CSW Industrials Corp.

(NASDAQ: CSWI)

ROLAND GEORGE INVESTMENTS PRORGAM

THIS REPORT IS PUBLISHED FOR EDUCATIONAL PURPOSES FOR THE ROLAND GEORGE INVESTMENTS PROGRAM

Conrad Voigt

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Figure 1: Company Factsheet

Price Target	$ 326
52 Week High	$ 399
52 Week Low	$ 167
Market Cap	6.57B
Avg Volume	194,571
EPS	7.02
P/E	54.96
P/S	7.52

Figure 2: Revenue by Segment

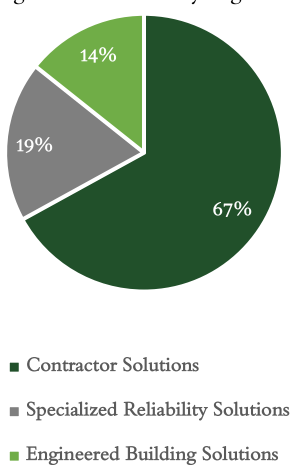
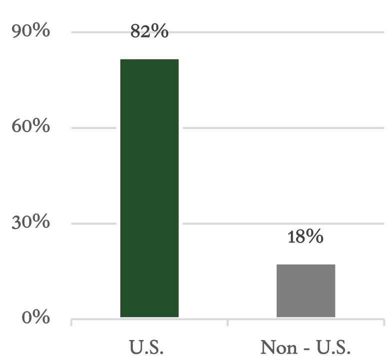


Figure 3: Revenue by Region



Investment Thesis

CSW Industrials, Inc. (CSWI) is assigned a "SELL" recommendation with a one-year price target of $326, indicating a 11% downside from the current market price. This target is based on a comprehensive valuation approach, including DCF analysis, sensitivity testing, and relative valuation. The recommendation reflects CSWI's overvaluation compared to peers, despite opportunities within the industrial sector.

Moderating Revenue and Earnings Growth

Since the COVID-19 pandemic, CSWI and the broader Industrials sector saw a surge in revenue growth as economies reopened. However, with the recovery phase concluding, growth is expected to slow, with CSWI's revenue forecasted to grow at a more moderate 13% CAGR through 2026. This deceleration, mirrored in declining EBIT growth, suggests a shift to more stable but less rapid expansion. The transition from high post-pandemic growth could lead to adjusted market expectations and a recalibration of valuation.

Risks from Recent Secondary Offering and Share Dilution

The recent secondary offering in September has raised concerns over future returns on equity. Historically robust at 17%, CSWI's ROE may weaken due to dilution, especially without clear reinvestment plans. This risks a reversion to the median ROE, eroding the company's competitive edge.

Low Leverage Limits Growth Potential

With a low debt-to-equity ratio of 17%, well below the peer average of 81%, CSWI's conservative leverage may limit its ability to capitalize on growth opportunities. Competitors with more leverage can expand aggressively, leaving CSWI at risk of underperformance, particularly as the broader industrial sector slows post-COVID recovery.

Business Description

Business Description

CSW Industrials, Inc. (CSWI) operates through three segments: Contractor Solutions, Specialized Reliability Solutions, and Engineered Building Solutions (Figure 2). The company provides high-performance products that enhance efficiency and performance, primarily catering to industries such as HVAC, plumbing, general industrial, energy, and rail transportation. Notable product lines include RectorSeal's No. 5® pipe thread sealant, a market standard in HVAC, plumbing, and electrical applications, and Whitmore's Kopr-Kote® anti-seize lubricant, widely recognized in oil and gas drilling. CSWI's focus is on niche markets, where it maintains a competitive edge due to its reputation for providing specialized and high-quality products tailored to the specific needs of professional trades.

Business Model

CSWI's business model revolves around providing specialized, high-value products via well-established distribution networks and direct sales. For example, its Specialized Reliability Solutions segment offers products that enhance the lifespan and performance of industrial assets in harsh conditions, such as mining and rail transport, where equipment durability is critical. CSWI leverages its strong customer relationships to cross-sell products across its segments, driving organic growth. Although the company has grown steadily, it operates in mature markets, such as HVAC and plumbing, that offer limited scalability.

Company Strategy

Product Diversification and Innovation: CSWI is committed to incremental innovation, focusing on product enhancements to meet customer needs in specific end markets. The company's R&D team has developed products like specialized lubricants for extreme environments and HVAC solutions that address both commercial and residential needs. Recent acquisitions such as Dust Free, LP, which specializes in indoor air quality products, have expanded CSWI's HVAC portfolio, demonstrating the company's focus on complementary acquisitions to fuel growth.

Operational Efficiency: CSWI continuously refines its manufacturing processes to optimize capacity and reduce costs. For instance, recent efforts to consolidate manufacturing facilities and distribution centers have improved production capacity while maintaining product quality. However, its heavy reliance on operational efficiency for margin improvements could limit its scalability compared to larger competitors.

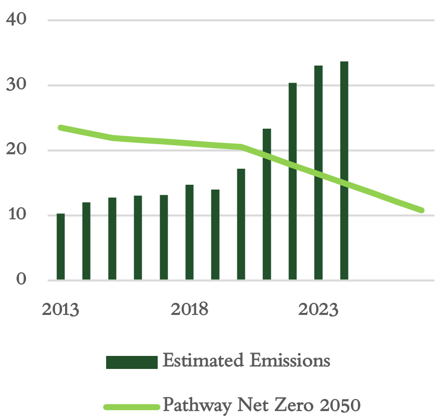
Targeted Acquisitions: CSWI has successfully integrated over 10 acquisitions since its inception, focusing on commercially proven products that complement its portfolio. The acquisitions of companies like Falcon Stainless and Shoemaker Manufacturing have broadened CSWI's HVAC offerings, while reducing integration risk due to synergies in distribution and manufacturing processes.

