

**CALL PARTICIPANTS**

**EXECUTIVES**

**Joseph Armes**

*Chairman, President, & Chief Executive Officer*

**James Perry**

*Executive Vice President & Chief Financial Officer*

**Don Sullivan**

*Executive Vice President and General Manager, Industrial Products*

**Adrienne Griffin**

*Vice President of Investor Relations & Treasurer*

**ANALYSTS**

**Jonathan E. Tanwanteng**

*CJS Securities, Inc.*

## **PRESENTATION**

### **Operator**

Greetings and welcome to the CSW Industrials Inc. Event Conference Call.

During this presentation, participants are in a listen-only mode. Afterwards, we'll conduct a question-and-answer session. As a reminder, this conference is being recorded on Thursday, November 5, 2020.

I would now like to turn the conference over to Adrienne Griffin, Vice President of Investor Relations and Treasurer. Please go ahead.

### **Adrienne Griffin**

*Vice President of Investor Relations & Treasurer*

Good morning, everyone, and welcome to CSW Industrials TRUaire Announcement Call.

Joining me today are Joseph Armes, Chairman, Chief Executive Officer and President of CSW Industrials, Don Sullivan, Executive Vice President and General Manager of Industrial Products and James Perry, Executive Vice President and Chief Financial Officer.

We issued our press release and presentation prior to the markets opening today, and both are available on the Investor portion of our website at [www.cswindustrials.com](http://www.cswindustrials.com). During this call, we will reference specific slides in the presentation. This call is being webcast, and information on how to access the replay is included in the earnings release.

During this call, we will be making forward-looking statements. These statements are based on current expectations and assumptions that are subject to various risks and uncertainties. Actual

results could materially differ because of factors discussed today in our earnings release, and in the comments made during this call as well as the risk factors section of our Annual Report on Form 10-K and other filings with the SEC. We do not undertake any duty to update any forward-looking statements.

I will now turn the call over to Joe Armes.

**Joseph Armes**

*Chairman, President, Chief Executive Officer*

Good morning everyone, and thank you for joining the call today. After my introductory remarks, Don will provide business and operation highlights, and James will elaborate on the financial details.

On behalf of CSWI, I am extremely pleased to announce the execution of an agreement to acquire TRUAire, a well-respected company supplying passive air handling solutions into the same HVAC end market CSWI serves today.

Starting on slide 3, I'll note this \$360 million acquisition represents exactly the type of bolt-on that we've been describing our quarterly investor calls, and is expected to provide an expanded, competitive, comprehensive HVAC product offering through the exact same distribution channels, with the exact same customers we serve today.

The acquisition is expected to be accretive to earnings per share in the first full year of ownership, and is consistent with our commitment to driving long-term shareholder value. We have been courting this opportunity for two years and have come to know the business well.

During this period, several members of our team have visited the facility in Vietnam, once last year and once again early this year. We have also spent time at their U.S. corporate headquarters and toured each of their five distribution centers. Prior to the implementation of COVID-related travel restrictions, I made a trip to Vietnam to see the manufacturing facility in person and was very impressed with the operations.

I'll now turn the call over to Don to address the business and operations.

**Don Sullivan**

*Executive Vice President and General Manager, Industrial Products*

Thank you Joe, and good morning. As you'll see on slide 4, TRUaire is a well-respected and award-winning company that manufactures and sells high quality grilles, registers, and diffusers. Some of the products shown on slide 5 will complement our own robust HVAC/R solutions portfolio, including a condensate management platform, ductless accessories, and chemical offerings. TRUaire has differentiated itself in the marketplace with excellent customer service, and enviable delivery times that result from its manufacturing excellence, a breadth of inventory, and five distribution centers located across the United States.

As shown on slide 6, as of calendar year end 2020, TRUaire is expected to report a revenue CAGR of 13% and 18% in the 5 and 10 previous years, respectively. This certainly satisfies our disciplined acquisition metric of growth well in excess of GDP during these periods. When taken into consideration with a margin profile in excess of CSWI's, this is impressively profitable growth.

All TRUaire's products are sold in the United States, and are manufactured in a fully owned manufacturing facility in Vietnam. As we explain on slide 7, TRUaire established this facility in 2004, and in the past 16 years has developed a fully localized supply chain with raw materials sourced from regional Asia-based suppliers. This platform provides a high level of supply chain certainty and provides CSWI with sourcing diversification, as well as compelling future growth potential.

I'll turn it back to Joe for a few more details on the long-term strategy.

