



## CSW Industrials Reports Fiscal First Quarter 2020 Results

August 8, 2019

### First Quarter Fiscal 2020 Highlights

- First quarter 2020 revenue from continuing operations of \$102.3 million, up 14.2% (9.6% organic) compared to \$89.6 million in the prior year period.
- First quarter 2020 GAAP operating income of \$20.3 million, up 14.7% compared to \$17.7 million in the prior year period and up 27.7% compared to adjusted operating income of \$15.9 million in the prior year period, which was adjusted to exclude one-time net favorable items.
- First quarter 2020 GAAP net income from continuing operations increased to \$15.3 million, or \$1.01 per diluted share, compared to \$14.0 million, or \$0.88 per diluted share, in the prior year period. Excluding net favorable one-time items in the prior-year, and adjusting taxes for a normalized tax rate in both years, net income from continuing operations was up 23.3% (from \$12.0 million to \$14.8 million) compared to the prior year period.

DALLAS, Aug. 08, 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 first quarter ended June 30, 2019.

Net revenue during the fiscal first quarter of 2019 increased 14.2% (9.6% organic) to \$102.3 million, compared to \$89.6 million in the prior year period. Higher revenue was driven by increased sales in both the Industrial Products and Specialty Chemicals segments, primarily due to 9.6% organic growth and by incremental revenue related to acquisitions completed in the past 12-months. Increased sales were driven by the HVAC/R end market, as well as lesser increases in the architecturally-specified building products, rail, energy, mining and general industrial end markets.

GAAP operating income from continuing operations increased 14.7% to \$20.3 million, compared to \$17.7 million in the prior year period. The increase was primarily driven by increased sales volumes.

Net income from continuing operations in the fiscal first quarter of 2019 was \$15.3 million, or \$1.01 per diluted share, compared to \$14.0 million, or \$0.88 per diluted share, in the prior year period. Adjusted to exclude net favorable one-time items in the prior year period and applying a normalized tax rate to both years, adjusted net income from continuing operations in the fiscal first quarter of 2019 was \$14.8 million, or \$0.98 per diluted share, compared to \$12.0 million, or \$0.76 per diluted share, in the prior year period.

Joseph B. Armes, CSW Industrials' Chief Executive Officer, commented, "Fiscal 2020 is off to a strong start as we executed well across both segments, highlighted by 14.2% consolidated revenue growth which included high single digit organic growth. As we look to the balance of the year and beyond, our team is working diligently to drive further growth across the end markets we serve and build on the successful integration of our recent acquisitions, as we remain committed to delivering long-term profitable growth and total shareholder returns."

### First Quarter Results of Operations

Consolidated revenue from continuing operations increased 14.2% to \$102.3 million, compared to \$89.6 million in the prior year period.

Industrial Products segment revenue increased 17.6% (10.0% organic) to \$63.4 million, compared to \$53.9 million in the prior year period. Higher revenue was mainly due to increased sales volume in HVAC/R organic growth coupled with acquisition related revenue of \$4.1 million. GAAP segment operating income increased 22.3% to \$17.0 million, compared to \$13.9 million in the prior year period. Adjusted to exclude non-recurring items in the prior year, primarily related to the sale of a facility, segment operating income was \$17.0 million, compared to \$13.6 million in the prior year period or an increase of 25.0%.

Specialty Chemicals segment revenue increased 9.2% to \$39.0 million, compared to \$35.7 million in the prior year period. Increased sales were primarily driven by increased sales volumes into the rail, energy, architecturally-specified building products and mining end markets. GAAP segment operating income increased to \$6.6 million, compared to \$6.5 million in the prior year period. Adjusted to exclude non-recurring items in the prior year, primarily related to the sale of a facility, segment operating income was \$6.6 million, compared to \$4.9 million in the prior year period or an increase of 34.7%.

Consolidated gross profit increased 12.1% to \$47.2 million, compared to \$42.1 million in the prior year period. Gross margin as a percentage of sales decreased 80 basis points to 46.2%, compared to 47.0% in the prior year period primarily due to the impact of \$2.0 million of non-recurring net gains in the prior year period that did not recur.

Consolidated operating expenses in the current quarter were \$26.9 million, or 26.3% of sales, and declined 90 basis points over the prior year level of \$24.3 million, or 27.2% of sales. As a percentage of sales, the improvement was driven by sales leverage, partially offset by increased personnel related expenses and costs associated with acquisitions.

Reported net income from continuing operations increased to \$15.3 million, or \$1.01 per diluted share, compared to \$14.0 million, or \$0.88 per diluted share, in the prior year period. Adjusted to exclude net one-time items in the prior year that did not recur and applying a normalized tax rate in both years, adjusted net income from continuing operations in the fiscal first quarter of 2019 increased 23.3% to \$14.8 million, or \$0.98 per diluted share (28.9% increase), compared to adjusted net income from continuing operations of \$12.0 million, or \$0.76 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](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 13692728. The telephonic replay will be available beginning at 1:00 p.m. ET on Thursday, August 8, 2019, and will last through 11:59 p.m. ET on Thursday, August 22, 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 June 30,	
	2019	2018
(in thousands, except per share amounts)		
Revenues, net	\$ 102,333	\$ 89,578
Cost of revenues	(55,098)	(47,490)
Gross profit	47,235	42,088
Selling, general and administrative expenses	(26,914)	(24,344)
Operating income	20,321	17,744
Interest expense, net	(501)	(384)
Other (loss) income, net	(87)	738
Income before income taxes	19,733	18,098
Provision for income taxes	(4,389)	(4,091)
Income from continuing operations	15,344	14,007
Loss from discontinued operations, net of tax	(140)	(2,331)
Net income	\$ 15,204	\$ 11,676
Basic earnings (loss) per common share:		
Continuing operations	\$ 1.02	\$ 0.89
Discontinued operations	(0.01)	(0.15)
Net income	\$ 1.01	\$ 0.74
Diluted earnings (loss) per common share:		
Continuing operations	\$ 1.01	\$ 0.88

