



## CSW Industrials Reports Fiscal First Quarter 2019 Results

August 1, 2018

### Highlights

- First quarter 2019 revenue from continuing operations of \$89.6 million, compared to \$89.3 million in the prior year period.
- First quarter 2019 GAAP operating income of \$17.7 million; Non-GAAP operating income of \$15.9 million.
- First quarter 2019 GAAP net earnings from continuing operations of \$14.0 million, or \$0.88 per diluted share; Non-GAAP net earnings from continuing operations of \$12.0 million, or \$0.76 per diluted share.
- Returned \$7.3 million to shareholders through share repurchases of 146 thousand shares.
- The Company completed a sale of assets related to its Coatings business on July 31, 2018.

DALLAS, Aug. 01, 2018 (GLOBE NEWSWIRE) -- CSW Industrials, Inc. (NASDAQ:CSWI), a diversified industrial growth company with well-established, scalable platforms and domain expertise across two segments: Industrial Products and Specialty Chemicals, today reported results for the fiscal first quarter ended June 30, 2018.

Net revenue during the fiscal first quarter of 2019 was \$89.6 million, compared to \$89.3 million in the prior year. Modestly higher revenue was driven by increased sales in the industrial products segment, partially offset by lower sales volumes in specialty chemicals. Net revenue in the fiscal first quarter of 2019 moderated as a result of a cooler spring and a slow start to the HVAC season, which was amplified by the strong preseason stocking activity by distributors in our fiscal fourth quarter of 2018. GAAP operating income from continuing operations increased 6.4% to \$17.7 million, compared to \$16.7 million in the prior year. The increase was driven primarily by \$2.6 million in gains on the sale of two facilities as the Company continued to optimize manufacturing capacity and monetize non-essential assets, partially offset by negative product mix and increased material costs.

Net income from continuing operations in the fiscal first quarter of 2019 was \$14.0 million, or \$0.88 per diluted share, compared to \$10.3 million, or \$0.65 per diluted share, in the prior year period. Adjusted to exclude one-time items and applying a normalized tax rate, adjusted net income from continuing operations in the fiscal first quarter of 2019 was \$12.0 million, or \$0.76 per diluted share, compared to \$11.0 million, or \$0.70 per diluted share, in the prior year period.

Joseph B. Armes, CSW Industrials' Chief Executive Officer, commented, "Our team executed well and we reported adjusted earnings growth despite several challenges impacting our business. These factors included a cooler than normal spring that tempered HVAC demand, increased product costs, upfront expenses in efficiency programs which we expect to benefit our second half, and adoption of new revenue recognition standards, all of which moderated our reported results."

### First Quarter Results of Operations

Consolidated revenue increased to \$89.6 million, compared with the prior year level of \$89.3 million.

Industrial Products segment revenue was \$53.9 million, compared to \$53.3 million in the prior year. Higher revenue was mainly the result of increased sales volume in HVAC and plumbing end markets, partially offset by decreases in architecturally-specified building product end market and the adoption of ASC 606 Revenue Recognition. GAAP segment operating income was \$13.9 million, compared to \$13.7 million in the prior year. Adjusted to exclude non-recurring items related to the sale of a facility, segment operating income was \$13.6 million, compared to \$13.9 million in the prior year.

Specialty Chemicals segment revenue was \$35.7 million, compared to \$36.0 million in the prior year. Lower sales were driven by reduced volumes in the mining and HVAC end markets, partially offset by an increase in energy and rail end markets. GAAP segment operating income increased 17.7% to \$6.5 million, compared to \$5.5 million in the prior year. Adjusted to exclude non-recurring items primarily related the sale of a facility, segment operating income was \$5.0 million, compared to \$6.4 million in the prior year.

Consolidated gross profit increased to \$42.1 million, compared to \$41.9 million in the prior year. Gross margin as a percentage of sales was 47.0%, compared to 46.9% in the prior year.

Consolidated operating expenses decreased 3.4% to \$24.4 million, or 27.2% of sales, compared to \$25.2 million, or 28.2% of sales, in the prior year. The decrease was attributable to lower professional fees and restructuring and realignment activities in the prior year that did not recur.

Reported income from continuing operations was \$14.0 million, or \$0.88 per diluted share, compared to \$10.3 million, or \$0.65 per diluted share in the prior year. Adjusted to exclude one-time items and applying a normalized tax rate, adjusted income from continuing operations in the fiscal first quarter of 2019 was \$12.0 million, or \$0.76 per diluted share, compared to adjusted income from continuing operations of \$11.0 million, or \$0.70 per diluted share, in the prior year.

The Company also announced that it has completed a sale of assets related to its Coatings business, which was previously classified as held for sale, to an unrelated third party. The terms of the transaction were not disclosed due to immateriality.

### Conference Call Information

The company will host a conference call today at 10:00 a.m. ET to discuss the results, followed by a question and answer session for the investment community. A live webcast of the call can be accessed at [ir.cswindustrials.com](http://ir.cswindustrials.com). To access the call, participants may dial toll-free at 1-877-407-0784 or 1-201-689-8560 (international) and request to join the CSW Industrials earnings call.