**Joseph Armes**

*Chairman, President, Chief Executive Officer*

We are confident that we have the ability to execute well on this acquisition as these products are complementary to those we already sell into the HVAC/R end market, within distribution channels that we serve today. Additionally, there is a 100% overlap with our existing HVAC/R customers. As a result, we will be able to leverage our go-to-market strategy, while immediately expanding our share of wallet; hence driving profitable growth in excess of the rapidly growing HVAC accessory end market. Importantly, this acquisition fits squarely within our capital allocation strategy.

The map on page 10 in the presentation illustrates the anticipated consolidated distribution, manufacturing, and commercial operations. This footprint provides a platform for CSWI to benefit from TRUaire's outstanding customer service, efficient delivery times, and state of the art

manufacturing, while CSWI will leverage our technology investments in customer touchpoints and e-Commerce to enhance legacy TRUaire sales.

I'll now ask James to share a few additional financial details.

**James Perry**

*Executive Vice President, Chief Financial Officer*

Thank you Joe, and good morning everyone. I am very excited about this transaction. We have been working hard this year to identify the best opportunities for investment of our capital and believe that TRUaire fits very well. As we have said all year, we value the strength of our balance sheet and the ability to utilize it now for this growth opportunity demonstrates that our shareholders will be rewarded by that patience and discipline.

As shown on slide 11, pro forma for the acquisition, CSWI would report revenue of approximately \$485 million, approximately 26% growth over our stand-alone trailing-twelve-month revenue. Prior to, as well as after giving effect to, the TRUaire acquisition we are here to discuss today, sales into the profitable HVAC/R end market will represent the largest percentage of our expected annual revenue, at an estimated 49% annually.

In terms of financing the transaction, as we mention in the press release, we will fund approximately 25% of the purchase price with common stock that will be issued to the sellers. The share count of 850,000 has been set as of the signing of the purchase agreement. The remainder of the purchase price will be comprised by cash of hand at the time of closing later this year and a draw-down on our corporate revolver, which has \$300 million of availability with the accordion feature. As a reminder, we had \$47.3 million of cash as of September 30. The

anticipated leverage at the time of closing is approximately 2.1x, which is well within the comfort range we have discussed of 1.0x to 3.0x.

We have said that a challenge for us is to find businesses to add to our portfolio that enhance our margins. The margin profile for TRUaire does just that. This transaction is expected to be accretive in the first year of ownership after any purchase price adjustments. We have transaction costs as well and will detail those post-closing as one-time expenses.

I'll now turn the call back to Joe.

**Joseph Armes**

*Chairman, President, Chief Executive Officer*

Thank you, James. Finally, I'd like just like to summarize our investment thesis here. This is a bolt-on acquisition with complementary products in our HVAC end market, representing a natural fit for our go-to-market strategy and strong distribution channels, with the same customers we serve today.

TRUaire has a history of profitable top-line growth well in excess of the end market served with strong margins. This is a unique opportunity to own a large-scale, high-quality manufacturing operation, with an experienced leadership team, which strengthens our supply chain and provides optionality for future growth with a competitive cost structure. Due to our patience and discipline, our acquisition financing preserves our strong balance sheet and liquidity, while also expecting to deliver EPS accretion within the first full-year of ownership.

Operator, would you please open the line for questions?

**Question and Answer****Operator**

[Operator Instructions] Thank you, sir. We'll now begin the question and answer session. Our first question comes from the line of Jon Tanwanteng with CJS Securities.

**Jonathan E. Tanwanteng**  
*CJS Securities, Inc.*

Hey, Good morning, everyone. Thank you for taking my questions. And Congrats on the announcement. My first question is, looking at that chart for the long-term growth of the business 18% CAGR over the long term, 13% in the past couple of years, what's been the secret sauce here that's enabled TRUaire to grow that much? Is it just a product innovation? Is there some kind of manufacturing efficiency that competitors don't have? Is it just increasing distribution partnerships through that? Just help us understand what's been fueling that growth, and more importantly, if that can continue going forward especially as part of the CSW platform.

**James Perry**  
*Executive Vice President, Chief Financial Officer*

Sure, Jon. And thanks for being on this morning. Appreciate your excitement that you share with us. I'll make a couple comments. This is James, and I'll let Don add what he would like to as well. The growth has been very impressive. We've followed this company for a couple of years, certainly known them in the industry. To your point on the product innovation side, I think I would certainly point to that. TRUaire does a great job of introducing products that the customers need. They're very good about specific SKUs with sizes and those type things both on the standard and decorative side in their product line.

They've done a great job in building customer relationships. They're really known for quick delivery, which is a big deal when customers need a product quickly. They're able to get it out to them from their five distribution centers around the country. They do hold a decent amount of inventory. We may have a little opportunity there, but it's more than we would normally hold, but that speaks to their ability to deliver quickly and really keep their customers. So, great customer relationships, as you see in the presentation, great product innovation and strong deliveries where I would point to and I'll let Don add anything to that.

