



CSW Industrials Reports Fiscal Fourth Quarter and Full Year 2016 Results

June 8, 2016

Highlights

- Fourth quarter 2016 revenue of \$76.3 million, up 19.0% year-over-year; Full year 2016 revenue of \$319.8 million, up 22.2% year-over-year.
- Fourth quarter 2016 GAAP net earnings of \$1.9 million, or \$0.12 per diluted share; Fourth quarter adjusted net earnings of \$5.6 million, or \$0.35 per diluted share.
- Full year 2016 GAAP net earnings of \$25.5 million, or \$1.62 per diluted share; Full year adjusted net earnings of \$27.0 million, or \$1.72 per diluted share.

DALLAS, June 08, 2016 (GLOBE NEWSWIRE) -- CSW Industrials, Inc. (NASDAQ:CSWI), a diversified industrial growth company with well-established, scalable platforms and domain expertise across three segments: Industrial Products; Coatings, Sealants & Adhesives; and Specialty Chemicals, today reported fiscal fourth quarter and full year results for the period ended March 31, 2016.

Joseph B. Armes, CSW Industrials' Chief Executive Officer, commented, "We are pleased with our fourth quarter and full year results, as we continued to execute on our integration strategy and realize cost synergies. The Company has made significant progress in fiscal 2016, completing its spin-off from Capital Southwest in October 2015 and, in the Company's short history, positioning itself to deliver profitable growth for the benefit of all stockholders." Armes continued, "Through the spin-off, we unlocked significant value for our stockholders, and with the progress we made in fiscal 2016, we believe we are well positioned to create additional value in the future.

"We are in the early stages of our strategic planning process, and we have only begun to identify and execute on our opportunities to create value, which we believe include the following:

- Manufacturing rationalization and operational efficiencies;
- Leveraging our combined scale to drive procurement savings;
- Cross selling opportunities enabled by our broad, yet complementary product portfolio;
- Revising our compensation strategy to create a pay for performance culture;
- Enhancing our governance structure and leadership team to support our strategic objectives; and
- Pursuing accretive acquisitions that leverage our distribution channels."

Armes continued, "Concerning our financial results, our quarterly sequential improvement reflects an expected reversal in seasonality. While performance was under pressure year-over-year on a challenging comparison, we are encouraged by some signs of stabilization in energy markets.

"Looking forward, we are well positioned as we head into fiscal 2017 and are encouraged by the opportunities we see to add long term value for all our stockholders." Armes concluded, "Our broad product portfolio and diverse end market exposure provides a stable operating platform and enables us to successfully weather market fluctuations. From this platform, we will continue our integration efforts and advance our organic growth vision for the Company. With the added support of our strong balance sheet, we will continue to focus on efficiently allocating capital and executing on our disciplined acquisition strategy, where we will pursue accretive, bolt-on acquisitions that complement our existing product portfolio with opportunities in attractive end markets and geographies, with meaningful top-line, optimization and cost synergies."

Sales for the fourth quarter of 2016 were \$76.3 million, a 19.0% increase compared to the prior year period. Higher sales were mostly the result of acquisitions completed in the past twelve months including Strathmore, Deacon Industries, and AC Leak Freeze, and higher volume in construction related products, partially offset by lower volume in energy and mining end markets. Strength of HVAC marked a sequential improvement as seasonality in the quarter moderated earlier than anticipated.

Net income in the fiscal fourth quarter of 2016 was \$1.9 million, or \$0.12 per diluted share, compared to \$5.3 million, or \$0.34 per diluted share, in the prior year. The effective tax rate for the quarter was 69.1% due to discrete tax items, primarily related to costs incurred in connection with the spinoff from Capital Southwest Corporation (the "Spinoff") which are not deductible. Adjusted to exclude one-time expenses related to recent acquisitions and startup costs following the Spinoff, and to normalize the tax rate to 35.8% for the full year, adjusted net income in the fourth quarter of 2016 was \$5.6 million, or \$0.35 per diluted share. Adjusted net income is a non-GAAP measure. Please see the tables below for a reconciliation.

Fourth Quarter Results of Operations

Consolidated revenue increased to \$76.3 million, compared with the prior year level of \$64.1 million.

