



CSW Industrials Reports Fiscal Third Quarter 2019 Results

February 5, 2019

Highlights

- Third quarter 2019 revenue from continuing operations of \$77.5 million, up 12.3% compared to \$69.0 million in the prior year period.
- Third quarter 2019 GAAP operating income from continuing operations increased 19.0% to \$9.4 million or 12.1% of sales, compared to \$7.9 million or 11.4% of sales in the prior year period.
- Third quarter 2019 GAAP net earnings from continuing operations increased to \$6.0 million, or \$0.39 per diluted share, compared to \$2.6 million or \$0.17 per diluted share in the prior year period.
- Adjusted to apply a normalized tax rate, non-GAAP net earnings from continuing operations increased 37.3% to \$7.0 million, or \$0.46 per diluted share, compared to \$5.1 million or \$0.32 per diluted share in the prior year period.
- Operating cash flow from continuing operations for the nine months ended December 31, 2018 increased 23.8% to \$58.3 million compared to the prior year period of \$47.1 million.

DALLAS, Feb. 05, 2019 (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, 2018.

Net revenue during the fiscal third quarter of 2019 increased 12.3% to \$77.5 million, compared to \$69.0 million in the prior year period. Higher revenue was driven by increased sales in both the Industrial Products and Specialty Chemicals segments primarily in the HVAC, architecturally-specified building products and general industrial end markets.

GAAP operating income from continuing operations increased 19.0% to \$9.4 million, compared to \$7.9 million in the prior year period. The increase was driven by increased sales volumes.

Net income from continuing operations in the fiscal third quarter of 2019 was \$6.0 million, or \$0.39 per diluted share, compared to \$2.6 million, or \$0.17 per diluted share, in the prior year period. Adjusted to apply a normalized tax rate, adjusted net income from continuing operations in the fiscal third quarter of 2019 was \$7.0 million, or \$0.46 per diluted share, compared to \$5.1 million, or \$0.32 per diluted share, in the prior year period.

Joseph B. Armes, CSW Industrials' Chief Executive Officer, commented, "We are pleased to report excellent third quarter results highlighted by double-digit organic revenue growth, which helped to bolster margins and generate 37% growth in adjusted net income. We continue to outpace the growth of the end markets we serve, which we attribute to our talented global workforce, customer focus, industry leading brands and quality products."

Armes continued, "We continue to steward well the capital entrusted to us by directing cash to the opportunities providing the greatest risk-adjusted return. Underscoring this commitment, we returned \$9.9 million to shareholders through share repurchases in the third fiscal quarter 2019 bringing the year-to-date total to \$40.7 million."

Third Quarter Results of Operations

Consolidated revenue from continuing operations increased 12.3% to \$77.5 million, compared to \$69.0 million in the prior year period.

Industrial Products segment revenue increased 15.3% to \$43.7 million, compared to \$37.9 million in the prior year period. Higher revenue was mainly the result of increased sales volume in HVAC and architecturally-specified building products end markets. GAAP segment operating income increased 11.0% to \$8.1 million, compared to \$7.3 million in the prior year period.

Specialty Chemicals segment revenue increased 8.7% to \$33.8 million, compared to \$31.1 million in the prior year period. Increased sales were driven by higher volumes in the general industrial and architecturally-specified building products end markets. GAAP segment operating income increased 17.9% to \$4.6 million, compared to \$3.9 million in the prior year period.

Consolidated gross profit increased 13.2% to \$34.2 million, compared to \$30.2 million in the prior year period. Gross margin as a percentage of sales increased to 44.2%, compared to 43.8% in the prior year period driven by sales leverage across operating segments.

Consolidated operating expenses in the current quarter were \$24.8 million, or 32.0% of sales, and declined 30 basis points over the prior year level of \$22.3 million, or 32.3% of sales. The increase in operating expenses was primarily driven by increased performance-based compensation as a result of stronger operating results and increased spending in the Industrial Products related to an ERP system upgrade of \$0.4 million.

