



## CSW Industrials Reports Fiscal Fourth Quarter and Full Year 2019 Results

May 22, 2019

### Fourth Quarter Fiscal 2019 Highlights

- Fourth quarter 2019 revenue from continuing operations of \$91.5 million, up 9.6% compared to \$83.5 million in the prior year period.
- Fourth quarter 2019 GAAP net income from continuing operations increased to \$13.6 million, or \$0.90 per diluted share, compared to \$10.6 million, or \$0.68 per diluted share, in the prior year period.
- Fourth quarter 2019 adjusted net income from continuing operations increased 45.6% to \$11.5 million, or \$0.75 per diluted share, compared to \$7.9 million, or \$0.51 per diluted share, in the prior year period.

### Full Year Fiscal 2019 Highlights

- Full year fiscal 2019 revenue from continuing operations of \$350.2 million, up 7.4% compared to \$326.2 million in the prior year period.
- Full year fiscal 2019 GAAP net income from continuing operations increased to \$46.1 million, or \$2.96 per diluted share, compared to \$32.7 million, or \$2.09 per diluted share, in the prior year period.
- Full year fiscal 2019 adjusted net income from continuing operations increased 28.0% to \$43.0 million, or \$2.77 per diluted share, compared to \$33.6 million, or \$2.14 per diluted share, in the prior year period.
- Operating cash flow from continuing operations for the twelve months ended March 31, 2019 increased 18.8% to \$68.2 million, compared to the prior year period of \$57.4 million.

DALLAS, May 22, 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 fourth quarter and full year 2019 ended March 31, 2019.

Net revenue during the fiscal fourth quarter of 2019 increased 9.6% (9.0% organic) to \$91.5 million, compared to \$83.5 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 building products, general industrial, HVAC/R and mining end markets, partially offset by lower sales in the energy end market.

GAAP operating income from continuing operations increased 53.3% to \$16.1 million, compared to \$10.5 million in the prior year period. The increase was driven by increased sales volumes.

Net income from continuing operations in the fiscal fourth quarter of 2019 was \$13.6 million, or \$0.90 per diluted share, compared to \$10.6 million, or \$0.68 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 fourth quarter of 2019 was \$11.5 million, or \$0.75 per diluted share, compared to \$7.9 million, or \$0.51 per diluted share, in the prior year period.

Joseph B. Armes, CSW Industrials' Chief Executive Officer, commented, "I am very pleased with our fiscal 2019 results as we drove impressive growth to our topline and increased profits at a significantly greater rate than our sales growth. Our team executed effectively across our operating segments through continued integration efforts and efficiency initiatives."

Armes continued, "In April, we announced the deployment of over \$65 million in cash supporting our holistic capital allocation strategy aimed at driving long-term shareholder value. While our top priorities continue to be organic and inorganic investments, our previously-announced implementation of a dividend policy speaks to our Board of Directors' confidence in our strategy and diversifies the ways in which we are able to return cash to shareholders."

### Fourth Quarter Results of Operations

Consolidated revenue from continuing operations increased 9.6% to \$91.5 million, compared to \$83.5 million in the prior year period.

Industrial Products segment revenue increased 14.7% (13.7% organic) to \$53.7 million, compared to \$46.8 million in the prior year period. Higher revenue was mainly the result of increased sales volume in architecturally-specified building products, general industrial, HVAC/R and plumbing end markets, partially offset by lower sales in the rail end markets. GAAP segment operating income increased 16.5% to \$12.7 million, compared to \$10.9 million in the prior year period.

Specialty Chemicals segment revenue increased 3.3% to \$37.8 million, compared to \$36.6 million in the prior year period. Increased sales were driven in the rail, mining and building products end markets, partially offset by lower sales in the energy and plumbing end markets. GAAP segment operating income increased 109.4% to \$6.7 million, compared to \$3.2 million in the prior year period.

