



## CSW Industrials Reports Fiscal First Quarter 2021 Results

August 3, 2020

DALLAS, Aug. 03, 2020 (GLOBE NEWSWIRE) -- CSW Industrials, Inc. (Nasdaq: CSWI) today reported results for the 2021 fiscal first quarter ended June 30, 2020.

### Fiscal First Quarter 2021 Highlights

- Management responding decisively to the global pandemic, acting in the best interest of all stakeholders
- Operations continue with minimal disruption and ongoing commitment to safeguards for employees
- Reported revenue from continuing operations of \$91.0 million, compared to \$102.3 million in the prior year period
- Reported operating income of \$16.3 million, compared to \$20.3 million in the prior year period, with no adjustments in either quarter
- Reported earnings per share of \$0.81, compared to \$1.01 in the prior year period, with no adjustments in either quarter
- Demand for our products in the HVAC/R and plumbing end markets gained momentum in the second half of the fiscal first quarter
- Demonstrated continued commitment to disciplined capital allocation strategy with \$7.3 million of shares repurchased under the program, and \$2.0 million in dividend payments to shareholders in fiscal first quarter
- Net cash provided by operating activities from continuing operations increased to \$14.1 million, compared to \$9.7 million in the prior year
- Strong balance sheet and liquidity position, with \$19.7 million of cash and fully available \$250.0 million revolving credit facility at end of fiscal first quarter

Joseph B. Armes, CSW Industrials' Chairman, President, and Chief Executive Officer, commented, "I am pleased with our results this quarter, as our Company executed well amid a challenging and uncertain business climate. We remain steadfast in our commitment to the four key priorities outlined last quarter - treating our employees well, serving our customers well, managing our supply chains effectively, and thus positioning our businesses for sustainable, long-term growth and profitability. We are committed to our strong, employee-centric culture, where the safety and well-being of our employees is our top priority. During the fiscal first quarter of 2021, we experienced impressive cash generation and maintained an excellent liquidity profile, ending the quarter with \$19.7 million of cash on hand plus our full \$250.0 million revolver capacity available, after returning \$9.3 million to shareholders through share repurchases and dividends."

Armes elaborated, "In line with our previously stated expectations for our fiscal first quarter, COVID-19 pandemic-driven demand degradation impacted sales. Operating income margin of 17.9% remained healthy due to prudent cost control measures undertaken to manage short-term revenue pressure. Throughout the fiscal first quarter, we experienced strength in our architecturally specified building products end market, and in recent weeks, we have realized improved demand in the HVAC/R and plumbing end markets. Forecasting demand remains a significant challenge in the current environment; however, we continue to monitor macroeconomic data and communicate with our customers to understand their expected demand for the remainder of our fiscal year. Currently, we anticipate revenue and earnings in the first half of our fiscal year to be slightly lower than the prior year period. In the second half, which is typically affected by seasonality, we expect continued recovery in select end markets, resulting in moderately lower revenue and earnings than the same period last year. We believe our diversified end markets, strong brand recognition, and sustainable business model will continue to prove resilient through economic cycles, as we deliver on our commitment to drive long-term shareholder value."

### Fiscal First Quarter 2021 Results of Operations

Fiscal first quarter consolidated revenue from continuing operations was \$91.0 million, compared to \$102.3 million in the prior year period, with decreased sales in the Industrial Products and Specialty Chemicals segments, as well as across all end markets served. The decline in revenue was attributable to COVID-19 pandemic-driven demand degradation that negatively impacted sales in the end markets we serve.

Consolidated gross profit in the fiscal first quarter was \$42.8 million, compared to \$47.2 million in the prior year period, with the decreased profit primarily resulting from lower sales volumes. Gross profit margin as a percentage of sales was 47.0%, compared to 46.2% in the prior year period, with the improvement primarily due to reduced discrete project costs in the prior year period that did not occur.

Consolidated operating expenses in the current quarter were \$26.5 million, or 29.1% of revenue, compared to the prior year level of \$26.9 million, or 26.3% of revenue. The slight decrease in operating expenses was primarily due to reduced travel-related expenses (\$1.0 million), partially offset by severance costs resulting from the departure of a former executive officer (\$0.5 million). The increase in operating expenses as a percentage of sales was primarily attributable to lower revenue.

Operating income from continuing operations in the fiscal first quarter of 2021 was \$16.3 million, a \$4.1 million decrease compared to the prior year period, as the \$4.5 million decrease in gross profit from lower sales volumes was partially offset by the \$0.4 million decrease in operating expenses. There were no adjustments to our results in the current or prior year periods.

Net income from continuing operations in the fiscal first quarter of 2021 was \$12.0 million, or \$0.81 per diluted share, compared to \$15.3 million, or

\$1.01 per diluted share in the prior year period. There were no adjustments to our results in the current or prior year periods.

Industrial Products segment revenue was \$61.2 million, a \$2.1 million decrease from the prior year period, as a \$1.3 million increase in sales volume in the architecturally-specified building products end market was more than offset by decreases in the HVAC/R (\$1.3 million), general industrial (\$0.9 million), and rail (\$0.8 million) end markets. Segment operating income was \$16.3 million, a \$0.7 million decrease compared to the prior year period, as operating expense savings were more than offset by the \$2.1 million reduction in segment revenue. Operating income margin in the fiscal first quarter was 26.6%. There were no adjustments to segment results in either period.

