

AZZ INC  
Form 10-K  
May 15, 2018  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended February 28, 2018

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 1-12777

AZZ Inc.

(Exact name of registrant as specified in its charter)

TEXAS

75-0948250

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

One Museum Place, Suite 500

3100 West 7th Street

Fort Worth, Texas 76107

(817) 810-0095

(Address, including zip code, and telephone number, including area code, of principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
---------------------	---

Common Stock, \$1.00 par value per share	New York Stock Exchange
--	-------------------------

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ¨ No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No ý

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Emerging growth

Edgar Filing: AZZ INC - Form 10-K

company company  
o o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  
" No ý

As of August 31, 2017, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$1,253,526,170 based on the closing sale price as reported on the New York Stock Exchange. As of May 2, 2018, there were 26,024,006 shares of the registrant's common stock (\$1.00 par value) outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement for its 2018 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K are incorporated by reference into Part III, Items 10-14 of this Annual Report on Form 10-K.

---

Table of Contents

AZZ INC.  
 FORM 10-K  
 For the Fiscal Year Ended February 28, 2018  
 INDEX

<u>PART I</u>		<u>3</u>
Item 1.	<u>Business</u>	<u>3</u>
Item 1A.	<u>Risk Factors</u>	<u>7</u>
Item 1B.	<u>Unresolved Staff Comments</u>	<u>11</u>
Item 2.	<u>Properties</u>	<u>12</u>
Item 3.	<u>Legal Proceedings</u>	<u>12</u>
Item 4.	<u>Mine Safety Disclosures</u>	<u>12</u>
<u>PART II</u>		<u>13</u>
Item 5.	<u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>13</u>
Item 6.	<u>Selected Financial Data</u>	<u>15</u>
Item 7.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operation</u>	<u>15</u>
Item 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>25</u>
Item 8.	<u>Financial Statements and Supplementary Data</u>	<u>26</u>
Item 9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>56</u>
Item 9A.	<u>Controls and Procedures</u>	<u>56</u>
Item 9B.	<u>Other Information</u>	<u>57</u>
<u>PART III</u>		<u>58</u>
Item 10.	<u>Directors, Executive Officers and Corporate Governance</u>	<u>58</u>
Item 11.	<u>Executive Compensation</u>	<u>58</u>
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>58</u>
Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>59</u>
Item 14.	<u>Principal Accountant Fees and Services</u>	<u>59</u>
<u>PART IV</u>		<u>60</u>
Item 15.	<u>Exhibits and Financial Statement Schedules</u>	<u>60</u>
Item 16.	<u>Form 10-K Summary</u>	<u>60</u>
<u>SIGNATURES</u>		<u>63</u>

---

## Table of Contents

### Forward Looking Statements

Certain statements herein about our expectations of future events or results constitute forward-looking statements for purposes of the safe harbor provisions of The Private Securities Litigation Reform Act of 1995. You can identify forward-looking statements by terminology such as “may,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” “continue,” or the negative of these terms or other comparable terminology. Such forward-looking statements are based on currently available competitive, financial and economic data and management’s views and assumptions regarding future events. Such forward-looking statements are inherently uncertain, and investors must recognize that actual results may differ from those expressed or implied in the forward-looking statements. In addition, certain factors could affect the outcome of the matters described herein. This Annual Report on Form 10-K may contain forward-looking statements that involve risks and uncertainties including, but not limited to, changes in customer demand and response to products and services offered by AZZ, including demand by the power generation markets, electrical transmission and distribution markets, the industrial markets, and the hot dip galvanizing markets; prices and raw material cost, including zinc and natural gas which are used in the hot dip galvanizing process; changes in the political stability and economic conditions of the various markets that AZZ serves, foreign and domestic; customer requested delays of shipments; additional acquisition opportunities; currency exchange rates; adequacy of financing; availability of experienced management and employees to implement AZZ’s growth strategy; a downturn in market conditions in any industry relating to the products we inventory or sell or the services that we provide; the continuing economic volatility in the U.S. and other markets in which we operate; acts of war or terrorism inside the United States or abroad; and other changes in economic and financial conditions. You are urged to consider these factors carefully in evaluating the forward-looking statements herein and are cautioned not to place undue reliance on such forward-looking statements, which are qualified in their entirety by this cautionary statement. These statements are based on information as of the date hereof and AZZ assumes no obligation to update any forward-looking statements, whether as a result of new information, future events, or otherwise.

### PART I

#### Item 1. Business

AZZ Inc. (“AZZ”, the “Company”, “our” or “we”) was established in 1956 and incorporated under the laws of the State of Texas. We are a global provider of galvanizing and metal coating services, welding solutions, specialty electrical equipment and highly engineered services to the power generation, transmission, distribution, refining and industrial markets. We have two distinct operating segments: the Energy Segment and the Metal Coatings Segment. AZZ Energy is dedicated to delivering safe and reliable transmission of power from generation sources to end customers, and automated weld overlay solutions for corrosion and erosion mitigation to critical infrastructure in the energy markets worldwide. AZZ Metal Coatings is a leading provider of metal finishing solutions for corrosion protection, including hot dip galvanizing to the North American steel fabrication industry.

#### Energy Segment

AZZ’s Energy Segment is a leading provider of specialized products and services designed to support industrial, nuclear and electrical applications. Our product offerings include custom switchgear, electrical enclosures, medium and high voltage bus ducts, explosion proof and hazardous duty lighting, nuclear safety-related equipment and tubular products. In addition to our product offerings, AZZ’s Energy Segment focuses on extension of life cycle for the power generation, refining and industrial infrastructure, through automated weld overlay solutions for corrosion and erosion mitigation. The markets for our Energy Segment are highly competitive and consist of large multi-national companies, along with numerous small independent companies. Competition is based primarily on product quality, range of product line, price and service. While some of our competitors are much larger than us, our Energy Segment offers some of the most technologically advanced solutions and engineering resources developed from a legacy of proven, reliable product options, allowing AZZ Energy to be ideally positioned to meet the most challenging application-specific demands.

Copper, aluminum, steel and nickel based alloys are the primary raw materials used by this segment. We do not foresee any availability issues for these materials. We do not contractually commit to minimum volumes and increases

in price for these items are normally managed through escalation clauses to the customer's contracts, which the customers may not accept. In addition, we seek to get firm pricing contracts from our vendors on these materials at the time we receive orders from our customers in order to minimize risk.

We sell Energy Segment products through manufacturers' representatives, distributors, agents and our internal sales force. We are not dependent on any single customer for this segment, and the loss of any single customer would not have a material adverse effect on our consolidated revenues or net income.

Table of Contents

On September 6, 2017, we completed the acquisition of all the assets and outstanding shares of Powergrid Solutions, Inc. ("PSI"), a privately held company, based in Oshkosh, Wisconsin. PSI designs, engineers and manufactures customized low and medium-voltage power quality, power generation and distribution equipment. PSI's product portfolio includes metal-enclosed, metal-clad and padmount switchgear, serving the utility, commercial, industrial and renewable energy markets since 1982. The acquisition of PSI is a key addition to the Company's electrical switchgear portfolio. The addition of PSI's low-voltage and padmount switchgear allows AZZ to offer a comprehensive portfolio of customized switchgear solutions to both existing and new customers in a diverse set of industries.

On March 1, 2016, we completed an acquisition of the equity securities of Power Electronics, Inc. ("PEI"), a Millington, Maryland-based manufacturer and integrator of electrical enclosure systems. The acquisition of PEI will enhance our capacity to serve existing and new customers in a diverse set of industries along the Eastern seaboard of the United States.

For additional information regarding the Energy Segment's backlog and operating results, see Results of Operations within Item 7. For additional financial information by segment, see Note 13 of the Notes to Consolidated Financial Statements.

**Metal Coatings Segment**

The Metal Coatings Segment provides hot dip galvanizing and other metal coating applications to the steel fabrication industry through facilities located throughout the United States and Canada. Hot dip galvanizing is a metallurgical process in which molten zinc is applied to steel. The zinc alloying renders corrosion protection to fabricated steel for extended periods of up to 50 years. As of February 28, 2018, we operated forty-five metal coating plants, which are located in various locations throughout the United States and Canada.

Metal coating is a highly competitive business, and we compete with other galvanizing companies, captive galvanizing facilities operated by manufacturers, and alternate forms of corrosion protection such as material selection (stainless steel or aluminum) or barrier protections such as powder coating, paint, and weathering steel. Our galvanizing markets are generally limited to areas within relatively close proximity to our metal coating plants due to freight cost.

Zinc, the principal raw material used in the galvanizing process, is currently readily available, but is subject to volatile pricing. We manage our exposure to commodity pricing of zinc by utilizing agreements with zinc suppliers that include fixed costs contracts to guard against escalating commodity prices. We also secure firm pricing for natural gas supplies with individual utilities when possible. We may or may not continue to use these or other strategies to manage risk in the future.

We typically serve fabricators or manufacturers that provide services to the electrical and telecommunications, bridge and highway, petrochemical and general industrial markets, and numerous original equipment manufacturers. We do not depend on any single customer for a significant amount of our sales, and the loss of any single customer would not have a material adverse effect on our consolidated revenues or net income.

On February 1, 2018, we completed the acquisition of all the assets and outstanding shares of Rogers Brothers Company ("Rogers Brothers"), a privately held company, based in Rockford, Illinois. Rogers Brothers provides galvanizing services to a multi-state area within the Midwest. The acquisition supports AZZ's goal of continued geographic expansion as well as portfolio expansion of its metal coatings services.

On June 30, 2017, we completed the acquisition of the assets of Enhanced Powder Coating Ltd., ("EPC"), a privately held, high specification, National Aerospace and Defense Contractors Accreditation Program, ("NADCAP"), certified provider of powder coating, plating and anodizing services based in Gainesville, Texas. EPC, founded in 2003, offers a full spectrum of finish technology including powder coating, abrasive blasting and plating for heavy industrial, transportation, aerospace and light commercial industries. The acquisition of EPC is consistent with our strategic initiative to grow our Metal Coatings segment with products and services that complement our industry-leading galvanizing business.

On February 1, 2016, we completed the acquisition of substantially all the assets of Alpha Galvanizing Inc. ("Alpha Galvanizing"), an Atkinson, Nebraska-based business unit of Olson Industries, Inc. Alpha Galvanizing has served steel fabrication customers that manufacture electrical utility poles, agricultural machinery and industrial manufacturing

components since 1996. Alpha Galvanizing was acquired to expand the footprint of AZZ Metal Coatings and to support AZZ's locations in Minnesota and Denver, Colorado, as well as serve customers in the upper Midwest region. On June 5, 2015, we completed the acquisition of substantially all the assets of US Galvanizing, LLC, a provider of steel corrosion coating services and a wholly-owned subsidiary of Trinity Industries, Inc. ("US Galvanizing"). The acquisition of the US Galvanizing assets included six galvanizing facilities located in Hurst, Texas; Kennedale, Texas; Big Spring, Texas; San Antonio, Texas; Morgan City, Louisiana; and Kosciusko, Mississippi. Additionally, the transaction included Texas Welded Wire,

Table of Contents

a secondary business integrated within US Galvanizing's Hurst, Texas facility. US Galvanizing was acquired to expand AZZ Metal Coatings' Southern operations.

For additional information on the Metal Coatings Segment's operating results, see Results of Operations within Item 7. For additional financial information by segment, see Note 13 to the Consolidated Financial Statements.

Employees

As of February 28, 2018, the Company employed approximately 3,650 persons consisting of approximately 3,220 in the United States, approximately 212 in Canada, 177 in Europe, and 41 in other countries.

Executive Officers of the Registrant

Name	Age	Business Experience of Executive Officers for Past Five Years Position or Office with Registrant or Prior Employer	Held Since
Thomas E. Ferguson	61	President and Chief Executive Officer	2013
		Chief Executive Officer, FlexSteel Pipeline Technologies, Inc.	2013-2013
		President, Flow Solutions Group, Flowserve Corporation	2009-2012
		President, Pump Division, Flowserve Corporation	2003-2009
Paul W. Fehlman	54	Senior Vice President of Finance, Chief Financial Officer	2014
		Vice President, Finance, Engineered Products Division, Flowserve Corp.	2011-2013
		Vice President, Investor Relations and FP&A, Flowserve Corporation	2009-2011
		Vice President, Treasurer, Flowserve Corporation	2004-2009
Tara D. Mackey	48	Chief Legal Officer and Secretary	2014
		Chief Legal Counsel and Corporate Secretary, First Parts, Inc.	2013-2014
		General Counsel and Corporate Secretary, Silverleaf Resorts Inc.	2011-2013
Matt Emery	50	VP, Assistant General Counsel and Corporate Secretary, SuperMedia LLC	2008-2011
		Vice President, Chief Information and Human Resource Officer	2013
		Senior Director of Information Technologies, Hewlett-Packard	2004-2013
James Drew Byelick	60	Vice President and Chief Accounting Officer	2017
		Director of Finance - Electrical	2016-2017
		Controller - Nuclear Logistics LLC	2015-2016
Chris Bacijs	57	Independent Consultant	2000-2015
		Vice President, Corporate Development	2014
		Vice President Mergers & Acquisition, Flowserve Corporation	2012-2014
Ken Lavelle	61	Vice President Business Development, Flowserve Corporation	2009-2012
		President and General Manager - Electrical Platform	2017
		President, Lavelle Management Consultant	2016-2017
		President, Global Seals & Systems Operation - Flowserve Corporation	2012-2016
		Vice President, General Manager, FSG North America - Flowserve Corporation	2009-2012

Each executive officer was elected by the Board of Directors to hold office until the next Annual Meeting or until their successor is elected. No executive officer has any family relationships with any other executive officer of the Company.

Available Information

We file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy and information statements and amendments to reports filed or furnished pursuant to Sections 13(a), 14 and 15(d) of the Securities Exchange Act of 1934, as amended. The public may obtain these filings at the Securities and Exchange Commission or SEC's Public Reference Room at 100 F Street, NE, Washington, District of Columbia 20549 or by calling the SEC at (800) SEC-0330. The SEC also maintains a website at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding us and other companies that file materials with the SEC electronically. Copies of our reports on Form 10-K, and Form 10-Q, may be obtained, free of charge,



electronically through our internet website, <http://www.azz.com/investor-relations>

5

---

Table of Contents

Corporate Governance

Our Company's Board of Directors (the "Board"), with the assistance of its Nominating and Corporate Governance Committee, has adopted Corporate Governance Guidelines that set forth the Board's policies regarding corporate governance. In connection with the Board's responsibility to oversee our legal compliance and conduct, the Board has adopted a Code of Conduct, which applies to the Company's officers, directors and employees.

The Board has adopted charters for each of its Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee. You may review the Corporate Governance Guidelines, our Code of Conduct and our Committee charters under the Heading "Investor Relations," subheading "Corporate Governance," on our website at: <http://www.azz.com>

You may also obtain a copy of these documents by mailing a request to:

AZZ Inc.

Investor Relations

One Museum Place, Suite 500

3100 West 7th Street

Fort Worth, TX 76107

Table of Contents

Item 1A. Risk Factors

Our business is subject to a variety of risks, including but not limited to the risks described below, which we believe are the most significant risks and uncertainties facing our business. Additional risks and uncertainties not known to us or not described below may also impair our business operations in the future. If any of the following risks actually occur, our business, financial condition and results of operations and future growth could be negatively impacted.

Our business segments operate in highly competitive markets.

Many of our competitors, primarily in our Energy Segment, are significantly larger and have substantially more resources than AZZ. Competition is based on a number of factors, including price. Certain of our competitors may have lower cost structures and may, therefore, be able to provide their products and services at lower prices than we are able to provide. We cannot be certain that our competitors will not develop the expertise, experience and resources to provide services that are superior in both price and quality in the future. Similarly, we cannot be certain that we will be able to maintain or enhance our competitive position within our industries, maintain our customer base at current levels or increase our customer base.

Climate change could impact our business.

