



CSW Industrials Reports Fiscal First Quarter 2017 Results

August 15, 2016

Highlights

- First quarter 2017 revenue of \$84.1 million, compared to \$88.9 million in the prior year period.
- First quarter 2017 GAAP operating income of \$7.4 million; Non-GAAP operating income of \$12.4 million.
- First quarter 2017 GAAP net earnings of \$4.1 million, or \$0.26 per diluted share; Non-GAAP net earnings of \$8.0 million, or \$0.51 per diluted share.
- Announced plans to further rationalize manufacturing footprint in Coatings, Sealants and Adhesives segment that will drive annualized savings of \$2.5 to \$3.0 million.
- Received Coatings Supplier of the Year award from Trinity Industries.

DALLAS, Aug. 15, 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 results for the fiscal first quarter ended June 30, 2016.

Sales for the fiscal first quarter of 2017 were \$84.1 million, compared to the prior year period of \$88.9 million. Lower sales in the quarter were primarily attributable to decreased volume in Coatings, Sealants and Adhesives and Specialty Chemicals business segments, specifically within the rail and energy end markets. This was partially offset by higher volumes in HVAC and architecturally-specified building products end markets and incremental revenue from acquisitions completed in the past 12 months.

Net income in the fiscal first quarter of 2017 was \$4.1 million, or \$0.26 per diluted share, compared to \$8.7 million in the prior year. The effective tax rate for the quarter was 43.1% due to certain compensation costs that are non-recurring and non-deductible. Adjusted to exclude one-time expenses and a normalized tax rate, adjusted net income in the first quarter of 2017 was \$8.0 million, or \$0.51 per diluted share.

Joseph B. Armes, CSW Industrials' Chief Executive Officer, commented, "Against the backdrop of anemic economic growth and stagnant capital spending, together with weakness in certain end markets, we worked diligently to manage costs and maintain segment level profitability. These efforts were supported by the exceptionally strong performance of our Industrial Products segment, which posted impressive growth in revenue and operating income."

Armes continued, "While our Coatings, Sealants, and Adhesives and Specialty Chemical segments remain under pressure from direct and indirect exposure to lower commodities market activity, we have implemented the appropriate tactical actions to adapt to market dynamics. We are encouraged by the early results of our sales diversification program in Coatings, Sealants and Adhesives, which we expect to reduce cyclical exposure to the rail markets, as we have been selected by new customers in new end markets, such as industrial racking, propane tanks and automotive filter applications. In total, we expect to generate approximately \$6 million of sales to these new customers on an annualized basis. We were also pleased to receive the Coatings Supplier of the Year award from Trinity Industries, as this reflects the quality products and customer service our businesses provide."

Armes continued, "In addition to the sales diversification program, we are announcing today an initiative to further rationalize our manufacturing footprint in the Coatings, Sealants and Adhesive segment, which we expect will drive cost savings of \$2.5 to \$3.0 million annually, and we expect to have this effort completed by the end fiscal Q3 2017. We believe the actions we have previously taken and those we are announcing today will position our Company for sustainable profitability through the trough of the cycle and beyond."

First Quarter Results of Operations

Industrial Products segment revenue increased during the quarter to \$43.5 million, compared to the prior year level of \$40.0 million. The increase in revenue was the result of higher sales volumes and favorable pricing trends. Industrial products segment operating income increased 9.3% to \$10.6 million, over the prior year level of \$9.7 million.

Coatings, Sealants and Adhesives segment revenue decreased to \$23.4 million, compared to the prior year level of \$28.4 million. Lower sales were mainly attributable to decreased sales volumes in the rail markets, partially offset by increased sales of architecturally-specified building products, improved pricing, and net revenues attributable to acquisitions. Segment operating income in the first quarter of 2017 decreased 10.6% to \$1.6 million, over the prior year level of \$1.8 million primarily as a result of lower sales volume.

Specialty Chemicals segment revenue decreased to \$17.2 million, compared to the prior year level of \$20.2 million. Lower sales were attributable to the weakness in the energy and rail end markets, partially offset by increased sales from acquisitions. Segment level operating income in the first quarter of 2017 decreased to \$1.1 million, over the prior year level of \$2.7 million as a result of lower volume and an unfavorable product mix.

Consolidated gross profit in the first quarter of fiscal 2017 was \$38.2 million, a 5.5% decrease compared to the prior year level of \$40.4 million. Gross margin as a percentage of sales was relatively flat at 45.4%, compared to 45.5% in the prior year period. The negative impact of decreased sales on our absorption of fixed manufacturing costs was mostly offset by changes in product mix, and benefits from strategic initiatives to rationalize the Company's global footprint and achieve cost savings through its procurement program.