Reported net earnings from continuing operations increased to \$6.0 million, or \$0.39 per diluted share, compared to \$2.6 million, or \$0.17 per diluted share in the prior year period. Adjusted to apply a normalized tax rate, adjusted net earnings from continuing operations in the fiscal third quarter of 2019 increased 37.3% to \$7.0 million, or \$0.46 per diluted share, compared to adjusted income from continuing operations of \$5.1 million, or \$0.32 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 13686796. The telephonic replay will be available beginning at 1:00 p.m. ET on Tuesday, February 5, 2019, and will last through 11:59 p.m. ET on Tuesday, February 19, 2019. 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 December 31,		(unaudited) Nine Months Ended December 31,	
	2018	2017	2018	2017
(Amounts in thousands, except per share amounts)				
Revenues, net	\$ 77,488	\$ 69,036	\$ 258,678	\$ 242,757
Cost of revenues	(43,260)	(38,826)	(140,153)	(131,013)
Gross profit	34,228	30,210	118,525	111,744
Selling, general and administrative expenses	(24,807)	(22,270)	(74,156)	(72,581)
Operating income	9,421	7,940	44,369	39,163
Interest expense, net	(289)	(540)	(1,094)	(1,842)
Other income, net	336	375	1,157	994
Income before income taxes	9,468	7,775	44,432	38,315
Provision for income taxes	(3,471)	(5,140)	(12,005)	(16,243)
Income from continuing operations	5,997	2,635	32,427	22,072
Income (loss) from discontinued operations, net of tax	(1,016)	(36,672)	(616)	(40,293)
Net income	\$ 4,981	\$ (34,037)	\$ 31,811	\$ (18,221)

Basic earnings (loss) earnings per common share:

Continuing operations	\$ 0.39	\$ 0.17	\$ 2.09	\$ 1.41
Discontinued operations	(0.06)	(2.34)	(0.04)	(2.57)
Net income	\$ 0.33	\$ (2.17)	\$ 2.05	\$ (1.16)

Diluted earnings (loss) earnings per common share:

Continuing operations	\$ 0.39	\$ 0.17	\$ 2.07	\$ 1.41
Discontinued operations	(0.07)	(2.34)	(0.04)	(2.57)

Net income	\$ 0.32	\$ (2.17) \$ 2.03	\$ (1.16)
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Consolidated Balance Sheets

(Amounts in thousands, except per share amounts)	(unaudited)	
	December 31, 2018	March 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 14,624	\$ 11,706
Accounts receivable, net of allowance for doubtful accounts of \$701 and \$1,015, respectively	50,277	63,383
Inventories, net	50,444	42,974
Prepaid expenses and other current assets	9,323	7,077
Current assets, discontinued operations	21	2,427
Total current assets	124,689	127,567
Property, plant and equipment, net of accumulated depreciation of \$64,911 and \$61,967, respectively	52,720	54,473
Goodwill	80,838	81,764
Intangible assets, net	47,376	53,054
Other assets	11,861	23,958
Total assets	\$ 317,484	\$ 340,816
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 14,514	\$ 16,826
Accrued and other current liabilities	29,138	23,501
Current portion of long-term debt	561	561
Current liabilities, discontinued operations	168	3,966
Total current liabilities	44,381	44,854
Long-term debt	11,039	23,459
Retirement benefits payable	1,789	2,017
Other long-term liabilities	5,484	4,721
Noncurrent liabilities, discontinued operations	964	-
Total liabilities	63,657	75,051
Equity:		
Common shares, \$0.01 par value	158	158
Shares authorized – 50,000		
Shares issued – 16,000 and 15,957, respectively		
Additional paid-in capital	45,576	42,684
Treasury shares, at cost (866 and 80 shares, respectively)	(45,007	) (3,252
Retained earnings	263,538	233,650
Accumulated other comprehensive loss	(10,438	) (7,475
Total equity	253,827	265,765
Total liabilities and equity	\$ 317,484	\$ 340,816

Consolidated Statements of Cash Flow

(Amounts in thousands)	(unaudited)	
	Nine Months Ended December 31, 2018	2017
Cash flows from operating activities:		
Net income	\$ 31,811	\$ (18,221
Less: loss from discontinued operations	(616	) (40,293
Income from continuing operations	32,427	22,072
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,599	5,697
Amortization of intangible and other assets	4,799	5,450
Provision for inventory reserves	822	220

Provision for doubtful accounts	126	(6)
Share-based and other executive compensation	2,893	3,329	
Net gain on disposals of property, plant and equipment	(2,854	)	(89
Net pension benefit	(296	)	(974
Net deferred taxes	10,225	(430)
Changes in operating assets and liabilities:			
Accounts receivable, net	12,450	8,673	
Inventories	(7,676	)	(1,262
Prepaid expenses and other current assets	(2,263	)	375
Other assets	293	9	
Accounts payable and other current liabilities	1,755	10,343	
Retirement benefits payable and other liabilities	(19	)	(6,357
Net cash provided by operating activities, continuing operations	58,281	47,050	
Net cash used in operating activities, discontinued operations	(8,401	)	(8,291
Net cash provided by operating activities	49,880	38,759	
Cash flows from investing activities:			
Capital expenditures	(4,766	)	(4,263
Proceeds from sale of assets held for investment	2,102	546	
Proceeds from sale of assets	3,291	22	
Net change in bank time deposits	-	1,840	
Net cash provided by (used in) investing activities, continuing operations	627	(1,855)
Net cash provided by (used in) investing activities, discontinued operations	7,356	(825)
Net cash provided by (used in) investing activities	7,983	(2,680)
Cash flows from financing activities:			
Borrowings on lines of credit	8,000	-	
Repayments of lines of credit	(20,421	)	(33,046
Payments of deferred loan costs	-	(422)
Purchase of treasury shares	(41,755	)	(997
Proceeds from stock option activity	-	328	
Net cash used in financing activities	(54,176	)	(34,137
Effect of exchange rate changes on cash and equivalents	(769	)	1,454
Net change in cash and cash equivalents	2,918	3,396	
Cash and cash equivalents, beginning of period	11,706	23,146	
Cash and cash equivalents, end of period	\$ 14,624	\$ 26,542	