Environmental, Social, and Governance

Environmental Impact

CSWI operates within industries where environmental regulations, such as energy efficiency and refrigerant changes, are increasingly important. CSWI's product offerings, while not directly impacted by specific efficiency regulations like SEER (Seasonal Energy Efficiency Ratio), are well-positioned to support shifts in HVAC unit replacements driven by regulatory changes. The company's products remain OEM and refrigerant agnostic, which allows them to maintain relevance without significant modifications. This adaptability helps CSWI navigate the evolving regulatory environment without immediate headwinds.

Figure 4: S1 & S2 GHG Emissions



However, CSWI has limited specific initiatives or disclosures related to greenhouse gas (GHG) emissions reductions or significant sustainability projects, which could become a competitive disadvantage as industry peers accelerate their environmental efforts in response to stricter regulations. Under the Net Zero Pathway, estimated emissions are expected to decline significantly over the coming decades. This reflects the growing pressure on companies, including those in adjacent industries like CSWI, to actively engage in emissions reduction strategies to align with broader environmental goals. However, CSWI has not disclosed any strategy for reduction for the coming years while its GHG emissions have significantly increased over the past (Figure 4). Despite the flexibility of its product line, CSWI's limited focus on sustainability initiatives may hinder its ability to remain competitive as regulatory frameworks continue to tighten.

Social Considerations

CSWI places a strong emphasis on safety and employee well-being, as demonstrated by several key milestones, such as the achievement of 365 days with no lost-time injuries at its TRUaire factory in Vietnam and over four years without lost-time injuries at its Balco facility in Kansas. The company's focus on safety, reflected in its consistently improving recordable incident rates, is a core component of its "people first" culture. In addition to safety, CSWI demonstrates its commitment to employees through profit-sharing and retirement plans, such as the ESOP (Employee Stock Ownership Plan), which provides employees with a stake in the company's success. Employees receive between 5% and 8% of their salary in company stock, fostering long-term loyalty and enabling retirements with dignity. This combination of competitive compensation, strong safety performance, and an inclusive retirement focus underpins CSWI's efforts to retain talent in a highly competitive labor market.

Corporate Governance

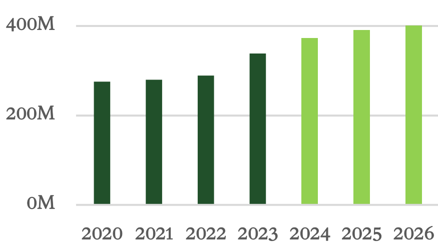
CSWI's corporate governance practices are characterized by strong shareholder alignment and oversight. The company's board is composed of independent directors, ensuring that the interests of shareholders are well represented. Additionally, CSWI's executive compensation is closely linked to company performance, further aligning management incentives with shareholder value creation. The company has a robust governance structure, including committees focused on risk oversight and environmental, social, and governance (ESG) issues. While CSWI has made strides in governance, it continues to focus on improving diversity at the board and executive levels, recognizing that a diverse leadership team is crucial for maintaining a competitive edge in today's market.

Figure 5: HRC Steel Futures Price

Industry Analysis

The Industrials industry is inherently cyclical, closely tied to macroeconomic factors such as GDP growth, infrastructure spending, and technological advancements. Over the past three years, the industry has seen consistent growth, with a compound annual growth rate (CAGR) of 5.7%. This growth was in large part due to the recovery from the COVID-19 pandemic, which stimulated increased activity across various industrial sectors as economies reopened and supply chains stabilized. The machinery sector, in which CSWI operates, has been one of the strongest performers within the industry, with a notable four-year CAGR of 11.3%. This growth is driven by increasing demand for automation and advanced manufa`cturing equipment, as well as increased infrastructure spending and technological innovation. However, this pace of expansion is expected to slow down in the coming years, with projected annual value-added growth in the sector declining to around 1.2% (Figure 7). The slowdown will likely impact the machinery sector as well, which has benefitted from recent tailwinds but may face more tempered growth ahead.

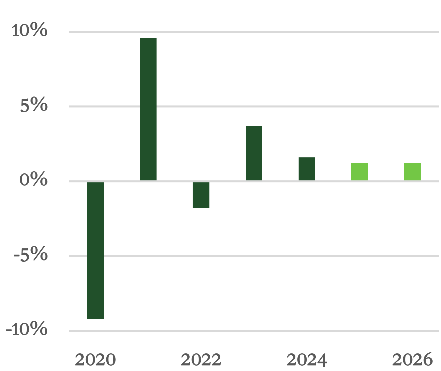
Figure 6: Non-Building Construction Spending in the U.S.



Headwinds

Rising Input Costs and Material Price Volatility: One of the most significant challenges for CSWI and the broader machinery sector is the increasing volatility of raw material costs. Steel and semiconductors, critical components in manufacturing, have seen dramatic price fluctuations in recent years due to supply chain disruptions and inflationary pressures. HRC Steel Futures Prices have experienced significant volatility, peaking sharply in 2021 and fluctuating since then, reflecting ongoing supply chain challenges and inflationary environment (Figure 5). For CSWI, this results in higher production costs, which are difficult to fully pass on to customers without risking competitive positioning. Additionally, delays in the availability of these materials can cause production bottlenecks, further impacting timelines and profitability. As inflation continues to affect the global economy, managing these rising input costs will be a critical challenge for CSWI moving forward.