**Don Sullivan**

*Executive Vice President and General Manager, Industrial Products*

James, you did a great job. You should be on the sales team. But I would just add, they do have a really strong quality reputation with products that, you know, don't rattle when they're installed, open and close easily, the paint doesn't fade, all things that that are inherent with some of the competitor products. So, they do have a great reputation. But it is really that customer service, I think, that has really landed them a lot of the big accounts.

You know, we feel good about the future growth because, one, the industry is going to continue to grow. But, two, we have relationships as CSWI and RectorSeal with a broader range of products and customers than they do. And, you know, we feel the combination of the two companies and the two product portfolios is only going to enhance our ability to convert some of these other customers. So, there's still plenty of runway for the products.

**Jonathan E. Tanwanteng**  
*CJS Securities, Inc.*

That's helpful – and, yeah, mostly. I was just wondering if this sub segment of the market had a similar growth to the industry. And I guess, you've been seeing that kind of high-single-digit growth in HVAC over the past couple of years, and I'm wondering if that's true for this portion of the business as well.

**James Perry**  
*Executive Vice President, Chief Financial Officer*

You know, this is James. Generally speaking, yeah. This subsector of the industry, as you say, has had certainly above-market growth from a GDP-pure perspective as the installed base of, you know, single-family homes continues to grow. Multifamily homes, you know, the industrial and the business side of things, as those continue to grow, it helps with the new products and this is a replacement product as well. People come back in 5, 10, 20 years, and they need to have a replacement. And TRUaire is known for being able to have the right products and start to meet those growth needs. So the wallet share is picked up for TRUaire. They've become clearly at the top of the industry, one of the large players. But, yeah, I'd say above market growth is probably standard for this industry. But even TRUaire has exceeded that.

**Jonathan E. Tanwanteng**  
*CJS Securities, Inc.*

Got it. Okay. What are the potential for synergies as part of your platform? Maybe break it down between revenue and cost synergies. I know you mentioned you have broader distribution base. That makes sense. But anything else under the hood that we can look forward to as you integrated into your company.

**Joseph Armes***Chairman, President, Chief Executive Officer*

Yeah. Jon, this is Joe. I'll start. I think as you said, yeah, it's broadening the distribution and really leveraging our superior distribution channels in those relationships. Size and scale matters with that. And I think we already have a really strong presence in the marketplace. And this will just really double down on that. And then I do think that the other opportunities will be related to product innovation and ways that we could improve the product line.

And then with respect to other synergies, again, this is you know, as is typical with us, these are not really cost synergy opportunities that are typically top line growth synergy opportunities. But we do see an opportunity with the manufacturing facility. That gives us a diversified kind of an alternative to third-party manufacturing in other countries and allows us to continue our make or buy kind of decision making as we go along based on what's best for the customer, what's best for our business, what's best from a pricing standpoint. And so leveraging that manufacturing facility and taking advantage of that in a cost competitive environment, I think, is a great opportunity for us going forward.

**James Perry***Executive Vice President, Chief Financial Officer*

Jon, this is James. The only thing I would add, yeah, to Joe's point, this is probably more about the sales synergies than the cost synergies outside of the manufacturer. One thing I'll mention, though, we've talked quite a bit this year as we've talked to you and others about acquisitions is, as a public company, our ability to continue to spread the public company-type overhead over a larger revenue base just helps the margins when you get to the bottom line at an operating margin level and a net income margin level.

So, for us, it's about margin dollars as we've always talked about. But as a percentage basis, which I know a lot of folks focus on, there's now going to be a bigger base to spread the same cost over.

**Jonathan E. Tanwanteng**  
*CJS Securities, Inc.*

Got it. Thank you. And then just following up on a point one of you mentioned earlier. You said it was a large piece of the industry, maybe the subsector of that market. Obviously, with them adding to your revenue base, is there any antitrust concern or regulatory issues that we need to worry about and kind of how big are they as a proportion of, I guess, the register and growth market that's out there already?

**James Perry**  
*Executive Vice President, Chief Financial Officer*

Yeah. What I would mention is not too much into the legal side of things, but we're not really in this business so there's not really any overlap there per se. There are other competitors in the space. Clearly, there are large competitors and then some smaller competitors as well. So, without getting ahead of that process, we don't compete with this product at all so there's just not overlap in that perspective.

**Jonathan E. Tanwanteng**  
*CJS Securities, Inc.*

Got it. And how big are they as a part of their market?

**Joseph Armes***Chairman, President, Chief Executive Officer*

I wouldn't get real precise on that. They're clearly one of the bigger players. There's a couple other players that are large as well. But given that this isn't a terribly public-type market share business, you saw some of the customers that we share. So, there's clearly some big customers that we have which is important, but there's just not a strong public market, market share-type stat that we would point to. But, clearly, we are certainly the leader in quality in customer service, and on a pure size perspective, we're right there.