Discontinued operations	(0.01)	(0.15)
Net income	\$ 1.00	\$ 0.73

## Consolidated Balance Sheets

	(Unaudited)	
(Amount in thousands, except per share amounts)	June 30, 2019	March 31, 2019
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 10,228	\$ 26,651
Accounts receivable, net of allowance for doubtful accounts of \$734 and \$591, respectively	72,841	66,136
Inventories, net	54,224	51,429
Prepaid expenses and other current assets	2,445	7,030
Current assets, discontinued operations	-	21
Total current assets	139,738	151,267
Property, plant and equipment, net of accumulated depreciation of \$67,854 and \$65,548, respectively	54,248	53,639
Goodwill	92,429	86,295
Intangible assets, net	52,335	50,466
Other assets	26,182	10,965
Noncurrent assets, discontinued operations	2,099	-
Total assets	\$ 367,031	\$ 352,632
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 17,887	\$ 19,024
Accrued and other current liabilities	26,027	29,426
Current portion of long-term debt	561	561
Current liabilities, discontinued operations	355	161
Total current liabilities	44,830	49,172
Long-term debt	21,258	30,898
Retirement benefits payable	1,923	1,978
Other long-term liabilities	19,435	6,114
Noncurrent liabilities, discontinued operations	2,758	784
Total liabilities	90,204	88,946
Equity:		
Common shares, \$0.01 par value	159	158
Shares authorized – 50,000		
Shares issued – 15,999 and 16,001, respectively		
Additional paid-in capital	47,846	46,633
Treasury shares, at cost (975 and 962 shares, respectively)	(50,757)	(49,964)
Retained earnings	290,351	277,588
Accumulated other comprehensive loss	(10,772)	(10,729)
Total equity	276,827	263,686
Total liabilities and equity	\$ 367,031	\$ 352,632

## Consolidated Statements of Cash Flows

(Unaudited)

(Amounts in thousands)	<b>Three Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
Cash flows from operating activities:		
Net income	\$ 15,204	\$ 11,676
Less: loss from discontinued operations	(140)	(2,331)
Income from continuing operations	15,344	14,007
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,319	1,925
Amortization of intangible and other assets	1,760	1,636
Provision for inventory reserves	194	740
Provision for doubtful accounts	274	-
Share-based compensation	1,213	929
Net gain on disposals of property, plant and equipment	-	(2,922)
Net pension benefit	(97)	(106)
Net deferred taxes	(95)	147
Changes in operating assets and liabilities:		
Accounts receivable, net	(4,799)	(2,405)
Inventories	(2,159)	(3,333)
Prepaid expenses and other current assets	4,627	2,022
Other assets	37	(27)
Accounts payable and other current liabilities	(8,936)	(719)
Retirement benefits payable and other liabilities	(17)	(53)
Net cash provided by operating activities, continuing operations	9,665	11,841
Net cash used in operating activities, discontinued operations	(255)	(2,894)
Net cash provided by operating activities	9,410	8,947
Cash flows from investing activities:		
Capital expenditures	(2,226)	(1,489)
Proceeds from sale of assets held for investment	-	278
Proceeds from sale of assets	-	3,230
Cash paid for acquisitions	(11,500)	-
Net cash (used in) provided by investing activities, continuing operations	(13,726)	2,019
Net cash provided by investing activities, discontinued operations	-	297
Net cash (used in) provided by investing activities	(13,726)	2,316
Cash flows from financing activities:		
Borrowings on lines of credit	7,500	-
Repayments of lines of credit	(17,140)	(4,140)
Purchase of treasury shares	(793)	(7,502)
Dividends paid to shareholders	(2,028)	-
Net cash used in financing activities	(12,461)	(11,642)
Effect of exchange rate changes on cash and equivalents	354	(344)
Net change in cash and cash equivalents	(16,423)	(723)
Cash and cash equivalents, beginning of period	26,651	11,706
Cash and cash equivalents, end of period	\$ 10,228	\$ 10,983

#### Reconciliation of Non-GAAP Measures

#### CSW Industrials, Inc.

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



Revenue	\$ 63,352	\$ 38,981	\$ -	\$ 102,333	\$ 53,860	\$ 35,718	\$ -	\$ 89,578
Operating Income	\$ 17,042	\$ 6,623	\$ (3,344)	\$ 20,321	\$ 13,893	\$ 6,473	\$ (2,622)	\$ 17,744
No Adjusting items:								
Gain on sale of property & other	-	-	-	-	(253)	(1,586)	-	(1,839)
Adjusted Operating Income	\$ 17,042	\$ 6,623	\$ (3,344)	\$ 20,321	\$ 13,640	\$ 4,887	\$ (2,622)	\$ 15,905
<i>% of revenue</i>	26.9%	17.0%		19.9%	25.3%	13.7%		17.8%

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.