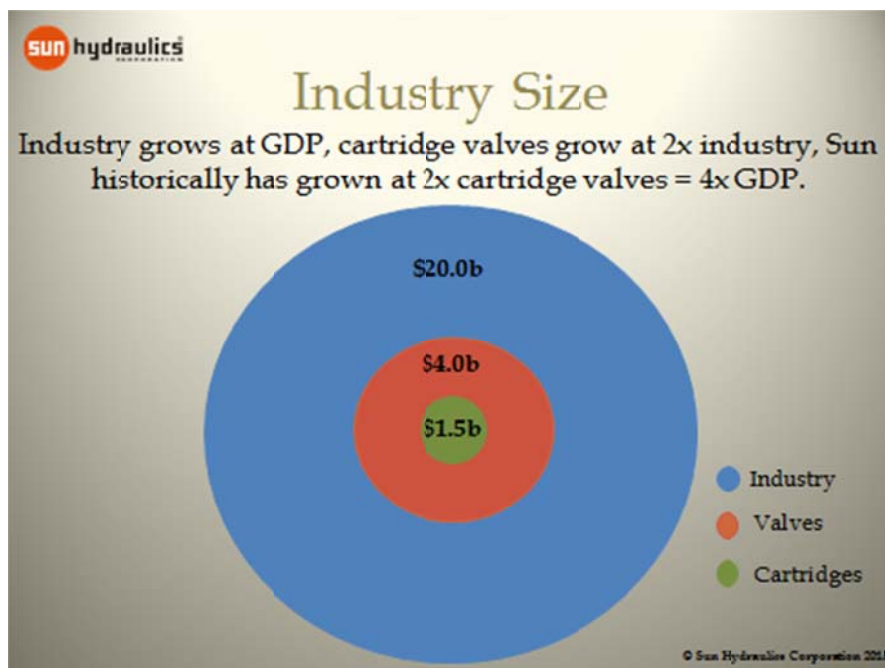
Because of the high and reliable performance characteristics of our products, they are most often used when precision and safety are critical operating characteristics.

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We sell globally through wholly owned companies, independent distributors and systems integrators. Last year, sales were split as shown. As with many North American producers, we see significant growth potential in the Asia/Pacific region and we are engaged in activities to accelerate growth and penetrate that market.

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The hydraulics industry is about a 20 billion dollar global industry. About 4 billion dollars of the industry involves the production and sale of valves, products used for the same purposes as ours. More

specifically, about 1.5 billion dollars are related to the production and sale of cartridge valves and manifolds. The industry typically grows at the rate of GDP. Cartridge valves and manifolds grow at a faster rate than the industry overall because they are a more flexible, configurable and customizable form of hydraulic valve. Cartridge valves grow at two times GDP. Historically, Sun has grown at twice the rate of cartridge valves, or four times GDP, simply because we have a better mousetrap – it operates more reliably at higher pressures. To use the car analogy, it goes faster, corners better and gets better life and mileage.

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Industry Players

Multi-nationals

- Parker
- Hannifin
- Bosch Rexroth
- Danfoss
- Eaton

Independents

- HydraForce
- Hydac
- Delta
- Argo-Hytos
- Wandfluh
- Vonberg
- Valvoil

Knockoffs

- Wuhang
- Ningbo Longteng
- Winner
- Keta

The cartridge valve industry is composed of many companies of all different sizes and capabilities. Some like Parker and Eaton are global entities who manufacture every component that goes into a hydraulic system, including cartridges valves. Others, like HydraForce and Delta, more specifically just make cartridges and integrated packages. And finally, there are emerging manufactures who, as the industry matures, copy existing designs and try to find a path to the marketplace. Many of these companies are Asian, but there are also emerging companies found in Europe and the US. While we compete with many of these companies, we also count

most of them as customers. This is because Sun produces one of the broadest ranges of cartridge valves available and we try to make it easy for anyone to obtain and apply our product.