Specialty Chemicals segment revenue was \$29.7 million, a \$9.3 million decrease from the prior year period due to decreased sales volumes into the general industrial (\$2.3 million), energy (\$2.2 million), architecturally-specified building products (\$1.7 million), plumbing (\$1.2 million), rail (\$0.9 million), and mining (\$0.7 million) end markets. Segment operating income margin was \$3.9 million, a \$2.7 million decrease compared to the prior year period, as cost reduction efforts offset a large portion of the decline in sales revenue. Operating income margin in the fiscal first quarter was 13.3%. There were no adjustments to segment results in either period.

Operating cash flow from continuing operations for the fiscal quarter ended June 30, 2020, increased 45.4% to \$14.1 million, compared to \$9.7 million in the prior fiscal year.

During the first quarter, the Company repurchased \$7.3 million of its shares in the open market and had \$29.0 million remaining under its \$75.0 million program authorization at quarter end. Following quarter end, the Company declared its sixth consecutive quarterly regular cash dividend of \$0.135 per share, which will be paid on August 14, 2020, to shareholders of record on July 31, 2020.

The Company's effective tax rate for the first fiscal quarter was 23.5%, and for fiscal 2021 is expected to be in a range of 24% to 26%.

All percentages are calculated based upon the attached financial statements.

### 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 <https://cswindustrials.qcs-web.com/>. To access the call, participants may dial toll-free at 1-877-407-0784 or 1-201-689-8561 (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 13707069. The telephonic replay will be available beginning at 1:00 p.m. ET on August 3, 2020, and will last through 11:59 p.m. ET on August 20, 2020. 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.

### About CSW Industrials, Inc.

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 HVAC/R applications, building products, sealants, and high-performance specialty lubricants. Markets that CSWI serves include: HVAC/R, architecturally-specified building products, general industrial, plumbing, rail, energy, and mining. For more information, please visit [www.cswindustrials.com](http://www.cswindustrials.com).

### Investor Relations

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**CSW INDUSTRIALS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
**(Unaudited)**

**Three Months Ended**  
**June 30,**

(Amounts in thousands, except per share amounts)

|   | 2020      | 2019       |
|---|-----------|------------|
| Revenues, net                                 | \$ 90,964 | \$ 102,333 |
| Cost of revenues                              | (48,212)  | (55,098)   |
| Gross profit                                  | 42,752    | 47,235     |
| Selling, general and administrative expenses  | (26,499)  | (26,914)   |
| Operating income                              | 16,253    | 20,321     |
| Interest expense, net                         | (318)     | (501)      |
| Other expense, net                            | (307)     | (87)       |
| Income before income taxes                    | 15,628    | 19,733     |
| Provision for income taxes                    | (3,668)   | (4,389)    |
| Income from continuing operations             | 11,960    | 15,344     |
| Loss from discontinued operations, net of tax | —         | (140)      |
| Net income                                    | \$ 11,960 | \$ 15,204  |

Basic earnings (loss) per common share:

|                         |         |         |
|-------------------------|---------|---------|
| Continuing operations   | \$ 0.81 | \$ 1.02 |
| Discontinued operations | —       | (0.01)  |
| Net income              | \$ 0.81 | \$ 1.01 |

Diluted earnings (loss) per common share:

|                         |         |         |
|-------------------------|---------|---------|
| Continuing operations   | \$ 0.81 | \$ 1.01 |
| Discontinued operations | —       | (0.01)  |
| Net income              | \$ 0.81 | \$ 1.00 |

**CSW INDUSTRIALS, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

(Amounts in thousands, except per share amounts)

|   | June 30, 2020 | March 31, 2020 |
|---|---------------|----------------|
| <b>ASSETS</b>   |               |                |
| Current assets:   |               |                |
| Cash and cash equivalents   | \$ 19,687     | \$ 18,338      |
| Accounts receivable, net of allowance for expected credit losses of \$894 and \$1,170, respectively   | 71,490        | 74,880         |
| Inventories, net  | 59,441        | 53,753         |
| Prepaid expenses and other current assets   | 2,816         | 3,074          |
| Total current assets  | 153,434       | 150,045        |
| Property, plant and equipment, net of accumulated depreciation of \$73,325 and \$71,355, respectively | 57,124        | 57,178         |
| Goodwill  | 92,080        | 91,686         |
| Intangible assets, net  | 44,777        | 46,185         |
| Other assets  | 23,942        | 24,151         |
| Total assets  | \$ 371,357    | \$ 369,245     |