To listen to a telephonic replay of the conference call, dial toll-free 1-844-512-2921 or 1-412-317-6671 (international) and enter confirmation code 13681698. The telephonic replay will be available beginning at 11:30 a.m. ET on Wednesday, August 1, 2018, and will last through 11:59 p.m. ET on Wednesday, August 15, 2018. The call will also be available for replay via the webcast link on CSW Industrials' Investor Relations website.

### Safe Harbor Statement

This press release includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, as amended. Words or phrases such as "may," "should," "expects," "could," "intends," "plans," "anticipates," "estimates," "believes," "forecasts," "predicts" or other similar expressions are intended to identify forward-looking statements, which include, without limitation, earnings forecasts, effective tax rate, statements relating to our business strategy and statements of expectations, beliefs, future plans and strategies and anticipated developments concerning our industry, business, operations and financial performance and condition.

The forward-looking statements included in this press release are based on our current expectations, projections, estimates and assumptions. These statements are only predictions, not guarantees. Such forward-looking statements are subject to numerous risks and uncertainties that are difficult to predict. These risks and uncertainties may cause actual results to differ materially from what is forecast in such forward-looking statements, and include, without limitation, the risk factors described from time to time in our filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K.

All forward-looking statements included in this press release are based on information currently available to us, and we assume no obligation to update any forward-looking statement except as may be required by law.

### Non-GAAP Financial Measures

This press release includes an analysis of adjusted earnings per share, adjusted net income, and adjusted operating income, which are non-GAAP financial measures of performance. For a reconciliation of these measures to the most directly comparable GAAP measures and for a discussion of why we consider these non-GAAP measures useful, see the "Reconciliation of Non-GAAP Measures" section of this release.

### About CSW Industrials

CSWI is a diversified industrial growth company with well-established, scalable platforms and domain expertise across two segments: Industrial Products and Specialty Chemicals. CSWI's broad portfolio of leading products provides performance optimizing solutions to its customers. CSWI's products include mechanical products for heating, ventilation and air conditioning ("HVAC") and refrigeration applications, sealants and high performance specialty lubricants. Markets that CSWI serves include: HVAC, industrial, rail, plumbing, architecturally-specified building products, energy, mining and general industrial markets.

### Consolidated Income Statements

	<b>Unaudited</b>	
	<b>Three Months Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
(Amounts in thousands, except per share amounts)		
Revenues, net	\$ 89,578	\$ 89,299
Cost of revenues	(47,490)	(47,426)
Gross profit	42,088	41,873
Selling, general and administrative expenses	(24,344)	(25,202)
Operating income	17,744	16,671
Interest expense, net	(384)	(631)
Other income (expense), net	738	18
Income before income taxes	18,098	16,058
Provision for income taxes	(4,091)	(5,771)
Income from continuing operations	14,007	10,287
Loss (income) from discontinued operations, net of tax	(2,331)	(1,773)
Net (loss) income	\$ 11,676	\$ 8,514
Basic earnings (loss) earnings per common share:		
Continuing operations	\$ 0.89	\$ 0.65
Discontinued operations	(0.15)	(0.12)
Net (loss) income	\$ 0.74	\$ 0.53
Diluted earnings (loss) earnings per common share:		
Continuing operations	\$ 0.88	\$ 0.65
Discontinued operations	(0.15)	(0.12)

Net (loss) income	\$	0.73	\$	0.53
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## Consolidated Balance Sheets

(Amounts in thousands, except per share amounts)	Unaudited	
	June 30, 2018	March 31, 2018
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 10,983	\$ 11,706
Accounts receivable, net	65,555	63,383
Inventories, net	46,335	42,974
Prepaid expenses and other current assets	5,044	7,077
Current assets, discontinued operations	2,193	2,427
Total current assets	130,110	127,567
Property, plant and equipment, net	53,437	54,473
Goodwill	81,334	81,764
Intangible assets, net	51,122	53,054
Other assets	22,876	23,958
Total assets	\$ 338,879	\$ 340,816
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 18,273	\$ 16,826
Accrued and other current liabilities	23,038	23,501
Current portion of long-term debt	561	561
Current liabilities, discontinued operations	3,467	3,966
Total current liabilities	45,339	44,854
Long-term debt	19,319	23,459
Retirement benefits payable	1,941	2,017
Other long-term liabilities	4,671	4,721
Total liabilities	71,270	75,051
Equity:		
Common shares, \$0.01 par value	158	158
Shares authorized – 50,000		
Shares issued – 15,948 and 15,957, respectively		
Preferred shares, \$0.01 par value	-	-
Shares authorized – 10,000		
Shares issued – 0		
Additional paid-in capital	43,613	42,684
Treasury shares, at cost (229 and 80 shares, respectively)	(10,754)	(3,252)
Retained earnings	243,402	233,650
Accumulated other comprehensive loss	(8,810)	(7,475)
Total equity	267,609	265,765
Total liabilities and equity	\$ 338,879	\$ 340,816

