



# CSW Industrials Announces Agreement to Acquire TRUaire

November 2020



# TRUaire Business Overview

## TRUaire Product Spotlight

### Single Deflection Grille

End Market: HVAC/R



TRUaire's SF Series single and double deflection spiral style diffusers feature durable extruded aluminum construction and have individually adjustable blades for deflection control. Available in many standard sizes to fit ducts from 6" to 36" and offered in either pristine white powder coat or aluminum finishes.



# TRUaire: Proposed Acquisition Overview

## FINANCING CONSIDERATIONS:

- ~**\$360MM** purchase price representing ~**10x** TRUaire's 2020E Adj. EBITDA<sup>1</sup>
- Anticipated acquisition financing 850,000 shares of common stock (shares issued directly to sellers), with the remainder funded utilizing CSWI's cash on hand and existing revolving credit facility
- Resultant anticipated **leverage** at closing of ~**2.1x** Debt to Adj. EBITDA<sup>2</sup>

## FINANCIAL IMPACT:

- **Accretive** to CSWI's EPS within first full year, excluding purchase price accounting effects
- **2020E TRUaire Financial Summary**<sup>1</sup> - Net Revenue of ~**\$108MM**, with a **margin profile accretive** to CSWI's

## TRANSACTION HIGHLIGHTS:

- Results in an expanded, competitive, and comprehensive **HVAC product offering**
- Provides opportunities to **improve CSWI's HVAC/R** and **plumbing distribution footprint**
- **Experienced** manufacturing leadership team and **diverse** manufacturing supply chain

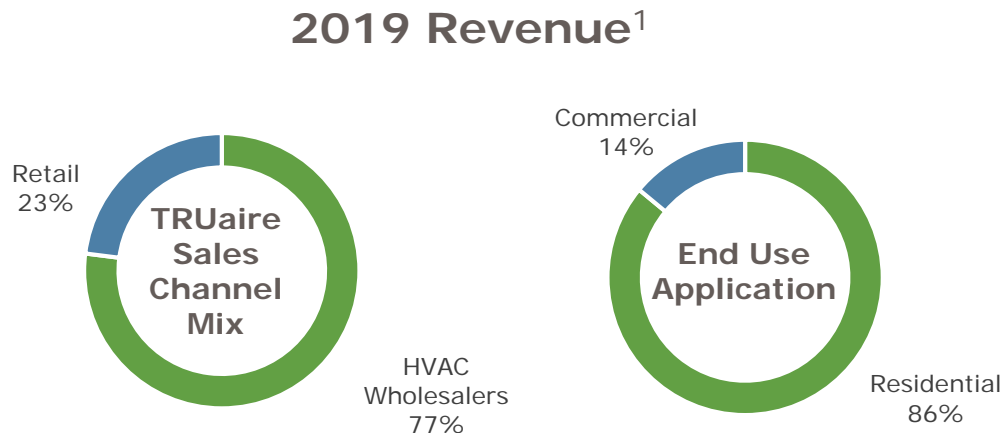
## TIMING and APPROVALS:

- Expected close by year end, subject to regulatory approvals and customary closing conditions

# TRUaire At A Glance: A Well-Respected Brand

TRUaire delivers high quality solutions for a wide array of air handling applications, while providing award winning customer service.

- **Supplies** passive air handling solutions for **residential** and **commercial** applications
  - Sells through **wholesale distribution** and **retail channels**, with **HVAC technicians** and **homeowners** as end users
- Offers a broad suite of **high-quality products**, **award winning customer service**, and **exceptional responsiveness** and **delivery times**
  - Recent recipient of the following Blue Hawk 2020 Vendor Partner Scorecard rankings of 156 companies:



- **1<sup>st</sup> Place** – Deliveries, Lead Times, Fill Rates, and Errors
- **3<sup>rd</sup> Place** – Overall Satisfaction

- Multiple time recipient of the **Home Depot** “Partner of the Year Award”