Industrial Products segment revenue increased during the quarter to \$33.9 million, compared to the prior year level of \$29.4 million. The increase in revenue was mainly the result of acquisitions made in the past twelve months supplemented by organic growth. Industrial Products segment operating income increased to \$6.3 million, over the prior year level of \$5.2 million.

Coatings, Sealants and Adhesives (CS&A) segment revenue increased to \$25.3 million, compared to the prior year level of \$13.8 million. Higher sales

were directly attributable to the acquisition of Strathmore. CS&A segment operating income decreased to (\$0.1) million, versus the prior year level of \$2.4 million, due to integration costs and operational transitions at Strathmore. The Company has identified four initiatives in its strategy to improve segment profitability: transition of third party manufacturing in-house; procurement savings; reshaping of product portfolio and low margin business; and diversification of end markets, working to smooth the cycle across additional exposures.

Specialty Chemicals segment revenue decreased to \$16.9 million, compared to the prior year level of \$20.1 million. Lower sales were attributable to the continued weakness in the energy end markets. Specialty Chemical segment operating income increased to \$3.1 million, over the prior year level of \$0.9 million.

Consolidated gross profit was \$34.4 million, an 11.9% increase compared to the prior year level of \$30.8 million. Gross margin as a percentage of sales was 45.1%, compared to 48.0% in the prior year period. Lower gross margin compared to the prior year primarily reflected the expected change in sales mix due to the inclusion of Strathmore products.

Consolidated operating expenses increased 23.7% to \$27.6 million, or 36.2% of sales, compared to the prior year level of \$22.3 million, or 34.9% of sales. Increased operating expenses were primarily attributable to acquisitions made during fiscal 2016.

Consolidated net income was \$1.9 million, or \$0.12 per diluted share, compared with net income of \$5.3 million or \$0.34 per diluted share in the prior year period. Adjusted for one-time items and a normalized tax rate, net income was \$5.6 million, or \$0.35 per diluted share, compared to net income of \$5.3 million, or \$0.34 per diluted share in the prior year. Adjustments to net income are shown in the table below.

Full Year Results of Operations

Consolidated revenue increased 22.2% to \$319.8 million, compared with the prior year level of \$261.8 million. Higher sales were mainly the result of acquisitions, and higher industrial and HVAC sales, partially offset by declines in the energy end markets.

Industrial Products segment revenue increased to \$138.6 million, compared to the prior year level of \$118.4 million. The increase in revenue was mainly the result of acquisitions made in the past twelve months and organic growth. Industrial Products segment operating income increased to \$31.1 million, over the prior year level of \$19.7 million.

CS&A segment revenue increased to \$106.0 million, compared to the prior year level of \$52.1 million. Higher sales were directly attributable to the acquisition of Strathmore. CS&A segment operating income was \$10.9 million, which was \$0.5 million lower than the prior year due to Strathmore integration costs.

Specialty Chemicals segment revenue decreased to \$74.9 million, compared to the prior year level of \$89.7 million. Lower sales were attributable to the continued weakness in energy end markets. Specialty Chemicals segment operating income decreased to \$12.5 million, compared to \$13.0 million in the prior year.

Consolidated organic revenue decreased 0.3%, reflecting an organic decline of approximately 40% in energy end markets. Excluding energy end markets, organic revenue increased approximately 6% versus the prior year.

Consolidated gross profit increased 17.0% to \$147.9 million over the prior year level of \$126.4 million. Gross margin as a percentage of sales was 46.2%, compared to 48.3% in the prior year period. Lower gross margin compared to the prior year primarily reflected the expected change in sales mix due to the inclusion of Strathmore products.

Consolidated operating expenses were \$100.4 million, or 31.4% of sales, compared to the prior year level of \$82.4 million, or 31.5% of sales. Increased operating expenses were attributable to acquisitions made throughout fiscal 2016.

Consolidated net income was \$25.5 million, or \$1.62 per diluted share, compared with net income of \$29.7 million, or \$1.90 per diluted share, in the prior year period. Adjusted for one-time items and a normalized tax rate, net income was \$27.0 million, or \$1.72 per diluted share, compared to net income of \$29.7 million, or \$1.90 per diluted share in the prior year. Adjustments to net income are shown in the table below.