Figure 7: Value Added by the Machinery & Equipment Sector



Regulatory and Environmental Compliance Costs: Environmental regulations are becoming more stringent, particularly concerning emissions standards and sustainability initiatives. These regulations pose a growing challenge for CSWI, especially within its machinery and construction-focused operations. The need to comply with new rules often requires substantial investment in greener technologies, infrastructure upgrades, and sustainability measures. While such investments are necessary to meet regulatory requirements, they also present a financial burden. CSWI's current environmental impact strategies may not be sufficient to offset the additional costs associated with stricter regulations. Failure to stay ahead of these changes could lead to penalties, legal risks, and reputational damage, further hindering its financial performance.

Tailwinds

Increased Infrastructure Spending: CSWI stands to benefit significantly from the global focus on infrastructure development, particularly as governments ramp up spending on large-scale projects in transportation, energy, and urban development. Infrastructure investments have a direct positive effect on the machinery sector, as they drive demand for construction equipment, specialty chemicals, and related products. Projected growth in non-building construction spending in the U.S. shows steady increases through 2026, indicating continued support for infrastructure development (Figure 6). For CSWI, whose product lines are well-aligned with the needs of these projects, this presents a clear

Figure 8: Revenue Forecast

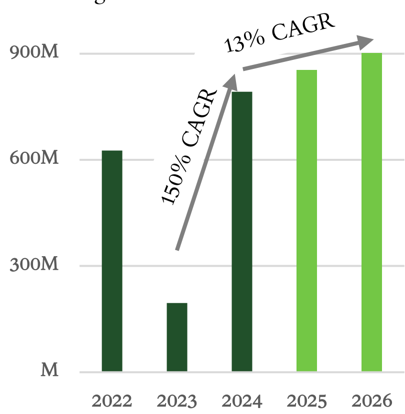


Figure 9: Current and Forward ROE

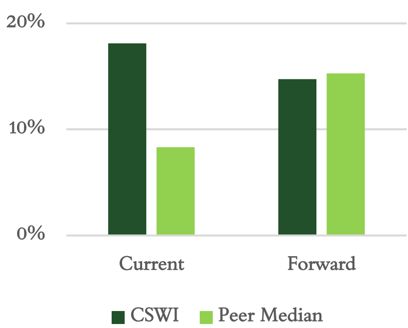


Figure 10: EBIT YoY Growth

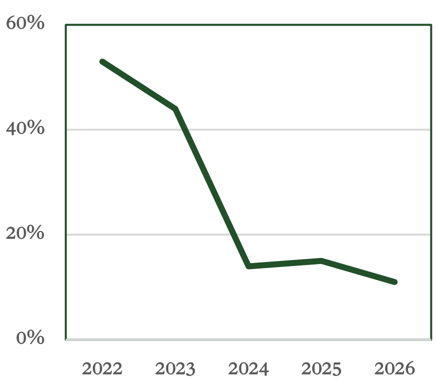
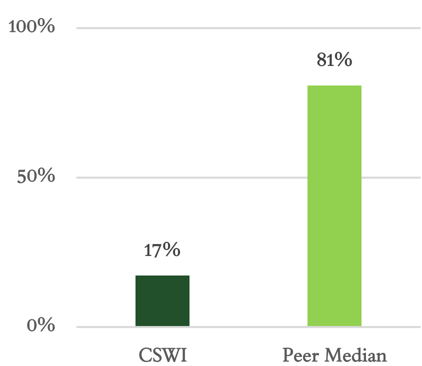


Figure 11: Debt to Equity



growth opportunity. As governments continue to prioritize infrastructure improvements, particularly in the U.S. and other developed economies, CSWI is positioned to capitalize on the increasing demand for its products and services.

Technological Advancements and Automation Adoption: The growing trend of automation and the integration of advanced technologies into industrial processes represents another significant tailwind for CSWI. As industries across the globe look to improve efficiency, reduce costs, and enhance safety through automation, CSWI's products are well-suited to complement these advancements. The company's ability to supply machinery and components that align with automated systems offers it a competitive advantage. The value added by the Machinery & Equipment Sector has shown a rebound in growth from 2021 onward, reflecting increased demand for advanced manufacturing equipment (Figure 7). By positioning itself as a provider of advanced, adaptable solutions, CSWI can benefit from the ongoing digital transformation within the industrials industry, driving both revenue growth and long-term market relevance.

Competitive Positioning

Market Share: CSWI holds a modest but notable market share, especially in the lubricant oil manufacturing sector, where it accounts for approximately 0.7% of the sector's total revenue in the U.S. Although its presence is not dominant, this positioning allows the company to maintain a steady foothold in a competitive market. However, CSWI faces stiff competition from much larger players like 3M, Honeywell, and Illinois Tool Works (ITW), which have significantly more resources and larger market shares. These companies' global reach and diverse product portfolios put pressure on CSWI to remain innovative and efficient to sustain its market share in niche industrial segments.

Competitive Landscape: In the industrial products space, CSWI competes with giants such as Honeywell, 3M, and Parker Hannifin, which operate across a broad range of industrial and technological solutions. These companies enjoy significant economies of scale and higher R&D budgets, allowing them to innovate at a faster pace and serve broader markets. For example, 3M's extensive product range in adhesives and sealants, coupled with Honeywell's deep presence in building technologies and the energy industry, positions them as formidable competitors. CSWI's approach to specializing in niche markets with less scale may limit its ability to compete head-to-head with these larger corporations, especially in terms of innovation and price competition.

