



KMG Reports Second Quarter 2016 Financial Results

FORT WORTH, Texas—(BUSINESS WIRE)—March 10, 2016—KMG (NYSE: KMG), a global provider of specialty chemicals, today announced financial results for the fiscal 2016 second quarter ended January 31, 2016.

2016 Second Quarter Financial Highlights

- Adjusted EBITDA¹ increased to \$11.0 million, up from \$9.0 million in last year's second quarter.
- Adjusted diluted earnings per share² was \$0.40 vs. \$0.30 per share reported in the prior year's second quarter.
- GAAP diluted earnings per share was \$0.33 vs. \$0.47 per share in the second quarter of fiscal 2015. EPS in last year's second quarter benefited from a \$0.31 per share gain on the sale of the creosote business.

Chris Fraser, KMG chairman and chief executive officer, said, "KMG had a solid second quarter, achieving year-over-year adjusted EBITDA growth of 22% and a 33% increase in adjusted EPS. Our year-to-date cash flow more than doubled compared to the prior year, which is consistent with our focus on execution, driving operational efficiencies and maximizing margins and cash flow. Given our strong performance in the first half of the fiscal year and our expectations for continued year-over-year growth in the second half, we are increasing our fiscal 2016 adjusted EBITDA guidance to \$43-45 million, from \$40-42 million previously."

Mr. Fraser continued, "Despite experiencing seasonal softness in the second quarter as well as a negative impact from foreign currency translation, our Electronic Chemicals business generated more than 50% year-over-year growth in operating income, benefiting from improved manufacturing efficiency due to consolidation of our global operations, lower distribution costs and a positive product mix.

"Our penta business performed well in the second quarter, aided by solid shipment volume and favorable raw materials costs. Although our industrial lubricants business faced headwinds from the downturn in the energy industry, this business contributed positively to sales and earnings as customers continue to conduct regular maintenance on existing infrastructure to enable optimal valve performance."

¹ Non-U.S. GAAP measure. See Table 1 for reconciliation.

² Non-U.S. GAAP measure. See Table 2 for reconciliation.



Consolidated results

Second quarter

Dollars in thousands, except EPS

| | Fiscal 2016 | | Fiscal 2015 | |
|----------------------------|--------------------------------|-------------------------------|--------------------------------|-------------------------------|
| | Adjusted (non-GAAP) | As Reported (GAAP) | Adjusted (non-GAAP) | As Reported (GAAP) |
| Net sales | \$70,859 | \$70,859 | \$79,762 | \$79,762 |
| Operating income | 7,421 | 6,137 | 5,826 | 3,167 |
| Operating margin | 10.5% | 8.7% | 7.3% | 4.0% |
| Net income | 4,814 | 3,979 | 3,526 | 5,490 |
| Diluted earnings per share | \$0.40 | \$0.33 | \$0.30 | \$0.47 |

Business segment results

Electronic Chemicals

Second quarter

Dollars in thousands

| | Fiscal 2016 | Fiscal 2015 |
|------------------|-------------------------------|-------------------------------|
| | As Reported (GAAP) | As Reported (GAAP) |
| Net sales | \$62,521 | \$66,595 |
| Operating income | 8,470 | 5,570 |
| Operating margin | 13.5% | 8.4% |

For the second fiscal quarter, the Electronic Chemicals segment reported:

- Sales of \$62.5 million, down 6% from \$66.6 million in the same period a year ago. The strong U.S. dollar reduced sales by \$2.1 million as compared to the prior year period. Electronic Chemicals sales declined slightly in Europe and Asia.
- GAAP operating income of \$8.5 million vs. \$5.6 million in the same period of fiscal 2015. Operating income and margin improved due to operating efficiencies from the restructuring and realignment of our electronic chemicals business, lower distribution costs and a more favorable product mix.
- EBITDA³ of \$11.5 million, compared to \$8.7 million last year. Foreign currency translation reduced second quarter fiscal 2016 EBITDA by approximately \$0.3 million as compared to the prior year period.

³ Non-U.S. GAAP measure. See Table 1 for reconciliation.



Other Chemicals

As of May 1, 2015, the Other Chemicals segment includes the pentachlorophenol ("penta") business and the industrial lubricants business.

Second quarter

Dollars in thousands

| | <u>Fiscal 2016</u> | <u>Fiscal 2015</u> |
|------------------|--------------------|--------------------|
| | <u>As Reported</u> | <u>As Reported</u> |
| | <u>(GAAP)</u> | <u>(GAAP)</u> |
| Net sales | \$8,338 | \$13,136 |
| Operating income | 2,804 | 1,595 |
| Operating margin | 33.6% | 12.1% |

For the second fiscal quarter, the Other Chemicals segment reported:

- Sales of \$8.3 million versus \$13.1 million in the same period a year ago. The decrease in sales was due to the divestiture of the creosote business during the second quarter of fiscal 2015, partially offset by higher penta sales and the contribution from the industrial lubricants business.
- Operating income of \$2.8 million, or 33.6% of sales, compared to \$1.6 million, or 12.1% of sales, last year. The increase in operating income and margin was due to lower raw material costs, a more favorable product mix, the contribution from the industrial lubricants business and the absence of lower-margin creosote sales.
- EBITDA⁴ of \$3.1 million, up from \$1.6 million last year.

Fiscal 2016 Outlook

- **Sales:** Consistent with our prior guidance, fiscal 2016 consolidated net sales are forecast to be approximately \$300 million, which includes a projected foreign currency impact of approximately \$7 million. In our Electronic Chemicals segment, we expect sales to be flat to up slightly compared to the prior year, excluding the effect of foreign currency. In our Other Chemicals segment, we expect sales to decrease compared to the prior year due to the divestiture of the creosote business, partially offset by the contribution from the industrial lubricants business.
- **Adjusted EBITDA:** We increase our adjusted EBITDA forecast to \$43-45 million, from \$40-42 million previously, reflecting the strong EBITDA level achieved in the first half, as well as our expectation for continued EBITDA growth, on a year-over-year basis, in both our Electronic Chemicals and Other Chemicals segments in the

⁴ Non-U.S. GAAP measure. See Table 1 for reconciliation.



second half. Our fiscal 2016 adjusted EBITDA forecast includes an estimated \$5 million in stock-based compensation expense and a \$600,000 negative impact from foreign currency translation.

- **Depreciation and Amortization:** Depreciation and amortization expense is forecast to be approximately \$14 million, excluding restructuring and realignment charges, compared to our prior forecast of \$14-16 million.
- **Capital Expenditures:** Capital expenditures are forecast to be approximately \$15 million, unchanged from our prior guidance. Capital expenditures include expenses related to our ERP system implementation and asset investments to support increased shipment volume in our Electronic Chemicals business.

Conference call

Date: Thursday, March 10, 2016

Time: 5:00 p.m. ET

Dial in: 877-789-6981 or 541-797-2420

Participant passcode: 54825333

The conference call will be webcast live via the "Investors" section of the Company's website at <http://kmgchemicals.com>.

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 8:00 p.m. ET on March 10, 2016. To access the call, dial 855-859-2056 or 404-537-3406 using participant passcode 54825333.

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. 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.



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

| | Three Months Ended | | Six Months Ended | |
|--|---------------------------|----------------|-------------------------|----------------|
| | January 31, | | January 31, | |
| | 2016 | 2015 | 2016 | 2015 |
| Net sales | \$70,859 | \$79,762 | \$147,509 | \$170,541 |
| Cost of sales | 42,626 | 51,207 | 90,016 | 114,395 |
| Gross profit | <u>28,233</u> | <u>28,555</u> | <u>57,493</u> | <u>56,146</u> |
| Distribution expenses | 8,819 | 13,022 | 18,948 | 26,021 |
| Selling, general and administrative expenses | 12,722 | 9,707 | 23,937 | 18,907 |
| Restructuring charges | 555 | 296 | 1,021 | 873 |
| Realignment charges | – | 2,363 | 130 | 4,359 |
| Operating income | <u>6,137</u> | <u>3,167</u> | <u>13,457</u> | <u>5,986</u> |
| Other income (expense) | | | | |
| Interest expense, net | (252) | (184) | (404) | (987) |
| Gain on sale of creosote distribution business | – | 5,682 | – | 5,682 |
| Other, net | 149 | (131) | 132 | (159) |
| Total other income (expense), net | <u>(103)</u> | <u>5,367</u> | <u>(272)</u> | <u>4,536</u> |
| Income before income taxes | 6,034 | 8,534 | 13,185 | 10,522 |
| Provision for income taxes | <u>(2,055)</u> | <u>(3,044)</u> | <u>(4,615)</u> | <u>(3,847)</u> |
| Net income | <u>\$3,979</u> | <u>\$5,490</u> | <u>8,570</u> | <u>\$6,675</u> |
| Earnings per share: | | | | |
| Net income per common share basic | \$0.34 | \$0.47 | \$0.73 | \$0.57 |
| Net income per common share diluted | \$0.33 | \$0.47 | \$0.72 | \$0.57 |
| Weighted average shares outstanding: | | | | |
| Basic | 11,717 | 11,669 | 11,707 | 11,664 |
| Diluted | 11,915 | 11,759 | 11,890 | 11,728 |



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

| | January 31, 2016 | July 31, 2015 |
|---|-----------------------------|--------------------------|
| | (Unaudited) | |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 8,900 | \$ 7,517 |
| Accounts receivable | | |
| Trade, net of allowances of \$138 at January 31, 2016 and \$144 at July 31, 2015 | 35,397 | 36,887 |
| Other | 5,473 | 3,668 |
| Inventories, net | 40,391 | 42,082 |
| Current deferred tax assets | – | 2,953 |
| Prepaid expenses and other | 2,295 | 3,738 |
| Total current assets | <u>92,456</u> | <u>96,845</u> |
| Property, plant and equipment, net | 81,294 | 80,589 |
| Deferred tax assets | 781 | 131 |
| Goodwill | 22,183 | 22,408 |
| Intangible assets, net | 35,026 | 36,560 |
| Restricted cash | 1,000 | 1,000 |
| Other assets, net | 4,789 | 4,826 |
| Total assets | <u>\$237,529</u> | <u>\$ 242,359</u> |
| Liabilities & stockholders' equity | | |
| Current liabilities | | |
| Accounts payable | \$ 31,426 | \$ 35,980 |
| Accrued liabilities | 11,277 | 9,602 |
| Employee incentive accrual | 3,019 | 4,852 |
| Total current liabilities | <u>45,722</u> | <u>50,434</u> |
| Long-term debt | 47,000 | 53,000 |
| Deferred tax liabilities | 9,370 | 13,075 |
| Other long-term liabilities | 4,236 | 2,429 |
| Total liabilities | <u>106,328</u> | <u>118,938</u> |
| Commitments and contingencies | | |
| Stockholders' equity | | |
| Preferred stock, \$.01 par value, 10,000,000 shares authorized, none issued | – | – |
| Common stock, \$.01 par value, 40,000,000 shares authorized, 11,723,019 shares issued and outstanding at January 31, 2016 and 11,690,439 shares issued and outstanding at July 31, 2015 | 117 | 117 |
| Additional paid-in capital | 33,987 | 31,676 |
| Accumulated other comprehensive income/(loss) | (12,065) | (9,667) |
| Retained earnings | 109,162 | 101,295 |
| Total stockholders' equity | <u>131,201</u> | <u>123,421</u> |
| Total liabilities and stockholders' equity | <u>\$ 237,529</u> | <u>\$ 242,359</u> |



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

| | Six Months Ended | |
|--|-------------------------|-------------|
| | January 31, | |
| | 2016 | 2015 |
| Cash flows from operating activities | | |
| Net income | \$ 8,570 | \$ 6,675 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 7,024 | 6,767 |
| Non-cash restructuring charges | 105 | 4,930 |
| Amortization of loan costs included in interest expense | 84 | 69 |
| Stock-based compensation expense | 2,297 | 1,138 |
| Bad debt expense | 17 | — |
| Allowance for excess and obsolete inventory | 109 | 431 |
| Loss on disposal of property | 9 | — |
| Gain on sale of creosote distribution business | — | (5,682) |
| Deferred income tax benefit | (1,334) | (2,272) |
| Tax benefit from stock-based awards | (15) | (9) |
| Changes in operating assets and liabilities | | |
| Accounts receivable — trade | 894 | 1,057 |
| Accounts receivable — other | (1,816) | (615) |
| Inventories | 1,159 | (319) |
| Other current and noncurrent assets | 3,291 | 276 |
| Accounts payable | (5,805) | (6,357) |
| Accrued liabilities and other | (492) | 367 |
| Net cash provided by operating activities | 14,097 | 6,456 |
| Cash flows from investing activities | | |
| Additions to property, plant and equipment | (6,001) | (7,036) |
| Disposals of property, plant and equipment | — | 91 |
| Proceeds from sale of creosote product distribution business | — | 15,062 |
| Net cash provided by (used in) investing activities | (6,001) | 8,117 |
| Cash flows from financing activities | | |
| Net payments under revolving credit agreement | — | (41,100) |
| Principal payments on term loan | — | (20,000) |
| Borrowings under new credit facility | — | 59,100 |
| Payments under new credit facility | (6,000) | (19,000) |
| Tax benefit from stock-based awards | 15 | 9 |
| Payment of dividends | (703) | (700) |
| Net cash used in financing activities | (6,688) | (21,691) |
| Effect of exchange rate changes on cash | (25) | (1,644) |
| Net increase (decrease) in cash and cash equivalents | 1,383 | (8,762) |
| Cash and cash equivalents at beginning of period | 7,517 | 19,252 |
| Cash and cash equivalents at end of period | \$ 8,900 | \$ 10,490 |



Reconciliation of non-GAAP financial measures to GAAP financial measures

KMG provides non-GAAP financial information to complement reported GAAP results. KMG believes that analysis of our financial performance would be enhanced by an understanding of the factors underlying that performance and our judgments about the likelihood that particular factors will repeat. We define adjusted EBITDA as earnings from operations before interest, taxes, depreciation, amortization, acquisition and integration expenses, restructuring and realignment charges and other nonrecurring items.

KMG intends to continue to provide certain non-GAAP financial information and the appropriate reconciliation to GAAP in its financial results. As required by SEC rules, the tables below present a reconciliation of our presented non-GAAP measures to the most directly comparable GAAP measures. These non-GAAP measures should be viewed as a supplement to, and not a substitute for, U.S. GAAP measures of performance.

Table 1

RECONCILIATION OF OPERATING INCOME TO EBITDA AND ADJUSTED EBITDA (in thousands)

Second Quarter Fiscal 2016

| | Electronic Chemicals | Other Chemicals | Corporate | Total |
|---|-------------------------|--------------------|------------------|-----------------|
| Operating Income (Loss) | \$8,470 | \$2,804 | (\$5,137) | \$6,137 |
| Other income (expense) | 196 | (33) | (14) | 149 |
| Depreciation and amortization | 2,849 | 286 | 344 | 3,479 |
| EBITDA | 11,515 | 3,057 | (4,807) | 9,765 |
| Restructuring charges* | — | — | 555 | 555 |
| Corporate relocation expense | — | — | 729 | 729 |
| Adjusted EBITDA | 11,515 | 3,057 | (3,523) | 11,049 |
| Corporate allocation | 2,480 | 791 | (3,271) | — |
| Adjusted EBITDA excl. corporate allocation | \$13,995 | \$3,848 | (\$6,794) | \$11,049 |

* Excludes depreciation

Six Months Ended January 31, 2016

| | Electronic Chemicals | Other Chemicals | Corporate | Total |
|---|-------------------------|--------------------|-------------------|-----------------|
| Operating Income (Loss) | \$15,744 | \$6,568 | (\$8,855) | \$13,457 |
| Other income (expense) | 326 | (92) | (102) | 132 |
| Depreciation and amortization | 5,764 | 583 | 782 | 7,129 |
| EBITDA | 21,834 | 7,059 | (8,175) | 20,718 |
| Restructuring & realignment charges* | — | — | 1,046 | 1,046 |
| Corporate relocation expense | — | — | 729 | 729 |
| Adjusted EBITDA | 21,834 | 7,059 | (6,400) | 22,493 |
| Corporate allocation | 4,961 | 1,581 | (6,542) | — |
| Adjusted EBITDA excl. corporate allocation | \$26,795 | \$8,640 | (\$12,942) | \$22,493 |

* Excludes depreciation



(Table 1 continued)

| Second Quarter Fiscal 2015 | | | | |
|---|-----------------------------|--------------------------------|------------------|----------------|
| | Electronic Chemicals | Wood Treating Chemicals | Corporate | Total |
| Operating Income (Loss) | \$5,570 | \$1,595 | (\$3,998) | \$3,167 |
| Other income (expense) | (3) | (43) | (85) | (131) |
| Depreciation and amortization | 3,126 | 97 | 2,455 | 5,678 |
| EBITDA | 8,693 | 1,649 | (1,628) | 8,714 |
| Restructuring & realignment charges* | — | — | 317 | 317 |
| Adjusted EBITDA | 8,693 | 1,649 | (1,311) | 9,031 |
| Corporate allocation | 2,999 | 1,173 | (4,172) | — |
| Adjusted EBITDA excl. corporate allocation | \$11,692 | \$2,822 | (\$5,483) | \$9,031 |

* Excludes depreciation

| Six Months Ended January 31, 2015 | | | | |
|---|-----------------------------|--------------------------------|------------------|-----------------|
| | Electronic Chemicals | Wood Treating Chemicals | Corporate | Total |
| Operating Income (Loss) | \$9,691 | \$4,180 | (\$7,885) | \$5,986 |
| Other income (expense) | 117 | (53) | (223) | (159) |
| Depreciation and amortization | 6,328 | 193 | 5,176 | 11,697 |
| EBITDA | 16,136 | 4,320 | (2,932) | 17,524 |
| Restructuring & realignment charges* | — | — | 301 | 301 |
| Adjusted EBITDA | 16,136 | 4,320 | (2,631) | 17,825 |
| Corporate allocation | 5,390 | 2,107 | (7,497) | — |
| Adjusted EBITDA excl. corporate allocation | \$21,526 | \$6,427 | (10,128) | \$17,825 |

* Excludes depreciation

Table 2

Reconciliation of Non-GAAP Financial Measures to GAAP Financial Measures

Second Quarter Fiscal 2016
Dollars in thousands, except EPS

KMG Chemicals, Inc.

| | Operating | | Net | Diluted Earnings |
|------------------------------|------------------|---------------|----------------|-------------------------|
| | Income | Margin | Income | Per Share |
| Non-GAAP measure | \$7,421 | 10.5% | \$4,814 | \$0.40 |
| Restructuring charges | (555) | (0.8)% | (361) | (0.03) |
| Corporate relocation expense | (729) | (1.0)% | (474) | (0.04) |
| GAAP measure | <u>\$6,137</u> | <u>8.7%</u> | <u>\$3,979</u> | <u>\$0.33</u> |

Six Months Ended January 31, 2016
Dollars in thousands, except EPS

KMG Chemicals, Inc.

| | Operating | | Net | Diluted Earnings |
|-------------------------------------|------------------|---------------|----------------|-------------------------|
| | Income | Margin | Income | Per Share |
| Non-GAAP measure | \$15,337 | 10.4% | \$9,792 | \$0.82 |
| Restructuring & realignment charges | (1,151) | (0.8)% | (748) | (0.06) |
| Corporate relocation expense | (729) | (0.5)% | (474) | (0.04) |
| GAAP measure | <u>\$13,457</u> | <u>9.1%</u> | <u>\$8,570</u> | <u>\$0.72</u> |

**Second Quarter Fiscal 2015***Dollars in thousands, except EPS***KMG Chemicals, Inc.**

| | Operating | | Net | Diluted Earnings |
|-------------------------------------|----------------------|----------------------|----------------------|-------------------------|
| | <u>Income</u> | <u>Margin</u> | <u>Income</u> | <u>Per Share</u> |
| Non-GAAP measure | \$5,826 | 7.3% | \$3,526 | \$0.30 |
| Restructuring & realignment charges | (2,659) | (3.3)% | (1,729) | (0.14) |
| Gain on sale of creosote business | — | 0.0% | 3,693 | 0.31 |
| GAAP measure | <u>\$3,167</u> | <u>4.0%</u> | <u>\$5,490</u> | <u>\$0.47</u> |

Six Months Ended January 31, 2015*Dollars in thousands, except EPS***KMG Chemicals, Inc.**

| | Operating | | Net | Diluted Earnings |
|-------------------------------------|----------------------|----------------------|----------------------|-------------------------|
| | <u>Income</u> | <u>Margin</u> | <u>Income</u> | <u>Per Share</u> |
| Non-GAAP measure | \$11,218 | 6.6% | \$6,383 | \$0.54 |
| Restructuring & realignment charges | (5,232) | (3.1)% | (3,401) | (0.28) |
| Gain on sale of creosote business | — | 0.0% | 3,693 | 0.31 |
| GAAP measure | <u>\$5,986</u> | <u>3.5%</u> | <u>\$6,675</u> | <u>\$0.57</u> |

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