So that is the landscape in which we operate. Now I want to explain what makes Sun different.

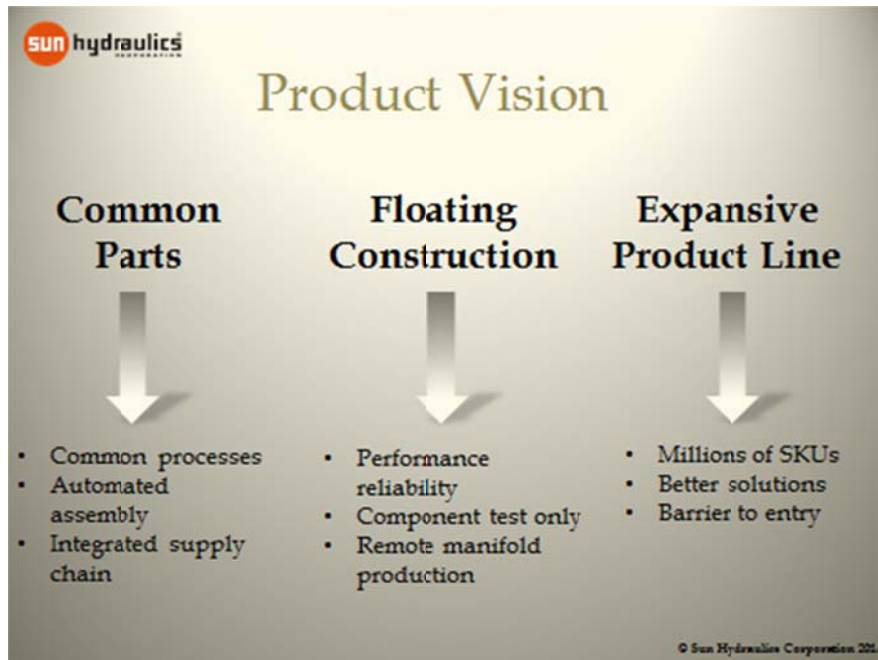
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Our differentiation rests on three important pillars that yield countless benefits. First is our product vision, which is

fundamentally different than most other industry participants. Second, we have always taken a stakeholder approach to our business, recognizing the importance of employees, suppliers, distributors, customers, shareholders and the community. We share our success with all constituents. Third, we embrace a management style that we have pioneered since 1970 that is referred to as “horizontal management.” As the name implies, this represents a flattening of the organization to be more adaptable, efficient and capable of rapid change. Let me take a few minutes to explore these concepts.

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Sun's product vision was established at its inception. We would design and manufacture standard products for sale to a wide array of industries. Critically important, these products would use common parts. This allows us to control our processes and embrace automation to consistently and reliably replicate our product designs. It makes it easy to manage engineering, manufacturing and supplier relationships.

All of our cartridges are designed with floating construction, which allows them to accommodate slight manufacturing deviations in the

manifold. Floating construction ensures consistent performance and yields a product with approximately 20 percent greater flow capacity than similar type products. Because of this principle, we do not have to test integrated packages, but only test components. It easily allows for remote manifold production, by us or others.

All of this allows us to present the most expansive product line in our industry, with most products available in five different sizes.

While 80 percent of our sales are represented by only a few thousand different SKUs each year, we present millions of different possibilities to the marketplace. This is important when manufacturers need to optimize a system, solve a unique problem or just develop a more fine-tuned solution. In many ways, our product depth and breadth are barriers to entry for competition.

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From the beginning, Sun has taken a stakeholder approach to the business. Our corporate creed rests on an ethical foundation that is built into the fabric of the company. We recognize and reward everyone's contribution and attempt to be as transparent as we possibly can. We place a high value on predictability, so there are no unwanted surprises.