Consolidated gross profit increased 18.2% to \$42.8 million, compared to \$36.2 million in the prior year period. Gross margin as a percentage of sales increased 340 basis points to 46.8%, compared to 43.4% in the prior year period driven by sales leverage within operating segments and operational efficiency.

Consolidated operating expenses in the current quarter were \$26.8 million, or 29.3% of sales, and declined 150 basis points over the prior year level of \$25.7 million, or 30.8% of sales. As a percentage of sales, the improvement was driven by sales leverage, partially offset by increased performance-based compensation as a result of stronger operating results.

Reported net earnings from continuing operations increased 28.3% to \$13.6 million, or \$0.90 per diluted share, compared to \$10.6 million, or \$0.68 per diluted share, in the prior year period. Adjusted to exclude one-time items and applying a normalized tax rate, adjusted net earnings from continuing operations in the fiscal fourth quarter of 2019 increased 45.6% to \$11.5 million, or \$0.75 per diluted share, compared to adjusted income from continuing operations of \$7.9 million, or \$0.51 per diluted share, in the prior year period.

#### **Full Year Results**

Consolidated revenue increased 7.4% (7.2% organic) to \$350.2 million, compared with prior year revenue of \$326.2 million. Higher revenue was attributed to sales from both existing and new products in the HVAC/R, architecturally specified building products and general industrial and plumbing end markets, partially offset by lower sales volumes in the mining and energy end markets.

Industrial Products segment revenue increased 10.4% (10.1% organic) to \$205.9 million, compared to \$186.5 million in the prior year period. The increase in revenue was mainly the result of higher sales in HVAC/R, architecturally-specified building products and general industrial end markets. Reported segment operating income increased 10.4% to \$48.8 million, compared to \$44.2 million in the prior year period. Segment adjusted operating income increased 8.5% to \$48.6 million, compared to \$44.8 million in the prior year period.

Specialty Chemicals segment revenue increased 3.2% to \$144.2 million, compared to \$139.7 million in the prior year period. The increase in revenue was driven by higher sales in the general industrial, architecturally-specified building products and plumbing end markets, partially offset by lower volume in the mining end market. Reported segment operating income increased 34.3% to \$23.9 million, compared to \$17.8 million in the prior year period. Segment adjusted operating income increased 18.0% to \$22.3 million, compared to \$18.9 million in the prior year period, due to leverage on the increased sales and operational efficiencies.

Consolidated gross profit increased 9.1% to \$161.4 million over the prior year level of \$147.9 million. Gross margin as a percentage of sales improved 80 basis points to 46.1%, compared to 45.3% in the prior year period. Higher gross margin was driven by leverage on sales, gains on sales of property, plant and equipment and savings as a result of prior year restructuring and realignment activities that did not recur.

Consolidated operating expenses were \$100.9 million, or 28.8% of sales, compared to the prior year level of \$98.3 million, or 30.1% of sales, an improvement of 130 basis points. The decrease in operating expense as a percentage of sales was attributable to leverage on increased sales and lower professional fees, partially offset by increased compensation and selling expenses.

The effective tax rate on continuing operations for the quarter ended March 31, 2019 was 19.9% and 25.0% for the fiscal year ended March 31, 2019. The Company's effective tax rate for fiscal 2020 is expected to be in a range of 25% to 27%.

Reported net earnings from continuing operations was \$46.1 million, or \$2.96 per diluted share, compared to \$32.7 million, or \$2.09 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 for the fiscal year 2019 increased 28% to \$43.0 million, or \$2.77 per diluted share, compared to adjusted income from continuing operations of \$33.6 million, or \$2.14 per diluted share, in the prior year period.

Operating cash flow from continuing operations for the fiscal year ended March 31, 2019, increased 18.8% to \$68.2 million, compared to \$57.4 million in the prior year.

