



FOR: **WEBCO INDUSTRIES, INC.**
CONTACT: Mike Howard
Chief Financial Officer
(918) 241-1094
mhoward@webcotube.com

For Immediate Release

WEBCO INDUSTRIES, INC. REPORTS FISCAL 2019 FOURTH QUARTER AND YEAR-END RESULTS

SAND SPRINGS, Oklahoma, September 25, 2019 – Webco Industries, Inc. (OTC: WEBC) today reported results for our fourth quarter and fiscal year ended July 31, 2019.

For our fourth quarter of fiscal year 2019, we generated net income of \$4.3 million, or \$4.69 per diluted share, while in our fourth quarter of fiscal year 2018, we generated net income of \$6.8 million, or \$7.29 per diluted share. Net sales for the fourth quarter of fiscal 2019 were \$130.0 million, a 12.1 percent decrease from the \$147.8 million of net sales in last year's fourth quarter. Significant declines in carbon steel sheet coil prices and somewhat slower, but still solid, markets, impacted the current fourth quarter. Our fourth quarter operations were also adversely impacted by the well-publicized and previously disclosed Oklahoma flooding in May 2019. While property damage was not substantial, our Oklahoma carbon steel tube manufacturing facilities ceased significant operations for 10 days due to lack of access, costing an estimated \$1.0 million. In addition, our current fourth quarter was benefitted by \$0.9 million of tax credits, primarily associated with research and development.

For fiscal year 2019, we generated net income of \$25.6 million, or \$27.78 per diluted share, compared to net income of \$23.3 million, or \$25.10 per diluted share, for the same period in fiscal 2018. Net sales for the current year amounted to \$548.6 million, a 9.6 percent increase over the \$500.4 million in sales for last fiscal year. Results for fiscal year 2018 included a \$4.3 million non-cash deferred income tax benefit and a \$1.1 million current income tax benefit from the federal tax rate reduction contained in the Tax Cuts and Jobs Act of 2017, while fiscal year 2019 benefitted from \$0.9 million of tax credits. SG&A cost for fiscal year 2018 also includes \$1.3 million for one-time special cash bonuses for our non-executive employees based on the tax cut.

In the fourth quarter of fiscal year 2019, we generated income from operations of \$5.1 million, after depreciation of \$3.4 million. The fourth fiscal quarter of the prior year generated income from operations of \$10.3 million, after depreciation of \$3.3 million. Gross profit for the fourth quarter of fiscal 2019 was \$11.4 million, or 8.8 percent of net sales, compared to \$24.1 million, or 16.3 percent of net sales, for the fourth quarter of fiscal 2018. Declines in the price of



carbon steel sheet coil have suppressed margins in the fourth quarter as we liquidate higher cost steel.

Our income from operations for fiscal year 2019 was \$37.1 million, after depreciation expense of \$13.4 million. Income from operations in fiscal year 2018 was \$27.8 million, after depreciation expense of \$12.3 million and \$1.3 million in employee special tax cut bonuses. Gross profit for fiscal 2019 was \$73.6 million, or 13.4 percent of net sales, compared to \$69.6 million, or 13.9 percent of net sales for fiscal year 2018.

Dana S. Weber, Chief Executive Officer and Chairman, commented, “Our fourth quarter of fiscal year 2019 was replete with challenges, including the May 2019 Oklahoma flooding that shut down our Oklahoma manufacturing facilities for 10 days. In addition to continuing to pay the employees of those facilities while closed, we worked hard to support those affected in our community with our finances and hard work. While many of our employees worked in the community, some employees worked tirelessly in unbearable weather conditions to relocate inventories and operate critical equipment so that our customers’ needs were met, and our losses mitigated. This is another example of why our highly dedicated and engaged work force throughout Webco differentiates us in our industry. Our people innovate daily, creating value and building on our ever-strengthening brand. Because of fiscal year 2018 benefits from the tax rate reduction associated with the Tax Cuts and Jobs Act of 2017 and tax credits received in fiscal 2019, our effective tax rates deviated from expected rates, specifically from an expected rate of 23 percent in fiscal year 2019. Carbon steel sheet coil prices dropped significantly over fiscal year 2019, resulting in late year margin pressure from liquidating higher priced inventories and decreasing sales. We continue to work hard to reduce our debt, which dropped \$21.7 million in fiscal year 2019, and enhance our liquidity, having \$54.6 of combined availability and cash at July 31, 2019. We are pleased with our results in fiscal year 2019, despite the headwinds late in the year. Most of the markets we serve were normal and somewhat slower, and we continued to benefit from our process and product innovations. We also continued to benefit from domestic demand for steel products, due in part to the April 2017 trade case covering certain cold drawn mechanical tubing and to the Section 232 tariffs and quotas. We have continued to invest in our people and compelling technologies, both of which we consider core strengths.”

Selling, general and administrative expenses were \$6.3 million in the fourth quarter of fiscal 2019 and \$13.8 million in the fourth quarter of fiscal 2018. SG&A expenses were \$36.5 million in fiscal year 2019 and \$41.8 million for fiscal year 2018. SG&A expenses for fiscal year



2019 reflect lower costs associated with business levels and profitability, such as company-wide incentive compensation and variable pay programs.

Interest expense was \$1.0 million and \$1.1 million in the fourth quarters of fiscal years 2019 and 2018, respectively. Interest expense was \$4.9 million and \$3.6 million in the current and prior fiscal years, respectively. The differential in interest expense between the quarterly and annually compared periods is due primarily to average debt levels.

We are party to an arrangement that swaps the variable interest rate for \$50 million of our debt to a fixed rate through December 2019. We record the interest swap contract at fair value on our balance sheet and non-cash changes in value are reported as unrealized gains or losses on interest contracts. The non-cash income and charges from adjusting the interest swap contract value to market value create volatility in our income statement; however, it has no bearing on cash flow for the quarter because the actual monthly cash swap payments are reflected in interest expense, and therefore earnings.

Our effective tax rate for the fourth quarter of fiscal year 2019 was a negative 14.3 percent due to \$0.9 million of Federal tax credits being recorded in the period, primarily associated with research and development for prior years. The effective tax rate for the fourth quarter of fiscal year 2018 was 26.0 percent. The effective tax rate for fiscal years 2019 and 2018 was 18.8 percent and 7.1 percent, respectively. The prior year period included a \$5.4 million tax benefit from the tax rate reduction associated with the Tax Cuts and Jobs Act of 2017. After a blended reduced rate in fiscal year 2018, because our tax year was five months old when the tax rate reduction became effective, fiscal year 2019 fully benefitted from the reduction in Federal tax rates. In the absence of tax credits and other adjustments, our expected Federal and state tax rate is approximately 23 percent. We have used the tax savings to increase company-wide incentive compensation payouts, invest in plant and equipment and reduce debt.

At July 31, 2019, we had \$7.1 million in cash, in addition to \$47.5 million of available borrowing under our \$160 million senior revolving credit facility, which had \$88.2 million drawn. Availability on the revolver is subject to advance rates on eligible accounts receivable and inventories. Our term and revolver mature in March 2022. Accounting rules require current classification of a revolver, irrespective of maturity, when the agreement contains both a lock-box arrangement and a subjective acceleration clause. Because our revolver contains both provisions, it is shown as a current obligation on our balance sheet, despite its March 2022 maturity.



Capital expenditures incurred amounted to \$8.1 million in the fourth quarter of fiscal year 2019, and \$22.0 million for fiscal year 2019. Our capital investments were largely focused on improving our efficiencies, yields, quality and capabilities.

The Company's Board of Directors previously established authority of up to \$10 million for a stock repurchase program, under which the Company is authorized to purchase its outstanding common stock, in private or open market transactions. The Board approved authority expires July 31, 2022. In the fourth quarter of fiscal 2019, the Company acquired 6,110 shares, bringing the total for the fiscal year to 18,393 shares. The Company acquired 15,500 shares in fiscal year 2018. Stock repurchases are subject to our ability to identify shares available for repurchase, the willingness of shareholders to pursue a sale of their shares to the Company, price and other market considerations, including that we do not know the identity of a significant number of our shareholders. Further, debt covenants may restrict the amount and timing of future stock repurchases the Company may wish to pursue, if any. There is no guarantee as to the number or dollar value of shares the Company may wish to, or be able to, repurchase. The repurchase plan may be extended, suspended or discontinued at any time, without notice, at the Company's discretion.

Webco's mission is to continuously build on our strengths as we create a vibrant company for the ages. We leverage on our core values of trust and teamwork, continuously building strength, agility and innovation. We focus on practices that support our brand, such that we are 100% engaged every day to build a forever kind of company for our trusted teammates, customers, business partners, investors and community. We provide high-quality carbon steel, stainless steel and other metal specialty tubing products designed to industry and customer specifications. We have five tube production facilities in Oklahoma and Pennsylvania and eight value-added facilities in Oklahoma, Illinois, Michigan, Pennsylvania and Texas, serving customers globally.

Forward-looking statements: Certain statements in this release, including, but not limited to, those preceded by or predicated upon the words "anticipates," "appears," "available," "believes," "can," "consider," "expects," "forever," "hopes," "intended," "plans," "projects," "pursue," "should," "wishes," "would," or similar words constitute "forward-looking statements." Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the Company, or industry results, to differ materially from any future results, performance or achievements expressed or implied herein. Such risks, uncertainties and factors include the factors



discussed above and, among others: general economic and business conditions, including any global economic downturn, reduced oil prices, competition from foreign imports, including any impacts associated with dumping or the strength of the U.S. dollar, changes in manufacturing technology, banking environment, including availability of adequate financing, monetary policy, changes in tax rates and regulation, raw material costs and availability, appraised values of inventories which can impact available borrowing under the Company's credit facility, industry capacity, domestic competition, loss of or reductions in purchases by significant customers and customer work stoppages, lack of insurance coverage for flood damages, the costs associated with providing healthcare benefits to employees, customer claims, technical and data processing capabilities, and insurance costs and availability. The Company assumes no obligation to update publicly such forward-looking statements.

- TABLES FOLLOW -



WEBCO INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share data - Unaudited)

	Three Months Ended July 31,		Year Ended July 31,	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Net sales	\$ 129,977	\$ 147,843	\$ 548,581	\$ 500,403
Cost of sales	<u>118,598</u>	<u>123,706</u>	<u>474,956</u>	<u>430,829</u>
Gross profit	11,379	24,137	73,625	69,574
Selling, general & administrative	<u>6,270</u>	<u>13,818</u>	<u>36,539</u>	<u>41,757</u>
Income (loss) from operations	5,109	10,319	37,086	27,817
Interest expense	1,014	1,134	4,883	3,600
Unrealized (gain) loss on interest contracts	<u>138</u>	<u>(24)</u>	<u>488</u>	<u>(882)</u>
Income (loss) before income taxes	3,957	9,209	31,715	25,100
Income tax expense (benefit)	<u>(377)</u>	<u>2,398</u>	<u>6,110</u>	<u>1,781</u>
Net income (loss)	\$ <u>4,334</u>	\$ <u>6,811</u>	\$ <u>25,605</u>	\$ <u>23,319</u>
Net income (loss) per common share:				
Basic	\$ <u>5.23</u>	\$ <u>8.34</u>	\$ <u>31.15</u>	\$ <u>28.53</u>
Diluted	\$ <u>4.69</u>	\$ <u>7.29</u>	\$ <u>27.78</u>	\$ <u>25.10</u>
Weighted average common shares outstanding:				
Basic	<u>829,100</u>	<u>816,900</u>	<u>821,900</u>	<u>817,400</u>
Diluted	<u>924,000</u>	<u>934,500</u>	<u>921,700</u>	<u>929,200</u>

Note: Amounts may not sum due to rounding.



WEBCO INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET HIGHLIGHTS
(Dollars in thousands, except par value - Unaudited)

	July 31, <u>2019</u>	July 31, <u>2018</u>
Cash	\$ 7,140	\$ 7,141
Accounts receivable, net	59,358	76,483
Inventories, net	176,418	170,892
Other current assets	<u>11,649</u>	<u>7,156</u>
Total current assets	254,565	261,672
Property, plant and equipment, net	112,501	104,211
Other long-term assets	<u>3,943</u>	<u>3,605</u>
Total assets	\$ <u>371,009</u>	\$ <u>369,488</u>
Other current liabilities	\$ 46,373	\$ 46,649
Current portion of long-term debt, net	<u>88,626</u>	<u>110,466</u>
Total current liabilities	134,999	157,116
Long-term debt	12,178	12,000
Deferred tax liability	8,677	8,829
Total equity (890,163 common shares, par value \$0.01, outstanding at July 31, 2019)	<u>215,155</u>	<u>191,544</u>
Total liabilities and equity	\$ <u>371,009</u>	\$ <u>369,488</u>

CASH FLOW DATA
(Dollars in thousands - Unaudited)

	Three Months Ended		Year Ended	
	July 31,		July 31,	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Net cash provided by (used in)				
operating activities	\$ <u>22,636</u>	\$ <u>(8,918)</u>	\$ <u>51,765</u>	\$ <u>(23,038)</u>
Depreciation and amortization	\$ <u>3,458</u>	\$ <u>3,311</u>	\$ <u>13,611</u>	\$ <u>12,535</u>
Cash paid for capital expenditures	\$ <u>7,330</u>	\$ <u>4,420</u>	\$ <u>19,716</u>	\$ <u>19,023</u>

Note: Amounts may not sum due to rounding.