



## CSW Industrials Reports Fiscal Second Quarter 2018 Results

November 8, 2017

### Highlights

- Increased revenue by 12.8% year-over-year to \$90.4 million from \$80.1 million in the prior year period.
- Second quarter 2018 GAAP operating income of \$12.0 million; Non-GAAP operating income of \$14.1 million.
- Second quarter 2018 GAAP net earnings of \$7.3 million, or \$0.46 per diluted share; Non-GAAP net earnings of \$8.9 million, or \$0.56 per diluted share.

DALLAS, Nov. 08, 2017 (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 second quarter ended September 30, 2017.

Net revenue during the fiscal second quarter of 2018 increased 12.8% to \$90.4 million, compared to the prior year period of \$80.1 million. Organic growth was 6.0%, and acquisitions contributed 6.8% to total growth. The increase in revenue was primarily attributable to increases in sales into the energy and HVAC end markets as well as \$5.4 million of acquisition-related revenue, partially offset by \$2.6 million of estimated lost sales resulting from Hurricanes Harvey and Irma.

Operating income in the fiscal second quarter of 2018 was \$12.0 million, or 13.3% of sales, compared to \$7.0 million, or 8.7% of sales, in the prior year period. The increase in operating income was the result of higher sales leverage and a one-time impairment charge in the prior year that did not reoccur.

Joseph B. Armes, CSW Industrials' Chief Executive Officer, commented, "As we reach the halfway point in our fiscal year, we have delivered healthy growth in sales and earnings, with strong contributions from our Industrial Products and Specialty Chemical segments. We continue to work through challenges in our Coatings, Sealants and Adhesives segment, and remain committed to our ongoing realignment and optimization plans. We are positioned well to serve our customers and deliver value to our shareholders."

Armes continued, "We accomplished strong consolidated performance despite Hurricanes Harvey and Irma, which impacted our operations. We were fortunate that our facilities did not suffer any physical damage, and we were able to return to normal production in a short time period. While several of our team members were adversely affected, we are grateful for the safety of our employees during these devastating storms. We are also proud of the way the collective CSW Industrials' community came together to support those affected."

### Second Quarter Results of Operations

Consolidated revenue increased to \$90.4 million, compared with the prior year level of \$80.1 million.

Industrial Products segment revenue was \$48.5 million, compared to the prior year of \$41.9 million. Higher revenue was the result of strong sales into HVAC, coupled with acquisition related revenue. GAAP segment operating income increased to \$12.3 million, compared to the prior year of \$9.9 million. Adjusted to exclude non-recurring expenses primarily related to restructuring and realignment, segment operating income increased 26.0% to \$12.5 million, compared to \$9.9 million in the prior year.

Coatings, Sealants and Adhesives (CS&A) segment revenue decreased to \$21.4 million, compared to the prior year of \$23.0 million. GAAP segment operating income was \$0.3 million, compared to the prior year operating loss of \$1.6 million. Adjusted to exclude non-recurring costs primarily related to restructuring, realignment and impairment, segment operating income was \$2.2 million, approximately flat when compared to the prior year.

Specialty Chemicals segment revenue was \$20.5 million, compared to the prior year of \$15.2 million. Higher sales were driven primarily by increases in the energy end market. GAAP segment operating income was \$2.2 million, compared to the prior year of \$1.2 million. Adjusted to exclude non-recurring costs primarily related to restructuring and realignment, segment operating income was \$2.2 million, compared to \$1.7 million in the prior year.

Consolidated gross profit increased to \$38.8 million, compared to the prior year level of \$35.7 million. Gross profit as a percentage of sales was 43.0%, compared to 44.5% in the prior year period. Lower gross margin compared to the prior year primarily reflected the effect of restructuring and realignment costs and negative mix. In total, the Company incurred \$2.0 million in restructuring and realignment costs in the current fiscal quarter vs. \$0.7 million in the prior year fiscal quarter.

Consolidated operating expenses decreased 6.5% to \$26.8 million, or 29.7% of sales, compared to the prior year level of \$28.7 million, or 35.8% of sales. Lower operating costs compared to the prior year were primarily attributable to an intangible asset impairment that did not re-occur in the second quarter of 2018.

Consolidated net income was \$7.3 million, or \$0.46 per diluted share, compared to \$3.8 million, or \$0.24 per diluted share in the prior year period. Adjusted to exclude one-time expenses and applying a normalized tax rate, adjusted net income in the second quarter of 2018 was \$8.9 million, or \$0.56 per diluted share, compared to \$7.5 million, or \$0.48 per diluted share, in the prior year period.