Strategic Positioning: CSWI's strategy relies heavily on product diversification and targeted acquisitions to expand its offerings in specialized industrial niches like HVAC, energy, and rail transportation. The company's focus on high-quality, performance-enhancing products helps it build strong customer relationships, particularly in industries where durability and reliability are key. However, the company's product diversification strategy is somewhat constrained by its smaller scale relative to competitors. While CSWI's incremental approach to innovation has been effective in maintaining market relevance, it could leave the company vulnerable to competitors that are able to quickly introduce disruptive products.

Financial Analysis

Equity Issuance and Share Dilution

In September, CSWI conducted a secondary offering of shares, which has raised concerns about its financial strategy. While the issuance provided immediate capital, it also led to share dilution, which can undermine the company's historically strong return on equity (ROE). With a current ROE of 17%, significantly above the peer median of 10%, CSWI has maintained a competitive edge (Figure 9). However, by increasing the number of shares outstanding, the company risks diluting this superior ROE, reverting it closer to the median. This decision indicates a bet on using the capital for high-return projects, but without clear reinvestment plans, the dilution effect could prove costly to investors who value CSWI for its efficient use of equity.

Leverage and Capital Structure

CSWI's leverage remains notably low, with a debt-to-equity ratio of 17%, well below the peer average of 81% (Figure 11). While this conservative capital structure has minimized financial risk, it also suggests that the company might not be fully capitalizing on potential growth opportunities. Given the current and expected low-interest-rate environment, CSWI could consider leveraging up slightly to fund strategic expansions or acquisitions, taking advantage of cheap debt. This approach could enhance returns, especially if managed effectively without significantly increasing financial risk.

Revenue and Earnings Growth

Since the COVID-19 pandemic, the Industrials sector, including CSWI, experienced a surge in revenue growth as economies reopened and industrial activities resumed. However, as the recovery phase concludes, this growth is expected to decelerate. CSWI's revenue is forecasted to grow at a more moderate 13% CAGR through 2026, compared to the post-pandemic rebound (Figure 8). This slowdown in revenue growth is mirrored in the company's EBIT, which is projected to decline in growth rate, signaling a return to more stable but less rapid expansion (Figure 10). While the forecasted figures still reflect solid performance, the transition away from the high-growth recovery phase may lead to adjusted expectations and valuation recalibrations from the market.

Profitability and Return on Equity

CSWI's current and forward ROE highlights its capacity to generate returns from shareholder equity, outperforming its peers (Figure 9). However, the secondary offering in September has introduced a potential risk to this metric. Dilution from the issuance could pull the ROE down, signaling to the market a possible deviation from its historical profitability performance. Maintaining high ROE post-dilution will depend on how efficiently the raised capital is deployed.

Recommendations

The analysis suggests that CSWI should consider a more leveraged capital structure, especially given its current low debt levels (Figure 11). With low-interest rates, increased debt could allow the company to pursue growth opportunities without diluting equity returns further. Moreover, careful management of the capital raised from the recent share issuance is critical to preserving investor confidence. To counter the effects of dilution, CSWI needs to demonstrate strong and strategic reinvestment that sustains its growth and profitability metrics, aligning with market expectations.

Valuation

CSWI has been assigned a "SELL" recommendation with a one-year price target of $326, indicating a downside of 11% from the current market price. This target price results from a comprehensive valuation approach that combines Discounted Cash Flow (DCF) analysis and relative valuation metrics, emphasizing sensitivity analyses. The DCF model contributes 70% of the valuation, capturing the intrinsic value potential of the company, while the relative valuation accounts for 30%, providing a comparative market-based perspective. By integrating these approaches, the valuation provides a holistic view of CSWI's financial standing and potential future performance.

Figure 12: Free Cash Flow to Firm Input

Risk Free Rate (10Y Treasury Note)	4.0%
Expected Market Return	9.8%
Beta (FTW500;R^ 0.335; 5Y)	0.93
Cost of Equity (Weight: 97.3%)	9.3%
After Tax Cost of Debt (Weight: 2.7%)	4.4%
WACC	9.2%
Terminal Growth Rate	2.1%
EV/EBIT Exit Multiple	16.2x

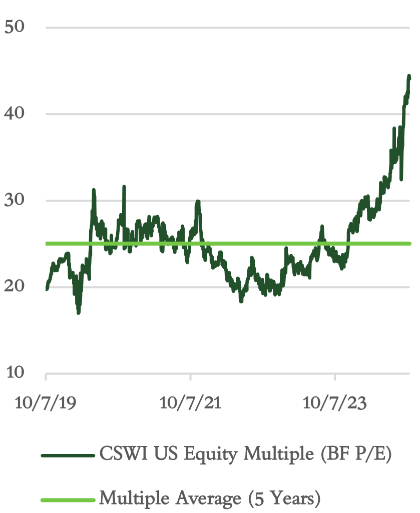
Figure 13: Sensitivity Analysis: Multiples Method

		EV/EBIT				
	$ 334	10.2x	13.2x	16.2x	19.2x	22.2x
WACC	7.2%	$ 259	$ 310	$ 361	$ 412	$ 463
	8.2%	$ 270	$ 323	$ 376	$ 429	$ 482
	9.2%	$ 270	$ 323	$ 376	$ 429	$ 482
	10.2%	$ 259	$ 310	$ 361	$ 412	$ 463
	11.2%	$ 240	$ 287	$ 334	$ 381	$ 428

