



CSW Industrials Reports Fiscal First Quarter 2018 Results

August 9, 2017

Highlights

- First quarter 2018 revenue of \$98.0 million, up 16.6% compared to \$84.1 million in the prior year period.
- First quarter 2018 organic growth of 11.0%; second consecutive quarter of double digit organic growth.
- First quarter 2018 GAAP operating income of \$14.3 million; Non-GAAP operating income of \$16.8 million.
- First quarter 2018 GAAP net earnings of \$8.5 million, or \$0.54 per diluted share; Non-GAAP net earnings of \$10.1 million, or \$0.64 per diluted share.

DALLAS, Aug. 09, 2017 (GLOBE NEWSWIRE) -- CSW Industrials, Inc. (NASDAQ:CSWI), a diversified industrial growth company with well-established, scalable platforms and domain expertise across three segments: Industrial Products; Coatings, Sealants & Adhesives; and Specialty Chemicals, today reported results for the fiscal first quarter ended June 30, 2017.

Net revenue during the fiscal first quarter of 2018 increased 16.6% to \$98.0 million, compared to the prior year period of \$84.1 million. Organic growth was 11.0%, and acquisitions contributed 5.6% to total growth. The increase in revenue was primarily attributable to increases in our HVAC, mining, plumbing and energy end markets.

Net income in the fiscal first quarter of 2018 was \$8.5 million, or \$0.54 per diluted share, compared to \$4.1 million, or \$0.26 per diluted share, in the prior year period. Adjusted to exclude one-time expenses and applying a normalized tax rate, adjusted net income in the fiscal first quarter of 2018 was up 26.4% to \$10.1 million, or \$0.64 per diluted share, compared to \$8.0 million, or \$0.51 per diluted share, in the prior year period.

Joseph B. Armes, CSW Industrials' Chief Executive Officer, commented, "We are pleased with the strong start to fiscal 2018, as we saw strength across both our Industrial Products and Specialty Chemicals segments and began to realize the benefits of our efficiency initiatives. While we are encouraged by our results, we still see discrete challenges in some of the markets we serve. We will continue to diligently manage our businesses, being mindful of costs and exploiting the positive opportunities we see." Armes continued "Our team is highly focused on continuing to integrate our business segments and drive efficiency initiatives. We are gratified that our manufacturing footprint rationalization programs are beginning to bear fruit as we continue to enhance shareholder value."

First Quarter Results of Operations

Consolidated revenue increased to \$98.0 million, compared with the prior year level of \$84.1 million.

Industrial Products segment revenue was \$53.3 million, compared to the prior year of \$43.5 million. Higher revenue was mainly the result of strong sales into HVAC and plumbing end markets, coupled with acquisition related revenue. GAAP segment operating income increased to \$13.6 million, compared to the prior year of \$10.6 million. Adjusted to exclude non-recurring expenses primarily related to restructuring and realignment, segment operating income increased 28.9% to \$13.9 million, compared to \$10.8 million in the prior year.

Coatings, Sealants and Adhesives (CS&A) segment revenue was \$23.4 million, flat compared to the prior year of \$23.4 million. GAAP segment operating income was \$1.0 million, compared to the prior year of \$1.6 million. Adjusted to exclude non-recurring costs primarily related to restructuring and realignment, segment operating income was \$2.4 million, compared to \$2.6 million in the prior year.

Specialty Chemicals segment revenue was \$21.4 million, compared to the prior year of \$17.2 million. Higher sales were driven by increases in our energy, mining and HVAC end markets. GAAP segment operating income was \$1.9 million, compared to the prior year of \$1.1 million. Adjusted to exclude non-recurring costs primarily related to restructuring and realignment, segment operating income increased to \$2.8 million, compared to \$1.8 million in the prior year.

Consolidated gross profit increased to \$42.4 million, compared to the prior year level of \$38.2 million. Gross margin as a percentage of sales was 43.2%, compared to 45.4% in the prior year period. Lower gross margin compared to the prior year primarily reflected the effect of restructuring and realignment costs and negative mix. In total, the Company incurred \$2.5 million in restructuring and realignment costs during the current period, of which \$2.2 million impacted gross margin.

Consolidated operating expenses decreased 8.7% to \$28.1 million, or 28.7% of sales, compared to the prior year level of \$30.8 million, or 36.6% of sales. Lower operating costs compared to the prior year were primarily attributable to CFO transition and severance costs and impairment due to consolidation of facilities that did not recur, partially offset by increases relating to acquisitions and variable operating costs associated with the increased organic revenue.