Climate changes could result in an adverse impact on AZZ's operations, particularly in hurricane prone or low lying areas near the ocean. At this time, the Company is not able to speculate as to the potential timing or impact from potential global warming and other natural disasters, however the Company believes that it currently has adequate insurance coverage and disaster recovery plans related to any potential natural disasters that might occur at any of the Company's sites.

Changes in greenhouse gas regulations could impact our operating results.

International agreements and national or regional legislation and regulatory measures to limit greenhouse emissions are currently in various stages of discussion or implementation. These and other greenhouse gas emissions-related laws, policies and regulations may result in substantial capital, compliance, operating and maintenance costs. The level of expenditure required to comply with these laws and regulations is uncertain and is expected to vary depending on the laws enacted in each jurisdiction, our activities in the particular jurisdiction, and market conditions.

The effect of regulation on our financial performance will depend on a number of factors including, not limited to, the sectors covered, the greenhouse gas emissions reductions required by law, the extent to which we would be entitled to receive emission allowance allocations or would need to purchase compliance instruments on the open market or through auctions, the price and availability of emission allowances and credits and the impact of legislation or other regulation on our ability to recover the costs incurred through the pricing of our products and services.

Our business segments are sensitive to economic downturns.

If the general level of economic activity deteriorates from current levels, our customers may delay or cancel new projects. If there is a reduction in demand for our products or services, as a result of a downturn in the general economy, there could be a material adverse effect on price levels and the quantity of goods and services purchased, therefore adversely impacting revenues and results from operations. A number of factors, including financing conditions and potential bankruptcies in the industries we serve, could adversely affect our customers and their ability or willingness to fund capital expenditures in the future and pay for past services. Certain economic conditions may also impact the financial condition of one or more of our key suppliers, which could affect our ability to secure raw materials and components to meet our customers' demand for our products in the future. Other various factors drive demand for our products and services, including the price of oil, economic forecasts and financial markets.

Uncertainty in the global economy and financial markets could continue to impact our customers and could in turn severely impact the demand for spending projects that would result in a reduction in orders for our products and services. All of these factors combined together could materially impact our business, financial condition, cash flows and results of operations and potentially impact the trading price of our common stock.

International and political events may adversely affect our Energy and Metal Coatings Segments.

A portion of the revenues from our Energy and Metal Coatings Segments are from international markets. The occurrence of any of the risks described below could have an adverse effect on our consolidated results of operations,

cash flows and financial condition:

political and economic instability, such as is occurring in Northern Africa, Europe and the Middle East;

social unrest, acts of terrorism, force majeure, war or other armed conflict;

inflation;

currency fluctuation, devaluations and conversion restrictions;

7

---

Table of Contents

governmental activities that limit or disrupt markets, restrict payments or limit the movement of funds; and trade restrictions and economic embargoes by the United States or other countries.

Fluctuations in the price and supply of raw materials and natural gas for our business segments may adversely affect our operations.

We purchase a wide variety of raw materials for our Energy Segment to manufacture our products, including copper, aluminum, steel and nickel. Unanticipated increases in raw material requirements or price increases could increase production costs and adversely affect profitability. In our Metal Coatings Segment, zinc and natural gas represent a large portion of our cost of sales. The prices of zinc and natural gas are subject to volatility. The following factors, which are beyond our control, affect the price of raw materials and natural gas for our business segments: supply and demand; freight costs and transportation availability; trade duties and taxes; and labor disputes. We seek to maintain operating margins by attempting to increase the price of our products and services in response to increased costs, but may not be successful in passing these price increases through to our customers.

Our volume of fixed-price contracts for our Energy Segment could adversely affect our business.

We currently generate, and expect to continue to generate, a significant portion of our revenues under fixed price contracts. We must estimate the costs of completing a particular project to bid for fixed-price contracts. The actual cost of labor and materials, however, may vary from the costs we originally estimated. Depending on the size of a particular project, variations from estimated cost could have a significant impact on our operating results for any fiscal year.

Our operations could be adversely impacted by the continuing effects from government regulations.

Various regulations have been implemented related to new safety and certification requirements applicable to oil and gas drilling and production activities. While certain new drilling plans and drilling permits have been approved, we cannot predict whether operators will be able to satisfy these requirements. Further, we cannot predict what the continuing effects of government regulations on offshore deepwater drilling projects may have on offshore oil and gas exploration and development activity, or what actions may be taken by our customers or other industry participants in response to these regulations. Changes in laws or regulations regarding offshore oil and gas exploration and development activities and decisions by customers and other industry participants could reduce demand for our services, which would have a negative impact on our operations. Similarly, we cannot accurately predict future regulations by the government in any country in which we operate and how those regulations may affect our ability to perform projects in those regions.

Federal, state and local governments have a major impact on the framework and economics of the US nuclear power industry. Changes in laws or regulations regarding the operations of current nuclear facilities could have an impact on the demand for our products and services, which would have a negative impact on our operations. These same risks are also associated with foreign nuclear power industries.

New regulations related to conflict minerals could adversely impact our business.

On August 22, 2012, the SEC adopted a rule pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act which established annual disclosure and reporting requirements for publicly-traded companies that use tin, tantalum, tungsten or gold (collectively, “conflict minerals”) mined from the Democratic Republic of Congo and adjoining countries in their products. There are costs associated with complying with these disclosure requirements, including costs for due diligence to determine the source of any conflict minerals used in our products and other potential changes to products, processes, or sources of supply. Despite our due diligence efforts, we may be unable to verify the origin of all conflict minerals used in our component products. As a result, we may face reputational and other challenges with customers that require that all of the components incorporated in our products be certified as conflict-free.

Our acquisition strategy involves a number of risks.

We intend to pursue continued growth through opportunities to acquire companies or assets that will enable us to expand our product and service offerings and to increase our geographic footprint. We routinely review potential acquisitions. However, we may be unable to implement this growth strategy if we cannot reach agreement on potential strategic acquisitions on acceptable terms or for other reasons. Moreover, our acquisition strategy involves certain

risks, including:

- difficulties in the post acquisition integration of operations and systems;
- the termination of relationships with key personnel and customers of the acquired company;
- a failure to add additional employees to manage the increased volume of business;
- additional post acquisition challenges and complexities in areas such as tax planning, treasury management, financial reporting and legal compliance;

8

---

Table of Contents

risks and liabilities from our acquisitions, some of which may not be discovered during the preacquisition due diligence process;

a disruption of our ongoing business or an inability of our ongoing business to receive sufficient management attention; and

a failure to realize the cost savings or other financial benefits we anticipated prior to acquisition.

Future acquisitions may require us to obtain additional equity or debt financing, which may not be available on current attractive market terms.

Our use of percentage-of-completion accounting in the Energy Segment could result in a reduction or elimination of previously reported profits.

As discussed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Policies and Estimates” and in the notes to our consolidated financial statements, a portion of our revenues is recognized on the percentage-of-completion method of accounting. The percentage-of-completion accounting practice causes us to recognize contract revenues and earnings ratably over the contract term in proportion to our incurrence of contract costs. The earnings or losses recognized on individual contracts are based on estimates of contract revenues, costs and profitability. Contract losses are recognized in full when determined, and contract profit estimates are adjusted based on ongoing reviews of contract profitability. Actual collection of contract amounts or change orders could differ from original estimated amounts and could result in a reduction or elimination of previously recognized earnings. In certain circumstances, it is possible that such adjustments could be significant. We may not be able to fully realize the revenue value reported in our backlog for our Energy Segment.

We have a backlog of work in our Energy Segment. Orders included in our backlog are represented by customer purchase orders and contracts, which we believe to be firm. Backlog develops as a result of new business secured, which represents the revenue value of new project commitments received by us during a given period. Backlog consists of projects which have either (1) not been started or (2) are in progress and are not yet complete. In the latter case, the revenue value reported in backlog is the remaining value associated with work that has not yet been completed. From time to time, projects that were recorded as new business are cancelled. In the event of a project cancellation, we may be reimbursed for certain costs but typically have no contractual right to the total revenue reflected in our backlog. In addition to being unable to recover certain direct costs, we may also incur additional costs resulting from underutilized assets if projects are cancelled.

Our operating results may vary significantly from quarter to quarter.

Our quarterly results may be materially and adversely affected by:

the timing and volume of work under new agreements;

general economic conditions;

the budgetary spending patterns of customers;

variations in the margins of projects performed during any particular quarter;

losses experienced in our operations not otherwise covered by insurance;

a change in the demand or production of our products and our services caused by severe weather conditions;

a change in the mix of our customers, contracts and business;

a change in customer delivery schedule;

- increases in design and manufacturing costs; and

abilities of customers to pay their invoices owed to us.

Accordingly, our operating results in any particular quarter may not be indicative of the results expected for any other quarter or for the entire year.

We may be unsuccessful at generating internal growth.

Our ability to generate internal growth will be affected by, among other factors, our ability to:

attract new customers, internationally and domestically;

integrate regulatory changes;

• increase the number or size of projects performed for existing customers;  
• hire and retain employees; and  
• increase volume utilizing our existing facilities.

9

---



Table of Contents

Many of the factors affecting our ability to generate internal growth may be beyond our control, and we cannot be certain that our strategies will be successful or that we will be able to generate cash flow sufficient to fund our operations and to support internal growth. If we are unsuccessful, we may not be able to achieve internal growth, expand our operations or grow our business.

The departure of key personnel could disrupt our business.

We depend on the continued efforts of our executive officers and senior management. We cannot be certain that any individual will continue in such capacity for any particular period of time. The loss of key personnel, or the inability to hire and retain qualified employees, could negatively impact our ability to manage our business.

Our business requires skilled labor, and we may be unable to attract and retain qualified employees.

Our ability to maintain our productivity and profitability could be limited by an inability to employ, train and retain skilled personnel necessary to meet our requirements. We may experience shortages of qualified personnel. We cannot be certain that we will be able to maintain an adequately skilled labor force necessary to operate efficiently and to support our growth strategy or that our labor expense will not increase as a result of shortage in the supply of skilled personnel. Labor shortages or increased labor costs could impair our ability to maintain our business or grow our revenues.

Actual and potential claims, lawsuits, and proceedings could ultimately reduce our profitability and liquidity and weaken our financial condition.

In the future, the Company could be named as a defendant in legal proceedings claiming damages from us in connection with the operation of our business. Most of the actions against us arise out of the normal course of our performing services or with respect to the equipment we manufacture. We could potentially be a plaintiff in legal proceedings against customers, in which we seek to recover payments of contractual amounts due to us, and claims for increased costs incurred by us. When appropriate, we establish provisions against certain legal exposures, and we adjust such provisions from time to time according to ongoing developments related to each exposure. If in the future our assumptions and estimates related to such exposures prove to be inadequate or incorrect, our consolidated results of operations, cash flows and financial condition could be adversely affected. In addition, claims, lawsuits and proceedings may harm our reputation and possibly divert management resources away from operating our business. Technological innovations by competitors may make existing products and production methods obsolete.

All of the products manufactured and sold by the Company depend upon the best available technology for success in the marketplace. The competitive environment is highly sensitive to technological innovation in both segments of our business. It is possible for our competitors, both foreign and domestic, to develop new products or production methods, which will make current products or methods obsolete or at least hasten their obsolescence.

Catastrophic events could disrupt our business.

The occurrence of catastrophic events ranging from natural disasters such as earthquakes, tsunamis or hurricanes to epidemics such as health epidemics to acts of war and terrorism could disrupt or delay our ability to complete projects and could potentially expose the Company to third-party liability claims. Such events may or may not be fully covered by our various insurance policies or may be subject to deductibles. In addition, such events could impact our customers and suppliers, resulting in temporary or long-term delays and/or cancellations of orders or raw materials used in normal business operations. These situations are outside the Company's control and could have a significant adverse impact on the results of operations.

Adoption of new or revised employment and labor laws and regulations could make it easier for our employees to obtain union representation and our business could be adversely impacted.

Other than a nominal number of employees at four of our wholly-owned subsidiaries, none of our employees are currently represented by unions. However, our U.S. based employees have the right at any time under the National Labor Relations Act to form or affiliate with a union. If some or our entire workforce were to become unionized and the terms of the collective bargaining agreement were significantly different from our current compensation arrangements, it could increase our costs and adversely impact our profitability. Any changes in regulations, the imposition of new regulations, or the enactment of new legislation could have an adverse impact on our business; to

the extent it becomes easier for workers to obtain union representation.

10

---

Table of Contents

AZZ's flexibility to operate its business could be impacted by provisions in its debt obligations.

AZZ's debt instruments contain covenants which restrict or prohibit certain actions ("negative covenants"), including, but not limited to, AZZ's ability to incur debt, create or suffer to exist liens, capital spending limits, engage in certain merger, acquisition, or divestiture actions, or increase dividends beyond a specific level. AZZ's debt instruments also contain covenants requiring AZZ to, among other things, maintain specified financial ratios ("affirmative covenants"). Failure to comply with these negative covenants and affirmative covenants could result in an event of default that, if not cured or waived, could restrict the Company's access to liquidity and have a material adverse effect on the Company's business or prospects. If the Company does not have enough cash to service its debt or fund other liquidity needs, AZZ may be required to take actions such as requesting a waiver from lenders, reducing or delaying capital expenditures, selling assets, restructuring or refinancing all or part of the existing debt, or seeking additional equity capital. AZZ cannot assure that any of these remedies can be effected on commercially reasonable terms or at all.

A failure in our operational systems or cyber security attacks on any of our facilities, or those of third parties, may affect adversely our financial results.

Our business is dependent upon our operational systems to process a large amount of data and complex transactions. If any of our financial, operational, or other data processing systems fail or have other significant shortcomings, our financial results could be adversely affected. Our financial results could also be adversely affected if an employee causes our operational systems to fail, either as a result of inadvertent error or by deliberately tampering with or manipulating our operational systems. Due to increased technology advances, we have become more reliant on technology to help increase efficiency in our business. We use computer programs to help run our financial and operations sectors, and this may subject our business to increased risks. Any future cyber security attacks that affect our facilities, our customers and any financial data could have a material adverse effect on our business. In addition, cyber attacks on our customer and employee data may result in a financial loss, including potential fines for failure to safeguard data, and may negatively impact our reputation. Third-party systems on which we rely could also suffer operational system failure. Any of these occurrences could disrupt our business, result in potential liability or reputational damage or otherwise have an adverse effect on our financial results.

Uncertainties in the interpretation and application of the 2017 Tax Cuts and Jobs Act could materially affect our tax obligations and effective tax rate.

We are subject to income tax requirements in various jurisdictions in the U.S. and internationally. Many of these jurisdictions have made changes to their tax policies, including tax reform in the U.S. that was enacted in December 2017. In December 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law revising the U.S. corporate income tax. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the elimination of certain deductions and imposing a mandatory one-time tax on accumulated earnings of foreign subsidiaries. The Act also includes international provisions, which generally establish a territorial-style system for taxing foreign source income of domestic multinational corporations. The most significant change was for the provisional benefit related to the remeasurement of deferred taxes at the lower corporate rate.

The overall impact of the new federal tax law is uncertain and our business and financial condition could be adversely affected. Financial results for fiscal 2018 reflect provisional estimates based on our initial analysis and current interpretation of the legislation. Given the complexity of the legislation, anticipated guidance from the Internal Revenue Service, and the potential for additional guidance from the Securities and Exchange Commission or the Financial Accounting Standards Board, these provisional estimates may be adjusted during fiscal year 2019, which could materially affect our tax obligations and effective tax rate. In addition, it is uncertain if and to what extent various states will conform to the newly enacted federal tax law.

Item 1B. Unresolved Staff Comments

None.



Table of Contents

## Item 2. Properties

The Company's global headquarters are located in leased office space in Fort Worth, Texas. The Company's manufacturing facilities, classified by reporting segment, are located in the following countries as of February 28, 2018:

Segment	Location	Facilities	Square Footage		
			Total	Owned	Leased
Energy	United States	17	1,191,764	429,178	762,586
	Canada	2	94,456	—	94,456
	Europe	2	86,785	—	86,785
	Brazil	1	11,814	—	11,814
	China	1	2,620	—	2,620
Metal Coatings	United States	42	2,200,969	2,093,554	107,415
	Canada	3	175,102	175,102	—
Total		68	3,763,510	2,697,834	1,065,676

The Company believes its manufacturing and corporate facilities are adequate to carry on its business operations for the next twelve months.