Figure 14: Sensitivity Analysis: Perpetuity Growth Method

		Terminal Growth Rate				
	$ 440	1.60%	1.85%	2.10%	2.35%	2.60%
WACC	7.2%	$ 566	$ 588	$ 613	$ 640	$ 669
	8.2%	$ 480	$ 495	$ 512	$ 530	$ 550
	9.2%	$ 417	$ 428	$ 440	$ 453	$ 467
	10.2%	$ 369	$ 377	$ 386	$ 396	$ 406
	11.2%	$ 331	$ 337	$ 344	$ 351	$ 359

Figure 15: Blended Forward P/E



Discounted Cash Flows: Free Cash Flow to the Firm

The DCF model for CSWI was constructed using the Free Cash Flow to Firm (FCFF) methodology, which focuses on the cash flows available to all capital providers—both equity and debt holders. To estimate the intrinsic value, the model incorporated historical financial data alongside projections for future cash flows. The terminal value, a critical component of the DCF analysis, was calculated using both the perpetuity growth model and the exit multiple approach. Ultimately, the intrinsic valuation indicated a price target of $387, reflecting the projected cash flow generation capabilities of CSWI under typical market conditions.

The terminal value calculation relied on an exit multiple based on the company's EV/EBIT ratio, chosen to reflect CSWI's expected earnings stability and its industry context. A terminal growth rate of 2.1% was used (Figure 12), which aligns with general long-term economic growth assumptions. This rate was used to project a conservative yet realistic outlook for CSWI's growth potential, based on its historical performance and market position. The DCF model's outputs provided a valuable baseline for understanding the company's intrinsic worth, but given the premium at which CSWI currently trades, additional metrics were necessary to contextualize this valuation within the broader market environment.

WACC: The DCF analysis utilized a Weighted Average Cost of Capital (WACC) of 9.2%, which was derived from a cost of equity of 9.3% and an after-tax cost of debt of 4.4% (Figure 12). The cost of equity was calculated using the Capital Asset Pricing Model (CAPM), incorporating a risk-free rate of 4.0%, consistent with the yield on the 10-year U.S. Treasury bond, an expected market return of 9.8%, and a beta of 0.93. The relatively low beta suggests that CSWI is less volatile than the broader market, an attribute that might appeal to risk-averse investors. However, this lower volatility does not fully offset the challenges of justifying its current premium valuation. The WACC calculation also incorporated a weighting of 97.3% equity and 2.7% debt, reflecting the company's capital structure that is heavily skewed towards equity.

This blend of cost elements provided a balanced perspective on the risks and expected returns associated with investing in CSWI. The final WACC figure of 9.2% was used to discount future cash flows, offering a realistic gauge of the company's expected cost of financing its operations. Given the capital-intensive nature of CSWI's business segments, ensuring the accuracy of the WACC was essential for generating reliable DCF outputs.

Sensitivity Analysis: To further understand the potential range of values for CSWI's stock, sensitivity analyses were conducted. These analyses focused on two key parameters: WACC and terminal growth rate, and WACC and EV/EBIT exit multiple.

The sensitivity analysis of WACC and terminal growth rate (Figure 13) demonstrated that CSWI's valuation is more sensitive to changes in WACC than in the terminal growth rate. Specifically, a reduction in WACC to 8.2%, coupled with a terminal growth rate of 2.6%, would increase the valuation to $559, suggesting significant upside potential under more favorable financing conditions. Conversely, an increase in WACC to 11.2%, alongside a terminal growth rate of 1.6%, would lower the valuation to $331, underscoring the downside risks if financing conditions tighten or if the company's growth expectations decline. This analysis revealed the substantial impact that capital cost assumptions can have on the intrinsic valuation, highlighting the importance of stable financial conditions for maintaining CSWI's market positioning.

Additionally, a separate sensitivity analysis (Figure 14) explored variations in WACC, and the EV/EBIT exit multiple. The intrinsic valuation was highly responsive to changes in the exit multiple, reflecting market perceptions of CSWI's earnings stability and growth prospects. At a WACC of 9.2% and an exit multiple of 16.2x, the valuation stood at $376, whereas a shift to a higher multiple of 19.2x increased the value to $429. These findings emphasize the reliance of the DCF model on market expectations regarding CSWI's ability to sustain and grow its earnings. As with the previous sensitivity test, changes in WACC played a crucial role, reaffirming that CSWI's current valuation may be overly optimistic if market conditions deteriorate or if the company fails to meet its growth targets.

Relative Valuation

To complement the intrinsic value estimation from the DCF model, a relative valuation analysis was performed by comparing CSWI to a group of peer companies. This approach offered a broader market context, using key multiples such as Price-to-Free Cash Flow (P/FCF), Price-to-Book (P/B), and EV/EBIT. The selected peers for this analysis included Element Solutions (ESI), Axalta Coating Systems (AXTA), Avient Corp (AVNT), and Ashland Inc (ASH). These companies were chosen due to their similar focus on specialty chemicals, coatings, and industrial solutions, which align closely with CSWI's operations. Each peer operates within overlapping segments such as manufacturing materials,

Figure 16: Relative Valuation Multiples

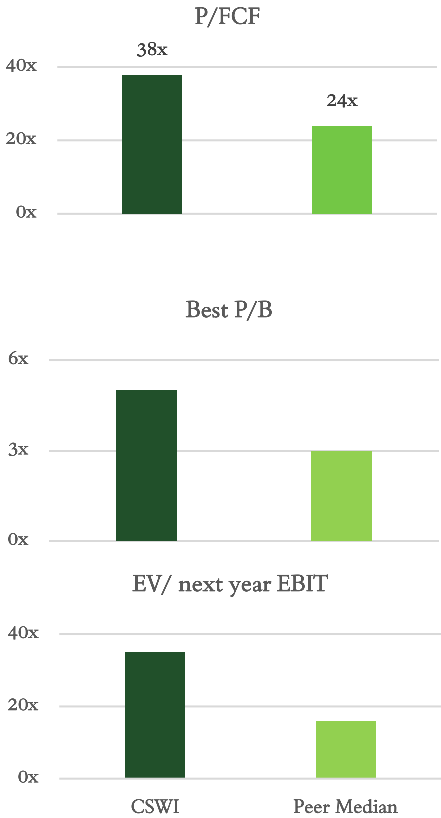
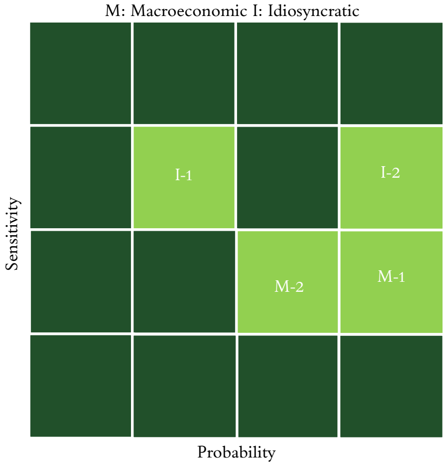


Figure 17: Heat Map

M: Macroeconomic I: Idiosyncratic



performance-enhancing chemicals, and solutions tailored for industrial applications, providing a relevant comparison for assessing CSWI's valuation.

The analysis revealed that CSWI's P/FCF multiple is significantly high at 38x, compared to the industry median of 24x (Figure 16). This elevated ratio suggests that investors expect strong cash flow generation from CSWI, but it also signals a potential overvaluation if those growth expectations are not met. The high P/FCF multiple indicates that the market is pricing in a robust growth outlook, but there is limited room for error. Any underperformance in cash flow could lead to downward pressure on the stock as investor expectations recalibrate.

The company's Price-to-Book (P/B) ratio is similarly elevated, standing at 5x against a peer median of 3x. This premium may reflect market confidence in CSWI's strong brand, operational efficiencies, and strategic positioning, but it also exposes the stock to significant downside risks. Paying a higher multiple for the company's assets implies that investors are banking on continued solid returns, and any deviation from these expectations could impact the stock's valuation.

CSWI's EV/EBIT multiple further highlights the premium valuation, with the company trading at 35x, which is more than double the peer median of 16x (Figure 16). While this suggests strong earnings potential and market confidence, such a high multiple leaves the stock vulnerable if earnings do not meet market forecasts. A discrepancy of this magnitude typically reflects expectations of superior performance, but it also means that the company must sustain growth to justify the elevated valuation. A shift in market sentiment or a slowdown in earnings growth could quickly erode this premium.

The relative valuation analysis produced a price target of $183, reflecting a 53% downside from CSWI's current trading price. This significant downside highlights the risk that the market may have overestimated the company's growth prospects. The attached graph (Figure 15) illustrates that the significant overvaluation has notably picked up over the last couple of months, as seen in the rising blended forward P/E multiple. This sharp increase suggests that recent market sentiment has driven the valuation to levels that are difficult to sustain unless the company delivers exceptional performance. When combined with the DCF valuation, the relative analysis accounted for 30% of the overall price target, resulting in a final target of $326. This balanced approach suggests that despite a solid historical performance, CSWI's current market valuation does not align with its fundamental outlook, leading to a sell recommendation.

Investment Risks

Potential for Leverage-Driven Growth

I-1: CSWI's conservative debt-to-equity ratio of 17% is well below the peer average of 81%, giving the company flexibility to take on more leverage if needed. In a low-interest-rate environment, increasing debt strategically could provide funds for acquisitions or expansions, driving significant growth. Selling now could mean missing out on the benefits of a more aggressive capital strategy, which could enhance returns without significantly raising financial risk.

Strong Operational Efficiency and Customer Loyalty

I-2: CSWI's focus on refining manufacturing processes and maintaining strong customer relationships ensures consistent demand across its segments. This operational efficiency and brand loyalty have helped the company sustain stable revenue streams even during periods of economic uncertainty. Investors may lose out on this steady cash flow and market resilience if they decide to sell now.

Adaptability to Regulatory Shifts

M-1: CSWI's versatile and adaptable product lines allow it to respond effectively to evolving environmental regulations, particularly in sectors like HVAC. The company's ability to remain OEM and refrigerant agnostic makes it well-positioned to navigate new standards without major adjustments. This adaptability could lead to new market opportunities, and selling now might mean missing out on potential long-term gains from these regulatory-driven shifts.

Positioning for Infrastructure Growth

M-2: Global infrastructure spending is set to rise, and CSWI is well-positioned to benefit, especially in areas like HVAC, construction, and industrial solutions. Its products align well with the needs of ongoing and future infrastructure projects, particularly as governments prioritize development. Selling now could mean missing the potential for future revenue growth as CSWI captures demand driven by these global trends.

Appendix A – Financial Statements

Income Statement

CSW Industrials Inc (CSWI US Equity)
Financial Statement Model
($ in millions, fiscal year ending March 31st)

Company name	CSW Industrials Inc
Ticker	CSWI US Equity
Circ Break 1=off, 0=on	1
Latest closing share price	$373.35
Latest closing share price date	10/3/2024
Latest fiscal year end date	3/31/2024
Select an operating scenario:	Base case
Effective Tax Rate	26.4%

	Historical Period				Projection Period			
INCOME STATEMENT	-3 FY	-2 FY	-1 FY	0 FY	1 FY	2 FY	3 FY	4 FY
Fiscal year	**2021A**	**2022A**	**2023A**	**2024A**	**2025P**	**2026P**	**2027P**	**2028P**
	3/31/2021	**3/31/2022**	**3/31/2023**	**3/31/2024**	**3/31/2025**	**3/31/2026**	**3/31/2027**	**3/31/2028**
Fiscal year end date	2021-03-31	2022-03-31	2023-03-31	2024-03-31	2025-03-31	2026-03-31	2027-03-31	2028-03-31
Net sales	$419	$626	$758	$793	$854	$907	$971	$1,039
Cost of goods sold	($235)	($370)	($440)	($442)	($468)	($494)	($531)	($568)
Gross profit	**$185**	**$256**	**$318**	**$351**	**$386**	**$413**	**$440**	**$471**
Research and development	$ (4.50)	$ (4.80)	$ (4.80)	$ (2.68)	($7)	($7)	($8)	$0
Selling, general & administrative expenses	($121)	($154)	$ (174.35)	($192)	($215)	($228)	($244)	$0
Operating profit (EBIT)	**$58**	**$102**	**$144**	**$153**	**$171**	**$185**	**$196**	**$471**
Interest income	$0	$0	$0	$0	$0	$0	$0	$0
Interest expense	($2)	($5)	($13)	($13)	($10)	($12)	($12)	($11)
Other income / (expense)	$6	$0	($0)	$6	$0	$0	$0	$0
Income before income taxes	**$61**	**$97**	**$131**	**$146**	**$161**	**$173**	**$184**	**$460**
Income tax expense	($11)	($24)	($29)	($39)	($42)	($46)	($49)	($121)
Net income	**$51**	**$73**	**$101**	**$108**	**$118**	**$127**	**$136**	**$338**
Depreciation	$9	$12	$13	$14	$17	$21	$22	$24
Amortization	$14	$25	$23	$24	$24	$23	$24	$24
EBITDA	**$67**	**$113**	**$157**	**$122**	**$135**	**$148**	**$158**	**$362**
Stock based compensation	($5)	($8)	($10)	($12)	($10)	($10)	($11)	($10)
Adjusted EBITDA	**$62**	**$105**	**$147**	**$110**	**$125**	**$137**	**$147**	**$352**
Diluted weighted average shares in millions	14.126	14.807	14.546	15.581	16.827	18.174	20.628	21.198
Growth rates & margins								
Net sales growth		49.4%	21.0%	4.6%	7.7%	6.3%	7.0%	7.0%
Gross profit margin	44.0%	40.9%	42.0%	44.2%	45.2%	45.5%	45.4%	45.4%
R&D % of sales	1.1%	0.8%	0.6%	0.3%	0.8%	0.8%	0.8%	0.0%
SG&A % of sales	28.8%	24.5%	23.0%	24.2%	25.1%	25.1%	25.1%	0.0%
SG&A Growth		21.4%	11.8%	9.9%	12.0%	6.3%	7.0%	-100.0%
Tax rate	17.6%	25.0%	22.5%	26.4%	26.4%	26.4%	26.4%	26.4%

Balance Sheet and Cash Flow Statement

BALANCE SHEET								
Fiscal year	2021A	2022A	2023A	2024P	2025P	2026P	2027P	2028P
Fiscal year end date	2021-03-31	2022-03-31	2023-03-31	2024-03-31	3/31/2025	3/31/2026	3/31/2027	3/31/2028
Cash and cash equivalents, ST marketable securities	$10	$17	$18	$18	$521	$652	$795	$1,170
LT marketable securities	$1	$0	$0	$1	$0	$0	$1	$1
Accounts receivable	$92	$119	$120	$138	$149	$153	$167	$178
Inventories	$103	$150	$162	$151	$174	$178	$190	$206
Other current assets	$14	$14	$23	$21	$23	$25	$26	$28
Net property and equipment	$144	$154	$148	$137	$139	$141	$144	$147
Other non-current assets	$515	$541	$572	$575	$586	$591	$597	$601
Total assets	**$880**	**$995**	**$1,043**	**$1,040**	**$1,592**	**$1,742**	**$1,919**	**$2,330**
Accounts payable	$32	$48	$41	$48	$ 52	$ 51	$ 57	$ 61
Other current liabilities	$42	$60	$58	$58	$70	$70	$75	$82
ST Debt	$9	$10	$10	$9	$10	$10	$10	$10
Other ST Liabilities	$0	$0	$0	$0	$0	$0	$0	$0
Long-term debt (includes current portion)	$298	$315	$309	$206	$277	$264	$249	$263
Other non-current liabilities	$83	$78	$83	$86	$82	$84	$84	$84
Total liabilities	**$464**	**$511**	**$499**	**$408**	**$490**	**$478**	**$475**	**$499**
Shareholders' Equity								
Share Capital and APIC	$105	$113	$123	$137	$464	$508	$556	$608
Treasury Stock	($34)	($46)	($83)	($96)	($75)	($84)	($85)	($81)
Retained earnings	$351	$408	$493	$583	$701	$828	$964	$1,302
Minority/ Non Controlling Interest	$0	$15	$18	$19	$18	$19	$19	$18
Other Equity	($6)	($5)	($8)	($9)	($8)	($8)	($8)	($8)
Total equity	**$415**	**$484**	**$544**	**$635**	**$1,101**	**$1,262**	**$1,445**	**$1,839**
Balance check	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*

