



CSW Industrials Reports Fiscal Second Quarter 2019 Results

November 7, 2018

Highlights

- Second quarter 2019 revenue from continuing operations of \$91.6 million, compared to \$84.4 million in the prior year period.
- Second quarter 2019 GAAP operating income from continuing operations of \$17.2 million or 18.8% of sales, compared to \$14.6 million or 17.2% of sales in the prior year period.
- Second quarter 2019 GAAP net earnings from continuing operations of \$12.4 million, or \$0.79 per diluted share, compared to \$9.2 million or \$0.57 per diluted share in the prior year period; Non-GAAP net earnings from continuing operations of \$12.4 million, or \$0.79 per diluted share, compared to \$9.6 million or \$0.60 per diluted share in the prior year period.
- In a separate press release, the Company announced a new, \$75 million share repurchase program reauthorization and a more formalized capital allocation policy.

DALLAS, Nov. 07, 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 second quarter ended September 30, 2018.

Net revenue during the fiscal second quarter of 2019 was \$91.6 million, compared to \$84.4 million in the prior year period. Higher revenue was driven by increased sales in both Industrial Products and Specialty Chemicals segments.

GAAP operating income from continuing operations increased 17.8% to \$17.2 million, compared to \$14.6 million in the prior year period. The increase was driven by increased sales volumes and decreased operating expenses, partially offset by negative product mix and increased manufacturing costs.

Net income from continuing operations in the fiscal second quarter of 2019 was \$12.4 million, or \$0.79 per diluted share, compared to \$9.2 million, or \$0.57 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 second quarter of 2019 was \$12.4 million, or \$0.79 per diluted share, compared to \$9.6 million, or \$0.60 per diluted share, in the prior year period.

Joseph B. Armes, CSW Industrials' Chief Executive Officer, commented, "We are pleased to report very strong fiscal second quarter results, highlighted by 8.5% organic growth and a 32% year-over-year increase in adjusted earnings per share. Halfway through our fiscal year we are right on track with our full-year plan, as in the second fiscal quarter, we saw volume recover in our HVAC business during the peak summer months that helped offset the effect of a cooler spring we saw in the first quarter. We believe we are well positioned for the second half of the year, which is supported by continued underlying strength in our Industrial Products segment and expected benefits from our efficiency programs coming online in our Specialty Chemicals segment."

Armes added, "We are also pleased to announce this morning that our Board authorized an additional \$75 million in share repurchase capacity, as we completed our previous authorization and in the process returned \$35 million to shareholders through share repurchases over the last two years."

Further details of the share repurchase program and disclosures of the Company's long-term capital allocation plan can be found in a separate release issued this morning at ir.cswindustrials.com.

Second Quarter Results of Operations

Consolidated revenue from continuing operations increased to \$91.6 million, compared to \$84.4 million in the prior year period.

Industrial Products segment revenue was \$54.7 million, compared to \$48.5 million in the prior year period. Higher revenue was mainly the result of increased sales volume in HVAC and higher volumes in the general industrial end markets. GAAP segment operating income increased 15.4% to \$14.2 million, compared to \$12.3 million in the prior year period. Adjusted to exclude non-recurring items in the prior year period, segment operating income was \$14.2 million, compared to \$12.5 million in the prior year.

Specialty Chemicals segment revenue was \$36.9 million, compared to \$35.9 million in the prior year period. Increased sales were driven by higher volumes in the HVAC and plumbing end markets. GAAP segment operating income increased 17.0% to \$6.2 million, compared to \$5.3 million in the prior year period.

Consolidated gross profit increased to \$42.2 million, compared to \$39.7 million in the prior year period. Gross margin as a percentage of sales decreased to 46.1%, compared to 47.0% in the prior year period, driven by negative product mix, increased freight and other manufacturing costs, more than offsetting sales leverage.

Consolidated operating expenses in the current quarter were \$25.0 million or 27.3% of sales and improved 240 basis points over the prior year level of \$25.1 million, or 29.7% of sales. The lower percent of sales was attributable to sales leverage.

Reported income from continuing operations was \$12.4 million, or \$0.79 per diluted share, compared to \$9.2 million, or \$0.57 per diluted share in the

prior year period. Adjusted to exclude one-time items and applying a normalized tax rate, adjusted income from continuing operations in the fiscal second quarter of 2019 was \$12.4 million, or \$0.79 per diluted share, compared to adjusted income from continuing operations of \$9.6 million, or \$0.60 per diluted share, in the prior year period.