# TRUaire: Products, Capabilities, and Value

## Broad Range of Air Handling Solutions

### Grilles



Single Deflection Grille



T-Bar Return Air Filter Grille



Toe Space Grille



Baseboard Return Air Grille

### Registers



Curved Blade Register



Sidewall and Ceiling Register

### Diffusers



Designer Series Floor Register



Heavy Duty Grate Floor Register



2 Cone Step Down Diffuser



Round Commercial Diffuser

## Manufacturing Expertise Producing High-Quality Products

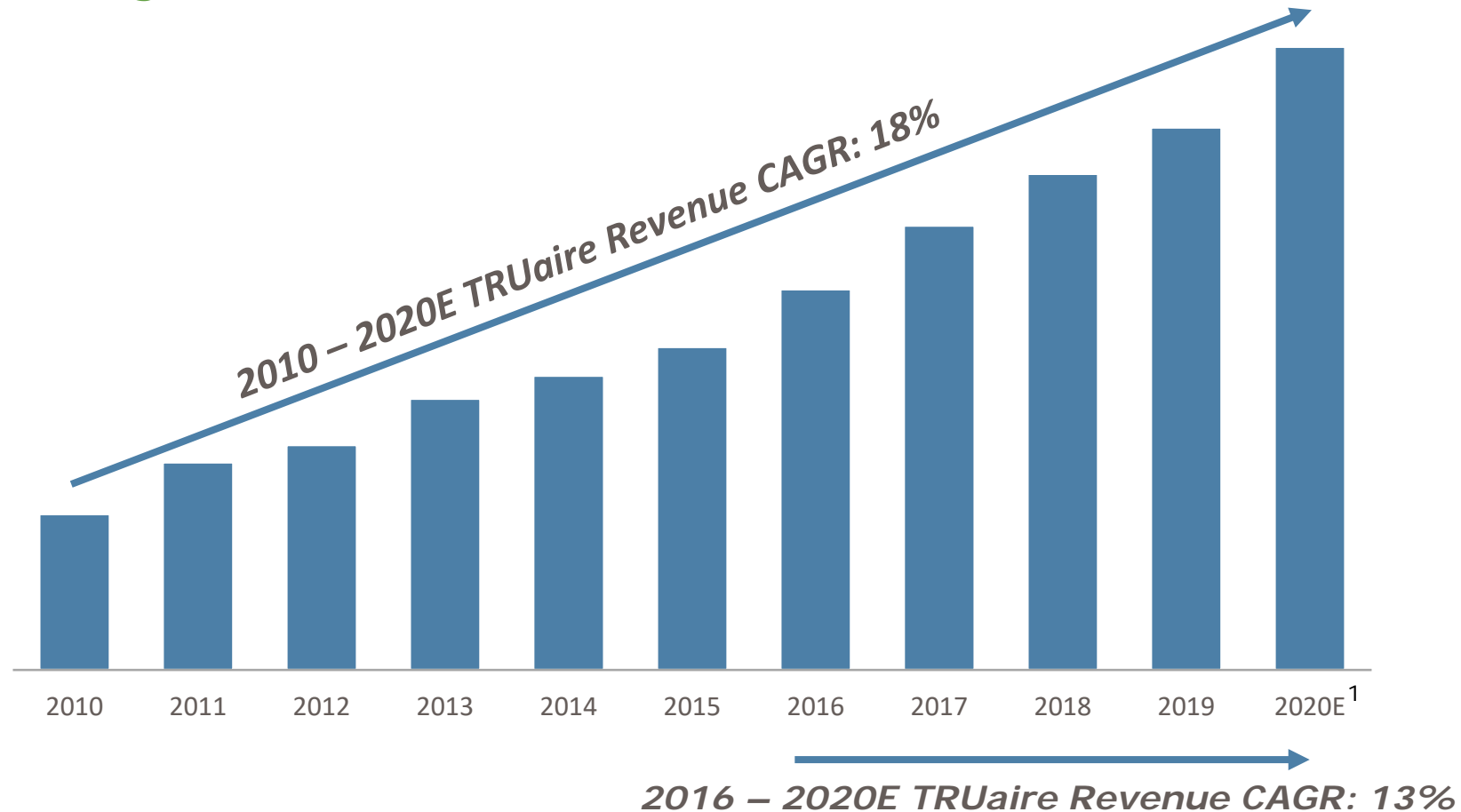
- Go-to partner for **high-quality**, low-cost products
- Constantly expanding and **advancing product portfolio**
- **Flexible manufacturing** with differentiated in-house capabilities
- **Highly efficient, large-scale** production facility provides potential opportunity to **expand manufacturing from the U.S.** or strategic suppliers

## Delivering Value to Demanding Channel Partners

- **Reliable, 2 to 3-day delivery** helps direct customers ensure product availability for end-users
- Inventory scale and breadth **simplifies customers' supply chains** and reduces their supplier count
- Integration of TRUaire's strategically positioned distribution centers provides **optionality to improve CSWI's HVAC/R and plumbing distribution footprint** and appropriately **manage inventory**