### Conference Call Information

The company 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](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 13672684. The telephonic replay will be available beginning at 1:00 p.m. ET on Wednesday, November 8, 2017, and will last through 11:59 p.m. ET on Wednesday, November 22, 2017. 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 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 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)

Income Statement	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
(in thousands, except per share amounts)				
Revenues, net	\$ 90,369	\$ 80,131	\$ 188,396	\$ 164,238
Cost of revenues	(51,524)	(44,468)	(107,182)	(90,372)
Gross profit	38,845	35,663	81,214	73,866
Selling, general and administrative expenses	(26,830)	(25,894)	(54,936)	(55,605)
Impairment expenses	-	(2,800)	-	(3,883)
Operating income	12,015	6,969	26,278	14,378
Interest expense, net	(706)	(742)	(1,338)	(1,490)
Other income (expense), net	256	753	(56)	1,291
Income before income taxes	11,565	6,980	24,884	14,179
Provision for income taxes	(4,263)	(3,138)	(9,068)	(6,242)
Net income	\$ 7,302	\$ 3,842	\$ 15,816	\$ 7,937
Net earnings per common share:				
Basic	\$ 0.46	\$ 0.24	\$ 1.00	\$ 0.51
Diluted	\$ 0.46	\$ 0.24	\$ 0.99	\$ 0.50

### CONSOLIDATED BALANCE SHEETS

(unaudited)

(in thousands)	Sept. 30, 2017	March 31, 2017
Cash and equivalents	\$ 28,392	\$ 24,922
Accounts receivable, net	66,449	63,782
Inventory, net	52,344	50,401
Other current assets	6,522	7,178
Total current assets	153,707	146,283
PP&E, net	64,010	63,897
Goodwill and intangible assets, net	169,005	171,473
Other assets	16,297	16,011
Total assets	\$ 403,019	\$ 397,664
Accts payable and other current liabilities	\$ 48,704	\$ 37,175
Current portion of long-term debt	561	561
Total current liabilities	49,265	37,736
Long-term debt	52,615	72,646
Retirement benefits and other liabilities	6,970	14,844
Total liabilities	108,850	125,226

Total equity	294,169	272,438
Total liabilities and equity	<u>\$ 403,019</u>	<u>\$ 397,664</u>

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(unaudited)

(amounts in thousands)	<b>Six Months Ended September 30,</b>	
	<b>2017</b>	<b>2016</b>
Cash flows from operating activities:		
Net income	\$ 15,816	\$ 7,937
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,053	4,208
Amortization of intangible and other assets	4,449	3,818
Provision for inventory reserves	(34)	1,083
Share-based and other executive compensation	2,036	2,988
Net gain on asset disposals	(79)	(320)
Net pension benefit	(649)	(542)
Impairment of assets	-	3,883
Net deferred taxes	(386)	(1,001)
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,162)	(5,488)
Inventories	(1,687)	1,056
Prepaid expenses and other current assets	673	(718)
Other assets	26	36
Accounts payable and other current liabilities	10,201	(887)
Retirement benefits payable and other liabilities	(6,801)	2,918
Net cash provided by operating activities	<u>25,456</u>	<u>18,971</u>
Cash flows from investing activities:		
Capital expenditures	(3,847)	(5,075)
Proceeds from sale of assets held for investment	478	-
Proceeds from sale of assets	11	389
Net change in bank time deposits	(12)	2,681
Net cash used in investing activities	<u>(3,370)</u>	<u>(2,005)</u>
Cash flows from financing activities:		
Borrowings on lines of credit	-	-
Repayments of lines of credit	(20,031)	(17,281)
Payments of deferred loan costs	(401)	-
Purchase of treasury shares	(26)	(569)
Proceeds from stock option activity	329	-
Net cash used in financing activities	<u>(20,129)</u>	<u>(17,850)</u>
Effect of exchange rate changes on cash and equivalents	<u>1,380</u>	<u>(479)</u>
Net change in cash and cash equivalents	3,337	(1,363)
Cash and cash equivalents, beginning of period	23,146	25,987
Cash and cash equivalents, end of period	<u>\$ 26,483</u>	<u>\$ 24,624</u>

**Reconciliation of Non-GAAP Measures**

**Reconciliation of Operating Income to Adjusted Operating Income**

(in thousands)	(unaudited)			
	<b>Three Months Ended September 30,</b>		<b>Six Months Ended September 30,</b>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
GAAP Operating Income	\$ 12,015	\$ 6,969	\$ 26,278	\$ 14,378
Adjusting items:				

Restructuring & realignment	2,022	673	4,538	1,142
Discrete Tax Provisions & Other	110	-	110	
Asset Impairment	-	2,800	-	3,882
Estimated Reserve for Excess Inventory	-	719	-	719
Consulting projects	-	318	-	912
CFO Transition	-	31	-	2,872
Adjusted Operating Income	<u>\$ 14,147</u>	<u>\$ 11,510</u>	<u>\$ 30,926</u>	<u>\$ 23,905</u>