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. 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 13684452. The telephonic replay will be available beginning at 1:00 p.m. ET on Wednesday, November 7, 2018, and will last through 11:59 p.m. ET on Wednesday, November 21, 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

	(unaudited) Three Months Ended September 30,		(unaudited) Six Months Ended September 30,	
(Amounts in thousands, except per share amounts)	2018	2017	2018	2017
Revenues, net	\$ 91,612	\$ 84,422	\$ 181,190	\$ 173,721
Cost of revenues	(49,403)	(44,761)	(96,892)	(92,187)
Gross profit	42,209	39,661	84,298	81,534
Selling, general and administrative expenses	(25,005)	(25,109)	(49,349)	(50,311)
Operating income	17,204	14,552	34,949	31,223
Interest expense, net	(420)	(671)	(805)	(1,302)
Other income, net	82	600	820	619
Income before income taxes	16,866	14,481	34,964	30,540
Provision for income taxes	(4,442)	(5,331)	(8,534)	(11,103)
Income from continuing operations	12,424	9,150	26,430	19,437
Income (loss) from discontinued operations, net of tax	2,732	(1,848)	400	(3,621)
Net income	\$ 15,156	\$ 7,302	\$ 26,830	\$ 15,816

Basic earnings (loss) earnings per common share:

Continuing operations	\$ 0.80	\$ 0.58	\$ 1.69	\$ 1.23
Discontinued operations	0.18	(0.12)	0.02	(0.23)
Net income	<u>\$ 0.98</u>	<u>\$ 0.46</u>	<u>\$ 1.71</u>	<u>\$ 1.00</u>

Diluted earnings (loss) earnings per common share:

Continuing operations	\$ 0.79	\$ 0.57	\$ 1.67	\$ 1.22
Discontinued operations	0.18	(0.11)	0.03	(0.23)
Net income	<u>\$ 0.97</u>	<u>\$ 0.46</u>	<u>\$ 1.70</u>	<u>\$ 0.99</u>

Consolidated Balance Sheets

		(unaudited)	
		September 30, 2018	March 31, 2018
(Amounts in thousands, except per share amounts)			
ASSETS			
Current assets:			
Cash and cash equivalents		\$ 11,213	\$ 11,706
Accounts receivable, net of allowance for doubtful accounts of \$1,059 and \$1,015, respectively		61,617	63,383
Inventories, net		48,769	42,974
Prepaid expenses and other current assets		11,232	7,077
Current assets, discontinued operations		666	2,427
Total current assets		<u>133,497</u>	<u>127,567</u>
Property, plant and equipment, net of accumulated depreciation of \$63,315 and \$61,967, respectively		52,368	54,473
Goodwill		81,340	81,764
Intangible assets, net		49,266	53,054
Other assets		14,453	23,958
Total assets		<u>\$ 330,924</u>	<u>\$ 340,816</u>
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable		\$ 14,766	\$ 16,826
Accrued and other current liabilities		26,265	23,501
Current portion of long-term debt		561	561
Current liabilities, discontinued operations		404	3,966
Total current liabilities		<u>41,996</u>	<u>44,854</u>
Long-term debt		21,179	23,459
Retirement benefits payable		1,892	2,017
Other long-term liabilities		4,577	4,721
Noncurrent liabilities, discontinued operations		979	-
Total liabilities		<u>70,623</u>	<u>75,051</u>
Equity:			
Common shares, \$0.01 par value		158	158
Shares authorized – 50,000			
Shares issued – 15,942 and 15,957, respectively			
Additional paid-in capital		44,478	42,684

Treasury shares, at cost (656 and 80 shares, respectively)	(34,249)	(3,252)
Retained earnings	258,557	233,650
Accumulated other comprehensive loss	(8,643)	(7,475)
Total equity	260,301	265,765
Total liabilities and equity	<u>\$ 330,924</u>	<u>\$ 340,816</u>

Consolidated Statements of Cash Flow

(Amounts in thousands)	(unaudited)	
	Six Months Ended September 30, 2018	2017
Cash flows from operating activities:		
Net income	\$ 26,830	\$ 15,816
Less: Income (loss) from discontinued operations	400	(3,621)
Income from continuing operations	26,430	19,437
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,750	3,730
Amortization of intangible and other assets	3,236	3,633
Provision for inventory reserves	700	-
Share-based and other executive compensation	1,794	2,036
Net gain on disposals of property, plant and equipment	(2,539)	(79)
Net pension benefit	(211)	(650)
Net deferred taxes	8,647	1,229
Changes in operating assets and liabilities:		
Accounts receivable, net	1,473	(2,663)
Inventories	(5,749)	260
Prepaid expenses and other current assets	(4,163)	703
Other assets	190	26
Accounts payable and other current liabilities	(1,153)	11,022
Retirement benefits payable and other liabilities	109	(6,801)
Net cash provided by operating activities, continuing operations	32,514	31,883
Net cash used in operating activities, discontinued operations	(7,574)	(6,427)
Net cash provided by operating activities	24,940	25,456
Cash flows from investing activities:		
Capital expenditures	(2,742)	(2,964)
Proceeds from sale of assets held for investment	278	466
Proceeds from sale of assets	3,269	11
Net cash provided by (used in) investing activities, continuing operations	805	(2,487)
Net cash provided by (used in) investing activities, discontinued operations	7,151	(883)
Net cash provided by (used in) investing activities	7,956	(3,370)
Cash flows from financing activities:		
Borrowings on lines of credit	8,000	-
Repayments of lines of credit	(10,281)	(20,031)
Payments of deferred loan costs	-	(401)
Purchase of treasury shares	(30,997)	(26)
Proceeds from stock option activity	-	329
Net cash used in financing activities	(33,278)	(20,129)
Effect of exchange rate changes on cash and equivalents	(111)	1,380
Net change in cash and cash equivalents	(493)	3,337
Cash and cash equivalents, beginning of period	11,706	23,146