# TRUaire: Demonstrated Long-term Revenue Growth

Strong, profitable organic growth over the past decade resulting from ongoing product innovation, share of market gains from new customer acquisitions, and share of wallet growth with existing customers



# TRUaire Maintains Differentiated In-House Manufacturing

## State of the Art Manufacturing

- 100% owned, state-of-the-art manufacturing facility in Ho Chi Minh City, *manufactures all TRUaire products*
  - Produces over 100,000 grilles, registers, and diffusers daily

## Established Operations in Vietnam in 2004

- Fully localized supply chain, manufacturing operations, and logistics
  - Approximately six containers are shipped to the U.S. daily, reaching California in ~30 days, and other distribution center locations in ~45 days

## Experienced Vietnam-Based Manufacturing Team

- Manufacturing leadership team with a strong track record of continuous operational improvement

## Strengthens Our Supply Chain

- TRUaire sources raw materials from a regional Asia-based supply network with no key supplier risk
  - Provides greater supply chain certainty
  - Strategic footprint for future growth

## TRUaire Vietnam facility:



**~ 1,500**  
Full-Time  
Employees

**16 years**  
Operating in  
Vietnam

# Pro Forma CSWI + TRUaire: a Compelling, Strategic Fit

## CSWI Product Spotlight

### Safe-T-Switch® SC1 Cleanout Device

End Market: HVAC/R



Safe-T-Switch® Model SC1 inline cleanout device allows quick and easy access for cleaning of condensate drain lines. Device includes an integrated, easy-access Schrader valve for pressure cleaning. The directional cleaning tool can be used for both pressure and vacuum.





# Creating Sustainable CSWI Shareholder Value

Anticipate accretive bolt-on HVACR/R end market acquisition, with common distribution channels and customers

## Opportunity to Leverage Our HVAC/R Go-to-Market Strategy and Distribution Channels

- Pro forma potential to **expand share of wallet gains and product portfolio** across broad customer base
- Pro forma **diversifies** our geographic **supply chain** footprint and **strategic sourcing** decisions
- TRUaire customers to benefit from CSWI's **technology investments** in customer touchpoints & e-Commerce

## Investing in Accordance with Our Stated Capital Allocation Strategy

- Provides opportunities to **drive growth in excess** of the **rapidly growing HVAC accessory** end market
- **TRUaire's strong margin profile** expected to generate **near and long-term accretion** for **CSWI shareholders**
- Demonstrated **resiliency through-cycles** with TRUaire's 16-year history bolsters CSWI's financial sustainability

Delivering on disciplined acquisition strategy, maintaining strong balance sheet, and maximizing existing channels to markets, while increasing market share

# Pro forma CSWI + TRUaire: Impressive HVAC/R Distribution & Manufacturing Footprint



## TRUaire's operating platform:

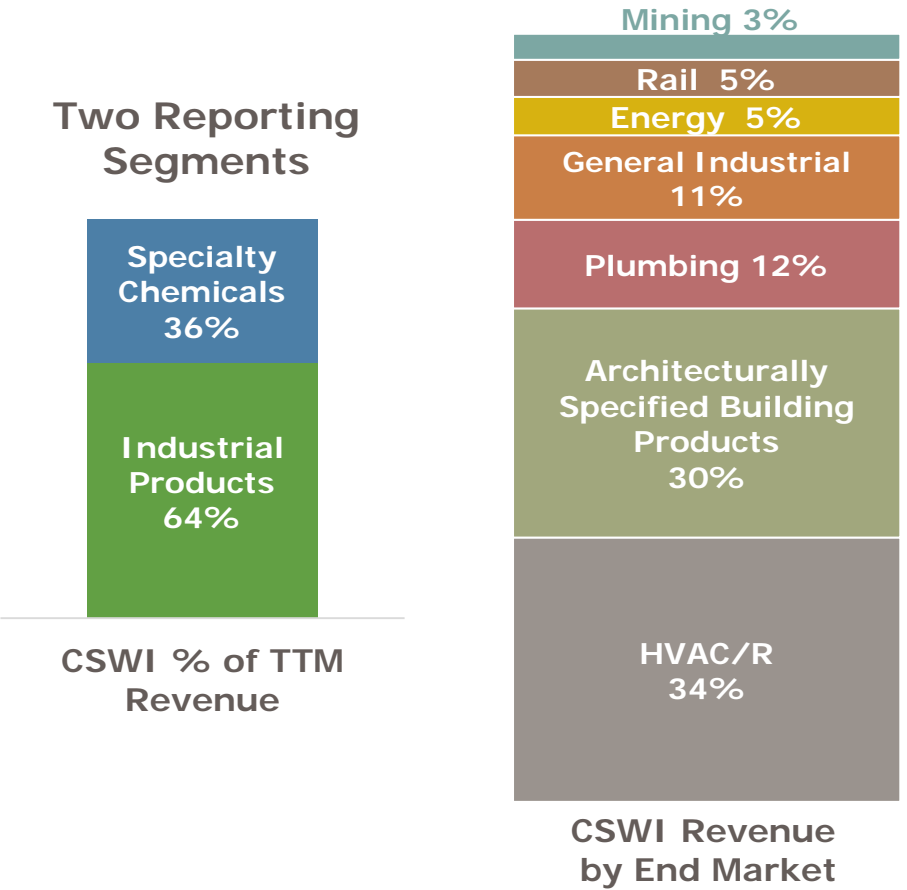
- **5 U.S. Distribution Centers:** ~800,000 total ft<sup>2</sup> and approximately 100 employees
- **1 Manufacturing Facility:** ~630,000 ft<sup>2</sup> and approximately 1,500 employees