**Jonathan E. Tanwanteng***CJS Securities, Inc.*

Okay. Got it. James, a couple of financial questions for you. Just at 2 times leverage, by the time you close this deal, what's the expected interest expense as you draw down the revolver? And I assume you want to keep some cash on the balance sheet just for business purposes.

Second, does this change your capital allocation policy going forward? Are you going to be able to do buybacks and more acquisitions or is this going to take some time to digest and delever from before you were able to do anything else?

**James Perry***Executive Vice President, Chief Financial Officer*

You know, why don't I hit the first part and I'll let Joe talk a little bit about capital allocation because that's an important theme for us and this, obviously, is a great announcement into that theme. From an interest perspective, our revolver rate is a couple of percent. It's pretty low. So, we're in a grid and it's pretty low with these type of leverage levels given where LIBOR is, of course. So, interest expense remains low. How much of our cash we use when we get to closing later this

year versus how much revolver we use, that will dictate that, of course. So, it's a few million dollars, Jon. We'll continue to work on that model once we close and can provide that with our next quarter's earnings.

But you see the cash we have on the balance sheet. You do the math. You're talking about somewhere in the low- to mid-200 level in terms of borrowings at those type of levels at this point just given the sell or stock that we're talking about. So, if we close under those circumstances, there'd be a few million dollars of interest expense. But again, given where this is from an interest rate environment, that's very attractive. From a leverage standpoint, to your point, we would certainly look to delever over time. But we're very comfortable with the leverage right around 2 times, to be able to add a company of this scale, a company of this quality, and have our leverage stats move to that level – we've always talked about a one to three type comfort level – feels very good.

Joe, you want to talk about capital allocation?

**Joseph Armes**

*Chairman, President, Chief Executive Officer*

Yeah, Jon I appreciate you asking about that. It's really important to us. And the answer is our capital allocation strategy remains completely the same is that we're going to look for acquisitions, look for organic growth investment opportunities, all on a risk adjusted returns basis. So, will we take some time to digest this acquisition? Absolutely we will. But our share repurchase plan is a two-year plan and certainly it will not take two years to digest this. We'll generate a lot more cash with this acquisition. And so, we'll look for the opportunities to delever pretty quickly here.

And when we thought about the capital structure with respect to this acquisition we did that with a longer-term view in mind and our continued interest and continuing to grow the business again organically and through acquisition while at the same time always being having the flexibility to

buy back shares. And then our dividend continues. And so, full speed ahead. I don't see this changing thing.

**Jonathan E. Tanwanteng**  
*CJS Securities, Inc.*

Got it. If you don't mind me squeezing in one more, what were the seller motivations to sell at this point? They had a great business going, so I'm wondering why exit now?

**Joseph Armes**  
*Chairman, President, Chief Executive Officer*

Yeah. I mean part of it is just kind of age, kind of retirement age. Next generation didn't want to take this on. Obviously, the end of this year is – there have been some concerns around tax. Tax rate is changing. And a lot of folks will think making these kinds of decisions. And but again we've been courting them for over two years and kind of patiently waiting for the opportunity. And so, I think it's a combination of all those factors. And hopefully, finding the right partner here who will serve their legacy well and continue their high – kind of attention to detail and high touch with their customers and for all the qualitative reasons that we were chosen.

**Don Sullivan**  
*Executive Vice President and General Manager, Industrial Products*

And, Jon, I would add just briefly to wrap that piece up. Clearly, they decided it was time to sell. And we were able to – I think they feel very comfortable with us being the caretaker of the legacy, as Joe mentioned. But what's nice is the founders who started and run this business, and have done a great job, are going to work on a very smooth transition with us. They've committed to

helping us make sure those customer relationships are strong, the Vietnam relationship is strong. And so, we feel very good about our ability to carry forward what they've built.

**Jonathan E. Tanwanteng**  
*CJS Securities, Inc.*

Got it. Thank you very much. And congrats again, guys.

**Operator**

Thank you. And that does conclude the conference call for today. We thank you, all, for your participation and ask that you please disconnect your lines. Thank you once again. Have a great day.

**DISCLAIMER:**

THE INFORMATION CONTAINED IN THIS EVENT TRANSCRIPT IS A TEXTUAL REPRESENTATION OF CSWI INDUSTRIALS' EARNINGS CONFERENCE CALL. WHILE ALL REASONABLE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALL. IN NO WAY DOES CSW INDUSTRIALS ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE CONFERENCE CALL RECORDING ITSELF, CSW INDUSTRIALS' APPLICABLE SEC FILINGS, AND OTHER PUBLIC DISCLOSURES BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS