



KMG Chemicals Reports Third Quarter 2013 Financial Results

HOUSTON – (Business Wire) – June 10, 2013 – KMG Chemicals, Inc. (NYSE: KMG), a global provider of specialty chemicals in select markets, today announced financial results for the fiscal 2013 third quarter ended April 30, 2013.

2013 Third Fiscal Quarter Summary

- Net sales were \$59.9 million, down 10.0% from the comparable quarter in fiscal 2012, reflecting reduced demand within our Electronic Chemicals and Wood Treating Chemicals businesses.
- Gross profit margins decreased to 27.3%, from 30.9% in the third fiscal quarter of 2012.
- Operating income was \$4.4 million compared to \$6.9 million in the same period a year ago.
- Diluted earnings per share were \$0.25 vs. \$0.34 per share in last year's third fiscal quarter.
- Electronic Chemicals segment operating margins (after corporate allocations) were 8.2%, down from 9.9% in the third fiscal quarter of 2012.
- Wood Treating Chemicals segment operating margins (after corporate allocations) were 10.8% vs. 14.5% in last year's third quarter.

Neal Butler, President and CEO of KMG, commented, "Although the operating environment in the third quarter remained challenging, we were encouraged to see sales volumes strengthen in both our Electronic Chemicals and Wood Treating businesses as compared to the second quarter of fiscal 2013, particularly in the last two months of the quarter. We continued to focus on controlling operating expenses and achieved a \$1.8 million, or 12.8%, reduction in total operating expenses over the prior year's third quarter. Overall, we reported fiscal third quarter diluted earnings per share of \$0.25, which was slightly higher than our expectations."

Mr. Butler continued, "As announced last week, we completed the acquisition of OM Group's Ultra Pure Chemicals subsidiaries located in the United States, United Kingdom, France and Singapore. We are pleased to join forces with OM Group's accomplished team and welcome them to KMG. This transaction positions KMG as the leading supplier of high purity process chemicals to the global semiconductor manufacturing industry, enabling us to best serve the evolving needs of our customers throughout the world."

Electronic Chemicals

Electronic Chemicals sales in the third quarter were \$36.3 million, down \$3.1 million, or 7.8%, as compared to \$39.4 million for the prior year period. The sales decline reflected reduced volumes as North American semiconductor production remained relatively soft early in the quarter.

Due to the year/year reduction in third quarter volumes, segment operating margins declined 170 bps year-over-year to 8.2%, from 9.9% in the comparable period last year. However, segment operating



margins improved by 138 bps from the second quarter of fiscal 2013 due to higher volumes as demand increased, as well as the benefits from ongoing cost-saving initiatives.

Wood Treating Chemicals

Wood Treating Chemicals sales were \$23.5 million, down \$3.6 million, or 13.4%, from \$27.2 million in the third fiscal quarter of 2012. The decline in segment sales reflected lower creosote volumes as many customers opted to pre-treat wooden railroad ties with boron solutions and reduce the amount of creosote retained in the rail ties. However, Wood Treating Chemicals sales were up \$2.3 million, or 11.1% over the prior quarter, reflecting an improvement in overall market conditions in that segment.

Segment operating margins were 10.8%, down 366 bps from 14.5% in last year's third quarter. The reduction in segment operating margins was attributable to lower volumes and the associated impact of lower volumes on segment profitability. Relative to the second quarter of fiscal 2013, segment operating margins improved by 34 bps primarily due to higher sales volumes driven by strengthening demand.

Balance Sheet and Cash Flow Overview

John V. Sobchak, CFO of KMG, said, "KMG's balance sheet remained in excellent shape at the end of the third quarter, with cash of \$5.1 million, working capital of \$55.9 million and long term debt of only \$22.0 million. Meanwhile, net cash flow from operating activities totaled \$9.5 million for the nine month period ended April 30, 2013."

Mr. Sobchak added, "Given KMG's solid financial position and cash flow generation capabilities, we had ample financial flexibility to advance our consolidation strategy by recently purchasing OM Group's Ultra Pure Chemicals subsidiaries for \$63.3 million in cash, including \$17.3 million in working capital. We funded the acquisition through the company's recently amended revolving credit facility. The facility was amended to increase the maximum borrowing capacity to \$110 million and to include an accordion feature that allows for an expansion of up to \$135 million. The balance on this facility currently includes \$67 million in borrowings. In the near-term, we anticipate directing our cash flow primarily toward debt reduction."

Outlook

"We anticipate that the recent positive trends we have experienced in our Electronic Chemicals business will continue in our fourth fiscal quarter. Semiconductor production is increasing, particularly with respect to the most advanced process geometries, driving stronger demand for high purity process chemicals. This pickup in production should have a positive impact on our fourth quarter volumes and segment operating margins prior to acquisition and integration-related costs," Mr. Butler stated.

Mr. Butler continued, "In our Wood Treating Chemicals business, we anticipate fourth quarter volumes will improve relative to those reported in the third quarter of fiscal 2013. Sales should exceed those in



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last year's fourth fiscal quarter, though segment operating margins are likely to remain below the level reported in last year's fourth fiscal quarter."

Mr. Butler concluded, "We expect our fourth fiscal quarter diluted EPS to be slightly improved over the \$0.25 per diluted share we reported in the third quarter of fiscal 2013, after taking into consideration over \$1 million of closing and integration costs anticipated to be recognized in the fourth fiscal quarter."

Conference Call

Date: Monday, June 10, 2013

Time: 10:00 a.m. EDT

Dial-in: 877-415-3186 or 857-244-7329

Participant passcode: 97105991

The conference call will also be webcast live via the "Investors" section of the Company's website at <http://kmgchemicals.com>. To listen to the live call, please go to the website at least 15 minutes early to register, download and install any necessary audio software.

If you are unable to listen live, the conference call will be archived on the KMG website. A telephone replay of the call will also be available for one week, starting at 12:00 p.m. EDT on June 10, 2013. To access the call, dial 888-286-8010 or 617-801-6888 using participant passcode 91134348.

About KMG

KMG Chemicals, Inc., through its subsidiaries, produces and distributes specialty chemicals to select markets. The Company grows by acquiring and optimizing stable chemical product lines and businesses with established production processes. Its current operations are focused on the electronic and industrial wood treatment chemical markets. For more information, visit the Company's website at <http://kmgchemicals.com>.

The information in this news release includes certain forward-looking statements that are based upon assumptions that in the future may prove not to have been accurate and are subject to significant risks and uncertainties, including statements as to the future performance of the company. Although the company believes that the expectations reflected in its forward-looking statements are reasonable, it can give no assurance that such expectations or any of its forward-looking statements will prove to be correct. Factors that could cause results to differ include, but are not limited to, successful performance of internal plans, product development acceptance, the impact of competitive services and pricing and general economic risks and uncertainties.



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KMG CHEMICALS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
(In thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	April 30,		April 30,	
	2013	2012	2013	2012
Net sales	\$ 59,929	\$ 66,579	\$ 182,224	\$ 205,093
Cost of sales	43,596	45,973	130,082	148,671
Gross profit	16,333	20,606	52,142	56,422
Distribution expenses	6,399	7,418	19,374	19,290
Selling, general and administrative expenses	5,579	6,320	18,113	18,390
Operating income	4,355	6,868	14,655	18,742
Other income (expense)				
Interest expense, net	(388)	(504)	(1,194)	(1,609)
Other, net	(49)	(48)	(175)	(195)
Total other expense, net	(437)	(552)	(1,369)	(1,804)
Income from continuing operations before income taxes	3,918	6,316	13,286	16,938
Provision for income taxes	(1,026)	(2,417)	(4,531)	(6,643)
Income from continuing operations	2,892	3,899	8,755	10,295
Discontinued operations:				
Income/(loss) from discontinued operations, before income taxes	(33)	182	(187)	(434)
Income tax benefit/(expense)	6	(116)	57	101
Income/(loss) from discontinued operations	(27)	66	(130)	(333)
Net income	\$ 2,865	\$ 3,965	\$ 8,625	\$ 9,962

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Earnings per share:

Basic

Income from continuing operations	\$ 0.25	\$ 0.34	\$ 0.76	\$ 0.91
Income (loss) from discontinued operations	—	0.01	(0.01)	(0.03)
Net income	<u>\$ 0.25</u>	<u>\$ 0.35</u>	<u>\$ 0.75</u>	<u>\$ 0.88</u>

Diluted

Income from continuing operations	\$ 0.25	\$ 0.33	\$ 0.76	\$ 0.89
Income (loss) from discontinued operations	—	0.01	(0.01)	(0.03)
Net income	<u>\$ 0.25</u>	<u>\$ 0.34</u>	<u>\$ 0.75</u>	<u>\$ 0.86</u>

Weighted average shares outstanding:

Basic	11,513	11,363	11,476	11,355
Diluted	11,580	11,539	11,574	11,523



KMG CHEMICALS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except for share and per share amounts)

	April 30, 2013	July 31, 2012
	(Unaudited)	
Assets		
Current assets		
Cash and cash equivalents	\$ 5,098	\$ 1,633
Accounts receivable		
Trade, net of allowances of \$92 at April 30, 2013 and \$16 at July 31, 2012	26,854	28,933
Other	4,304	960
Inventories, net	44,514	40,661
Current deferred tax assets	1,425	1,417
Prepaid expenses and other	3,309	2,057
Total current assets	<u>85,504</u>	<u>75,661</u>
Property, plant and equipment, net	67,423	68,026
Deferred tax assets	1,158	1,129
Goodwill	3,778	3,778
Intangible assets, net	14,757	14,980
Restricted cash	1,000	1,000
Other assets, net	3,667	3,116
Total assets	<u>\$ 177,287</u>	<u>\$167,690</u>
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	\$ 23,382	\$ 21,855
Accrued liabilities	5,109	4,595
Employee incentive accrual	1,154	2,227
Total current liabilities	<u>29,645</u>	<u>28,677</u>
Long-term debt, net of current maturities	22,000	24,000
Deferred tax liabilities	7,827	7,046
Other long-term liabilities	1,544	1,200
Total liabilities	<u>61,016</u>	<u>60,923</u>



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Commitments and contingencies

Stockholders' equity

Preferred stock, \$0.01 par value, 10,000,000 shares authorized, none issued	—	—
Common stock, \$0.01 par value, 40,000,000 shares authorized, 11,516,609 shares issued and outstanding at April 30, 2013 and 11,405,808 shares issued and outstanding at July 31, 2012	115	114
Additional paid-in capital	26,738	26,022
Accumulated other comprehensive loss	(3,144)	(4,339)
Retained earnings	92,562	84,970
	<u>116,271</u>	<u>106,767</u>
Total stockholders' equity	<u>116,271</u>	<u>106,767</u>
Total liabilities and stockholders' equity	<u>\$ 177,287</u>	<u>\$167,690</u>



KMG CHEMICALS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In thousands)

	Nine Months Ended	
	April 30,	
	2013	2012
Cash flows from operating activities		
Net income	\$ 8,625	\$ 9,962
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	5,407	5,285
Amortization of loan costs included in interest expense	34	107
Stock-based compensation expense	455	572
Bad debt expense	78	—
Inventory valuation adjustment	(340)	370
(Gain)/loss on disposal of property	59	(40)
(Gain)/loss on sale of animal health business	57	(90)
Deferred income tax expense	783	654
Tax benefit from stock-based awards	(569)	(179)
Changes in operating assets and liabilities		
Accounts receivable — trade	2,229	7,159
Accounts receivable — other	(3,339)	138
Inventories	(3,268)	(4,582)
Other current and noncurrent assets	(1,819)	(1,045)
Accounts payable	1,309	1,503
Accrued liabilities and other	(158)	3,117
Net cash provided by operating activities	<u>9,543</u>	<u>22,931</u>
Cash flows from investing activities		
Proceeds from sale of animal health business	—	10,203
Changes in restricted cash	—	(1,000)
Proceeds from sale of property	—	33
Additions to property, plant and equipment	(3,785)	(3,887)
Net cash provided by/(used in) investing activities	<u>(3,785)</u>	<u>5,349</u>
Cash flows from financing activities		

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Net payments under revolver credit agreement	(2,000)	(9,946)
Principal payments on borrowings on term loan	—	(11,333)
Proceeds from exercise of stock options	70	32
Tax benefit from stock-based awards	569	179
Book overdraft	—	(2,852)
Payment of dividends	(1,032)	(908)
	<u>(2,393)</u>	<u>(24,828)</u>
Net cash used in financing activities		
Effect of exchange rate changes on cash	100	(84)
Net increase in cash and cash equivalents	3,465	3,368
Cash and cash equivalents at beginning of period	<u>1,633</u>	<u>1,826</u>
Cash and cash equivalents at end of period	<u>\$ 5,098</u>	<u>\$ 5,194</u>
Supplemental disclosures of cash flow information		
Cash paid for interest	\$ 1,163	\$ 1,485
Cash paid for income taxes	\$ 5,254	\$ 3,625

**KMG Chemicals, Inc.**9555 W. Sam Houston Parkway South
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(\$ in thousands; includes effects of rounding)

Segment Net Sales

<u>Segment</u>	Three Months Ended April 30,			
	2013		2012	
	Net Sales	% of Total Sales for Reportable Segments	Net Sales	% of Total Sales for Reportable Segments
Electronic Chemicals	\$ 36,333	61%	\$ 39,422	59%
Wood Treating Chemicals	23,525	39%	27,157	41%
Total Sales for Reportable Segments	<u>\$ 59,858</u>	100%	<u>\$ 66,579</u>	100%

Segment Operating Income ⁽¹⁾

<u>Segment</u>	Three Months Ended April 30,			
	2013		2012	
	Operating Income	% of Sales for Reportable Segment	Operating Income	% of Sales for Reportable Segment
Electronic Chemicals	\$ 2,978	8.2%	\$ 3,904	9.9%
Wood Treating Chemicals	2,546	10.8%	3,932	14.5%
Total Segment Income from Operations	<u>\$ 5,524</u>		<u>\$ 7,836</u>	

(1) Segment income from operations includes allocated corporate overhead expenses.

Source: KMG Chemicals, Inc.

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