



CSW Industrials Reports Fiscal Third Quarter 2018 Results; Announces Strategic Repositioning to Enhance Operating Results and Simplify Operating Structure

February 8, 2018

Highlights

- Third Quarter 2018 revenue from continuing operations increased 5.8% to \$69.0 million, compared to the prior year period of \$65.3 million.
- Third Quarter 2018 reported diluted earnings per share from continuing operations increased 41.6% to \$0.17, compared to the prior year period of \$0.12.
- Third Quarter 2018 adjusted earnings per share from continuing operations of \$0.32, compared to the prior year period of \$0.31.
- Year-to-date revenue growth of 15.0% over the prior year period; Year-to-date reported earnings per share from continuing operations increased 53.3% to \$1.41 per diluted share from \$0.92 per diluted share.
- Company announces Coatings business moved to discontinued operations; strategic action enhances profitability and drives significant improvement in free cash flow.
- Consolidates operations into two segments: Industrial Products and Specialty Chemicals, and flattens operations leadership structure.

DALLAS, Feb. 08, 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 third quarter ended December 31, 2017.

Net revenue from continuing operations during the fiscal third quarter of 2018 increased 5.8% to \$69.0 million, compared to the prior year period of \$65.3 million. The increase in revenue was primarily attributable to sales from the acquired Greco business (\$4.3 million) and increased sales into the HVAC and plumbing end markets, partially offset by lower volume in the architecturally specified building products and energy end markets.

Reported operating income from continuing operations in the fiscal third quarter of 2018 increased to \$8.3 million, or 12.0% of sales, compared to \$5.1 million, or 7.9% of sales, in the prior year period. The increase in operating income was driven by continued strength in the Industrial Products segment and savings from prior year restructuring activities in the Whitmore / Jet-Lube consolidation, partially offset by lower sales volumes and unfavorable product mix in Specialty Chemicals.

CSW Industrials has strategically realigned its businesses by reducing exposure to the Coatings business, which is now classified as held for sale. This action resulted in several changes detailed below:

- In the quarter ended December 31, 2017, the Company initiated a plan to sell the Coatings business, the revenues of which were roughly one third of the former Coatings, Sealants and Adhesives segment. As a result, the Company has moved the Coatings business to assets held for sale and discontinued operations.
- CSWI has condensed its three reportable segments into two reportable segments, Industrial Products and Specialty Chemicals. The Sealants and Adhesives businesses, which were part of the former Coatings, Sealants and Adhesives segment, are now included in Specialty Chemicals. The Company's reported quarterly results reflect this change.
- To assist the investment community in analyzing the Company's historical financial results, the Company will file a Current Report on Form 8-K to provide supplemental unaudited financial information for the previous six quarters that reflects the Coatings business as assets held for sale and discontinued operations.

Joseph B. Armes, CSW Industrials' Chief Executive Officer, commented, "Our business realignment meaningfully enhances our ability to generate free cash flow and provides opportunities to further enhance shareholder value. We considered the sale of the Coatings business carefully, and ultimately made this decision in light of the sustained deterioration of end market conditions, and its current inability to meet our profitability standards." Armes continued, "In our continuing operations, we are pleased to report another quarter of top line growth and operating profit growing at a faster rate than revenue, which speaks to the strength of our platform and our team's ability to execute on business opportunities and improve efficiency."

CSW Industrials also announced that Chris Mudd, the Company's Chief Operating Officer, will depart the Company to pursue other opportunities. Mr. Mudd will continue in his role with the Company through February 28, 2018 to ensure a smooth transition of responsibilities. As part of this action, segment leaders Craig Foster in Specialty Chemicals and Don Sullivan in Industrial Products, will report directly to Mr. Armes. Armes noted, "Both Craig and Don are seasoned leaders with strong track records of execution in their respective segments, and I look forward to working more closely with them to drive incremental success."

Armes added, "I would also like to thank Chris for his contributions to the creation of CSWI and I wish him well as he moves on to his next role."

Third Quarter Results of Operations

The below results reflect the Company's financial results from continuing operations unless otherwise noted.

Consolidated revenue increased 5.8% to \$69.0 million, compared to \$65.3 million in the prior year period.

Industrial Products segment revenue increased 19.5% to \$37.9 million, compared to \$31.7 million in the prior year period. Higher revenue was driven by acquisition related revenue and strong sales into HVAC and plumbing end markets. Reported segment operating income increased 82.5% to \$7.3 million, compared to \$4.0 million in the prior year.