Conference Call Information

CSW Industrials will host a conference call Thursday, June 9th at 10:00 a.m. ET to discuss the results for the current period and full year, as well as management's outlook, followed by a question and answer session for the investment community. A live webcast of the call can be accessed at 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 1-877-870-5176 or 1-858-384-5517 (international) and enter confirmation code 13638925. The telephonic replay will be available beginning at 1:00 p.m. ET on Thursday, June 9, 2016, and will last through 11:59 p.m. ET on Thursday, June 23, 2016. 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, 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 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 and adjusted net 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 three segments: Industrial Products; Coatings, Sealants & Adhesives; 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, coatings and 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 STATEMENTS OF INCOME

(Unaudited)

	For the Three Months		For the Twelve Months	
	Ended March 31,		Ended March 31,	
(Amounts in thousands, except per share amounts)	2016	2015	2016	2015
Revenues, net	\$ 76,259	\$ 64,071	\$ 319,831	\$ 261,834
Cost of revenues	(41,832)	(33,315)	(171,967)	(135,409)
Gross profit	34,427	30,756	147,864	126,425
Selling, general and administrative expense	(27,631)	(22,288)	(100,378)	(81,681)
Impairment loss	-	(48)	-	(710)
Operating income	6,796	8,420	47,486	44,034
Interest expense, net	(743)	(142)	(3,035)	(611)
Other (expense) income, net	(41)	(135)	(226)	1,505
Income before income taxes	6,012	8,143	44,225	44,928
Provision for income taxes	(4,152)	(2,810)	(18,754)	(15,223)
Net income	<u>\$ 1,860</u>	<u>\$ 5,333</u>	<u>\$ 25,471</u>	<u>\$ 29,705</u>
Net earnings per common share:				
Basic	\$ 0.12	\$ 0.34	\$ 1.63	\$ 1.91
Diluted	0.12	0.34	1.62	1.90

CONSOLIDATED BALANCE SHEETS

	March 31,	
	2016	2015
(Amounts in thousands, except per share amounts)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 25,987	\$ 20,448
Restricted cash	-	2,385
Bank time deposits	13,278	9,248
Accounts receivable, net	52,637	48,941
Inventories, net	51,634	47,175
Prepaid expenses and other current assets	11,985	4,099
Total current assets	155,521	132,296
Property, plant and equipment, net	64,357	56,837
Goodwill	67,757	40,645
Intangible assets, net	88,727	40,997
Other assets	<u>15,898</u>	<u>15,746</u>

Total assets	<u>\$ 392,260</u>	<u>\$ 286,521</u>
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LIABILITIES AND EQUITY

Current liabilities:		
Accounts payable	\$ 9,912	\$ 8,960
Accrued and other current liabilities	21,090	16,001
Current portion of long-term debt	561	13,561
Total current liabilities	<u>31,563</u>	<u>38,522</u>
Long-term debt	89,121	13,143
Retirement benefits payable	1,746	22,545
Other liabilities	11,820	7,710
Total liabilities	<u>134,250</u>	<u>81,920</u>
Equity:		
Common shares, \$0.01 par value	156	12
Shares authorized – 50,000		
Shares issued – 15,659		
Preferred shares, \$0.01 par value	-	1,000
Shares authorized – 10,000		
Shares issued – 0		
Additional paid-in capital	31,597	7,810
Treasury shares, at cost	-	(2,712)
Retained earnings	233,955	208,784
Accumulated other comprehensive loss	(7,698)	(10,293)
Total equity	<u>258,010</u>	<u>204,601</u>
Total liabilities and equity	<u>\$ 392,260</u>	<u>\$ 286,521</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)	Fiscal Years Ended March 31,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 25,471	\$ 29,705
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	7,032	5,922
Amortization of intangible and other assets	7,129	4,593
Provision for doubtful accounts	(282)	1,515
Share-based and other executive compensation	2,231	-
Acquisition-related non-cash gain	(1,950)	-
Net loss (gain) on sales of property, plant and equipment	60	(1,627)
Pension plan curtailment benefit	(8,020)	-
Net pension expense	3,506	3,392
Impairment of assets	-	710
Net deferred taxes	7,262	(7,887)
Changes in operating assets and liabilities:		
Accounts receivable, net	2,522	(37)
Inventories, net	5,056	(6,655)
Prepaid expenses and other current assets	(4,945)	4,351
Other assets	(3,275)	109
Accounts payable and other current liabilities	910	1,086
Retirement benefits payable and other liabilities	(1,177)	291