## CSWI's existing HVAC/R operating platform:

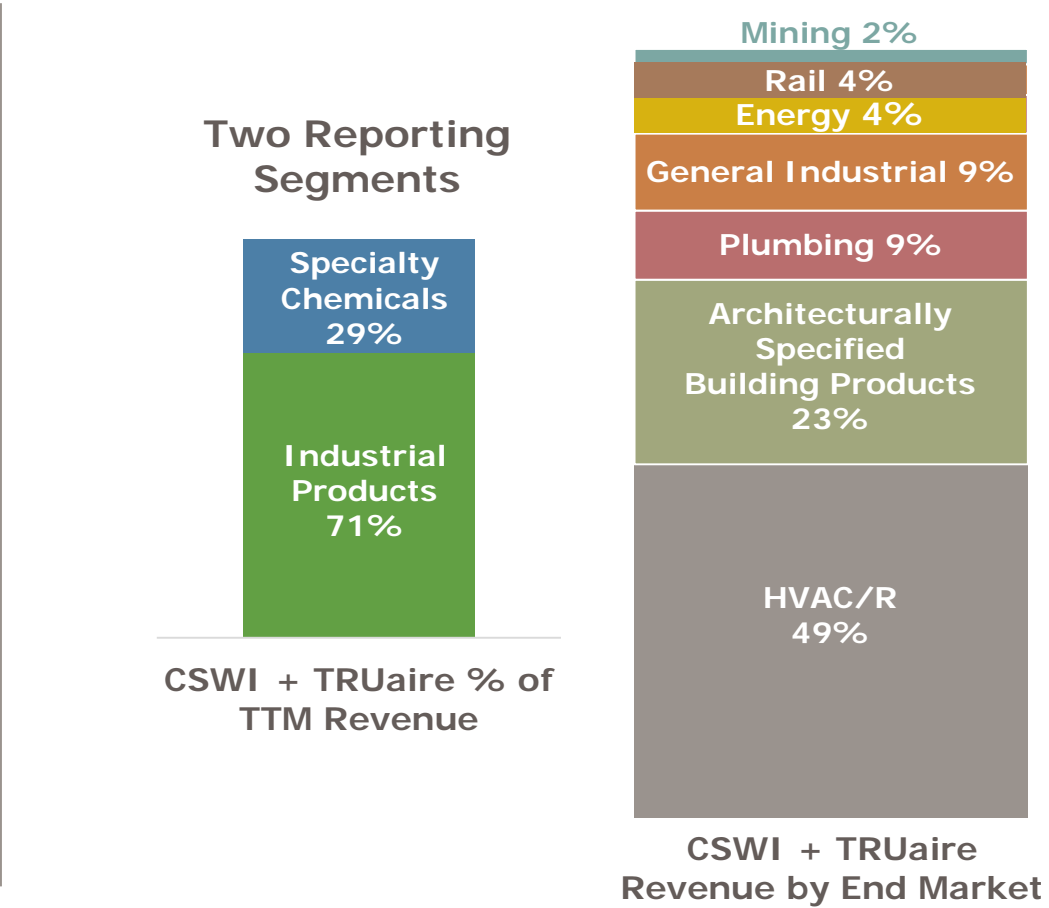
- **2 U.S. Manufacturing and Distribution Centers:** ~400,000 total ft<sup>2</sup>
- **1 Australian Commercial Office**
- Total approximately 250 employees

# CSWI's Acquisition of TRUaire: Expect Significant Growth in Industrial Product Segment and HVAC/R End Market

CSWI TTM Revenue<sup>1</sup> ~\$378MM



CSWI TTM + TRUaire Revenue<sup>1,2</sup> ~\$485MM



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<sup>1</sup> Trailing Twelve Months (TTM) are defined as the twelve months ended 9/30/20 for CSWI and 2020E for TRUaire. <sup>2</sup> The combined financial information is presented for illustrative and informational purposes only and is not intended to represent or be indicative of what the actual results of combined operations would have been for the periods indicated, and it is neither representative of nor projects the combined results of operations for any future period.