## Item 3. Legal Proceedings

On January 11, 2018, Logan Mullins, acting on behalf of himself and a putative class of persons who purchased or otherwise acquired the Company's securities between April 22, 2015 and January 8, 2018, filed a class action complaint in the U.S. District Court for the Northern District of Texas against the Company and two of its executive officers, Thomas E. Ferguson and Paul W. Fehlman. Logan Mullins v. AZZ, Inc., et al., Case No. 4:18-cv-00025-Y. The complaint alleges, among other things, that the Company's SEC filings contained statements that were rendered materially false and misleading by the Company's alleged failure to properly recognize revenue related to certain contracts in its Energy Segment in purported violation of (1) Section 10(b) of the Exchange Act and Rule 10b-5 and (2) Section 20(a) of the Exchange Act. The plaintiffs seek an award of compensatory and punitive damages, interests, attorneys' fees and costs. The Company denies the allegations and believes it has strong defenses to vigorously contest them. The Company cannot predict the outcome of this action nor when it will be resolved. If the plaintiffs were to prevail in this matter, the Company could be liable for damages, which could potentially be material and could adversely affect its financial condition or results of operations.

In addition, the Company and its subsidiaries are named defendants in various routine lawsuits incidental to our business. These proceedings include labor and employment claims, use of the Company's intellectual property, worker's compensation and various environmental matters, all arising in the normal course of business. Although the outcome of these lawsuits or other proceedings cannot be predicted with certainty, and the amount of any potential liability that could arise with respect to such lawsuits or other matters cannot be predicted at this time, management, after consultation with legal counsel, does not expect liabilities, if any, from these claims or proceedings, either individually or in the aggregate, to have a material effect on the Company's financial position, results of operations or cash flows.

## Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents

## PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock, \$1.00 par value ("Common Stock"), is traded on the New York Stock Exchange under the symbol "AZZ". The following table sets forth the high and low sales prices of our Common Stock on the New York Stock Exchange on a quarterly basis for each of the two fiscal years ended February 28, 2018 and February 28, 2017.

	High	Low	Dividends Declared
Fiscal 2018			
First Quarter	\$61.55	\$53.30	\$ 0.17
Second Quarter	\$58.00	\$46.20	\$ 0.17
Third Quarter	\$51.70	\$43.18	\$ 0.17
Fourth Quarter	\$52.95	\$40.80	\$ 0.17
Fiscal 2017			
First Quarter	\$59.52	\$50.89	\$ 0.15
Second Quarter	\$67.98	\$54.98	\$ 0.15
Third Quarter	\$67.43	\$51.20	\$ 0.17
Fourth Quarter	\$67.70	\$57.15	\$ 0.17

The payment of dividends is within the discretion of our Board and is dependent on our earnings, capital requirements, operating and financial condition and other factors. AZZ has paid dividends quarterly over the last three fiscal years. Dividends paid totaled \$17.7 million, \$16.6 million, and \$15.5 million during fiscal 2018, 2017, and 2016, respectively. Dividend payments may be restricted to total payments of \$20.0 million per fiscal year based on covenants with the Company's lenders in the event that the Company's leverage ratio (defined as net debt to EBITDA) exceeds 3.0 to 1.0. Currently there are no restrictions on dividend payments. AZZ fully expects to continue to pay dividends. However, the decision is within the discretion of our Board and we expect any future payments will be made on a quarterly basis.

In January 2012, our Board authorized the repurchase of up to ten percent of the outstanding shares of our Common Stock. The share repurchase authorization does not have an expiration date, and the amount and prices paid for any future share purchases under the authorization will be based on market conditions and other factors at the time of the purchase. Repurchases under this share repurchase authorization would be made through open market purchases or private transactions in accordance with applicable federal securities laws, including Rule 10b-18 under the Exchange Act. During fiscal 2018, the Company purchased 147,000 shares at an average price of \$51.08 per share under the Company's share repurchase program. As of February 28, 2018, these shares were formally retired. Share repurchases may be restricted to total repurchases of \$50.0 million per fiscal year based on covenants with the Company's lenders in the event that the Company's leverage ratio exceeds 3.0 to 1.0. Currently there are no restrictions on share repurchases.

The approximate number of holders of record of our Common Stock at February 28, 2018 was 413. See Item 12 of this Report for information regarding securities authorized for issuance under equity compensation plans.

Table of Contents**STOCK PRICE PERFORMANCE GRAPH**

The following graph illustrates the five-year cumulative total return on investments in our Common Stock, the CRSP Index for NYSE Stock Market (U.S. Companies) and the CRSP Index for NYSE Stocks (SIC 5000-5099 US Companies). These indices are prepared by Zacks Investment Research, Inc. AZZ's Common Stock is listed on The New York Stock Exchange and AZZ is engaged in two industry segments. The shareholder return shown below is not necessarily indicative of future performance. Total return, as shown, assumes \$100 invested on February 28, 2013, in shares of AZZ Common Stock and each index, all with cash dividends reinvested. The calculations exclude trading commissions and taxes.

**Comparison of Five Year-Cumulative Total Returns**

Value of \$100 Invested on February 28, 2013

For Fiscal Year Ended on the Last Day of February

**Legend**

Symbol	CRSP Total Returns Index for:	2/13	2/14	2/15	2/16	2/17	2/18
	AZZ Inc.	100.00	100.77	104.51	117.61	138.11	97.53
	CRSP Index for NYSE Stock Market (US Companies)	100.00	122.96	138.00	124.48	156.76	175.14
	CRSP Index for NYSE Stocks (SIC 5000-5099 US Companies) Wholesale Trade - Durable Goods	100.00	126.75	131.84	119.79	153.14	168.57

**Notes:**

A. The lines represent monthly index levels derived from compounded daily returns that include all dividends.

B. The indexes are reweighted daily, using the market capitalization on the previous trading day.

C. If the monthly interval, based on the fiscal year-end, is not a trading day, the preceding trading day is used.

D. The index level for all series was set to \$100 on 02/28/2013.

See the equity compensation plan information in Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

Table of Contents

## Item 6. Selected Financial Data

	Fiscal Year				
	2018 (a)	2017 (b)	2016 (c)	2015 (d)	2014 (e) (f)
	(In thousands, except per share amounts)				
Summary of operations:					
Net sales	\$810,430	\$863,538	\$889,400	\$819,692	\$751,723
Net income	45,169	61,264	75,544	65,616	59,597
Earnings per share:					
Basic earnings per common share	1.74	2.36	2.93	2.56	2.34
Diluted earnings per common share	1.73	2.35	2.91	2.55	2.32
Total assets	1,028,209	978,354	988,201	929,727	953,253
Total debt	301,286	272,290	326,982	337,848	405,616
Total liabilities	463,006	445,218	503,831	505,275	577,340
Shareholders' equity	565,203	533,136	484,370	424,452	375,913
Working capital	197,415	160,282	165,976	156,532	152,165
Cash provided by operating activities	78,909	111,176	143,589	118,157	107,275
Capital expenditures	29,612	41,434	39,861	29,377	43,472
Depreciation & amortization	50,526	50,357	47,417	46,089	43,305
Cash dividend per common share	0.68	0.64	0.60	0.58	0.56
Weighted average shares outstanding - basic	25,970	25,965	25,800	25,676	25,514
Weighted average shares outstanding - diluted	26,036	26,097	25,937	25,778	25,693

(a) Includes the acquisitions of Enhanced Powder Coating, Ltd. on June 30, 2017, Powergrid Solutions, Inc. on September 6, 2017, and Rogers Brothers Company on February 1, 2018.

(b) Includes the acquisition of Power Electronics, Inc. on March 1, 2016.

(c) Includes the acquisitions of US Galvanizing, LLC on June 5, 2015 and Alpha Galvanizing Inc. on February 1, 2016.

(d) Includes the acquisition of Zalk Steel & Supply Co. on June 20, 2014.

(e) Includes the acquisition of Aquilex SRO on March 29, 2013.

Does not reflect the restatement of the Company's financial statements as reported in its 10-K/A for the fiscal year (f) ended February 27, 2017, and therefore, the results and balances for this fiscal year may lack comparability to the subsequent periods.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion together with our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements regarding our business and operations. Our actual results may differ materially from those we currently anticipate as a result of the factors we describe under "Risk Factors" and elsewhere in this Annual Report on Form 10-K.

## Overview

As mentioned in Item 1, AZZ operates two distinct business segments, the Energy Segment and the Metal Coatings Segment. Our discussion and analysis of financial condition and results of operations is divided by each of our segments along with corporate costs and other costs not specifically identifiable to a segment. For a reconciliation of segment operating income to consolidated operating income, see Note 13 to the Consolidated Financial Statements. References herein to fiscal years are to the twelve-month periods that end in February of the relevant calendar year. For example, the twelve-month period ended February 28, 2017 is referred to as "fiscal 2017" or "fiscal year 2017." For the fiscal year ended February 28, 2018, we recorded net sales of \$810.4 million compared to the prior year's net sales of \$863.5 million. Of the total net sales for fiscal 2018, approximately 52.0% of our net sales were generated from the Energy Segment and approximately 48.0% were generated from the Metal Coatings Segment. Net income



for fiscal 2018 was \$45.2 million compared to \$61.3 million for fiscal 2017. Net income as a percentage of net sales was 5.6% for fiscal 2018 as compared to 7.1% for fiscal 2017. Earnings per share fell by 26.4% to \$1.73 per share for fiscal 2018 compared to \$2.35 per share for fiscal 2017, on a diluted basis.

Table of Contents

## Results of Operations

Year ended February 28, 2018 compared with year ended February 29, 2017

## Backlog

We ended fiscal 2018 with a backlog of \$265.4 million, a decrease of \$52.5 million or 16.5% compared to fiscal 2017. The Company's backlog as of year end pertains solely to the Energy Segment's operations. The book-to-ship ratio declined in fiscal 2018 as compared to fiscal 2017. The book-to-ship ratio was 0.92 to 1 for fiscal 2018 and 0.99 to 1 for fiscal 2017.

The following table reflects bookings and shipments for fiscal 2018 and 2017.

## Backlog Table

(In thousands)

	Period Ended		Period Ended	
Backlog	2/28/2017	\$317,922	2/29/2016	\$310,623
Net bookings		746,508		858,934
Acquired backlog		11,417		11,903
Shipments		(810,430 )		(863,538 )
Backlog	2/28/2018	\$265,417	2/28/2017	\$317,922
Book-to-ship ratio		0.92		0.99

## Net Sales

Our total net sales for fiscal 2018 decreased by \$53.1 million, or 6.2%, as compared to fiscal 2017.

The following table reflects the breakdown of revenue by segment (in thousands):

	Year Ended	
	February	February
	28, 2018	28, 2017
Net sales:		
Energy	\$421,033	\$488,002
Metal Coatings	389,397	375,536
Total net sales	\$810,430	\$863,538

Our Energy Segment recorded net sales for fiscal 2018 of \$421.0 million, a decrease of 13.7% compared to fiscal 2017 net sales of \$488.0 million. The decrease in net sales for fiscal 2018 was caused by several factors including reduced turnarounds in the U.S. refinery market, continued softness in the petrochemical market, negative impacts from the Atlantic hurricane activity, cancellations and delays in the release of several large projects in the U.S. and overseas. In addition, net sales were negatively impacted by the effects on the nuclear market from the Westinghouse Electric Company bankruptcy filed on March 29, 2017.

Our Metal Coatings Segment, which consisted of forty-five metal coating facilities as of February 28, 2018, generated net sales of \$389.4 million, a 3.7% increase from the prior year's net sales of \$375.5 million. The increase was attributable to incremental revenues from our acquisitions during the year and increased prices. These increases were partially offset by decreased volumes in steel processed as a result of softness in the solar, petrochemical, and the oil and gas markets.

## Operating Income

Operating income (loss) for the Energy Segment decreased \$54.3 million, or 103.4%, for fiscal 2018, to \$(1.8) million as compared to \$52.6 million for fiscal 2017. Operating margins for this segment were (0.4)% for fiscal 2018 as compared to 10.8% for fiscal 2017. This decrease was attributable to the reduction in refinery turnarounds described above, which typically carry a higher margin, cancellations, margin degradations on certain large projects in the U.S. and overseas and the Westinghouse bankruptcy. In addition, for fiscal 2018, the Company recognized an impairment charge of \$10.5 million related to property, plant and equipment that was retired prior to the end of its useful life and a provision for doubtful accounts of \$2.9 million resulting from an adverse court decision related to certain outstanding

accounts receivables. No such charges were recorded in the prior year comparable period.

Table of Contents

Operating income for the Metal Coatings Segment increased \$5.3 million, or 6.7%, for fiscal 2018 to \$84.3 million as compared to \$79.0 million for the prior year. Operating margins were 21.7% for fiscal 2018 as compared to 21.0% for fiscal 2017. Excluding the impact of realignment charges of \$7.3 million incurred in fiscal 2017, overall margins decreased in fiscal 2018 as a result of lower volumes and increased costs for zinc, partially offset by incremental margin earned from our acquisitions completed during the year.

Corporate expenses were \$34.3 million for fiscal 2018 and \$32.7 million for fiscal 2017. This increase is attributable to higher spend on professional services and higher employee costs in fiscal 2018.

**Interest**

Interest expense for fiscal 2018 decreased 5.9% to \$13.9 million as compared to \$14.7 million in fiscal 2017. This decrease is primarily attributable to more favorable interest rates during fiscal 2018 as a result of our partial or full repayment of certain outstanding debt obligations that were replaced with borrowings that carried lower interest rates. For additional information on outstanding debt, see Note 12 to the Consolidated Financial Statements. As of February 28, 2018, we had outstanding debt of \$301.3 million compared to \$272.3 million at the end of fiscal 2017. AZZ's debt to equity ratio was 0.53 to 1 at the end of fiscal 2018 compared to 0.51 to 1 at the end of fiscal 2017.

**Net Loss On Sale of Property, Plant and Equipment and Insurance Proceeds**

We recorded a net loss of \$0.8 million and \$0.1 million from the sale of property, plant and equipment and insurance proceeds in fiscal 2018 and fiscal 2017, respectively. These net losses were the result of the sale of miscellaneous equipment during the years.

**Other (Income) Expense**

For fiscal 2018, a total of \$2.7 million in expense was recorded to other (income) expense, net, which was primarily attributable to the impairment of a note receivable related to a litigation settlement in fiscal 2014 with a former competitor due to a non-compete violation. For fiscal 2017, we recorded \$1.2 million of income to other (income) expense, net, which was primarily attributable to a reimbursement of legal fees of \$0.6 million from a lawsuit in fiscal 2016 and net foreign exchange gains.

**Provision For (Benefit From) Income Taxes**

The provision for (benefit from) income taxes reflected an effective tax rate of (46.2)% for fiscal 2018 and 28.2% for fiscal 2017. The decrease in the effective rate was due primarily to the Tax Cuts and Jobs Act of 2017 (the "Act"), which resulted in a provisional benefit related to the remeasurement of deferred taxes at a lower corporate rate that was offset by a one-time mandatory transition tax on undistributed earnings of foreign affiliates.

The Act was signed into law in December 2017. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the elimination of certain deductions and imposing a mandatory one-time tax on accumulated earnings of foreign subsidiaries. The Act also includes international provisions, which generally establish a territorial-style system for taxing foreign source income of domestic multinational corporations. SEC Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118") allows us to provide a provisional estimate of the impacts of the Tax Act due to the complexities involved in accounting for the enactment of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the enactment of the Tax Act to complete the accounting under ASC 740, Income Taxes. We have calculated our best estimate of the impact of the Act in our year end income tax provision based on our understanding of the Act and guidance available at the date of this filing. We recorded a \$23.2 million reduction in tax expense related to the Act in the fourth quarter of our fiscal year 2018, the period in which the legislation was enacted. The provisional benefit related to the remeasurement of certain deferred tax assets and liabilities was \$25.0 million. The provisional expense related to the one-time tax on the mandatory deemed repatriation of foreign earnings was \$1.8 million.