### Reconciliation of Net Income to Adjusted Net Income

(in thousands, except share data)	(unaudited)			
	Three Months Ended September 30,		Six Months Ended September 30,	
	2017	2016	2017	2016
GAAP Net Income	\$ 7,302	\$ 3,842	\$ 15,816	\$ 7,937
Adjusting items, net of tax:				
Restructuring & realignment	1,314	435	2,950	742
Asset Impairment	-	1,812	-	2,602
Estimated Reserve for Excess Inventory	-	465	-	467
Consulting projects	-	206	-	593
CFO Transition	-	20	-	1,867
Discrete Tax Provisions & Other	287	736	287	1,348
Adjusted Net Income	<u>\$ 8,903</u>	<u>\$ 7,516</u>	<u>\$ 19,053</u>	<u>\$ 15,556</u>
GAAP Diluted income per common share	\$ 0.46	\$ 0.24	\$ 0.99	\$ 0.50
Adjusting items, per diluted common share:				
Restructuring & realignment	0.09	0.03	0.20	0.05
Asset Impairment	-	0.12	-	0.16
Estimated Reserve for Excess Inventory	-	0.03	-	0.03
Consulting projects	-	0.01	-	0.04
CFO Transition	-	-	-	0.12
Discrete Tax Provisions & Other	0.01	0.05	0.01	0.09
Adjusted earnings per diluted common share	<u>\$ 0.56</u>	<u>\$ 0.48</u>	<u>\$ 1.20</u>	<u>\$ 0.99</u>
Weighted-average shares outstanding (in thousands)				
Diluted	15,945	15,763	15,935	15,771

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

(in thousands, except percentages)	(unaudited)									
	For the Three Months Ended September 30, 2017					For the Three Months Ended September 30, 2016				
	Industrial Products	Coatings & Sealants Adhesives	Specialty Chemicals	Corporate and Other	Consolidated	Industrial Products	Coatings & Sealants Adhesives	Specialty Chemicals	Corporate and Other	Consolidated
Revenue	\$ 48,487	\$ 21,369	\$ 20,514	\$ (1)	\$ 90,369	\$ 41,858	\$ 23,006	\$ 15,245	\$ 22	\$ 80,131
Operating Income	\$ 12,280	\$ 344	\$ 2,200	\$ (2,809)	\$ 12,015	\$ 9,897	\$ (1,616)	\$ 1,232	\$ (2,544)	\$ 6,969

Adjusting items:										
Restructuring & realignment	135	1,887	-	-	2,022	-	673	-	-	673
Discrete Tax Provisions & Other	110	-	-	-	110	-	-	-	-	-
Asset Impairment	-	-	-	-	-	-	2,800	-	-	2,800
Estimated Reserve for Excess Inventory	-	-	-	-	-	17	279	423	-	719
Consulting projects	-	-	-	-	-	23	24	14	257	318
CFO Transition	-	-	-	-	-	-	-	-	31	31
Adjusted Operating Income	<u>\$ 12,525</u>	<u>\$ 2,231</u>	<u>\$ 2,200</u>	<u>\$ (2,809)</u>	<u>\$ 14,147</u>	<u>\$ 9,937</u>	<u>\$ 2,160</u>	<u>\$ 1,669</u>	<u>\$ (2,256)</u>	<u>\$ 11,510</u>
% of revenue	25.8%	10.4%	10.7%		15.7%	23.7%	9.4%	10.9%		14.4%

(unaudited)

(in thousands, except percentages)	Year To Date September 30, 2017					Year To Date September 30, 2016				
	Industrial Products	Coatings, & Sealants Adhesives	Specialty Chemicals	Corporate and Other	Consolidated	Industrial Products	Coatings, & Sealants Adhesives	Specialty Chemicals	Corporate and Other	Consolidated
Revenue	<u>\$101,748</u>	<u>\$ 44,751</u>	<u>\$ 41,896</u>	<u>\$ 1</u>	<u>\$ 188,396</u>	<u>\$85,333</u>	<u>\$ 46,371</u>	<u>\$ 32,490</u>	<u>\$ 44</u>	<u>\$ 164,238</u>
Operating Income	\$ 25,913	\$ 1,335	\$ 4,110	\$ (5,080)	\$ 26,278	\$20,504	\$ 97	\$ 2,288	\$ (8,511)	\$ 14,378
Adjusting items:										
Restructuring & realignment	367	3,295	876	-	4,538	-	1,142	-	-	1,142
Discrete Tax Provisions & Other	110	-	-	-	110	-	-	-	-	-
Asset Impairment	-	-	-	-	-	90	3,187	605	-	3,882
Estimated Reserve for Excess Inventory	-	-	-	-	-	17	279	423	-	719
Consulting projects	-	-	-	-	-	84	145	82	601	912
CFO Transition	-	-	-	-	-	-	-	-	2,872	2,872
Adjusted Operating Income	<u>\$ 26,390</u>	<u>\$ 4,630</u>	<u>\$ 4,986</u>	<u>\$ (5,080)</u>	<u>\$ 30,926</u>	<u>\$20,695</u>	<u>\$ 4,850</u>	<u>\$ 3,398</u>	<u>\$ (5,038)</u>	<u>\$ 23,905</u>
% of revenue	25.9%	10.3%	11.9%		16.4%	24.3%	10.5%	10.5%		14.6%

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, Inc.