Reconciliation of Non-GAAP Measures

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

(in thousands)	(unaudited)		Nine Months Ended December	
	Quarter Ended December 31,		31,	
	2018	2017	2018	2017
GAAP Operating Income- Continuing Operations	\$ 9,421	\$ 7,940	\$ 44,369	\$ 39,163
Adjusting items:				
Restructuring & realignment	-	-	-	1,243
Gain on sale of property & other	-	-	(1,839) -
M&A transaction costs	-	-		110
Adjusted Operating Income--Continuing Operations	\$ 9,421	\$ 7,940	\$ 42,530	\$ 40,516

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

(in thousands, except share data)	(unaudited)		Nine Months Ended December	
	Quarter Ended December 31,		31,	
	2018	2017	2018	2017

GAAP Net Income---Continuing Operations	\$ 5,997	\$ 2,635	\$ 32,427	\$ 22,072
Adjusting items, net of tax:				
Restructuring & realignment	-	-	-	808
Gain on sale of property & other	-	-	(1,361)	-
M&A transaction costs	-	-	-	71
Discrete Tax Provisions & Other	1,009	2,419	452	2,635
Adjusted Net Income---Continuing Operations	\$ 7,006	\$ 5,054	\$ 31,518	\$ 25,586
GAAP Diluted income per common share, Continuing operations	\$ 0.39	\$ 0.17	\$ 2.07	\$ 1.41
Adjusting items, per diluted common share:				
Restructuring & realignment	-	-	-	0.06
Gain on sale of property & other	-	-	(0.08)	-
M&A transaction costs	-	-	-	0.01
Discrete Tax Provisions & Other	0.07	0.15	0.03	0.16
Adjusted earnings per diluted common share	\$ 0.46	\$ 0.32	\$ 2.02	\$ 1.64
Weighted-average shares outstanding (in thousands)				
Diluted	15,353	15,694	15,645	15,659

Reconciliation of Segment Operating Income to Adjusted Segment Operating Income

(in thousands, except percentages)	(unaudited)							
	For the Three Months Ended December 31, 2018				For the Three Months Ended December 31, 2017			
	Industrial Products	Specialty Chemicals	Corporate and Other	Consolidated Continuing Operations	Industrial Products	Specialty Chemicals	Corporate and Other	Consolidated Continuing Operations
Revenue	\$ 43,652	\$ 33,836	\$ -	\$ 77,488	\$ 37,906	\$ 31,129	\$ 1	\$ 69,036
Operating Income	\$ 8,059	\$ 4,574	\$ (3,212)	\$ 9,421	\$ 7,323	\$ 3,890	\$ (3,273)	\$ 7,940
No Adjusting items:								
Adjusted Operating Income	\$ 8,059	\$ 4,574	\$ (3,212)	\$ 9,421	\$ 7,323	\$ 3,890	\$ (3,273)	\$ 7,940
% of revenue	18.5 %	13.5 %		12.2 %	19.3 %	12.5 %		11.5 %

(in thousands, except percentages)	(unaudited)							
	Year to date December 31, 2018				Year to date December 31, 2017			
	Industrial Products	Specialty Chemicals	Corporate and Other	Consolidated Continuing Operations	Industrial Products	Specialty Chemicals	Corporate and Other	Consolidated Continuing Operations
Revenue	\$ 152,239	\$ 106,437	\$ 2	\$ 258,678	\$ 139,654	\$ 103,101	\$ 2	\$ 242,757
Operating Income	\$ 36,164	\$ 17,205	\$ (9,000)	\$ 44,369	\$ 33,285	\$ 14,670	\$ (8,792)	\$ 39,163
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	\$ 35,911	\$ 15,619	\$ (9,000)	\$ 42,530	\$ 33,762	\$ 15,546	\$ (8,792)	\$ 40,516

% of revenue 23.6 % 14.7 % 16.4 % 24.2 % 15.1 % 16.7 %

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.