Table of Contents

Westinghouse Electric Company Bankruptcy Case

We had existing contracts with subsidiaries of Westinghouse Electric Company (“WEC”). WEC and the relevant subsidiaries (the "Debtors") filed relief under Chapter 11 of the Bankruptcy Code on March 29, 2017 in the United States Bankruptcy Court for the Southern District of New York, jointly administered as In re Westinghouse Electric Company, et al., Case No. 17-10751 (the "Bankruptcy Case"). To date, WEC has continued to operate under a Debtor-in-Possession Financing Facility and we continue to honor their executory contracts. The Company has been collecting on post-petition amounts due and owed. On February 22, 2018, the United States Bankruptcy Court for the Southern District of New York approved the Debtors’ Modified First Amended Disclosure Statement for the Joint Chapter 11 Plan of Reorganization. In the Disclosure Statement, the Debtors estimated a 98.9% to 100% distribution on Allowed General Unsecured Claims. We have approximately \$12 million of such claims filed with the court, which includes 100% of our pre-petition claims. The total claims filed exceed the book value of our exposure.

At time of the Bankruptcy Case, we were subcontractors on various WEC engagements, including the VC Summer and Vogtle Bridge projects. The ownership of VC Summer halted work earlier in the year and, during the third quarter of fiscal 2018, we de-booked \$11.0 million from backlog related to this project. Also during the third quarter of fiscal 2018, we received a notice of cancellation for the Vogtle Bridge project, which negatively impacted our sales and margin for the second half of fiscal year 2018 by approximately \$6.1 million and \$1.2 million, respectively.

Table of Contents

Year ended February 28, 2017 compared with year ended February 29, 2016

**Backlog**

We ended fiscal 2017 with a backlog of \$317.9 million, a small increase as compared to fiscal 2016. The Company's backlog as of year end pertains to the Energy Segment's operations. The book-to-ship ratio remained relatively flat compared to fiscal 2016. The book-to-ship ratio was 0.99 to 1 for fiscal 2017 and 1.02 to 1 for fiscal 2016.

The following table reflects bookings and shipments for fiscal 2017 and 2016.

**Backlog Table**

(In thousands)

	Period Ended		Period Ended	
Backlog	2/29/2016	\$ 310,623	2/28/2015	\$ 294,970
Net bookings		858,934		905,053
Acquired backlog		11,903		—
Shipments		(863,538 )		(889,400 )
Backlog	2/28/2017	\$ 317,922	2/29/2016	\$ 310,623
Book-to-ship ratio		0.99		1.02

**Net Sales**

Our total net sales for fiscal 2017 decreased by \$25.9 million, or 2.9%, as compared to fiscal 2016.

The following table reflects the breakdown of revenue by segment (in thousands):

	2017	2016
Net sales:		
Energy	\$488,002	\$487,038
Metal Coatings	375,536	402,362
Total net sales	\$863,538	\$889,400

Our Energy Segment recorded net sales for fiscal 2017 of \$488.0 million as compared to fiscal 2016 net sales of \$487.0 million. The increase of 0.2% represented relatively flat growth from the prior year.

Our Metal Coatings Segment, which consisted of forty-one metal coating facilities as of February 28, 2017, generated net sales of \$375.5 million, a 6.7% decrease from the prior year's net sales of \$402.4 million. The decline was a result of a volume decrease in steel processed caused by softness in the solar, petrochemical, and the oil and gas markets which offset higher pricing during the year.

**Operating Income**

Operating income for the Energy Segment decreased \$3.9 million, or 6.9%, for fiscal 2017, to \$52.6 million as compared to \$56.5 million for fiscal 2016. Operating margins for this segment were 10.8% for fiscal 2017 as compared to 11.6% for fiscal 2016. This decrease was attributable to the reduction in refinery turnarounds described above, which typically carry a higher margin, coupled with generally lower margin projects in the balance of the segment.

Operating income for the Metal Coatings Segment decreased \$15.7 million, or 16.6%, for fiscal 2017 to \$79.0 million as compared to \$94.8 million for the prior year. Operating margins were 21.0% for fiscal 2017 as compared to 23.6% for fiscal 2016. This decrease is attributable to lower volumes in fiscal 2017 and the \$7.3 million of realignment charge related to the shutdown of two metal coating plants, the repurposing of a third plant, and the disposal of obsolete assets taken in the second quarter of fiscal 2017.

Corporate expenses were \$32.7 million for fiscal 2017 and \$30.9 million for fiscal 2016. This increase is attributable to higher spend on professional services, higher employee costs, and depreciation of corporate assets in fiscal 2017.

## Table of Contents

### Interest

Interest expense for fiscal 2017 decreased 2.8% to \$14.7 million as compared to \$15.2 million in fiscal 2016. This decrease is the result of lower borrowings during fiscal 2017 stemming from mandatory and elective principal reductions, partially offset by higher interest rates. For additional information on outstanding debt, see Note 12 of the Notes to the Consolidated Financial Statements. As of February 28, 2017, we had outstanding debt of \$272.3 million compared to \$327.0 million at the end of fiscal 2016. AZZ's debt to equity ratio was 0.51 to 1 at the end of fiscal 2017 compared to 0.68 to 1 at the end of fiscal 2016

### Net Gain On Sale of Property, Plant and Equipment and Insurance Proceeds

We recorded a net loss of \$0.1 million from the sale of property, plant and equipment and insurance proceeds in fiscal 2017. This net loss was the result of the sale of miscellaneous equipment during the year. We recorded a net gain of \$0.3 million from the sale of property, plant and equipment and insurance proceeds in fiscal 2016. The net gain is primarily related to the sale of our St. Catherines property located in Ontario, Canada.

### Other (Income) Expense

For fiscal 2017, a total of \$1.2 million in income was recorded to other (income) expense, net, which was primarily attributable to a reimbursement of legal fees of \$0.6 million from a lawsuit in fiscal 2016 and net foreign exchange gains. For fiscal 2016, we recorded \$3.1 million of expense to other (income) expense, net, which was attributable to a fourth quarter settlement of a commercial lawsuit, in addition to some currency translation losses.

### Provision For Income Taxes

The provision for income taxes reflected an effective tax rate of 28.2% for fiscal 2017 and 26.2% for fiscal 2016. The Company's tax rate is affected by recurring items, such as tax rates in foreign jurisdictions and the relative amounts of income we earn in those jurisdictions. It is also affected by discrete items that may occur in any given year, but may not be consistent from year to year. The most significant impact on the difference between our statutory U.S. federal income tax rate of 35.0% and our effective tax rate is the result of certain U.S. state tax planning for the current and prior fiscal year.

### Liquidity and Capital Resources

We have historically met our cash needs through a combination of cash flows from operating activities along with bank and bond market debt. Our cash requirements are generally for operating activities, cash dividend payments, capital improvements, debt repayment and acquisitions. We believe that our cash position, cash flows from operating activities and our expectation of continuing availability to draw upon our credit facilities are sufficient to meet our cash flow needs for the foreseeable future.

Net cash provided by operating activities for fiscal 2018 was \$78.9 million compared to \$111.2 million provided by operating activities for fiscal 2017. The decrease in cash provided by operating activities for fiscal 2018 is attributable to a decrease in net income, a decrease in deferred tax liabilities related to the Tax Cuts and Jobs Act of 2017 and by a less favorable impact of changes in working capital.

Net cash used in investing activities for fiscal 2018 was \$73.9 million compared to net cash used in investing activities of \$63.3 million for fiscal 2017. The increase in cash used during fiscal 2018 was primarily attributable to increased acquisition activity, partially offset by decreased capital expenditures. The breakdown of capital spending by segment for fiscal 2018, 2017 and 2016 can be found in Note 13 to the Consolidated Financial Statements.

Net cash provided by financing activities for fiscal 2018 was \$3.8 million compared to net cash used in financing activities of \$76.6 million for fiscal 2017. The increase in cash provided during fiscal 2018 was primarily attributable to increased borrowings under our revolving credit facility, partially offset by increased principal payments under our other long-term debt agreements.

### 2017 Term Note and Revolving Credit Facility

On March 27, 2013, the Company entered into a Credit Agreement (the "Credit Agreement") with Bank of America and other lenders. The Credit Agreement provided for a \$75.0 million term facility and a \$225.0 million revolving credit facility that included a \$75.0 million "accordion" feature. The Credit Agreement is used to provide for working capital needs, capital improvements, dividends, future acquisitions and letter of credit needs.

On March 21, 2017, we executed the Amended and Restated Credit Agreement (the “2017 Credit Agreement”) with Bank of America and other lenders. The 2017 Credit Agreement amended the Credit Agreement entered into on March 27, 2013 by the following: (i) extending the maturity date until March 21, 2022, (ii) providing for a senior revolving credit facility in a principal amount of up to \$450 million, with an additional \$150 million accordion, (iii) including a \$75 million sublimit for the issuance



Table of Contents

of standby and commercial letters of credit, (iv) including a \$30 million sublimit for swing line loans, (v) restricting indebtedness incurred in respect of capital leases, synthetic lease obligations and purchase money obligations not to exceed \$20 million, (vi) restricting investments in any foreign subsidiaries not to exceed \$50 million in the aggregate, and (vii) including various financial covenants and certain restricted payments relating to dividends and share repurchases as specifically set forth in the 2017 Credit Agreement. The balance due on the \$75.0 million term facility under the previous Credit Agreement was paid in full as a result of the execution of the 2017 Credit Agreement. The financial covenants, as defined in the 2017 Credit Agreement, require us to maintain on a consolidated basis a Leverage Ratio not to exceed 3.25:1.0 and an Interest Coverage Ratio of at least 3.00:1.0. The 2017 Credit Agreement will be used to finance working capital needs, capital improvements, dividends, future acquisitions, letter of credit needs and share repurchases.

Interest rates for borrowings under the 2017 Credit Agreement are based on either a Eurodollar Rate or a Base Rate plus a margin ranging from 0.875% to 1.875% depending on our Leverage Ratio (as defined in the 2017 Credit Agreement). The Eurodollar Rate is defined as LIBOR for a term equivalent to the borrowing term (or other similar interbank rates if LIBOR is unavailable). The Base Rate is defined as the highest of the applicable Fed Funds rate plus 0.50%, the Prime rate, or the Eurodollar Rate plus 1.0% at the time of borrowing. The 2017 Credit Agreement also carries a Commitment Fee for the unfunded portion ranging from 0.175% to 0.30% per annum, depending on our Leverage Ratio. The effective interest rate was 3.33% as of February 28, 2018.

As of February 28, 2018, we had \$162.0 million of outstanding debt against the revolving credit facility provided and letters of credit outstanding in the amount of \$22.4 million, which left approximately \$265.6 million of additional credit available under the 2017 Credit Agreement.

**2011 Senior Notes**

On January 21, 2011, the Company entered into a Note Purchase Agreement (the “2011 Agreement”), pursuant to which the Company issued \$125.0 million aggregate principal amount of its 5.42% unsecured Senior Notes (the “2011 Notes”), through a private placement (the “2011 Note Offering”). Amounts under the agreement are due in a balloon payment on the January 2021 maturity date. Pursuant to the 2011 Agreement, the Company's payment obligations with respect to the 2011 Notes may be accelerated under certain circumstances.

**2008 Senior Notes**

On March 31, 2008, the Company entered into a Note Purchase Agreement (the “Note Purchase Agreement”) pursuant to which the Company issued \$100.0 million aggregate principal amount of its 6.24% unsecured Senior Notes (the “2008 Notes”) through a private placement (the “2008 Note Offering”). Amounts are due under the Agreement in seven annual installments of \$14.3 million commencing in March of 2012 through the March 2018 maturity date. On March 31, 2018, we made the final principal payment of \$14.3 million to fully settle the 2008 Senior Notes on the scheduled maturity date.

The 2008 Notes and the 2011 Notes each provide for various financial covenants requiring the Company, among other things, to a) maintain on a consolidated basis net worth equal to at least the sum of \$116.9 million plus 50.0% of future net income; b) maintain a ratio of indebtedness to EBITDA (as defined in Note Purchase Agreement) not to exceed 3.25:1.00; c) maintain on a consolidated basis a Fixed Charge Coverage Ratio (as defined in the Note Purchase Agreement) of at least 2.0:1.0; d) not at any time permit the aggregate amount of all Priority Indebtedness (as defined in the Note Purchase Agreement) to exceed 10.0% of Consolidated Net Worth (as defined in the Note Purchase Agreement).

As of February 28, 2018, the Company was in compliance with all of its debt covenants.

**Other Exposures**

Historically, we have not experienced a significant impact on our operations from increases in general inflation other than for specific commodities. We have exposure to commodity price increases in both segments of our business, primarily copper, aluminum, steel and nickel based alloys in the Energy Segment and zinc and natural gas in the Metal Coatings Segment. We attempt to minimize these increases through escalation clauses in customer contracts for copper, aluminum, steel and nickel based alloys, when market conditions allow and through fixed cost contract purchases on zinc. In addition to these measures, we attempt to recover other cost increases through improvements to

our manufacturing process, supply chain management, and through increases in prices where competitively feasible.

**Off Balance Sheet Transactions and Related Matters**

There are no off-balance sheet transactions, arrangements, obligations (including contingent obligations) other than the contingent obligations as described in the contingent liability section, or other relationships of the Company with unconsolidated

21

---

Table of Contents

entities or other persons that have, or may have, a material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

**Contractual Commitments**

The following summarizes the Company's operating leases, debt and interest payments for the next five fiscal years and thereafter (in thousands):

Fiscal year:	Operating		Interest	Total
	Leases	Debt		
2019	\$7,336	\$14,286	\$12,261	\$33,883
2020	6,053	—	11,776	17,829
2021	5,057	125,000	11,776	141,833
2022	4,924	—	5,001	9,925
2023	4,781	162,000	517	167,298
Thereafter	25,017	—	—	25,017
Total	\$53,168	\$301,286	\$41,331	\$395,785

**Commodity pricing**

We have no contracted commitments for any commodities including steel, aluminum, natural gas, nickel based alloys, copper, zinc or any other commodity, except for those entered into under the normal course of business.

**Other**

At February 28, 2018, the Company had outstanding letters of credit in the amount of \$37.6 million, with \$22.4 million issued under the 2017 Credit Agreement and \$15.2 million issued by HSBC Bank (China). These letters of credit are issued to a portion of the Company's customers in our Energy Segment to cover any potential warranty costs, performance issues, insurance reserves and bid bonds. In addition, as of February 28, 2018, a warranty reserve in the amount of \$2.0 million has been provided to offset any future warranty claims.

The Company has been named as a defendant in certain lawsuits that arose in the normal course of business. In the opinion of management, after consulting with legal counsel, the potential liabilities, if any, resulting from these matters would not have a material effect on our financial position, results of operations or cash flow.

**Critical Accounting Policies and Estimates**

The preparation of the consolidated financial statements requires us to make estimates that affect the reported value of assets, liabilities, revenues and expenses. Our estimates are based on historical experience and various other factors that we believe are reasonable under the circumstances and form the basis for our conclusions. We continually evaluate the information used to make these estimates as business and economic conditions change. Accounting policies and estimates considered most critical are allowances for doubtful accounts, accruals for contingent liabilities, revenue recognition, impairment of long-lived assets, identifiable intangible assets and goodwill, accounting for income taxes, restricted stock units, performance share units and stock appreciation rights. Actual results may differ from these estimates under different assumptions or conditions. The development and selection of the critical accounting policies and the related disclosures below have been reviewed with the Audit Committee of the Board of Directors. More information regarding significant accounting policies can be found in Note 1 to the Consolidated Financial Statements.