CASH FLOW STATEMENT					
Fiscal year	2024P	2025P	2026P	2027P	2028P
Fiscal year end date	2024-03-31	3/31/2025	3/31/2026	3/31/2027	3/31/2028
Net income	$108	$118	$127	$136	$338
Depreciation	$14	$17	$21	$22	$24
Amortization	$24	$24	$23	$24	$24
Stock-based compensation	($12)	($10)	($10)	($11)	($10)
Decreases / (Increases) in working capital assets	($7)	($34)	($9)	($26)	($28)
Increases / (Decreases) in working capital liabilities	$8	$15	($0)	$11	$10
Other non current assets	$3	$12	$5	$6	$4
Other non current liabilities	($4)	$4	($1)	($0)	$1
Net cash provided by (used in) operating activities	**$134**	**$146**	**$156**	**$161**	**$362**
Net purchases of property and equipment	($17)	($19)	($23)	($25)	($26)
Net cash provided by (used in) investing activities	**($17)**	**($19)**	**($23)**	**($25)**	**($26)**
Issuance & Repayments of long-term obligations	($103)	$71	($13)	($15)	$14
Net increase (decrease) in commercial paper outstanding	($166)	$0	$0	$0	$0
Repurchases of common stock	($15)	($8)	($21)	($15)	($14)
Issuance of common stock	$14	$326	$44	$48	$52
Payment of cash dividends	($12)	($14)	($12)	($13)	($13)
Net cash provided by (used in) financing activities	**($282)**	**$376**	**($2)**	**$6**	**$40**
Net increase (decrease) in cash and cash equivalents	**($165)**	**$503**	**$131**	**$143**	**$376**

Appendix B – DCF Model (FCFF)

Free Cash Flow to Firm								
In Millions of USD	FY2021A	FY2022A	FY2023A	FY2024A	FY2025E	FY2026E	FY2027E	FY2028E
Net Income	$51	$73	$101	$108	$118	$127	$136	$338
(+) Depreciation	$9	$12	$13	$14	$17	$21	$22	$24
(+) Non-Cash Adjustments	($5)	($8)	($10)	($12)	($10)	($10)	($11)	($10)
(-) Change in NWC	$137	$46	$32	($3)	$523	$142	$158	$395
(-) CAPEX	($9)	($16)	($14)	($17)	($19)	($23)	($25)	($26)
FCFF	$183	$106	$123	$91	$630	$256	$281	$720
PV FCFF	—	—	—	—	$552.02	$205.78	$206.52	$484.64

Capital Asset Pricing Model	
Risk Free Rate	4.0%
Expected Market Return	9.8%
Beta	0.93
Cost of Equity	9.3%

WACC Calculation	
Weight of Equity	97.3%
Cost of Equity	9.3%
Weight of Debt	2.7%
After Tax Cost of Debt	4.4%
Cost of Capital	**9.2%**

Perpetuity Growth Method		
Terminal Growth Rate		2.10%
FY2028E Free Cash Flow	$	720.08
Terminal Value	$	10,358.36
(+) PV of Terminal Value	$	6,971.58
(+) PV of Free Cash Flow	$	1,448.96
Implied Enterprise Value	$	8,420.54
(-) Debt		($263)
(+) Cash		$1,170
Equity Value	$	9,327.93
Shares Outstanding		21.20
Target Price	**$**	**440.04**

Multiples Method		
EV/EBIT Exit Multiple		16.20x
FY2028E EBIT		$362
Terminal Value	$	5,862.14
(+) PV of Terminal Value	$	3,945.45
(+) PV of Free Cash Flow	$	1,448.96
Implied Enterprise Value	$	5,394.41
(-) Debt		($206)
(+) Cash		$18
Equity Value	$	5,206.94
Shares Outstanding		15.58
Target Price	**$**	**334.19**

Appendix C – Relative Valuation

Name	Ticker	Best P/E		P/FCF		Best P/ B		EV / Fwrd EBIT
CSW INDUSTRIALS INC	CSWI US	44.43		37.75		5.48		34.82
AVIENT CORP	AVNT US	17.08		28.44		1.92		16.16
ASHLAND INC	ASH US	16.54		13.1		1.46		18.21
ELEMENT SOLUTIONS INC	ESI US	16.25		23.86		2.56		14.92
AXALTA COATING SYSTEMS LTD	AXTA US	16.09		13.81		3.55		12.5
Median		**16.5x**		**23.9x**		**2.6x**		**16.2x**
	Fwrd Earnings	$118	Curr FCF	$148	Fwrd BV	$1,101	Fwrd EBIT	$171
Implied Enterprise Value		**$1,957.2**		**$3,526.51**		**$2,817.37**		**$2,767.81**
(-) Debt		($206)		($206)		($206)		($206)
(+) Cash		$18		$18		$18		$18
(-) Preferred Stock		0		0		0		0
(-) Non-Controlling Interest		0		0		0		0
Equity Value		**$1,769.72**		**$3,339.04**		**$2,629.91**		**$2,580.34**
Shares Outstanding		15.58		15.58		15.58		15.58
Implied Share Price		**$113.58**		**$214.30**		**$168.79**		**$165.61**
		-69.05%		-41.61%		-54.01%		-54.88%