**LIABILITIES AND EQUITY**

Current liabilities:

|                                       |           |           |
|---------------------------------------|-----------|-----------|
| Accounts payable                      | \$ 23,288 | \$ 21,978 |
| Accrued and other current liabilities | 30,104    | 36,607    |
| Current portion of long-term debt     | 561       | 561       |
| Total current liabilities             | 53,953    | 59,146    |
| Long-term debt                        | 10,197    | 10,337    |

|   |            |            |
|---|------------|------------|
| Retirement benefits payable                                     | 1,868      | 1,879      |
| Other long-term liabilities                                     | 21,329     | 21,142     |
| Total liabilities   | 87,347     | 92,504     |
| Equity:   |            |            |
| Common shares, \$0.01 par value                                 | 160        | 159        |
| Shares authorized – 50,000                                      |            |            |
| Shares issued – 16,117 and 16,055, respectively                 |            |            |
| Additional paid-in capital                                      | 50,182     | 48,327     |
| Treasury shares, at cost (1,398 and 1,311 shares, respectively) | (81,207)   | (75,377)   |
| Retained earnings   | 325,042    | 315,078    |
| Accumulated other comprehensive loss                            | (10,167)   | (11,446)   |
| Total equity  | 284,010    | 276,741    |
| Total liabilities and equity                                    | \$ 371,357 | \$ 369,245 |

**CSW INDUSTRIALS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

| (Amounts in thousands)  | Three Months Ended June 30, |           |
|---|-----------------------------|-----------|
|   | 2020                        | 2019      |
| Cash flows from operating activities:   |                             |           |
| Net income  | \$ 11,960                   | \$ 15,204 |
| Less: Loss from discontinued operations   | —                           | (140)     |
| Income from continuing operations   | 11,960                      | 15,344    |
| Adjustments to reconcile net income to net cash provided by operating activities: |                             |           |
| Depreciation  | 1,877                       | 2,319     |
| Amortization of intangible and other assets                                       | 1,711                       | 1,760     |
| Provision for inventory reserves  | 854                         | 194       |
| Provision for doubtful accounts   | 312                         | 274       |
| Share-based and other executive compensation                                      | 1,328                       | 1,213     |
| Net pension benefit   | 40                          | (97)      |
| Net deferred taxes  | 422                         | (95)      |
| Changes in operating assets and liabilities:                                      |                             |           |
| Accounts receivable   | 3,315                       | (4,799)   |
| Inventories   | (6,458)                     | (2,159)   |
| Prepaid expenses and other current assets   | 471                         | 4,627     |
| Other assets  | (149)                       | 37        |
| Accounts payable and other current liabilities                                    | (1,515)                     | (8,936)   |
| Retirement benefits payable and other liabilities                                 | (22)                        | (17)      |
| Net cash provided by operating activities, continuing operations                  | 14,146                      | 9,665     |
| Net cash used in operating activities, discontinued operations                    | —                           | (255)     |
| Net cash provided by operating activities   | 14,146                      | 9,410     |
| Cash flows from investing activities:   |                             |           |
| Capital expenditures  | (1,837)                     | (2,226)   |
| Cash paid for acquisitions  | —                           | (11,500)  |
| Net cash used in investing activities, continuing operations                      | (1,837)                     | (13,726)  |
| Net cash provided by investing activities, discontinued operations                | —                           | —         |
| Net cash used in investing activities   | (1,837)                     | (13,726)  |
| Cash flows from financing activities:   |                             |           |
| Borrowings on line of credit  | 10,000                      | 7,500     |
| Repayments of line of credit and term loan  | (10,140)                    | (17,140)  |
| Purchase of treasury shares   | (9,346)                     | (793)     |

|   |                  |                  |
|---|------------------|------------------|
| Dividends   | (1,985)          | (2,028)          |
| Net cash used in financing activities                   | (11,471)         | (12,461)         |
| Effect of exchange rate changes on cash and equivalents | 511              | 354              |
| Net change in cash and cash equivalents                 | 1,349            | (16,423)         |
| Cash and cash equivalents, beginning of period          | 18,338           | 26,651           |
| Cash and cash equivalents, end of period                | <u>\$ 19,687</u> | <u>\$ 10,228</u> |

**CSW INDUSTRIALS, INC.**  
**RECONCILIATION OF SEGMENT OPERATING INCOME TO CONSOLIDATED OPERATING INCOME**  
**(Unaudited)**

| (\$ in thousands)   | Three Months Ended June 30, 2020 |                     |                     |                                    | Three Months Ended June 30, 2019 |                     |                     |                                    |
|---------------------|----------------------------------|---------------------|---------------------|------------------------------------|----------------------------------|---------------------|---------------------|------------------------------------|
|                     | Industrial Products              | Specialty Chemicals | Corporate and Other | Consolidated Continuing Operations | Industrial Products              | Specialty Chemicals | Corporate and Other | Consolidated Continuing Operations |
| Revenue             | \$61,239                         | \$29,725            | \$ —                | \$90,964                           | \$63,352                         | \$38,981            | \$ —                | \$102,333                          |
| Operating Income    | \$16,307                         | \$3,946             | (\$4,000)           | \$16,253                           | \$17,042                         | \$6,623             | (\$3,344)           | \$20,321                           |
| <i>% of Revenue</i> | 26.6%                            | 13.3%               |                     | 17.9%                              | 26.9%                            | 17.0%               |                     | 19.9%                              |



Source: CSW Industrials, Inc.