**Allowance for Doubtful Accounts**

The carrying value of our accounts receivable is continually evaluated based on the likelihood of collection. An allowance is maintained for estimated losses resulting from our customers' inability to make required payments. The allowance is determined by historical experience of uncollected accounts, the level of past due accounts, overall level of outstanding accounts receivable, information about specific customers with respect to their inability to make payments and future expectations of conditions that might impact the collectibility of accounts receivable. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments,

additional allowances could be required.  
Accruals for Contingent Liabilities

22

---

## Table of Contents

The amounts we record for estimated claims, such as self-insurance programs, warranty, environmental and other contingent liabilities, requires us to make judgments regarding the amount of expenses that will ultimately be incurred. We use past history and experience and other specific circumstances surrounding these claims in evaluating the amount of liability that should be recorded. Actual results may be different than what we estimate.

### Revenue Recognition

Revenue is recognized for the Energy Segment upon transfer of title and risk to customers, or based upon the percentage of completion method of accounting for electrical products built to customer specifications and for services under long term contracts. We typically recognize revenue for the Metal Coatings Segment at completion of the service unless we specifically agree with the customer to hold its material for a predetermined period of time after the completion of the galvanizing process and, in that circumstance, we invoice and recognize revenue upon shipment. Customer advanced payments presented in the balance sheets arise from advanced payments received from our customers prior to shipment of the product and are not related to revenue recognized under the percentage of completion method. The extent of progress for revenue recognized using the percentage of completion method is measured by the ratio of contract costs incurred to date to total estimated contract costs at completion. Contract costs include direct labor and material and certain indirect costs. Selling, general and administrative costs are charged to expense as incurred. Provisions for estimated losses, if any, on uncompleted contracts are made in the period in which such losses are able to be determined. The assumptions made in determining the estimated cost could differ from actual performance resulting in a different outcome for profits or losses than anticipated.

### Impairment of Long-Lived Assets, Identifiable Intangible Assets and Goodwill

We record impairment losses on long-lived assets, including identifiable intangible assets, when events and circumstances indicate that the assets might be impaired and the undiscounted projected cash flows associated with those assets are less than the carrying amounts of those assets. In those situations, impairment losses on long-lived assets are measured based on the excess of the carrying amount over the asset's fair value, generally determined based upon discounted estimates of future cash flows. A significant change in events, circumstances or projected cash flows could result in an impairment of long-lived assets, including identifiable intangible assets. An annual impairment test of goodwill is performed in the fourth quarter of each fiscal year. The test is calculated using the anticipated future cash flows after tax from our operating segments. Based on the present value of the future cash flows, we will determine whether impairment may exist. A significant change in projected cash flows or cost of capital for future years could result in an impairment of goodwill in future years. Variables impacting future cash flows include, but are not limited to, the level of customer demand for and response to products and services we offer to the power generation market, the electrical transmission and distribution markets, the general industrial market and the hot dip galvanizing market, changes in economic conditions of these various markets, raw material and natural gas costs and availability of experienced labor and management to implement our growth strategies. Our testing concluded that none of our goodwill was impaired.

### Accounting for Income Taxes

Our income tax expense, deferred tax assets and liabilities, and liabilities for unrecognized tax benefits reflect management's best assessment of estimated current and future taxes to be paid. We are subject to income taxes in both the United States and numerous foreign jurisdictions. Significant judgments and estimates are required in determining the consolidated income tax expense. Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, which will result in taxable or deductible amounts in the future.

In evaluating our ability to recover our deferred tax assets within the jurisdiction from which they arise, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies, and results of recent operations. In projecting future taxable income, we begin with historical results adjusted for the results of discontinued operations and incorporate assumptions about the amount of future state, federal, and foreign pretax operating income adjusted for items that do not have tax consequences. The assumptions about future taxable income require significant judgment and are consistent with the plans and estimates we are using to manage the underlying businesses. Deferred tax assets are reduced by a valuation

allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across our global operations. Generally accepted accounting principles in the United States of America ("GAAP") states that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, on the basis of the technical merits. We may (1) record unrecognized tax benefits as liabilities in accordance with GAAP and (2) adjust these liabilities when our judgment changes as a result of the evaluation of new information not previously available. Because of the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our

Table of Contents

current estimate of the unrecognized tax benefit liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which new information is available.

We currently do not record unrecognized tax benefits related to U.S. federal, state or, foreign tax exposure. We continue to review our tax exposure for any significant need to record unrecognized tax benefits in the future. In December 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law revising the U.S. corporate income tax. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the elimination of certain deductions and imposing a mandatory one-time tax on accumulated earnings of foreign subsidiaries. The Act also includes international provisions, which generally establish a territorial-style system for taxing foreign source income of domestic multinational corporations. We are required to recognize the effect of the tax law changes in the period of enactment, such as remeasuring our U.S. deferred tax assets and liabilities, determining the transition tax, as well as reassessing the net realizability of our deferred tax assets and liabilities. The primary impacts of the Act reflected in the consolidated financial statements relate to the remeasurement of deferred tax liabilities resulting from the change in the corporate tax rate and a one-time mandatory transition tax on undistributed earnings of foreign affiliates.

In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118"), which allows us to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. Since the Act was passed during the fourth quarter of our fiscal year 2018, and ongoing guidance and accounting interpretation are expected over the next 12 months, we consider the accounting of the deferred tax remeasurements, the transition tax and other items to be incomplete due to the forthcoming guidance and our ongoing analysis of final year-end data and tax positions. We expect to complete our analysis within the measurement period in accordance with SAB 118.

#### Restricted Stock Units, Performance Share Units and Stock Appreciation Rights

Our employees and directors are periodically granted restricted stock units, performance share units, and stock appreciation rights by the Compensation Committee of the Board of Directors. The compensation cost of all employee stock-based compensation awards is measured based on the grant-date fair value of those awards and that cost is recorded as compensation expense over the period during which the employee is required to perform service in exchange for the award (generally over the vesting period of the award).

The valuation of stock appreciation rights awards is complex in that there are a number of variables included in the calculation of the value of the award:

- Volatility of our stock price
- Expected term of the stock appreciation rights
- Expected dividend yield
- Risk-free interest rate over the expected term
- Expected forfeitures

These variables are developed using a combination of our internal data with respect to stock price volatility and exercise behavior of award holders and information from outside sources. The development of each of these variables requires a significant amount of judgment. Changes in the values of the above variables would result in different valuations and, therefore, different amounts of compensation cost.

We have elected to use a Black-Scholes pricing model in the valuation of our stock appreciation rights. Restricted stock units and performance share units are valued at the stock price on the date of grant.

Table of Contents

Recent Accounting Pronouncements

See Part II, Item 8. Consolidated Financial Statements and Supplementary Data, Note 1, Summary of Significant Account Policies, of the Notes to the Consolidated Financial Statements of this Annual Report on Form 10-K, for a full description of recent accounting pronouncements, including the actual and expected dates of adoption and estimated effects on our consolidated results of operations and financial condition, which is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk affecting our operations results primarily from changes in interest rates, foreign currency exchange and commodity prices. As of February 28, 2018, we had no involvement with derivative financial instruments.

In the Energy Segment, we have exposure to commodity pricing for copper, aluminum, steel and nickel based alloys. Increases in price for these items are normally managed through escalation clauses in our customers' contracts, although during difficult market conditions customers' may resist these escalation clauses. In addition, we attempt to enter into firm pricing contracts with our vendors on material at the time we receive orders from our customers to minimize risk. As normal course of business, we manage our exposures to commodity prices, primarily zinc used in our Metal Coatings Segment, by utilizing agreements with zinc suppliers that include protective caps and fixed contracts to guard against escalating commodity prices. We also secure firm pricing for natural gas supplies with individual utilities when possible. We believe these agreements ensure adequate supplies and partially offset exposure to commodity price escalation.

As of February 28, 2018, the Company had exposure to foreign currency exchange rates related to our operations in Canada, China, Brazil, Poland, and the Netherlands.

We do not believe that a hypothetical change of 10% of the interest rate or currency exchange rate that are currently in effect or a change of 10% of commodity prices would have a significant adverse effect on our results of operations, financial position, or cash flows as long as we are able to pass along the increases in commodity prices to our customers. However, there can be no assurance that either interest rates, exchange rates or commodity prices will not change in excess of the 10% hypothetical amount or that we would be able to pass along rising costs of commodity prices to our customers, and such hypothetical change could have an adverse effect on our results of operations, financial position, and cash flows.



Table of Contents

Item 8. Consolidated Financial Statements and Supplementary Data

Index to Consolidated Financial Statements and Schedules

	Page
1. Consolidated Financial Statements	
<u>Report of Independent Registered Public Accounting Firm - Consolidated Financial Statements</u>	<u>27</u>
<u>Report of Independent Registered Public Accounting Firm - Internal Controls Over Financial Reporting</u>	<u>28</u>
<u>Consolidated Statements of Income</u>	<u>30</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>31</u>
<u>Consolidated Balance Sheets</u>	<u>32</u>
<u>Consolidated Statements of Cash Flows</u>	<u>33</u>
<u>Consolidated Statements of Shareholders' Equity</u>	<u>34</u>
<u>Notes to Consolidated Financial Statements</u>	<u>35</u>
2. Consolidated Financial Statement Schedule	
<u>Schedule II – Valuation and Qualifying Accounts and Reserves</u>	<u>55</u>

Table of Contents

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders

AZZ Inc.

Fort Worth, Texas

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of AZZ Inc. (the “Company”) as of February 28, 2018 and 2017, the related consolidated statements of income, comprehensive income, shareholders’ equity, and cash flows for each of the three fiscal years in the period ended February 28, 2018, and the related notes and financial statement schedule (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at February 28, 2018 and 2017, and the results of their operations and their cash flows for each of the three fiscal years in the period ended February 28, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of February 28, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated May 15, 2018 expressed an adverse opinion thereon.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2007.

Dallas, Texas

May 15, 2018

Table of Contents

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders

AZZ Inc.

Fort Worth, Texas

Opinion on Internal Control over Financial Reporting

We have audited AZZ Inc. (the “Company’s”) internal control over financial reporting as of February 28, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the “COSO criteria”). In our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of February 28, 2018, based on the COSO criteria.

We do not express an opinion or any other form of assurance on management’s statements referring to any corrective actions taken by the Company after the date of management’s assessment.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated balance sheets of the Company as of February 28, 2018 and 2017, the related consolidated statements of income, comprehensive income, shareholders’ equity, and cash flows for each of the three fiscal years in the period ended February 28, 2018, and the related notes and financial statement schedule (collectively referred to as “the consolidated financial statements”) and our report dated May 15, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying “Item 9A, Management’s Report on Internal Control over Financial Reporting”. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company’s annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness regarding management’s failure to design and maintain controls over the review and ongoing monitoring of the Company’s revenue recognition policies has been identified and described in management’s assessment. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2018 consolidated financial statements, and this report does not affect our report dated May 15, 2018 on those consolidated financial statements.

As indicated in the accompanying “Item 9A Management’s Report on Internal Control over Financial Reporting,” management’s assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Rogers Brothers Company, Powergrid Solutions, Inc. or Enhanced Powder Coating Ltd., which were acquired on June 30, 2017, September 6, 2017 and February 1, 2018, respectively, and which are included in the consolidated balance sheets of the Company as of February 28, 2018, and the related statements of income, comprehensive income, shareholders’ equity, and cash flows for each of the three fiscal years in the period ended February 28, 2018. These entities constituted approximately 5.2% of total assets as of February 28, 2018, and 2.4% and 0.8% of revenues and net income, respectively, for the year then ended. Management did not assess the effectiveness of internal control over financial reporting of these acquired entities because of the timing of the

acquisitions. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of these acquired entities.

Table of Contents

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ BDO USA, LLP  
Dallas, Texas  
May 15, 2018

Table of Contents

AZZ INC.  
CONSOLIDATED STATEMENTS OF INCOME  
(in thousands, except per share amounts)

	Year Ended		
	February 28, 2018	February 28, 2017	February 29, 2016
Net sales	\$810,430	\$ 863,538	\$ 889,400
Cost of sales	650,121	658,206	661,282
Gross profit	160,309	205,332	228,118
Selling, general and administrative	112,061	106,424	107,823
Operating income	48,248	98,908	120,295
Interest expense	13,860	14,732	15,155
Net (gain) loss on sale of property, plant and equipment, and insurance proceeds	765	76	(327 )
Other expense (income), net	2,724	(1,197 )	3,092
Income before income taxes	30,899	85,297	102,375
Income tax (benefit) expense	(14,270 )	24,033	26,831
Net income	\$45,169	\$ 61,264	\$ 75,544
Earnings per common share			
Basic earnings per share	\$1.74	\$ 2.36	\$ 2.93
Diluted earnings per share	\$1.73	\$ 2.35	\$ 2.91
Weighted average shares outstanding			
Basic	25,970	25,965	25,800
Diluted	26,036	26,097	25,937
Cash dividends declared per common share	\$0.68	\$ 0.64	\$ 0.60

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

AZZ INC.  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (in thousands)

	Year Ended		
	February 28, 2018	February 28, 2017	February 29, 2016
Net income	\$45,169	\$ 61,264	\$ 75,544
Other comprehensive loss:			
Change in foreign currency translation (net of tax of \$0, \$0 and \$0)	3,928	1,520	(7,674 )
Interest rate swap (net of tax of \$29, \$29 and \$29)	(54 )	(54 )	(54 )
Other comprehensive income (loss)	3,874	1,466	(7,728 )
Comprehensive income	\$49,043	\$ 62,730	\$ 67,816

The accompanying notes are an integral part of the consolidated financial statements.

AZZ INC.  
CONSOLIDATED BALANCE SHEETS  
(in thousands, except par value)

	February 28, 2018	February 28, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$20,853	\$11,302
Accounts receivable, net of allowance for doubtful accounts of \$569 and \$347 in 2018 and 2017, respectively	141,488	138,470
Inventories - net	110,761	94,007
Costs and estimated earnings in excess of billings on uncompleted contracts	51,787	50,262
Deferred income tax assets	—	249
Prepaid expenses and other	4,265	2,762
Total current assets	329,154	297,052
Property, plant, and equipment, net	216,855	228,610
Goodwill	321,307	306,579
Intangibles and other assets	160,893	146,113
Total assets	\$1,028,209	\$978,354
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$54,162	\$49,816
Income tax payable	144	778
Accrued salaries and wages	19,011	23,429
Other accrued liabilities	19,622	24,042
Customer deposits	1,816	1,459
Billings in excess of costs and estimated earnings on uncompleted contracts	22,698	20,617
Debt due within one year	14,286	16,629
Total current liabilities	131,739	136,770
Other long-term liabilities	11,696	—
Debt due after one year, net	286,609	254,800
Deferred income tax liabilities	32,962	53,648
Total liabilities	463,006	445,218
Commitments and contingencies (Note 14)		
Shareholders' equity:		
Common Stock, \$1.00 par value; 100,000 shares authorized; 25,959 and 25,964 shares issued and outstanding at February 28, 2018 and 2017, respectively	25,959	25,964
Capital in excess of par value	38,446	37,739
Retained earnings	526,018	498,527
Accumulated other comprehensive loss	(25,220 )	(29,094 )
Total shareholders' equity	565,203	533,136
Total liabilities and shareholder's equity	\$1,028,209	\$978,354

The accompanying notes are an integral part of the consolidated financial statements.