Consolidated operating expenses increased 17.7% to \$30.8 million, or 36.6% of sales, compared to the prior year level of \$26.2 million, or 29.4% of sales. Increased operating expenses were attributable to our CFO transition and other severance costs, other personnel and timing on outside professional services, and restructuring costs related to the consolidation of facilities. This was partially offset by transaction costs in the prior year that were non-recurring.

Consolidated operating income was \$7.4 million, or 8.8% of revenue, compared with \$14.3 million or 16.1% of revenue in the prior year. Adjusted operating income was \$12.4 million, or 14.7% of revenue, compared with \$16.5 million, or 18.6% of revenue in the prior-year. First quarter adjusted operating margin reflects relatively stable segment level operating margin, independent public company costs and investments made to integrate the business units compared to the prior year.

Consolidated net income for the first quarter was \$4.1 million, or \$0.26 per diluted share, compared with net income of \$8.7 million in the prior year period. Adjusted for

one-time items and a normalized tax rate (we expect the full year tax rate to be between 36 and 37 percent), net income was \$8.0 million, or \$0.51 per diluted share, compared to net income of \$10.1 million in the prior year.

Conference Call Information

CSW Industrials will host a conference call 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. 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 13642869. The telephonic replay will be available beginning at 1:00 p.m. ET on Monday, August 15, 2016, and will last through 11:59 p.m. ET on Monday, August 29, 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, adjusted net income, adjusted gross profit, 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 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)

	<u>Three Months Ended June 30,</u>	
	<u>2016</u>	<u>2015</u>
	(in thousands, except per share amounts)	
Revenues, net	\$ 84,107	\$ 88,909
Cost of revenues	(45,904)	(48,465)
Gross profit	38,203	40,444
Selling, general and administrative expenses	(29,711)	(26,156)
Impairment expenses	(1,082)	-
Operating income	7,410	14,288
Interest expense, net	(748)	(667)
Other income (expense), net	538	(65)
Income before income taxes	7,200	13,556
Provision for income taxes	(3,104)	(4,906)
Net income	<u>\$ 4,096</u>	<u>\$ 8,650</u>
Net earnings per common share:		
Basic	\$ 0.26	\$ 0.56
Diluted	0.26	0.55

CONSOLIDATED BALANCE SHEETS

	(unaudited)	
	<u>June 30,</u>	<u>March 31,</u>
	<u>2016</u>	<u>2016</u>

(in thousands, except per share amounts)

ASSETS

Current assets:

Cash and cash equivalents	\$ 21,710	\$ 25,987
Bank time deposits	13,183	13,278
Accounts receivable, net of allowance of \$1,213 and \$1,208, respectively	58,825	52,637
Inventories, net	50,695	51,634
Prepaid expenses and other current assets	11,375	11,985
Total current assets	<u>155,788</u>	<u>155,521</u>
Property, plant and equipment, net of accumulated depreciation of \$59,275 and \$59,035, respectively	63,519	64,357
Goodwill	67,440	67,757
Intangible assets, net	86,827	88,727
Other assets	15,939	15,898
Total assets	<u>\$ 389,513</u>	<u>\$ 392,260</u>

LIABILITIES AND EQUITY

Current liabilities:

Accounts payable	\$ 10,946	\$ 9,912
Accrued and other current liabilities	17,051	21,090
Current portion of long-term debt	561	561
Total current liabilities	<u>28,558</u>	<u>31,563</u>
Long-term debt	83,981	89,121
Retirement benefits payable	1,605	1,746
Other long-term liabilities	12,626	11,820
Total liabilities	<u>126,770</u>	<u>134,250</u>

Equity:

Common shares, \$0.01 par value	156	156
Shares authorized – 50,000		
Shares issued – 15,713 and 15,659, respectively		
Preferred shares, \$0.01 par value	-	-
Shares authorized – 10,000		
Shares issued – 0		
Additional paid-in capital	34,327	31,597
Treasury shares, at cost	(556)	-
Retained earnings	238,051	233,955
Accumulated other comprehensive loss	(9,235)	(7,698)
Total equity	<u>262,743</u>	<u>258,010</u>
Total liabilities and equity	<u>\$ 389,513</u>	<u>\$ 392,260</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

Three months Ended June 30,

2016 2015

(in thousands)

Cash flows from operating activities:

Net income	\$ 4,096	\$ 8,650
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,141	1,673
Amortization of intangible and other assets	1,986	1,657
Provision for doubtful accounts	-	73
Share-based and other executive compensation	2,730	-

Net loss (gain) on sales of property, plant and equipment	(266)	(52)
Net pension (benefit) expense	(313)	852
Impairment of assets	1,082	-
Net deferred taxes	553	(825)
Changes in operating assets and liabilities:		
Accounts receivable, net	(5,977)	(7,123)
Inventories, net	586	(550)
Prepaid expenses and other current assets	69	217
Other assets	54	-
Accounts payable and other current liabilities	(2,486)	5,474
Retirement benefits payable and other liabilities	(404)	-
Other long-term liabilities	-	130
Net cash provided by operating activities	<u>3,851</u>	<u>10,176</u>
Cash flows from investing activities:		
Capital expenditures	(2,772)	(1,873)
Proceeds from sale of assets held for investment	252	-
Proceeds from sale of assets	-	63
Net change in bank time deposits	(39)	3,611
Cash paid for acquisitions	-	(68,868)
Net cash used in investing activities	<u>(2,559)</u>	<u>(67,067)</u>
Cash flows from financing activities:		
Payments on revolving credit agreement	(5,000)	-
Borrowings on lines of credit	-	70,000
Repayments of lines of credit	(140)	(1,515)
Purchase of treasury shares	(556)	-
Dividends paid to Capital Southwest	-	(240)
Net cash (used in) provided by financing activities	<u>(5,696)</u>	<u>68,245</u>
Effect of exchange rate changes on cash and equivalents	<u>127</u>	<u>83</u>
Net change in cash and cash equivalents	(4,277)	11,437
Cash and cash equivalents, beginning of period	<u>25,987</u>	<u>20,448</u>
Cash and cash equivalents, end of period	<u>\$ 21,710</u>	<u>\$ 31,885</u>

Reconciliation of Non-GAAP Measures

Reconciliation of Operating Income to Adjusted Operating Income

(in thousands)	(unaudited)	
	For the Three Months Ended June	
	30, 2016	
	2016	2015
GAAP Operating Income	\$ 7,410	\$ 14,288
Adjusting items:		
Restructuring - facility consolidation	1,551	-
Strathmore Transaction Costs	-	2,249
CFO Transition	2,841	-
Strategy & SOX Consulting	594	-
Adjusted Operating Income	<u>\$ 12,396</u>	<u>\$ 16,537</u>

Reconciliation of Net Income to Adjusted Net Income

(in thousands, except share data)	(unaudited)	
	For the Three Months Ended	
	June 30, 2016	

	2016	2015
GAAP Net Income	\$ 4,096	\$ 8,650
Adjusting items, net of tax:		
Restructuring - facility consolidation	1,087	-
Strathmore Transaction Costs	-	1,455
CFO Transition	1,847	-
Strategy & SOX Consulting	385	-
Discrete Tax provisions	612	-
Adjusted Net Income	<u>\$ 8,027</u>	<u>\$ 10,105</u>
GAAP Diluted income per common share	\$ 0.26	\$ 0.55
Adjusting items, per diluted common share:		
Restructuring - facility consolidation	0.07	-
Strathmore Transaction Costs	-	0.10
CFO Transition	0.12	-
Strategy & SOX Consulting	0.02	-
Discrete Tax provisions	0.04	-
Adjusted earnings per diluted common share	<u>\$ 0.51</u>	<u>\$ 0.65</u>
Weighted-average shares outstanding (in thousands)		
Diluted	15,778	15,624

Reconciliation of Segment Operating Income to Adjusted Segment Operating Income

(unaudited)

(in thousands, except percentages)	For the Three Months Ended June 30, 2016					For the Three Months Ended June 30, 2015				
	Industrial Products	Coatings, Sealants & Adhesives	Specialty Chemicals	Corporate and Other	Consolidated	Industrial Products	Coatings, Sealants & Adhesives	Specialty Chemicals	Corporate and Other	Consolidated
Revenue	<u>\$43,475</u>	<u>\$ 23,424</u>	<u>\$ 17,187</u>	<u>\$ 21</u>	<u>\$ 84,107</u>	<u>\$39,976</u>	<u>\$ 28,449</u>	<u>\$ 20,163</u>	<u>\$ 321</u>	<u>\$ 88,909</u>
Operating Income	\$10,607	\$ 1,649	\$ 1,121	\$ (5,967)	\$ 7,410	\$ 9,686	\$ 1,845	\$ 2,730	\$ 27	\$ 14,288
Adjusting items:										
Restructuring - facility consolidation	90	856	605	-	1,551	-	-	-	-	-
Strathmore Transaction Costs	-	-	-	-	-	-	2,249	-	-	2,249
CFO Transition	-	-	-	2,841	2,841	-	-	-	-	-
Strategic & SOX Consulting	61	121	68	344	594	-	-	-	-	-

Adjusted											
Operating	\$10,758	\$ 2,626	\$ 1,794	\$ (2,782)	\$ 12,396	\$ 9,686	\$ 4,094	\$ 2,730	\$ 27	\$ 16,537	
Income											
% of revenue	<u>24.7%</u>	<u>11.2%</u>	<u>10.4%</u>		<u>14.7%</u>	<u>24.2%</u>	<u>14.4%</u>	<u>13.5%</u>		<u>18.6%</u>	

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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CSW Industrials