#### **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](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 13690346. The telephonic replay will be available beginning at 1:00 p.m. ET on Wednesday, May 22, 2019, and will last through 11:59 p.m. ET on Wednesday, June 5, 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 and refrigeration applications ("HVAC/R"), sealants and high performance specialty lubricants. Markets that CSWI serves include: HVAC/R, industrial, rail, plumbing, architecturally-specified building products, energy, mining and general industrial markets.

## Consolidated Statements of Income

	(Unaudited)			
	Three Months Ended March 31,		Fiscal Year Ended March 31,	
	2019	2018	2019	2018
(in thousands, except per share amounts)				
Revenues, net	\$ 91,477	\$ 83,464	\$ 350,155	\$ 326,222
Cost of revenues	(48,632)	(47,269)	(188,785)	(178,282)
Gross profit	42,845	36,195	161,370	147,940
Selling, general and administrative expenses	(26,774)	(25,700)	(100,930)	(98,281)
Operating income	16,071	10,495	60,440	49,659
Interest expense, net	(349)	(476)	(1,442)	(2,317)
Other income (expense), net	1,286	(88)	2,443	905
Income before income taxes	17,008	9,931	61,441	48,247
Provision for income taxes	(3,384)	678	(15,389)	(15,565)
Income from continuing operations	13,624	10,609	46,052	32,682
Income (loss) from discontinued operations, net of tax	139	(4,271)	(478)	(44,564)
Net (loss) income	<u>\$ 13,763</u>	<u>\$ 6,338</u>	<u>\$ 45,574</u>	<u>\$ (11,882)</u>
Basic earnings (loss) earnings per common share:				
Continuing operations	\$ 0.90	\$ 0.68	\$ 2.99	\$ 2.09
Discontinued operations	0.01	(0.28)	(0.03)	(2.85)
Net (loss) income	<u>\$ 0.91</u>	<u>\$ 0.40</u>	<u>\$ 2.96</u>	<u>\$ (0.76)</u>
Diluted earnings (loss) earnings per common share:				
Continuing operations	\$ 0.90	\$ 0.68	\$ 2.96	\$ 2.09
Discontinued operations	0.01	(0.28)	(0.03)	(2.85)
Net (loss) income	<u>\$ 0.91</u>	<u>\$ 0.40</u>	<u>\$ 2.93</u>	<u>\$ (0.76)</u>

## Consolidated Balance Sheets

	March 31,	
	2019	2018
(Amount in thousands, except per share amounts)		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 26,651	\$ 11,706
Accounts receivable, net	66,136	63,383
Inventories, net	51,429	42,974
Prepaid expenses and other current assets	7,030	7,077
Current assets, discontinued operations	21	2,427
Total current assets	151,267	127,567
Property, plant and equipment, net	53,639	54,473
Goodwill	86,295	81,764
Intangible assets, net	50,466	53,054

Other assets	10,965	23,958
Total assets	<u>\$ 352,632</u>	<u>\$ 340,816</u>

#### LIABILITIES AND EQUITY

Current liabilities:

Accounts payable	\$ 19,024	\$ 16,826
Accrued and other current liabilities	29,426	23,501
Current portion of long-term debt	561	561
Current liabilities, discontinued operations	161	3,966
Total current liabilities	<u>49,172</u>	<u>44,854</u>
Long-term debt	30,898	23,459
Retirement benefits payable	1,978	2,017
Other long-term liabilities	6,114	4,721
Noncurrent liabilities, discontinued operations	784	-
Total liabilities	<u>88,946</u>	<u>75,051</u>
Equity:		
Common shares, \$0.01 par value	158	158
Shares authorized – 50,000		
Shares issued – 16,001 and 15,957, respectively		
Additional paid-in capital	46,633	42,684
Treasury shares, at cost (962 and 80 shares, respectively)	(49,964)	(3,252)
Retained earnings	277,588	233,650
Accumulated other comprehensive loss	(10,729)	(7,475)
Total equity	<u>263,686</u>	<u>265,765</u>
Total liabilities and equity	<u>\$ 352,632</u>	<u>\$ 340,816</u>