Table of Contents

AZZ INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)

	Year Ended		
	February 28, 2018	February 28, 2017	February 29, 2016
Cash flows from operating activities:			
Net income	\$45,169	\$61,264	\$75,544
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	50,526	50,357	47,417
Deferred income taxes	(20,637 )	1,714	1,960
Net loss on disposition of property, plant & equipment due to impairment	10,834	6,602	286
Net (gain) loss on sale of property, plant & equipment and insurance proceeds	765	76	(327 )
Share-based compensation expense	6,121	5,870	4,538
Amortization of deferred debt issuance costs	595	1,262	1,347
Provision for doubtful accounts	3,007	48	(1,072 )
Effects of changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	3,492	(4,912 )	(843 )
Inventories	(9,927 )	(13,754 )	(2,052 )
Prepaid expenses and other assets	(2,376 )	(1,977 )	1,996
Net change in billings related to costs and estimated earnings on uncompleted contracts	984	13,592	7,276
Accounts payable	1,540	1,245	(2,236 )
Other accrued liabilities and income taxes payable	(11,184 )	(10,211 )	9,755
Net cash provided by operating activities:	78,909	111,176	143,589
Cash flows from investing activities:			
Proceeds from the sale or insurance settlement of property, plant, and equipment	458	769	1,137
Acquisition of subsidiaries, net of cash acquired	(44,785 )	(22,679 )	(60,584 )
Purchases of property, plant and equipment	(29,612 )	(41,434 )	(39,861 )
Net cash used in investing activities:	(73,939 )	(63,344 )	(99,308 )
Cash flows from financing activities:			
Excess tax benefits from share-based compensation	—	—	1,025
Proceeds from revolving loan	349,000	179,500	181,481
Payments on revolving loan	(256,500)	(211,000)	(170,561)
Payments on long-term debt	(63,504 )	(23,192 )	(21,786 )
Purchases of treasury shares	(7,518 )	(5,282 )	—
Payment of dividends	(17,678 )	(16,645 )	(15,482 )
Net cash provided by (used in) financing activities:	3,800	(76,619 )	(25,323 )
Effect of exchange rate changes on cash and cash equivalents	781	(102 )	(1,294 )
Net change in cash and cash equivalents	9,551	(28,889 )	17,664
Cash and cash equivalents, beginning of year	11,302	40,191	22,527
Cash and cash equivalents, end of year	\$20,853	\$11,302	\$40,191
Supplemental disclosures of cash flow information:			
Cash paid for interest	\$13,593	\$13,780	\$14,228
Cash paid for income taxes	\$8,701	\$19,857	\$21,574

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

AZZ INC.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands)

	Common Stock		Capital in excess of par value	Retained earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
Balance at February 28, 2015	25,732	\$25,732	\$27,706	\$393,846	\$ (22,832 )	\$424,452
Share-based compensation	15	15	4,523	—	—	4,538
Restricted stock units	17	17	(390 )	—	—	(373 )
Stock issued for SARs	41	41	(132 )	—	—	(91 )
Employee stock purchase plan	69	69	2,416	—	—	2,485
Excess tax benefits from share-based compensation	—	—	1,025	—	—	1,025
Cash dividend paid	—	—	—	(15,482 )	—	(15,482 )
Net income	—	—	—	75,544	—	75,544
Foreign currency translation	—	—	—	—	(7,674 )	(7,674 )
Interest rate swap	—	—	—	—	(54 )	(54 )
Balance at February 29, 2016	25,874	\$25,874	\$35,148	\$453,908	\$ (30,560 )	\$484,370
Share-based compensation	13	13	5,857	—	—	5,870
Restricted stock units	25	25	(605 )	—	—	(580 )
Stock issued for SARs	81	81	(322 )	—	—	(241 )
Employee stock purchase plan	71	71	2,843	—	—	2,914
Retirement of treasury shares	(100 )	(100 )	(5,182 )	—	—	(5,282 )
Cash dividend paid	—	—	—	(16,645 )	—	(16,645 )
Net income	—	—	—	61,264	—	61,264
Foreign currency translation	—	—	—	—	1,520	1,520
Interest rate swap	—	—	—	—	(54 )	(54 )
Balance at February 28, 2017	25,964	\$25,964	\$37,739	\$498,527	\$ (29,094 )	\$533,136
Share-based compensation	16	16	6,105	—	—	6,121
Restricted stock units	43	43	(1,256 )	—	—	(1,213 )
Stock issued for SARs	6	6	(11 )	—	—	(5 )
Employee stock purchase plan	77	77	3,240	—	—	3,317
Retirement of treasury shares	(147 )	(147 )	(7,371 )	—	—	(7,518 )
Cash dividend paid	—	—	—	(17,678 )	—	(17,678 )
Net income	—	—	—	45,169	—	45,169
Foreign currency translation	—	—	—	—	3,928	3,928
Interest rate swap	—	—	—	—	(54 )	(54 )
Balance at February 28, 2018	25,959	\$25,959	\$38,446	\$526,018	\$ (25,220 )	\$565,203

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

AZZ INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies

Organization

AZZ Inc. (the “Company” “AZZ” or “We”) operates primarily in the United States of America and Canada and also has operations in China, Brazil, Poland and the Netherlands. Information about the Company's operations by segment is included in Note 13 to the consolidated financial statements.

Basis of consolidation

The consolidated financial statements were prepared in accordance with the accounting principles generally accepted in the United States of America and include the accounts of the Company and its wholly owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

Use of estimates

The preparation of the financial statements in conformity with generally accepted accounting principles in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents and trade accounts receivable.

The Company maintains cash and cash equivalents with various financial institutions. These financial institutions are located throughout the United States and Canada, as well as Europe, China and Brazil. The Company's policy is designed to limit exposure to any one institution. The Company performs periodic evaluations of the relative credit standing of those financial institutions that are considered in the Company's banking relationships and has not experienced any losses in such accounts. We believe we are not exposed to any significant credit risk related to cash and cash equivalents.

Concentrations of credit risk with respect to trade accounts receivable are limited due to the Company's diversity by virtue of two operating segments, the number of customers, and the absence of a concentration of trade accounts receivable in a small number of customers. The Company performs continuous evaluations of the collectibility of trade accounts receivable and allowance for doubtful accounts based upon historical losses, economic conditions and customer specific events. After all collection efforts are exhausted and an account is deemed uncollectible, it is written off against the allowance for doubtful accounts. Collateral is usually not required from customers as a condition of sale.

Revenue recognition

The Company recognizes revenue for the Energy Segment upon transfer of title and risk to customer or based upon the percentage of completion method of accounting for electrical products built to customer specifications and services under long-term contracts. We typically recognize revenue for the Metal Coatings Segment at completion of the service unless we specifically agree with the customer to hold its material for a predetermined period of time after the completion of the galvanizing process and, in that circumstance, we invoice and recognize revenue upon shipment. Customer advanced payments presented in the balance sheets arise from advanced payments received from our customers prior to shipment of the product and are not related to revenue recognized under the percentage of completion method. The extent of progress for revenue recognized using the percentage of completion method is measured by the ratio of contract costs incurred to date to total estimated contract costs at completion. Contract costs include direct labor and material and certain indirect costs. Selling, general and administrative costs are charged to expense as incurred.

Provisions for estimated losses, if any, on uncompleted contracts are made in the period in which such losses are able to be determined. The assumptions made in determining the estimated cost could differ from actual performance resulting in a different outcome for profits or losses than anticipated.

Table of Contents

AZZ INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Cash and cash equivalents

The Company considers cash and cash equivalents to include cash on hand, deposits with banks and all highly liquid investments with an original maturity of three months or less.

Inventories

Inventory is stated at the lower of cost or net realizable value. Cost is determined principally using a weighted-average method for the Energy Segment and the first-in-first-out (FIFO) method for the Metal Coatings Segment. The Company evaluates its ending inventories for excess quantities and obsolescence based on forecasted demand within specific time horizons, technological obsolescence, and an assessment of any inventory that is not in sellable condition.

Property, plant and equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Buildings and structures 10-25 years

Machinery and equipment 3-15 years

Furniture and fixtures 3-15 years

Automotive equipment 3 years

Computers and software 3 years

Repairs and maintenance are charged to expense as incurred; renewals and betterments that significantly extend the useful life of the asset are capitalized.

Amortizable Intangible and Long-lived assets

Purchased intangible assets on the consolidated balance sheets are comprised of customer lists, backlogs, engineering drawings and non-compete agreements. Such intangible assets (excluding indefinite-lived intangible assets) are being amortized on a straight-line basis over the estimated useful lives of the assets ranging from two to nineteen years. The Company records impairment losses on long-lived assets, including identifiable intangible assets, when events and circumstances indicate that the assets might be impaired and the undiscounted projected cash flows associated with those assets are less than their carrying amount. In those situations, impairment loss on a long-lived asset is measured based on the excess of the carrying amount of the asset over the asset's fair value. For fiscal year 2018, 2017 and 2016, the Company recorded impairment losses of \$10.8 million, \$6.6 million and \$0.3 million respectively, related to the disposition of certain property, plant and equipment. Such losses were recorded within costs of sales and selling, general and administrative in the consolidated statements of income.

Goodwill and Other Indefinite-Lived Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in a business combination. Goodwill is not subject to amortization but is subject to an annual impairment test during the fourth quarter of each fiscal year, or earlier if indicators of potential impairment exist. The test is calculated using an income approach. Based on the present value of the future cash flows, the Company determines whether an impairment may exist. A significant change in projected cash flows or cost of capital for future years could result in an impairment of goodwill in future years. Variables impacting future cash flows include, but are not limited to, the level of customer demand for and response to products and services we offer to the power generation market, the electrical transmission and distribution markets, the general industrial market and the hot dip galvanizing market; changes in economic conditions of these various markets; raw material and natural gas costs and availability of experienced labor and management to implement our growth strategies. For fiscal year 2018, 2017 and 2016 no goodwill impairment loss was recorded.

Other indefinite-lived intangible assets consist of certain tradenames acquired as part of the Powergrid Solutions and Enhanced Powder Coating acquisitions during fiscal year 2018. The Company will test the carrying value of these tradenames during the fourth quarter of each fiscal year, or more frequently when an event occurs or circumstances change that indicates the carrying value may not be recoverable by comparing the asset's fair value to its carrying

value. Fair value is measured using a relief-from-royalty approach, which assumes the fair value of the tradename is the discounted cash flows of the amount that would be paid had the Company not owned the tradename and instead licensed the tradename from another company.

Table of Contents

AZZ INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Debt issuance costs

Debt issue costs related to the revolver are deferred within other assets and are amortized using the effective interest rate method over the term of the debt. Debt issue costs related to debt other than the revolver are deferred within total debt due after one year and are amortized using the effective interest rate method over the term of the debt.

Income taxes

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company recognizes a valuation allowance against net deferred tax assets to the extent that the Company believes these net assets are not more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If the Company determines that it would be able to realize its deferred tax assets in the future in excess of their net recorded amount, the Company would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

As applicable, the Company records uncertain tax positions in accordance with GAAP on the basis of a two-step process whereby (1) the Company determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority. The Company currently does not have any unrecognized tax benefits to record related to U.S. federal, state or, foreign tax exposure. The Company continues to review its tax exposure for any significant need to record unrecognized tax benefits in the future.

The Company is subject to taxation in the U.S. and various state, provincial and local and foreign jurisdictions. With few exceptions, as of February 28, 2018, the Company is no longer subject to U.S. federal or state examinations by tax authorities for years before fiscal 2015.

Share-based compensation

The Company has granted restricted stock units awards, performance share units and stock appreciation rights for a fixed number of shares to employees and directors. A discussion of share-based compensation can be found in Note 11 to the Consolidated Financial Statements.

Financial instruments

Fair value is an exit price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Hierarchy Levels 1, 2, or 3 are terms for the priority of inputs to valuation techniques used to measure fair value. Hierarchy Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Hierarchy Level 2 inputs are inputs other than quoted prices included with Level 1 that are directly or indirectly observable for the asset or liability. Hierarchy Level 3 inputs are inputs that are not observable in the market.

The carrying amount of the Company's financial instruments (cash equivalents, accounts receivable, accounts payable, accrued liabilities and debt), excluding the Senior Notes, approximates the fair value of these instruments based upon either their short-term nature or their variable market rate of interest. As of February 28, 2018 and 2017 the fair value of the outstanding Senior Notes, as described in Note 12 to the Consolidated Financial Statements, was approximately \$133.7 million and \$144.4 million, respectively. These fair values were determined using the discounted cash flow at the market rate as well as the applicable market interest rates classified as Level 2 inputs.





Table of Contents

AZZ INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Derivative financial instruments

From time to time, the Company uses derivatives to manage interest rate risk. The Company's policy is to use derivatives for risk management purposes only, which includes maintaining the ratio between the Company's fixed and floating rate debt obligations that management deems appropriate, and prohibits entering into such contracts for trading purposes. The Company enters into derivatives only with counterparties (primarily financial institutions) which have substantial financial wherewithal to minimize credit risk. As the result of the recent global financial crisis, a number of financial institutions have failed or required government assistance, and counterparties considered substantial may develop credit risk. The amount of gains or losses from the use of derivative financial instruments has not been and is not expected to be material to the Company's consolidated financial statements. As of February 28, 2018, the Company had no derivative financial instruments.

## Warranty reserves

Within other accrued liabilities, a reserve has been established to provide for the estimated future cost of warranties on a portion of the Company's delivered products. Management periodically reviews the reserves, and adjustments are made accordingly. A provision for warranty on products is made on the basis of the Company's historical experience and identified warranty issues. Warranties cover such factors as non-conformance to specifications and defects in material and workmanship.

The following is a roll-forward of amounts accrued for warranties (in thousands):

Balance at February 28, 2015	\$2,287
Warranty costs incurred	(2,570 )
Additions charged to income	3,198
Balance at February 29, 2016	\$2,915
Warranty costs incurred	(1,947 )
Additions charged to income	1,130
Balance at February 28, 2017	\$2,098
Warranty costs incurred	(2,225 )
Additions charged to income	2,140
Balance at February 28, 2018	\$2,013

## Foreign Currency Translation

The local currency is the functional currency for the Company's foreign operations. Related assets and liabilities are translated into United States dollars at exchange rates existing at the balance sheet date, and revenues and expenses are translated at weighted-average exchange rates. The foreign currency translation adjustment is recorded as a separate component of shareholders' equity and is included in accumulated other comprehensive income (loss).

## Accruals for Contingent Liabilities

The Company is subject to the possibility of various loss contingencies arising in the normal course of business. The amounts the Company may record for estimated claims, such as self-insurance programs, warranty, environmental and other contingent liabilities, requires the Company to make judgments regarding the amount of expenses that will ultimately be incurred. The Company uses past history and experience and other specific circumstances surrounding these claims in evaluating the amount of liability that should be recorded. Due to the inherent limitations in estimating future events, actual amounts paid or transferred may differ from those estimates.

## Accounting Standards Recently Adopted

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes (ASU 2015-17). ASU 2015-17 simplifies the presentation of deferred taxes in a classified statement of financial position and was adopted by the Company on March 1, 2017. As a result of the adoption, the Company is required to offset deferred tax liabilities and assets, as well as any related valuation allowance, and present as a single non-current amount. However, the Company shall not offset deferred tax liabilities and assets attributable to different tax-paying components of the

entity or to different tax jurisdictions. The adoption was on a prospective basis and therefore had no impact on the prior year.

38

---

Table of Contents

AZZ INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Recently Issued Accounting Pronouncements

In January 2017, the FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other Topics (Topic 350)-Simplifying the Test for Goodwill Impairment. This guidance simplifies the measurement of goodwill by eliminating the Step 2 impairment test. The new guidance requires companies to perform the goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The amendment is required to be adopted prospectively. Early adoption is permitted for goodwill impairment tests performed on testing dates after January 1, 2017. The Company elected to adopt the guidance early effective for its annual goodwill impairment test performed in the fourth quarter of fiscal year 2018 and the adoption did not have a material impact on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which clarifies the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. The Company will adopt the new standard effective in the first quarter of fiscal year 2019 and the adoption is not expected to have a material impact on its consolidated statements of cash flows.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). Under the new guidance, a lessee will be required to recognize assets and liabilities for all leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as finance or operating lease. This ASU will be effective for the Company in the first quarter of its fiscal year 2020 and early adoption is permitted. The ASU requires adoption based upon a modified retrospective transition approach. The Company has not yet selected a transition method, has not yet determined whether it will elect early adoption and is currently evaluating the impact of the adoption of this standard on its consolidated financial statements and related disclosures.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers: Topic 606 ("ASU 2014-09") which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. The core principle of ASU 2014-09 is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The standard will be effective for the Company beginning in fiscal 2019 and provides the option to adopt the guidance on a full retrospective basis or a modified retrospective basis.