Consolidated net income was \$8.5 million, or \$0.54 per diluted share, compared to \$4.1 million, or \$0.26 per diluted share in the prior year period. Adjusted to exclude one-time expenses and applying a normalized tax rate, adjusted net income in the first quarter of 2018 was \$10.1 million, or \$0.64 per diluted share, compared to \$8.0 million, or \$0.51 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 13667378. The telephonic replay will be available beginning at 1:00 p.m. ET on Wednesday, August 9, 2017, and will last through 11:59 p.m. ET on Wednesday, August 23, 2017. 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, 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 three segments: Industrial Products; Coatings, Sealants & Adhesives; 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, coatings and 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	
	June 30,	
	2017	2016
	(in thousands, except per share amounts)	
Revenues, net	\$ 98,027	\$ 84,107
Cost of revenues	(55,658)	(45,904)
Gross profit	42,369	38,203
Selling, general and administrative expenses	(28,106)	(29,711)
Impairment expenses	-	(1,082)
Operating income	14,263	7,410
Interest expense, net	(631)	(748)
Other income (expense), net	(313)	538
Income before income taxes	13,319	7,200
Provision for income taxes	(4,805)	(3,104)
Net income	\$ 8,514	\$ 4,096
Net earnings per common share:		
Basic	\$ 0.54	\$ 0.26
Diluted	0.54	0.26

CONSOLIDATED BALANCE SHEETS

(unaudited)

	June 30, 2017	March 31, 2017
Cash and equivalents	\$ 27,755	\$ 24,922
Accounts receivable, net	71,270	63,782
Inventory, net	51,194	50,401
Prepaid expenses and other current assets	6,938	7,178
Total current assets	157,157	146,283
PP&E, net	64,048	63,897
Goodwill and intangible assets	170,180	171,473
Other assets	16,165	16,011
Total assets	\$ 407,550	\$ 397,664

Accts payable and other current liabilities	\$	48,392	\$	37,175
Current portion of long-term debt		561		561
Total current liabilities		48,953		37,736
Long-term debt		66,630		72,646
Retirement benefits and other liabilities		8,382		14,844
Total liabilities		123,965		125,226
Total equity		283,585		272,438
Total liabilities and equity	\$	407,550	\$	397,664

CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Three Months Ended	
	June 30,	
	2017	2016
	(in thousands)	
Cash flows from operating activities:		
Net income	\$ 8,514	\$ 4,096
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,017	2,141
Amortization of intangible and other assets	2,215	1,986
Provision for inventory reserves	175	-
Share-based and other executive compensation	1,017	2,730
Net loss (gain) on sales of property, plant and equipment	105	(266)
Net pension benefit	(319)	(313)
Impairment of assets	-	1,082
Net deferred taxes	(173)	553
Changes in operating assets and liabilities:		
Accounts receivable, net	(7,277)	(5,977)
Inventories, net	(853)	586
Prepaid expenses and other current assets	262	69
Other assets	6	54
Accounts payable and other current liabilities	4,665	(2,486)
Retirement benefits payable and other liabilities	95	(404)
Net cash provided by operating activities	<u>10,449</u>	<u>3,851</u>
Cash flows from investing activities:		
Capital expenditures	(2,300)	(2,772)
Proceeds from sale of assets held for investment	-	252
Net change in bank time deposits	(5)	(39)
Cash paid for acquisitions	(44)	-
Net cash used in investing activities	<u>(2,349)</u>	<u>(2,559)</u>
Cash flows from financing activities:		
Repayments of lines of credit	(6,015)	(5,140)
Purchase of treasury shares	(10)	(556)
Net cash used in financing activities	<u>(6,025)</u>	<u>(5,696)</u>
Effect of exchange rate changes on cash and equivalents	<u>705</u>	<u>127</u>
Net change in cash and cash equivalents	2,780	(4,277)
Cash and cash equivalents, beginning of period	23,146	25,987
Cash and cash equivalents, end of period	<u>\$ 25,926</u>	<u>\$ 21,710</u>

Reconciliation of Operating Income to Adjusted Operating Income

(unaudited)

Revenue	<u>\$ 53,261</u>	<u>\$ 23,382</u>	<u>\$ 21,382</u>	<u>\$ 2</u>	<u>\$ 98,027</u>	<u>\$ 43,475</u>	<u>\$ 23,424</u>	<u>\$ 17,187</u>	<u>\$ 21</u>	<u>\$ 84,107</u>
Operating Income	\$ 13,633	\$ 990	\$ 1,911	\$ (2,271)	\$ 14,263	\$ 10,607	\$ 1,649	\$ 1,121	\$ (5,967)	\$ 7,410
Adjusting items:										
Restructuring & realignment	232	1,408	876	-	2,516	90	856	605	-	1,551
Consulting projects	-	-	-	-	-	61	121	68	344	594
CFO Transition	-	-	-	-	-	-	-	-	2,841	2,841
Adjusted Operating Income	<u>\$ 13,865</u>	<u>\$ 2,398</u>	<u>\$ 2,787</u>	<u>\$ (2,271)</u>	<u>\$ 16,779</u>	<u>\$ 10,758</u>	<u>\$ 2,626</u>	<u>\$ 1,794</u>	<u>\$ (2,782)</u>	<u>\$ 12,396</u>
% of revenue	26.0%	10.3%	13.0%		17.1%	24.7%	11.2%	10.4%		14.7%

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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CSW Industrials, Inc.