Net cash provided by operating activities	41,530	35,468
Cash flows from investing activities:		
Capital expenditures	(11,053)	(8,672)
Proceeds from sale of assets held for investment	-	3,494
Proceeds from sale of assets	46	6,393
Net change in bank time deposits	(1,978)	3,353
Cash paid for acquisitions	(97,236)	(7,193)
Net cash used in investing activities	(110,221)	(2,625)
Cash flows from financing activities:		
Borrowings on lines of credit	81,000	12,229
Repayments on lines of credit	(94,561)	(30,622)
Borrowings on revolving credit agreement	98,040	-
Payments on revolving line of credit agreement	(21,500)	-
Payments of deferred loan costs	(1,081)	-
Purchase of treasury shares	-	(206)
Cash contribution from Capital Southwest	13,000	-
Proceeds from stock option activity	96	-
Dividends paid to Capital Southwest	(300)	(8,294)
Net cash provided by (used in) financing activities	74,694	(26,893)
Effect of exchange rate changes on cash and equivalents	(464)	(913)
Net change in cash and cash equivalents	5,539	5,037
Cash and cash equivalents, beginning of period	20,448	15,411
Cash and cash equivalents, end of period	<u>\$ 25,987</u>	<u>\$ 20,448</u>

SEGMENT RESULTS
(Unaudited)

	For the Three Months Ended			For the Twelve Months Ended		
	March 31, 2016			March 31, 2016		
	Industrial Products	Coatings, Sealants and Adhesives	Specialty Chemicals	Industrial Products	Coatings, Sealants and Adhesives	Specialty Chemicals
(in thousands)						
Revenues, net	\$ 33,934	\$ 25,314	\$ 16,921	\$ 138,594	\$ 106,035	\$ 74,930
Operating income	6,289	(63)	3,068	31,075	10,911	12,490

	For the Three Months Ended			For the Twelve Months Ended		
	March 31, 2015			March 31, 2015		
	Industrial Products	Coatings, Sealants and Adhesives	Specialty Chemicals	Industrial Products	Coatings, Sealants and Adhesives	Specialty Chemicals
(in thousands)						
Revenues, net	\$ 29,360	\$ 13,769	\$ 20,094	\$ 118,422	\$ 52,119	\$ 89,738
Operating income	5,245	2,392	934	19,711	11,420	13,016

Reconciliation of Non-GAAP Measures

Reconciliation of Net Income to Adjusted Net Income

(in thousands, except share data)	(Unaudited)			
	For the Three Months Ended March 31, 2016		For the Fiscal Year Ended March 31, 2016	
	2016	2015	2016	2015
Net Income	\$ 1,860	\$ 5,333	\$ 25,471	\$ 29,705
Adjusting items, net of tax:				
Pension Gain	-	-	(5,213)	-
Strathmore Transaction Costs	-	-	1,667	-
Strathmore Earn Out	-	-	(1,262)	-
Deacon & Leak Freeze Transaction Costs	-	-	536	-
Start-up Spin Costs	443	-	2,413	-
Strathmore Integration Costs	315	-	436	-
Discrete Tax provisions	2,953	-	2,953	-
Adjusted Net Income	\$ 5,571	\$ 5,333	\$ 27,001	\$ 29,705
Diluted income per common share	<u>\$ 0.12</u>	<u>\$ 0.34</u>	<u>\$ 1.62</u>	<u>\$ 1.90</u>
Adjusting items, per diluted common share:				
Pension Gain	-	-	(0.33)	-
Strathmore Transaction Costs	-	-	0.11	-
Strathmore Earn Out	-	-	(0.08)	-
Deacon & Leak Freeze Transaction Costs	-	-	0.03	-
Start-up Spin Costs	0.03	-	0.15	-
Strathmore Integration Costs	0.02	-	0.03	-
Discrete Tax provisions	0.18	-	0.19	-
Adjusted earnings per diluted common share	<u>\$ 0.35</u>	<u>\$ 0.34</u>	<u>\$ 1.72</u>	<u>\$ 1.90</u>
Weighted-average shares outstanding (in thousands)				
Diluted	15,717	15,624	15,675	15,624

We use adjusted earnings per share and adjusted net 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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