The Company has substantially completed its assessment of the impacts that the standard will have on its financial statements, and determined that the adoption is not expected to have a significant impact on its results of operations, cash flows, or financial position. Based on the Company's evaluation process completed and review of its contracts with customers, the timing and amount of revenue recognized under the new standard is generally consistent with its revenue recognition policy under previous guidance. For its Metal Coatings segment, the Company will recognize revenue over time as the metal coating is applied to the customer owned material while revenue was recognized at the completion of the service under the prior guidance. However, the change is not expected to significantly impact the timing of revenue recognition except for uncompleted jobs at the end of each quarter. For its Energy segment, the Company will recognize revenues for custom built products over time if the goods do not have an alternative use to the Company and the Company has an unconditional right to payment for work completed to date plus the applicable margin. This is generally consistent with the revenue recognition pattern under the prior guidance, however the Company continues to monitor its contracts to ensure that it has an unconditional right to payment and, in the circumstances when it does not, per the guidance, it will recognize revenues at a point-in-time upon transfer of the good to the customer. For bespoke services within its Energy segment, the Company will continue to recognize revenues over time as the services are rendered, and for off-the-shelf products, the Company will continue to recognize revenue at a point-in-time upon the transfer of the goods to the customer. The Company will adopt the new standard effective in the first quarter of fiscal year 2019, using the modified retrospective approach, and will expand its consolidated financial statement disclosures in order to comply with the new standard.

Note 2 – Inventories

Inventories (net) consisted of the following (in thousands):

	February 28, 2018	February 28, 2017
Raw materials	\$98,475	\$80,169
Work-in-process	2,544	6,832
Finished goods	9,742	7,006
	\$110,761	\$94,007

Table of Contents

AZZ INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 3 – Property, Plant, and Equipment

Property, plant and equipment consisted of the following (in thousands):

	February 28, 2018	February 28, 2017
Land	\$22,445	\$22,360
Building and structures	152,191	139,627
Machinery and equipment	234,071	228,246
Furniture, fixtures, software and computers	25,316	25,593
Automotive equipment	3,432	2,998
Construction in progress	13,977	23,669
	451,432	442,493
Less accumulated depreciation	(234,577 )	(213,883 )
Net property, plant, and equipment	\$216,855	\$228,610

Depreciation expense was \$33.4 million, \$33.4 million, and \$31.2 million for fiscal 2018, 2017, and 2016, respectively.

## Note 4 – Costs and Estimated Earnings on Uncompleted Contracts

Costs and estimated earnings on uncompleted contracts consisted of the following (in thousands)

	February 28, 2018	February 28, 2017
Costs incurred on uncompleted contracts	\$115,030	\$127,839
Estimated earnings	57,182	53,598
	172,212	181,437
Less billings to date	(151,894 )	(151,792 )
	\$20,318	\$29,645

The amounts noted above are included in the accompanying consolidated balance sheets under the following captions (in thousands):

	February 28, 2018	February 28, 2017
Cost and estimated earnings in excess of billings on uncompleted contracts	\$51,787	\$50,262
Billings in excess of costs and estimated earnings on uncompleted contracts - short-term	(22,698 )	(20,617 )
Billings in excess of costs and estimated earnings on uncompleted contracts - long-term	(8,771 )	—
	\$20,318	\$29,645

The long-term portion of billings in excess of costs and estimated earnings on uncompleted contracts is included as a component of other long-term liabilities on the consolidated balance sheet.

Table of Contents

AZZ INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 5 – Other Accrued Liabilities

Other accrued liabilities consisted of the following (in thousands):

	February 28, 2018	February 28, 2017
Accrued interest	\$ 1,649	\$ 2,036
Tenant improvements	163	278
Accrued warranty	2,013	2,098
Commissions	2,801	2,483
Personnel expenses	6,493	8,251
Group medical insurance	1,905	1,969
Other	4,598	6,927
Total	\$ 19,622	\$ 24,042

## Note 6 – Realignment Costs

During fiscal year 2017, as part of AZZ's ongoing efforts to optimize cost and effectiveness, the Company undertook a review of its operations to optimize the financial performance of its operating assets. As a result, the Company recognized \$8.0 million of realignment charges in the second quarter of fiscal 2017. A total of \$6.7 million was included in Cost of Sales for the disposition and write off of certain fixed assets within the Metal Coatings Segment, including the cost of closing two plants, the write off of certain assets related to the conversion of a third plant from a standard galvanizing plant to a galvanized rebar plant, and the cost of writing off certain other functionally obsolete assets across other galvanizing plants during the second quarter. The Company also reserved \$1.3 million in Selling, General and Administrative Expense for realignment costs related to one-time employee severance associated with changes needed to improve management efficiency in the Energy and Metal Coatings Segments.

During fiscal year 2016, the Company reviewed its available capacity within the Energy segment and recorded realignment costs related to severance associated with consolidating capacity at various facilities. Additionally we reserved for the disposition and write-off of certain fixed assets in connection with the capacity consolidation. The total cost related to the capacity consolidation is estimated to be \$0.9 million. A total of \$0.2 million of severance costs and \$0.2 million of costs for the disposition of certain fixed assets are included in Selling, General and Administrative Expenses. A total of \$0.2 million of severance costs and \$0.3 million of costs for the disposition of certain fixed assets are included in Cost of Sales.

The following table provides a summary of the realignment activities and related liabilities recorded in accrued liabilities (in thousands):

Balance at February 28, 2015	\$ 456
Realignment costs accrued	437
Cash payments	(832 )
Balance at February 29, 2016	\$ 61
Realignment costs accrued	1,260
Cash payments	(1,014)
Balance at February 28, 2017	\$ 307
Realignment costs accrued	—
Cash payments	(307 )
Balance at February 28, 2018	\$ —

Table of Contents

## Note 7 – Employee benefit plans

The Company has historically had a profit sharing plan and 401(k) match plan covering substantially all of its employees. Under the provisions of the plan, the Company contributes amounts as authorized by the Board of Directors. Total contributions to the profit sharing plan and the Company's 401(k) match plan, were \$4.8 million, \$4.5 million, and \$4.9 million for fiscal 2018, 2017, and 2016, respectively.

## Note 8 – Income taxes

The provision for income taxes consists of (in thousands):

	Year Ended		
	February 28, 2018	February 28, 2017	February 29, 2016
Income before income taxes:			
Domestic	\$24,282	\$74,972	\$93,561
Foreign	6,617	10,325	8,814
Income before income taxes	\$30,899	\$85,297	\$102,375
Current provision (benefit):			
Federal	\$9,080	\$23,282	\$28,099
Foreign	1,958	2,751	2,706
State and local	964	(696 )	(337 )
Total current provision for income taxes	\$12,002	\$25,337	\$30,468
Deferred provision (benefit):			
Federal	\$(25,855)	\$(2,486 )	\$(6,560 )
Foreign	100	189	(123 )
State and local	(517 )	993	3,046
Total deferred provision for (benefit from) income taxes	\$(26,272)	\$(1,304 )	\$(3,637 )
Total provision for (benefit from) income taxes	\$(14,270)	\$24,033	\$26,831

In general, it is the Company's practice and intention to reinvest the earnings of its non-U.S. subsidiaries in those operations. As of fiscal year end 2018, other than for the one-time mandatory repatriation transition tax charge, the Company has not made a provision for U.S. or additional foreign withholding taxes on approximately \$14.5 million of the excess of the amount for financial reporting over the tax basis of investments in foreign subsidiaries that is indefinitely reinvested. Generally, such amounts become subject to foreign withholding tax upon the remittance of dividends and under certain other circumstances. It is not practicable to estimate the amount of withholding tax liability related to investments in these foreign subsidiaries.



In December 2017, the Tax Cuts and Jobs Act of 2017 (the “Act”) was signed into law revising the U.S. corporate income tax. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the elimination of certain deductions and imposing a mandatory one-time tax on accumulated earnings of foreign subsidiaries. The Act also includes international provisions, which generally establish a territorial-style system for taxing foreign source income of domestic multinational corporations. The primary impacts of the Act reflected in the consolidated financial statements relate to the remeasurement of deferred tax liabilities resulting from the change in the corporate tax rate and a one-time mandatory transition tax on undistributed earnings of foreign affiliates.

The Company recorded a net \$23.2 million provisional reduction in tax expense related to the Act in the fourth quarter of fiscal year 2018, the period in which the legislation was enacted. The provisional benefit recognized related to the remeasurement of certain deferred tax assets and liabilities based on the rates at which they are expected to realize was \$25.0 million. The provisional expense recognized related to the one-time tax on the mandatory deemed repatriation of foreign earnings was \$1.8 million of which the Company will elect to pay the one-time tax over a period of eight years. Additional analysis of historical foreign earnings is necessary to finalize the tax impact of the Act and any subsequent adjustment to these amounts will be recorded as current tax expense in the quarter of fiscal year 2019 in which the analysis is complete. We continue to reinvest cash in foreign jurisdictions and have not recorded the effects of any applicable foreign withholding tax.

Table of Contents

AZZ INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118"), which allows the Company to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. Since the Act was passed in the fourth quarter of the Company's fiscal year 2018, and ongoing guidance and accounting interpretation are expected over the next 12 months, the Company considers the accounting of the deferred tax remeasurements, the one-time mandatory transition tax and other items to be incomplete due to the forthcoming guidance and our ongoing analysis of final year-end data and tax positions. The Company expects to complete its analysis within the measurement period in accordance with SAB 118.

A reconciliation from the federal statutory income tax rate to the effective income tax rate is as follows:

	Year Ended		
	February 28, 2018	February 28, 2017	February 29, 2016
Statutory federal income tax rate	32.7 %	35.0 %	35.0 %
Permanent differences	1.6	0.7	0.4
State income taxes, net of federal income tax benefit	0.4	0.4	(1.5 )
Benefit of Section 199 of the Code, manufacturing deduction	(2.2 )	(2.3 )	(2.7 )
Valuation allowance	—	—	(1.2 )
Stock compensation	(0.5 )	(1.8 )	—
Tax credits	(7.7 )	(3.1 )	(3.2 )
Foreign tax rate differential	(0.4 )	(0.8 )	(0.4 )
Deferred tax remeasurements	(78.9)	—	—
Transition tax	8.6	—	—
Other	0.2	0.1	(0.2 )
Effective income tax rate	(46.2)%	28.2 %	26.2 %

Deferred federal and state income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial accounting purposes and the amounts used for income tax purposes. Significant components of the Company's net deferred income tax liability are as follows (in thousands):

	February 28, 2018	February 28, 2017
Deferred income tax assets:		
Employee related items	\$4,532	\$6,839
Inventories	816	1,286
Accrued warranty	432	715
Accounts receivable	299	261
Net operating loss carry forward	5,067	4,011
	11,146	13,112
Less: valuation allowance	(1,558 )	(648 )
Total deferred income tax assets	9,588	12,464
Deferred income tax liabilities:		
Depreciation methods and property basis differences	(17,955 )	(27,913 )
Other assets and tax-deductible goodwill	(24,537 )	(37,950 )
Total deferred income tax liabilities	(42,492 )	(65,863 )
Net deferred income tax liabilities	\$(32,904)	\$(53,399)



Table of Contents

AZZ INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the Net operating loss (NOL) carryforward (in thousands):

	February 28, 2018	February 28, 2017
Federal	\$ —	\$ —
State	\$ 5,067	\$ 4,011
Foreign	\$ —	\$ —

As of February 28, 2018, the Company had pretax state NOL carryforwards of \$57.6 million which, if unused, will begin to expire in 2025.

As of fiscal year end 2018 and 2017, a portion of the Company's deferred tax assets were the result of state NOL carryforwards. The Company believes that it is more likely than not that the benefit from certain state NOL carryforwards will not be realized. In recognition of this risk, the Company has provided a valuation allowance of \$1.6 million and \$0.6 million as of fiscal year end 2018 and 2017, respectively.

## Note 9 – Goodwill and intangible assets

Goodwill is not amortized but is subject to annual impairment tests. Other intangible assets are amortized over their estimated useful lives.

Changes in goodwill by segment for fiscal year 2018 and 2017 are as follows (in thousands):

Segment	February 28, 2017	Acquisitions	Foreign Exchange Translation	February 28, 2018
Metal Coatings	\$ 109,980	\$ 6,590	\$ 662	\$ 117,232
Energy	196,599	7,476	—	204,075
Total	\$ 306,579	\$ 14,066	\$ 662	\$ 321,307

Segment	February 29, 2016	Acquisitions	Foreign Exchange Translation	February 28, 2017
Metal Coatings	\$ 109,314	\$ —	\$ 666	\$ 109,980
Energy	183,213	13,386	—	196,599
Total	\$ 292,527	\$ 13,386	\$ 666	\$ 306,579

The Company completes its annual impairment analysis of goodwill on December 31st of each year. As a result, the Company determined that there was no impairment of goodwill.

Amortizable intangible assets consisted of the following (in thousands):

	February 28, 2018	February 28, 2017
Customer related intangibles	\$ 194,712	\$ 177,514
Non-compete agreements	7,952	5,651
Trademarks	4,569	4,569
Technology	7,400	7,400
Engineering drawings	24,600	24,600
Backlog	7,600	7,600
Gross intangible assets	246,833	227,334
Less accumulated amortization	(105,642 )	(88,314 )
Total, net	\$ 141,191	\$ 139,020



Table of Contents

AZZ INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company recorded amortization expense of \$17.1 million, \$16.9 million and \$16.2 million for fiscal 2018, 2017 and 2016, respectively, related to the amortizable intangible assets listed above. In addition to its amortizable intangible assets, the Company has recorded indefinite-lived intangible assets of \$2.7 million on its consolidated balance sheet at February 28, 2018 related to certain tradenames. These indefinite-lived intangible assets are not amortized, but are assessed for impairment annually or whenever an impairment may be indicated.

The estimated amortization expense for the five succeeding fiscal years and thereafter is as follows (in thousands):

Fiscal year:	Amortization Expense
2019	\$ 16,979
2020	16,457
2021	16,231
2022	16,206
2023	13,119
Thereafter	62,199
Total	\$ 141,191

## Note 10 – Earnings Per Share

Basic earnings per share is based on the weighted average number of shares outstanding during each year. Diluted earnings per share were similarly computed but have been adjusted for the dilutive effect of the weighted average number of restricted stock units, performance share units and stock appreciation rights outstanding.

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

	Year Ended		
	February 28, 2018	February 28, 2017	February 29, 2016
Numerator:			
Net income for basic and diluted earnings per common share	\$45,169	\$61,264	\$75,544
Denominator:			
Denominator for basic earnings per common share—weighted average shares	25,970	25,965	25,800
Effect of dilutive securities:			
Employee and director stock awards	66	132	137
Denominator for diluted earnings per common share	26,036	26,097	25,937
Earnings per share basic and diluted:			
Basic earnings per common share	\$1.74	\$2.36	\$2.93
Diluted earnings per common share	\$1.73	\$2.35	\$2.91

For fiscal 2018, approximately 0.1 million stock appreciation rights were excluded from the computation of diluted earnings per share as their effect would have been anti-dilutive. For fiscal 2017 and 2016, the Company had no stock appreciation rights that were excluded from the computation of diluted earnings per share.

## Note 11 – Share-based Compensation

The Company has one share-based compensation plan, the 2014 Long Term Incentive Plan (the “Plan”). The purpose of the Plan is to promote the growth and prosperity of the Company by permitting the Company to grant to its employees, directors and advisors various types of restricted stock unit awards, performance share units, stock options and stock appreciation rights to purchase common stock of the Company. The maximum number of shares that may be issued under the Plan is 1,500,000 shares. As of February 28, 2018, the Company had approximately 1,304,407 shares reserved for future issuance under the Plan.



Table of Contents

AZZ INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Restricted Stock Unit Awards

Restricted stock unit awards are valued at the market price of the Company's common stock on the grant date. Awards issued prior to fiscal 2015 generally have a three year cliff vesting schedule and awards issued subsequent to fiscal 2015 generally vest ratably over a period of three years but these awards may vest early in accordance with the Plan's accelerated vesting provisions.