## Consolidated Statements of Cash Flow

(Amounts in thousands)	Unaudited	
	Three Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$ 11,676	\$ 8,514
Less: Loss from discontinued operations	(2,331)	(1,773)
Income from continuing operations	14,007	10,287
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,925	1,866
Amortization of intangible and other assets	1,636	1,807
Provision for inventory reserves	740	20
Share-based and other executive compensation	929	1,017
Net (gain) loss on disposals of property, plant and equipment	(2,922)	105
Net pension benefit	(106)	(319)
Net deferred taxes	147	1,443
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,405)	(7,386)
Inventories	(3,333)	(298)
Prepaid expenses and other current assets	2,022	764
Other assets	(27)	6
Accounts payable and other current liabilities	(719)	4,595
Retirement benefits payable and other liabilities	(53)	95
Net cash provided by operating activities, cont'd ops	11,841	14,002
Net cash used in operating activities, discont'd ops	(2,894)	(3,553)
Net cash provided by operating activities	8,947	10,449
Cash flows from investing activities:		
Capital expenditures	(1,489)	(1,656)
Proceeds from sale of assets held for investment	278	-
Proceeds from sale of assets	3,230	1
Net change in bank time deposits	-	(5)
Cash paid for acquisitions	-	(44)
Net cash provided by (used in) investing activities, cont'd ops	2,019	(1,704)
Net cash provided by (used in) investing activities, discont'd ops	297	(645)
Net cash provided by (used in) investing activities	2,316	(2,349)
Cash flows from financing activities:		
Repayments of lines of credit	(4,140)	(6,015)
Purchase of treasury shares	(7,502)	(10)
Net cash used in financing activities	(11,642)	(6,025)
Effect of exchange rate changes on cash and equivalents	(344)	705
Net change in cash and cash equivalents	(723)	2,780
Cash and cash equivalents, beginning of period	11,706	23,146
Cash and cash equivalents, end of period	\$ 10,983	\$ 25,926

## Reconciliation of Non-GAAP Measures

## Reconciliation of Operating Income to Adjusted Operating Income---Continuing Operations

(in thousands)	(unaudited) Quarter Ended June 30,	
	2018	2017
GAAP Operating Income- Continuing Operations	\$ 17,744	\$ 16,671
Adjusting items:		
Restructuring & realignment	-	1,108
Gain on sale of property & other	(1,839)	-
Adjusted Operating Income--Continuing Operations	<u>\$ 15,905</u>	<u>\$ 17,779</u>

## Reconciliation of Net Income to Adjusted Net Income---Continuing Operations

(in thousands, except share data)	(unaudited) Quarter Ended June 30,	
	2018	2017
GAAP Net Income---Continuing Operations	\$ 14,007	\$ 10,287
Adjusting items, net of tax:		
Restructuring & realignment	-	720
Gain on sale of property & other	(1,361)	-
Discrete Tax Provisions	(614)	-
Adjusted Net Income---Continuing Operations	<u>\$ 12,032</u>	<u>\$ 11,007</u>
GAAP Diluted income per common share, Continuing operations	\$ 0.88	\$ 0.65
Adjusting items, per diluted common share:		
Restructuring & realignment	-	0.05
Gain on sale of property & other	(0.08)	-
Discrete Tax Provisions	(0.04)	-
Adjusted earnings per diluted common share	<u>\$ 0.76</u>	<u>\$ 0.70</u>

## Reconciliation of Segment Operating Income to Adjusted Segment Operating Income

(unaudited)

(in thousands,  
except percentages)

	For the Three Months Ended June 30, 2018				For the Three Months Ended June 30, 2017			
	Industrial Products	Specialty Chemicals	Corporate and Other	Consolidated Continuing Operations	Industrial Products	Specialty Chemicals	Corporate and Other	Consolidated Continuing Operations
Revenue	\$ 53,860	\$ 35,718	\$ -	\$ 89,578	\$ 53,261	\$ 36,036	\$ 2	\$ 89,299
Operating Income	\$ 13,893	\$ 6,473	\$ (2,622)	\$ 17,744	\$ 13,663	\$ 5,499	\$ (2,491)	\$ 16,671
Adjusting items:								
Restructuring & realignment	-	-	-	-	232	876	-	1,108
Gain on sale of property & other	(253)	(1,586)	-	(1,839)	-	-	-	-
Adjusted Operating Income	\$ 13,640	\$ 4,887	\$ (2,622)	\$ 15,905	\$ 13,895	\$ 6,375	\$ (2,491)	\$ 17,779
% of revenue	25.3%	13.7%		17.8%	26.1%	17.7%		19.9%

We use adjusted earnings per share, adjusted net income and adjusted operating income, together with financial measures prepared in accordance with GAAP, such as revenue, income from operations, operating expense, operating income and net income, to assess our historical and prospective operating performance and to enhance our understanding of our core operating performance. We also believe these measures are useful for investors to assess the operating performance of our business without the effect of non-operating items.

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Source: CSW Industrials, Inc.