We believe it is important to be a leader in our industry and that by assuming this obligation we can help the industry grow and increase the opportunity for all. As mentioned earlier, we have excellent

working relations with most of our peers and count them as customers. We also count some of them as suppliers.

And we are cognizant of our role in the communities in which we operate. This close relationship with our communities fosters loyalty and means we always try to be a good neighbor. As Sun grows, the opportunities for our communities to participate grow as well.

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Bob Koski, the co-founder of Sun, was a student of organizations and developed in Sun what has come to be known as horizontal management because he knew how quickly the world changes. He knew that rigid structures made it difficult to adapt and change. Inherent in horizontal management is a lean organization, where value adders are listened to and cost adders are kept to a minimum. Decisions are typically not managerial in nature and unnecessary bureaucracies are precluded from the enterprise by the elimination of titles, formal organization charts and lines of reporting.

What results is a condition for psychological commitment to happen. When constituents are psychologically committed, you get a multiplying effect of effort. You get an enabled workforce that doesn't require management and that takes enormous pride in satisfying the customer. Most importantly, people donate their creativity to the enterprise, finding new ways to do things more effectively and efficiently.

This all contributes to a “can do” culture where just about everyone is excited to come to work. The culture allows us to be flexible as economic conditions ebb and flow and is a primary reason Sun has been profitable every year since 1972. New leaders often emerge from within and help to make transitions and succession relatively easy. When new employees are hired from the outside, they quickly assimilate the culture or typically leave on their own.

These three pillars of Product Vision, Stakeholder Approach and Horizontal Management are what drive results.

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Income statements, balance sheets, cash flow statements are all reports that measure and communicate results at a point in time. Our fundamental pillars are what allow these reports to be very good.

As mentioned, Sun has been profitable every year since 1972, including the great recession when sales fell by about 45%. Yet, through clever management, we were able to retain our entire workforce to meet demand when it re-emerged.

In the past we have reported our Return on Capital Employed. Going forward, we are going to add Economic Valued Added analysis to our annual reporting. We are doing this because we believe EVA does a very good job of measuring value creation.

If you look at Sun's cash flow statements, you immediately recognize our ability to generate cash. This allows us to invest in and fund the company and keep our debt to a minimum. I might add, a little debt would make our EVA numbers even better, but that's why it's important to focus on what makes results happen, not the reports.

And finally, we'll take a look at total ownership return.

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When we went public in 1997, we told all prospects that we would continue to manage the company for the long term and that we would not make knee-jerk short term decisions. We told the investment community that if you had patience and trust, we believed you would be rewarded in a manner superior to many investment alternatives. We continue to tell the same story, even though the world is forever more absorbed in short-termism. Our definition of the long term is through a couple of business cycles. That represents ten to fifteen years. Historically, we have a greater than 20% compound annual growth rate to support our belief.

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So what does the future hold? As we move further away from the 2008/2009 recession, we believe conditions for capital goods will continue to improve. We can't control the macro environment but surely can participate when it is growing.

We will continue to extend and expand our products to create more unique and valuable solutions for our customers. Through HCT, we are able to develop and integrate electronics into our solutions,

making it easier to communicate with onboard and remote control systems. On the development front we are expanding the capabilities of our unique embedded electronic controls.

We offer our customers better opportunities and methods to customize solutions that are proprietary to their machinery and equipment, without compromising the fundamental pillars that define our success. Integrated packages are the path to customization and Sun's are smaller, lighter and more easily obtained than anyone else's.

We will continue to reach out and increase penetration in markets that are new to us. We have seen rapid expansion in China in the past few years and expect this market to present future growth opportunities. Anywhere capital goods are manufactured is a great opportunity for Sun.

And finally, we will search for strategic M&A opportunities that will add competencies, capabilities, and that are a cultural fit. The right entities will be an integral part of our business and add value to our customers.

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I hope I have explained why Sun is different and why this at the foundation of our financial performance. Thank you for joining us and I would now like to entertain questions.