# Executing Strategic, Disciplined Approach to M&A

**TRUaire acquisition expects to satisfy CSWI's Stated Acquisition Target Criteria, potential to increase free cash flow through accretive inorganic growth and operational efficiency.**

## CSW Industrials Stated Acquisition Target Criteria:

- Seek long-term growth well in excess of GDP
- Expect strong margin contribution in-line with existing operations, and margin resiliency through-cycles
- Leverage our go to market strategy and channels to market, including our extensive distribution network
- Committed capital allocation strategy investing in opportunities with the highest risk adjusted rate of return
- Expand in existing markets with product introductions and meaningful acquisitions
- Maintain strong balance sheet, with maximum leverage of 3.75x Net Debt / EBITDA<sup>1</sup> for any acquisition
- Drive enhanced returns by leveraging market knowledge, and existing systems and processes

# Appendix

## CSWI Product Spotlight

### Fortress Lineset Covers

End Market: HVAC/R



Fortress® Lineset covers are a precision system of premade ducting offering strength and longevity at a modest price point. Perfect for a variety of A/C systems, Fortress® conceals/protects lineset, wiring and drain hose from weather/damage. Made in USA.



# CSWI Executive Team



**Joe Armes**

**Chairman, CEO & President**

Joe has served as the Company's Chairman of the Board of Directors & CEO since September 2015, & President since February 2018. Prior to the Company's September 2015 spin-off from Capital Southwest Corporation, a capital provider to middle market companies, Mr. Armes served as the Chairman, CEO & President of Capital Southwest Corporation from June 2013 to September 2015.



**James Perry**

**Executive VP & CFO**

James has been EVP and CFO since May 2020. From 2004 to 2019, he served in financial roles with Trinity Industries, a publicly held, diversified industrial company, and served as its CFO from 2010 to 2019. From 2001 to 2004, Mr. Perry was a senior financial executive at RMH Teleservices, including as CFO. He previously held positions at JP Morgan Chase & Co. and Ernst & Young LLP.



**Don Sullivan**

**Executive VP & GM,  
Industrial Products**

Don has served as the EVP & GM, Industrial Products since May 2020. Mr. Sullivan previously served as the Senior VP & GM, Industrial Products, January 2016 to May 2020. From May 2015 to January 2016, Mr. Sullivan was the Chief Operating Officer for RectorSeal, one of CSWI's operating subsidiaries. From October 2010 to April 2015, he served as Division President of Goodman Global, a member of the Daikin Group, a leading global HVAC manufacturer. Prior to 2005, Mr. Sullivan held a variety of management positions at Carrier Corporation, a leading heating, air-conditioning and refrigeration solutions company, including sales, product management and general management.

**Veteran leadership with broad industry experience,  
dedicated to enhancing shareholder value.**

# Reconciliation of TTM<sup>1</sup> Operating Income to Adjusted Operating Income

(Amounts in thousands, except percentages)

	(Unaudited)				
	Trailing Twelve Month Actuals by Quarter				
	3Q20	4Q20	1Q21	2Q21	T12M
Revenue	\$ 83,716	\$ 98,498	\$ 90,964	\$ 104,940	\$ 378,118
Adj Gross Margin	37,691	44,719	42,752	48,736	173,898
	45.0%	45.4%	47.0%	46.4%	46.0%
Operating Income	10,488	15,135	16,253	22,180	64,056
Adjusting items:					
Asset Impairment	-	951	-	-	951
Other	-	200	-	-	200
Adjusted Operating Income	<u>\$ 10,488</u>	<u>\$ 16,286</u>	<u>\$ 16,253</u>	<u>\$ 22,180</u>	<u>\$ 65,207</u>
<i>% of revenue</i>	<i>12.5%</i>	<i>16.5%</i>	<i>17.9%</i>	<i>21.1%</i>	<i>17.2%</i>



**CSW**  
INDUSTRIALS