#### Consolidated Statements of Cash Flows

##### Fiscal Year Ended March 31,

(Amounts in thousands)	<u>2019</u>	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:			
Net income (loss)	\$ 45,574	\$ (11,882)	\$ 11,071
Less: Loss from discontinued operations	(478)	(44,564)	(6,729)
Income from continuing operations	<u>46,052</u>	<u>32,682</u>	<u>17,800</u>
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	7,411	7,651	7,470
Amortization of intangible and other assets	6,425	7,282	6,284
Provision for inventory reserves	231	235	167
Provision for doubtful accounts	818	(457)	131
Share-based and other executive compensation	3,949	4,161	4,642
Acquisition-related non-cash gain		-	(376)
Net (gain) loss on disposals of property, plant and equipment	(4,320)	(70)	221
Net pension benefit	(416)	(1,062)	(1,092)
Impairment of assets	-	-	1,315
Realized (unrealized) deferred taxes	10,419	(10,146)	-
Net deferred taxes	206	1,640	464
Changes in operating assets and liabilities:			
Accounts receivable, net	(3,825)	(2,698)	(5,028)
Inventories	(5,537)	992	214
Prepaid expenses and other current assets	725	17,797	(793)

Other assets	920	(106)	(112)
Accounts payable and other current liabilities	5,704	6,263	5,669
Retirement benefits payable and other liabilities	(603)	(6,780)	2,385
Net cash provided by operating activities, continuing operations	<b>68,159</b>	57,384	39,361
Net cash used in operating activities, discontinued operations	(8,449)	(14,228)	(325)
Net cash provided by operating activities	<u>59,710</u>	<u>43,156</u>	<u>39,036</u>
Cash flows from investing activities:			
Capital expenditures	(7,515)	(5,534)	(6,869)
Proceeds from sale of assets held for investment	3,905	547	-
Proceeds from sale of assets	3,295	92	605
Net change in bank time deposits	-	1,860	10,968
Cash paid for acquisitions	(10,100)	-	(28,179)
Net cash used in investing activities, continuing operations	(10,415)	(3,035)	(23,475)
Net cash provided by (used in) investing activities, discontinued operations	7,356	(1,510)	(2,493)
Net cash used in investing activities	<u>(3,059)</u>	<u>(4,545)</u>	<u>(25,968)</u>
Cash flows from financing activities:			
Borrowings on lines of credit	28,000	-	-
Repayments of lines of credit	(20,561)	(49,187)	(16,476)
Payments of deferred loan costs	-	(421)	-
Purchase of treasury shares	(46,712)	(2,241)	(1,011)
Proceeds from stock option activity	-	328	2,169
Net cash used in financing activities	(39,273)	(51,521)	(15,318)
Effect of exchange rate changes on cash and equivalents	(2,433)	1,470	(591)
Net change in cash and cash equivalents	14,945	(11,440)	(2,841)
Cash and cash equivalents, beginning of period	11,706	23,146	25,987
Cash and cash equivalents, end of period	<u>\$ 26,651</u>	<u>\$ 11,706</u>	<u>\$ 23,146</u>

#### Reconciliation of Non-GAAP Measures

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

(in thousands)	(unaudited)			
	Quarter Ended March 31,		Fiscal Year Ended March 31,	
	2019	2018	2019	2018
GAAP Operating Income- Continuing Operations	\$ 16,071	\$ 10,495	\$ 60,440	\$ 49,659
Adjusting items:				
Restructuring & realignment	-	154	-	1,397
Gain on sale of property & other	-	-	(1,839)	-
Acquisition & integration costs	-	-	-	110
Pension Lump Sum & Officer Transition Costs	-	712	-	712
Adjusted Operating Income--Continuing Operations	<u>\$ 16,071</u>	<u>\$ 11,361</u>	<u>\$ 58,601</u>	<u>\$ 51,878</u>

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

(unaudited)

(in thousands, except share data)	Quarter Ended March 31,		Fiscal Year Ended March 31,	
	2019	2018	2019	2018
GAAP Net Income---Continuing Operations	\$ 13,624	\$ 10,609	\$ 46,052	\$ 32,682
Adjusting items, net of tax:				
Restructuring & realignment	-	113	-	921
Gain on sale of property & other	(1,130)	-	(2,491)	-
Acquisition & integration costs	-	-	-	71
Pension Lump Sum & Officer Transition Costs	-	523	-	523
Discrete Tax Provisions & Other	(1,038)	(3,309)	(586)	(603)
Adjusted Net Income---Continuing Operations	\$ 11,456	\$ 7,936	\$ 42,975	\$ 33,594
GAAP Diluted income per common share, Continuing operations	\$ 0.90	\$ 0.68	\$ 2.96	\$ 2.09
Adjusting items, per diluted common share:				
Restructuring & realignment	-	0.01	-	0.07
Gain on sale of property & other	(0.08)	-	(0.15)	-
Acquisition & integration costs	-	-	-	-
Pension Lump Sum & Officer Transition Costs	-	0.03	-	0.03
Discrete Tax Provisions & Other	(0.07)	(0.21)	(0.04)	(0.05)
Adjusted earnings per diluted common share	\$ 0.75	\$ 0.51	\$ 2.77	\$ 2.14

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

(unaudited)

(in thousands, except percentages)	For the Three Months Ended March 31, 2019				For the Three Months Ended March 31, 2018			
	Industrial Products	Specialty Chemicals	Corporate and Other	Consolidated Continuing Operations	Industrial Products	Specialty Chemicals	Corporate and Other	Consolidated Continuing Operations
Revenue	\$ 53,691	\$ 37,786	\$ -	\$ 91,477	\$ 46,829	\$ 36,635	\$ -	\$ 83,464
Operating Income	\$ 12,653	\$ 6,726	\$ (3,308)	\$ 16,071	\$ 10,888	\$ 3,206	\$ (3,599)	\$ 10,495
Adjusting items:								
Restructuring & realignment	-	-	-	-	-	154	-	154
Pension Lump Sum & Officer Transition Costs	-	-	-	-	119	47	546	712

Adjusted Operating Income	\$ 12,653	\$ 6,726	\$ (3,308)	\$ 16,071	\$ 11,007	\$ 3,407	\$ (3,053)	\$ 11,361
% of revenue	23.6%	17.8%		17.6%	23.5%	9.3%		13.6%

(unaudited)

(in thousands, except percentages)	Fiscal Year Ended March 31, 2019				Fiscal Year Ended March 31, 2018			
	Industrial Products	Specialty Chemicals	Corporate and Other	Consolidated Continuing Operations	Industrial Products	Specialty Chemicals	Corporate and Other	Consolidated Continuing Operations
Revenue	\$205,931	\$144,223	\$ 1	\$ 350,155	\$186,483	\$139,735	\$ 4	\$ 326,222
Operating Income	\$ 48,817	\$ 23,930	\$ (12,307)	\$ 60,440	\$ 44,225	\$ 17,804	\$ (12,370)	\$ 49,659
Adjusting items:								
Restructuring & realignment	-	-	-	-	367	1,030	-	1,397
Gain on sale of property & other	(253)	(1,586)	-	(1,839)	-	-	-	-
Acquisition & integration costs	-	-	-	-	110	-	-	110
Pension Lump Sum & Officer Transition Costs	-	-	-	-	119	47	546	712
Adjusted Operating Income	\$ 48,564	\$ 22,344	\$ (12,307)	\$ 58,601	\$ 44,821	\$ 18,881	\$ (11,824)	\$ 51,878
% of revenue	23.6%	15.5%		16.7%	24.0%	13.5%		15.9%

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.