Specialty Chemicals segment revenue was \$31.1 million, compared to \$33.5 million in the prior year period. Lower sales were driven primarily by the timing of volume related to the Whitmore/Jet-Lube integration in the prior year and flattening rig counts. Reported segment operating income increased 30.6% to \$4.0 million, compared to \$3.1 million in the prior year period.

Consolidated gross profit increased to \$30.2 million, compared to \$27.4 million in the prior year period. Gross profit as a percentage of sales increased to 43.7%, compared to 41.9% in the prior year period. Higher gross margin compared to the prior year primarily reflected the increased sales volume.

Consolidated operating expenses were \$21.9 million, or 31.8% of sales, compared to the prior year level of \$22.2 million, or 34.1% of sales. Lower operating expenses as a percentage of sales was attributable to savings resulting from prior year restructuring and realignment activity that did not recur during the current year, partially offset by acquisition-related operating expenses.

The effective tax rate on continuing operations for the quarter ended December 31, 2017, was 66.1%. The high tax rate was primarily due to the one-time transition tax of \$4.9 million for mandatory repatriation based on cash and net accumulated earnings and profits of our foreign subsidiaries as a result of recent U.S. tax reform legislation. The Company is still determining the effective tax rate on an ongoing basis but expects the tax rate beginning in the fiscal fourth quarter to be in a range of 25% to 27%.

Reported income from continuing operations was \$2.6 million, or \$0.17 per diluted share, compared to \$1.9 million, or \$0.12 per diluted share in the prior year period. Adjusted to exclude one-time expenses and applying a normalized tax rate, adjusted income from continuing operations in the third quarter of 2018 was \$5.1 million, or \$0.32 per diluted share, compared to adjusted income from continuing operations of \$4.9 million, or \$0.31 per diluted share, in the prior year period.

Operating cash flow from continuing operations for the nine months ended December 31, 2017, was \$47.1 million, compared to \$33.7 million in the prior year period. The Company expects cash flow from continuing operations to be further enhanced in the future as a result of the lower corporate tax rate due to tax reform.

Conference Call Information

The company will host a conference call at 8:30 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 1-844-512-2921 or 1-412-317-6671 (international) and enter confirmation code 13675580. The telephonic replay will be available beginning at 11:30 a.m. ET on Thursday, February 8, 2018, and will last through 11:59 p.m. ET on Thursday, February 22, 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 STATEMENTS OF INCOME

(unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2017	2016	2017	2016
(in thousands, except per share amounts)				
Revenues, net	\$ 69,036	\$ 65,257	242,757	211,035
Cost of revenues	(38,834)	(37,888)	(131,032)	(112,587)
Gross profit	30,202	27,369	111,725	98,448
Selling, general and administrative expenses	(21,923)	(22,230)	(71,545)	(70,623)
Impairment expenses	-	(13)	-	(1,096)
Operating income	8,279	5,126	40,180	26,729
Interest expense, net	(540)	(673)	(1,842)	(2,163)
Other income (expense), net	36	587	(23)	1,864
Income before income taxes	7,775	5,040	38,315	26,430
Provision for income taxes	(5,140)	(3,181)	(16,243)	(11,953)
Income from continuing operations.	\$ 2,635	\$ 1,859	22,072	14,477
Loss from discontinued operations, net of tax	(36,672)	(1,454)	(40,293)	(6,134)
Net (loss) income	<u>\$ (34,037)</u>	<u>\$ 405</u>	<u>(18,221)</u>	<u>8,343</u>
Basic earnings (loss) earnings per common share:				
Continuing operations	\$ 0.17	\$ 0.12	\$ 1.41	\$ 0.92
Discontinued operations	(2.34)	(0.09)	(2.57)	(0.39)
Net (loss) income	<u>\$ (2.17)</u>	<u>\$ 0.03</u>	<u>\$ (1.16)</u>	<u>\$ 0.53</u>

CONSOLIDATED BALANCE SHEETS

(unaudited)

(in thousands, except per share amounts)

	December 31, 2017	March 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 26,542	\$ 23,146
Bank time deposits	-	1,776
Accounts receivable, net	51,407	59,831
Inventories, net	45,487	43,665
Prepaid expenses and other current assets	6,164	3,084
Current assets, discontinued operations	3,023	14,781
Total current assets	132,623	146,283
Property, plant and equipment, net	55,235	56,812
Goodwill	81,870	80,863
Intangible assets, net	54,947	59,312

Other assets	23,785	16,010
Noncurrent assets, discontinued operations	-	38,809
Total assets	<u>\$ 348,460</u>	<u>\$ 398,089</u>

LIABILITIES AND EQUITY

Current liabilities:

Accounts payable	14,946	\$ 10,372
Accrued and other current liabilities	24,708	21,619
Current portion of long-term debt	561	561
Current liabilities, discontinued operations	<u>3,613</u>	<u>5,184</u>
Total current liabilities	43,828	37,736
Long-term debt	39,600	72,646
Retirement benefits payable	809	1,464
Other long-term liabilities	<u>3,788</u>	<u>13,805</u>
Total liabilities	88,025	125,651

Equity:

Common shares, \$0.01 par value	158	157
Shares authorized – 50,000		
Shares issued – 15,969 and 15,846, respectively		
Preferred shares, \$0.01 par value	-	-
Shares authorized – 10,000		
Shares issued – 0		
Additional paid-in capital	41,851	38,701
Treasury shares, at cost (52 and 29 shares, respectively)	(2,008)	(1,011)
Retained earnings	227,311	245,026
Accumulated other comprehensive loss	<u>(6,877)</u>	<u>(10,435)</u>
Total equity	260,435	272,438
Total liabilities and equity	<u>\$ 348,460</u>	<u>\$ 398,089</u>

Consolidated Statements of Cash Flows

(unaudited)

(amounts in thousands)	Nine Months Ended December 31,	
	2017	2016
Cash flows from operating activities:		
Net (loss) income	\$ (18,221)	\$ 8,343
Loss from discontinued operations	(40,293)	(6,134)
Net income from continuing operations	22,072	14,477
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,697	5,367
Amortization of intangible and other assets	5,450	4,633
Provision for inventory reserves	(6)	533
Provision for doubtful accounts	220	(29)
Share-based and other executive compensation	3,329	3,837
Acquisition-related non-cash gain	-	(376)
Net (gain) loss on disposals of property, plant and equipment	(89)	30
Net pension benefit	(974)	(843)
Impairment of assets	-	1,096

Net deferred taxes	(430)	(2,076)
Changes in operating assets and liabilities:		
Accounts receivable, net	8,673	2,912
Inventories	(1,262)	(2,099)
Prepaid expenses and other current assets	375	(639)
Other assets	9	(158)
Accounts payable and other current liabilities	10,343	3,988
Retirement benefits payable and other liabilities	(6,357)	3,094
Net cash provided by operating activities, cont'd ops	47,050	33,747
Net cash used by operating activities, discount'd ops	(8,291)	(1,074)
Net cash provided by operating activities	38,759	32,673
Cash flows from investing activities:		
Capital expenditures	(4,263)	(5,602)
Proceeds from sale of assets held for investment	546	97
Proceeds from sale of assets	22	193
Net change in bank time deposits	1,840	11,442
Net cash (used) provided by investing activities, cont'd ops	(1,855)	6,130
Net cash used by investing activities, discount'd ops	(825)	(1,362)
Net cash (used) provided by investing activities	(2,680)	4,768
Cash flows from financing activities:		
Borrowings on lines of credit	-	-
Repayments of lines of credit	(33,046)	(42,835)
Payments of deferred loan costs	(422)	-
Purchase of treasury shares	(997)	(972)
Proceeds from stock option activity	328	2,169
Net cash provided by (used in) financing activities	(34,137)	(41,638)
Effect of exchange rate changes on cash and equivalents	1,454	(1,376)
Net change in cash and cash equivalents	3,396	(5,573)
Cash and cash equivalents, beginning of period	23,146	25,987
Cash and cash equivalents, end of period	\$ 26,542	\$ 20,414

Reconciliation of Non-GAAP Measures

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

(in thousands)	(unaudited)			
	Quarter Ended December 31		Year To Date December 31	
	2017	2016	2017	2016
GAAP Operating Income- Continuing Operations	\$ 8,279	\$ 5,126	\$ 40,180	\$ 26,729
Adjusting items:				
Restructuring & realignment	-	2,063	1,243	2,063
Discrete Tax Provisions & Other	-	-	110	-
Asset Impairment	-	124	-	1,206
Estimated Reserve for Excess Inventory	-	-	-	404
Consulting projects	-	391	-	1,188
CFO Transition	-	-	-	2,872

Adjusted Operating Income--Continuing Operations	\$ 8,279	\$ 7,704	\$ 41,533	\$ 34,462
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Reconciliation of Net Income to Adjusted Net Income---Continuing Operations

(in thousands, except share data)	(unaudited)			
	Quarter Ended December 31		Year To Date December 31	
	2017	2016	2017	2016
GAAP Net Income---Continuing Operations	\$ 2,635	\$ 1,859	\$ 22,072	\$ 14,477
Adjusting items, net of tax:				
Restructuring & realignment	-	1,335	808	1,341
Asset Impairment	-	80	-	863
Estimated Reserve for Excess Inventory	-	-	-	263
Consulting projects	-	253	-	772
CFO Transition	-	-	-	1,867
Discrete Tax Provisions & Other	2,419	1,402	2,706	2,794
Adjusted Net Income---Continuing Operations	\$ 5,054	\$ 4,929	\$ 25,586	\$ 22,377
GAAP Diluted income per common share, Continuing operations	\$ 0.17	\$ 0.12	\$ 1.41	\$ 0.92
Adjusting items, per diluted common share:				
Restructuring & realignment	-	0.08	0.06	0.09
Asset Impairment	-	0.01	-	0.06
Estimated Reserve for Excess Inventory	-	-	-	0.02
Consulting projects	-	0.01	-	0.05
CFO Transition	-	-	-	0.12
Discrete Tax Provisions & Other	0.15	0.09	0.17	0.18
Adjusted earnings per diluted common share from continuing operations	\$ 0.32	\$ 0.31	\$ 1.64	\$ 1.43

Reconciliation of Segment Operating Income to Adjusted Segment Operating Income

(in thousands, except percentages)	(unaudited)							
	For the Three Months Ended December 31, 2017				For the Three Months Ended December 31, 2016			
	Industrial Products	Specialty Chemicals	Corporate and Other	Consolidated Continuing Operations	Industrial Products	Specialty Chemicals	Corporate and Other	Consolidated Continuing Operations

Revenue	<u>\$ 37,906</u>	<u>\$ 31,129</u>	<u>\$ 1</u>	<u>\$ 69,036</u>	<u>\$ 31,715</u>	<u>\$ 33,498</u>	<u>\$ 44</u>	<u>\$ 65,257</u>
Operating Income	\$ 7,299	\$ 4,048	\$ (3,068)	\$ 8,279	\$ 3,978	\$ 3,099	\$ (1,951)	\$ 5,126
Adjusting items:								
Restructuring & realignment	-	-	-	-	-	2,063	-	2,063
Discrete Tax Provisions & Other	-	-	-	-	124	-	-	124
Asset Impairment	-	-	-	-	-	-	-	-
Estimated Reserve for Excess Inventory	-	-	-	-	-	-	-	-
Consulting projects	-	-	-	-	191	146	54	391
CFO Transition	-	-	-	-	-	-	-	-
Adjusted Operating Income	<u>\$ 7,299</u>	<u>\$ 4,048</u>	<u>\$ (3,068)</u>	<u>\$ 8,279</u>	<u>\$ 4,293</u>	<u>\$ 5,308</u>	<u>\$ (1,897)</u>	<u>\$ 7,704</u>
% of revenue	19.3%	13.0%		12.0%	13.5%	15.8%		11.8%

(unaudited)

(in thousands,
except
percentages)

	Year To Date December 31, 2017				Year To Date December 31, 2016			
	Industrial Products	Specialty Chemicals	Corporate and Other	Consolidated Continuing Operations	Industrial Products	Specialty Chemicals	Corporate and Other	Consolidated Continuing Operations
Revenue	<u>\$139,654</u>	<u>\$103,101</u>	<u>\$ 2</u>	<u>\$ 242,757</u>	<u>\$117,048</u>	<u>\$ 93,898</u>	<u>\$ 89</u>	<u>\$ 211,035</u>
Operating Income	\$ 33,211	\$ 15,116	\$ (8,147)	\$ 40,180	\$ 24,482	\$ 12,709	\$ (10,462)	\$ 26,729
Adjusting items:								
Restructuring & realignment	367	876	-	1,243	-	2,063	-	2,063
Discrete Tax Provisions & Other	110	-	-	110	-	-	-	-
Asset Impairment	-	-	-	-	214	992	-	1,206
Estimated Reserve for Excess Inventory	-	-	-	-	17	387	-	404
Consulting projects	-	-	-	-	275	258	655	1,188
CFO Transition	-	-	-	-	-	-	2,872	2,872
Adjusted Operating Income	<u>\$ 33,688</u>	<u>\$ 15,992</u>	<u>\$ (8,147)</u>	<u>\$ 41,533</u>	<u>\$ 24,988</u>	<u>\$ 16,409</u>	<u>\$ (6,935)</u>	<u>\$ 34,462</u>
% of revenue	24.1%	15.5%		17.1%	21.3%	17.5%		16.3%

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.

Investor contact:
Michael Callahan, ICR
(203) 682-8311
Michael.Callahan@icrinc.com

CSW Industrials, Inc.