Cash and cash equivalents, end of period	\$	11,213	\$	26,483
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Reconciliation of Non-GAAP Measures

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

(in thousands)	(unaudited)			
	Quarter Ended September 30,		Six Months Ended September 30,	
	2018	2017	2018	2017
GAAP Operating Income- Continuing Operations	\$ 17,204	\$ 14,552	\$ 34,949	\$ 31,223
Adjusting items:				
Restructuring & realignment	-	135	-	1,243
Gain on sale of property & other	-	-	(1,839)	-
M&A transaction costs	-	110	-	110
Adjusted Operating Income--Continuing Operations	<u>\$ 17,204</u>	<u>\$ 14,797</u>	<u>\$ 33,110</u>	<u>\$ 32,576</u>

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

(in thousands, except share data)	(unaudited)			
	Quarter Ended September 30,		Six Months Ended September 30,	
	2018	2017	2018	2017
GAAP Net Income---Continuing Operations	\$ 12,424	\$ 9,150	\$ 26,430	\$ 19,437
Adjusting items, net of tax:				
Restructuring & realignment	-	88	-	808
Gain on sale of property & other	-	-	(1,361)	-
M&A transaction costs	-	71	-	71
Discrete Tax Provisions & Other	-	265	(557)	265
Adjusted Net Income---Continuing Operations	<u>\$ 12,424</u>	<u>\$ 9,574</u>	<u>\$ 24,512</u>	<u>\$ 20,581</u>
GAAP Diluted income per common share, Continuing operations	\$ 0.79	\$ 0.57	\$ 1.67	\$ 1.22
Adjusting items, per diluted common share:				
Restructuring & realignment	-	0.01	-	0.05
Gain on sale of property & other	-	-	(0.08)	-

M&A transaction costs	-	-	-	0.01
Discrete Tax Provisions & Other	-	0.02	(0.04)	0.01
Adjusted earnings per diluted common share	<u>\$ 0.79</u>	<u>\$ 0.60</u>	<u>\$ 1.55</u>	<u>\$ 1.29</u>

Reconciliation of Segment Operating Income to Adjusted Segment Operating Income

(unaudited)								
(in thousands, except percentages)	For the Three Months Ended September 30, 2018				For the Three Months Ended September 30, 2017			
	Industrial Products	Specialty Chemicals	Corporate and Other	Consolidated Continuing Operations	Industrial Products	Specialty Chemicals	Corporate and Other	Consolidated Continuing Operations
Revenue	<u>\$ 54,727</u>	<u>\$ 36,884</u>	<u>\$ 1</u>	<u>\$ 91,612</u>	<u>\$ 48,487</u>	<u>\$ 35,936</u>	<u>\$ (1)</u>	<u>\$ 84,422</u>
Operating Income	\$ 14,212	\$ 6,158	\$ (3,166)	\$ 17,204	\$ 12,299	\$ 5,281	\$ (3,028)	\$ 14,552
Adjusting items:								
Restructuring & realignment	-	-	-	-	135	-	-	135
M&A transaction costs	-	-	-	-	110	-	-	110
Adjusted Operating Income	<u>\$ 14,212</u>	<u>\$ 6,158</u>	<u>\$ (3,166)</u>	<u>\$ 17,204</u>	<u>\$ 12,544</u>	<u>\$ 5,281</u>	<u>\$ (3,028)</u>	<u>\$ 14,797</u>
% of revenue	26.0%	16.7%		18.8%	25.9%	14.7%		17.5%

(unaudited)								
(in thousands, except percentages)	Year to date September 30, 2018				Year to date September 30, 2017			
	Industrial Products	Specialty Chemicals	Corporate and Other	Consolidated Continuing Operations	Industrial Products	Specialty Chemicals	Corporate and Other	Consolidated Continuing Operations
Revenue	<u>\$ 108,587</u>	<u>\$ 72,602</u>	<u>\$ 1</u>	<u>\$ 181,190</u>	<u>\$ 101,748</u>	<u>\$ 71,972</u>	<u>\$ 1</u>	<u>\$ 173,721</u>
Operating Income	\$ 28,105	\$ 12,631	\$ (5,787)	\$ 34,949	\$ 25,962	\$ 10,780	\$ (5,519)	\$ 31,223
Adjusting items:								

Restructuring & realignment	-	-	-	-	367	876	-	1,243
Gain on sale of property & other	(253)	(1,586)	-	(1,839)	-	-	-	-
M&A transaction costs	-	-	-	-	110	-	-	110
Adjusted Operating Income	<u>\$ 27,852</u>	<u>\$ 11,045</u>	<u>\$ (5,787)</u>	<u>\$ 33,110</u>	<u>\$ 26,439</u>	<u>\$ 11,656</u>	<u>\$ (5,519)</u>	<u>\$ 32,576</u>
% of revenue	25.6%	15.2%		18.3%	26.0%	16.2%		18.8%

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.