The activity for non-vested restricted stock unit awards for the year ended February 28, 2018 is as follows:

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Non-Vested Balance as of February 28, 2017	134,547	\$ 51.10
Granted	46,436	60.01
Vested	(62,576 )	47.26
Forfeited	(8,630 )	56.64
Non-Vested Balance as of February 28, 2018	109,777	\$ 56.62

The total fair value of restricted stock units vested during fiscal years 2018, 2017, and 2016 was \$3.0 million, \$1.6 million and \$0.9 million, respectively. For fiscal years 2018, 2017 and 2016, there were 109,777, 134,547 and 98,693, respectively, of non-vested restricted stock units outstanding with weighted average grant date fair values of \$56.62, \$51.10 and \$41.31, respectively.

## Performance Share Unit Awards

Performance share unit awards are valued at the market price of the Company's common stock on the grant date. These awards have a three year performance cycle and will vest and become payable, if at all, on the third anniversary of the award date. The awards are subject to the Company's degree of achievement of a target annual average adjusted return on assets during these three year periods. In addition, a multiplier may be applied to the total awards granted which is based on the Company's total shareholder return during such three year period in comparison to a defined specific industry peer group as set forth in the plan.

The activity in our non-vested performance stock unit awards for the year ended February 28, 2018 is as follows:

	Performance Stock Units	Weighted Average Grant Date Fair Value
Non-Vested Balance as of February 28, 2017	51,426	\$ 51.70
Granted	26,157	60.20
Vested	—	—
Forfeited	(7,553 )	54.31
Non-Vested Balance as of February 28, 2018	70,030	\$ 54.59

## Stock Appreciation Rights

Stock appreciation rights awards are granted with an exercise price equal to the market value of the Company's common stock on the date of grant. These awards generally have a contractual term of 7 years and vest ratably over a period of 3 years although some may vest immediately on issuance. These awards are valued using the Black-Scholes option pricing model. The Company did not grant any SARs in fiscal year 2018, 2017 or 2016.



Table of Contents

AZZ INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A summary of the Company's stock appreciation rights awards activity is as follows:

	Year Ended		February 28,		February 29,	
	February 28,		February 28,		February 29,	
	2018		2017		2016	
	SARs	Weighted Average Exercise Price	SARs	Weighted Average Exercise Price	SARs	Weighted Average Exercise Price
Outstanding at beginning of year	170,139	\$ 42.02	312,748	\$ 34.23	376,982	\$ 31.27
Granted	—	—	—	—	—	—
Exercised	(19,481 )	31.94	(141,983)	24.85	(59,441 )	14.67
Forfeited	(2,145 )	45.36	(626 )	43.92	(4,793 )	44.56
Outstanding at end of year	148,513	\$ 43.29	170,139	\$ 42.02	312,748	\$ 34.23
Exercisable at end of year	148,513	\$ 43.29	126,975	\$ 41.27	217,961	\$ 29.83

The average remaining contractual term for both outstanding and exercisable stock appreciation rights as of February 28, 2018 was 2.68 years, with an aggregate intrinsic value of \$0.1 million.

The following table summarizes additional information about stock appreciation rights outstanding at February 28, 2018.

Range of Exercise Prices	Total SARs	Average Remaining Life	Weighted Average Exercise Price	SARs Currently Exercisable	Weighted Average Exercise Price
\$25.67	9,080	1.00	\$ 25.67	9,080	\$ 25.67
\$39.65	950	2.52	\$ 39.65	950	\$ 39.65
\$43.92	82,378	3.01	\$ 43.92	82,378	\$ 43.92
\$45.26	40,000	2.68	\$ 45.26	40,000	\$ 45.26
\$45.36	16,105	2.00	\$ 45.36	16,105	\$ 45.36
\$25.67 - \$45.36	148,513	2.68	\$ 43.29	148,513	\$ 43.29

## Directors Grants

The Company granted each of its independent directors a total of 2,040, 1,641 and 1,915 shares of its common stock during fiscal years 2018, 2017 and 2016, respectively. These common stock grants were valued at \$49.00, \$60.94 and \$52.21 per share for fiscal years 2018, 2017 and 2016, respectively, which was the market price of the Company's common stock on the respective grant dates.

## Employee Stock Purchase Plan

The Company also has an employee stock purchase plan, which allows employees of the Company to purchase common stock of the Company through accumulated payroll deductions. Offerings under this plan have a duration of 24 months (the "offering period"). On the first day of an offering period (the "enrollment date") the participant is granted the option to purchase shares on each exercise date at the lower of 85% of the market value of a share of our common stock on the enrollment date or the exercise date. The participant's right to purchase common stock under the plan is restricted to no more than \$25,000 per calendar year and the participant may not purchase more than 5,000 shares during any offering period. Participants may terminate their interest in a given offering or a given exercise period by withdrawing all of their accumulated payroll deductions at any time prior to the end of the offering period.



Table of Contents

AZZ INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Share-based compensation expense and related income tax benefits related to all the plans listed above were as follows (in thousands):

	Year Ended		
	February 28, 2018	February 28, 2017	February 29, 2016
Compensation expense	\$6,121	\$ 5,870	\$ 4,538
Income tax benefits	\$2,122	\$ 2,055	\$ 1,588

Unrecognized compensation cost related to all the above at February 28, 2018 totaled \$6.1 million. These costs are expected to be recognized over a weighted period of 1.67 years.

The actual tax benefit realized for tax deductions from share-based compensation during each of these fiscal years totaled \$0.2 million, \$1.5 million and \$1.0 million, respectively.

The Company's policy is to issue shares required under these plans from the Company's treasury shares or from the Company's authorized but unissued shares. The Company has no formal or informal plan to repurchase shares on the open market to satisfy these requirements.

## Note 12 – Debt

Following is a summary of debt (in thousands):

	February 28, 2018	February 28, 2017
2011 Senior Notes	\$125,000	\$125,000
2008 Senior Notes	14,286	28,571
2017 Term Note	—	49,219
2017 Revolving Line of Credit	162,000	69,500
Total debt	301,286	272,290
Unamortized debt issuance costs	(391 )	(861 )
Total debt, net	300,895	271,429
Less amount due within one year	(14,286 )	(16,629 )
Debt due after one year, net	\$286,609	\$254,800

## 2011 Senior Notes

On January 21, 2011, the Company entered into a Note Purchase Agreement (the "2011 Agreement"), pursuant to which the Company issued \$125.0 million aggregate principal amount of its 5.42% unsecured Senior Notes (the "2011 Notes"), through a private placement (the "2011 Note Offering"). Amounts under the agreement are due in a balloon payment on the January 2021 maturity date. Pursuant to the 2011 Agreement, the Company's payment obligations with respect to the 2011 Notes may be accelerated under certain circumstances.

## 2008 Senior Notes

On March 31, 2008, the Company entered into a Note Purchase Agreement (the "Note Purchase Agreement") pursuant to which the Company issued \$100.0 million aggregate principal amount of its 6.24% unsecured Senior Notes (the "2008 Notes") through a private placement (the "2008 Note Offering"). Amounts were due under the Agreement in seven annual installments of \$14.3 million commencing in March of 2012 through the March 2018 maturity date. Pursuant to the Note Purchase Agreement, the Company's payment obligations with respect to the 2008 Notes may be accelerated upon any Event of Default, as defined in the Note Purchase Agreement.

The 2008 Notes and the 2011 Notes each provide for various financial covenants requiring the Company, among other things, to a) maintain on a consolidated basis net worth equal to at least the sum of \$116.9 million plus 50.0% of future net income; b) maintain a ratio of indebtedness to EBITDA (as defined in Note Purchase Agreement) not to exceed 3.25:1.00; c) maintain on a consolidated basis a Fixed Charge Coverage Ratio (as defined in the Note Purchase

Agreement) of at least 2.0:1.0; d) not at any time

48

---

Table of Contents

AZZ INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

permit the aggregate amount of all Priority Indebtedness (as defined in the Note Purchase Agreement) to exceed 10.0% of Consolidated Net Worth (as defined in the Note Purchase Agreement).

## 2017 Term Note and Revolving Credit Facility

On March 27, 2013, the Company entered into a Credit Agreement (the “Credit Agreement”) with Bank of America and other lenders. The Credit Agreement provided for a \$75.0 million term facility and a \$225.0 million revolving credit facility that included a \$75.0 million “accordion” feature. The Credit Agreement is used to provide for working capital needs, capital improvements, dividends, future acquisitions and letter of credit needs.

On March 21, 2017, the Company executed the Amended and Restated Credit Agreement (the “2017 Credit Agreement”) with Bank of America and other lenders. The 2017 Credit Agreement amended the Credit Agreement entered into on March 27, 2013 by the following: (i) extending the maturity date until March 21, 2022, (ii) providing for a senior revolving credit facility in a principal amount of up to \$450 million, with an additional \$150 million accordion, (iii) including a \$75 million sublimit for the issuance of standby and commercial letters of credit, (iv) including a \$30 million sublimit for swing line loans, (v) restricting indebtedness incurred in respect of capital leases, synthetic lease obligations and purchase money obligations not to exceed \$20 million, (vi) restricting investments in any foreign subsidiaries not to exceed \$50 million in the aggregate, and (vii) including various financial covenants and certain restricted payments relating to dividends and share repurchases as specifically set forth in the 2017 Credit Agreement. The balance due on the \$75.0 million term facility under the previous Credit Agreement was paid in full as a result of the execution of the 2017 Credit Agreement.

The financial covenants, as defined in the 2017 Credit Agreement, require the Company to maintain on a consolidated basis a Leverage Ratio not to exceed 3.25:1.0 and an Interest Coverage Ratio of at least 3.00:1.0. The 2017 Credit Agreement will be used to finance working capital needs, capital improvements, dividends, future acquisitions, letter of credit needs and share repurchases.

Interest rates for borrowings under the 2017 Credit Agreement are based on either a Eurodollar Rate or a Base Rate plus a margin ranging from 0.875% to 1.875% depending on our Leverage Ratio (as defined in the 2017 Credit Agreement). The Eurodollar Rate is defined as LIBOR for a term equivalent to the borrowing term (or other similar interbank rates if LIBOR is unavailable). The Base Rate is defined as the highest of the applicable Fed Funds rate plus 0.50%, the Prime rate, or the Eurodollar Rate plus 1.0% at the time of borrowing. The 2017 Credit Agreement also carries a Commitment Fee for the unfunded portion ranging from 0.175% to 0.30% per annum, depending on our Leverage Ratio. The effective interest rate was 3.33% as of February 28, 2018.

As of February 28, 2018, we had \$162.0 million of outstanding debt against the revolving credit facility and letters of credit outstanding in the amount of \$22.4 million, which left approximately \$265.6 million of additional credit available under the 2017 Credit Agreement.

As of February 28, 2018, the Company was in compliance with all of its debt covenants.

Maturities of debt are as follows (in thousands):

Fiscal year:	Future Debt Maturities
2019	\$ 14,286
2020	—
2021	125,000
2022	—
2023	162,000
Thereafter	—
Total	\$ 301,286



Table of Contents

AZZ INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 13 – Operating Segments

## Segment Information

Information about segments during the periods presented were as follows (in thousands):

	Year Ended		
	February 28, 2018	February 28, 2017	February 29, 2016
Net sales:			
Energy	\$421,033	\$488,002	\$487,038
Metal Coatings	389,397	375,536	402,362
Total net sales	\$810,430	\$863,538	\$889,400

Operating income (loss):			
Energy	\$(1,766 )	\$52,577	\$56,478
Metal Coatings	84,332	79,033	94,766
Corporate	(34,318 )	(32,702 )	(30,949 )
Total operating income	\$48,248	\$98,908	\$120,295

	Year Ended		
	February 28, 2018	February 28, 2017	February 29, 2016
Depreciation and amortization:			
Energy	\$19,996	\$19,624	\$19,131
Metal Coatings	28,617	28,650	26,863
Corporate	1,913	2,083	1,423
Total	\$50,526	\$50,357	\$47,417

	Year Ended		
	February 28, 2018	February 28, 2017	February 29, 2016
Expenditures for acquisitions, net of cash, and property, plant and equipment:			
Energy	\$32,903	\$31,474	\$12,863
Metal Coatings	39,474	32,099	86,724
Corporate	2,020	540	858
Total	\$74,397	\$64,113	\$100,445

	February 28, 2018	February 28, 2017
	Assets:	
Energy	\$554,866	\$536,557
Metal Coatings	460,575	428,330
Corporate	12,768	13,467
Total assets	\$1,028,209	\$978,354

Table of Contents

AZZ INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Financial Information About Geographical Areas

Financial information about geographical areas for the periods presented was as follows (in thousands):

	Year Ended		
	February 28, 2018	February 28, 2017	February 29, 2016
Geographic net sales:			
United States	\$654,336	\$ 705,976	\$ 710,767
Other countries	157,280	157,718	179,832
Eliminations	(1,186 )	(156 )	(1,199 )
Total	\$810,430	\$ 863,538	\$ 889,400
		February 28, 2018	February 28, 2017
Property, plant and equipment, net:			
United States		\$ 194,418	\$ 205,079
Canada		18,254	18,002
Other Countries		4,183	5,529
Total		\$ 216,855	\$ 228,610

## Note 14 – Commitments and Contingencies

## Legal

On January 11, 2018, Logan Mullins, acting on behalf of himself and a putative class of persons who purchased or otherwise acquired the Company's securities between April 22, 2015 and January 8, 2018, filed a class action complaint in the U.S. District Court for the Northern District of Texas against the Company and two of its executive officers, Thomas E. Ferguson and Paul W. Fehlman. Logan Mullins v. AZZ, Inc., et al., Case No. 4:18-cv-00025-Y. The complaint alleges, among other things, that the Company's SEC filings contained statements that were rendered materially false and misleading by the Company's alleged failure to properly recognize revenue related to certain contracts in its Energy Segment in purported violation of (1) Section 10(b) of the Exchange Act and Rule 10b-5 and (2) Section 20(a) of the Exchange Act. The plaintiffs seek an award of compensatory and punitive damages, interests, attorneys' fees and costs. The Company denies the allegations and believes it has strong defenses to vigorously contest them. The Company cannot predict the outcome of this action nor when it will be resolved. If the plaintiffs were to prevail in this matter, the Company could be liable for damages, which could potentially be material and could adversely affect its financial condition or results of operations.

In addition, the Company and its subsidiaries are named defendants in various routine lawsuits incidental to our business. These proceedings include labor and employment claims, use of the Company's intellectual property, worker's compensation and various environmental matters, all arising in the normal course of business. Although the outcome of these lawsuits or other proceedings cannot be predicted with certainty, and the amount of any potential liability that could arise with respect to such lawsuits or other matters cannot be predicted at this time, management, after consultation with legal counsel, does not expect liabilities, if any, from these claims or proceedings, either individually or in the aggregate, to have a material effect on the Company's financial position, results of operations or cash flows.



Table of Contents

AZZ INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Leases

The Company is obligated under various operating leases for property, plant and equipment. As February 28, 2018, future minimum lease payments under non-cancelable operating leases with initial terms in excess of one year are summarized in the below table (in thousands):

Fiscal year:	Future Minimum Lease Obligations
2019	\$ 7,336
2020	6,053
2021	5,057
2022	4,924
2023	4,781
Thereafter	25,017
Total	\$ 53,168

Rent expense was \$13.9 million, \$17.0 million and \$13.9 million for fiscal years 2018, 2017 and 2016, respectively. Rent expense includes various equipment rentals that do not meet the terms of a non-cancelable lease or that have initial terms of less than one year.

## Commodity pricing

We have no contracted commitments for any commodities including steel, aluminum, natural gas, cooper, zinc, nickel based alloys, except for those entered into under the normal course of business.

## Other

At February 28, 2018, the Company had outstanding letters of credit in the amount of \$37.6 million, with \$22.4 million issued under the 2017 Credit Agreement and \$15.2 million issued by HSBC Bank (China). These letters of credit are issued for a number of reasons, but are most commonly issued in lieu of customer retention withholding payments covering warranty or performance periods. In addition, as of February 28, 2018, a warranty reserve in the amount of \$2.0 million was established to offset any future warranty claims.

## Note 15 – Acquisitions

On February 1, 2018, the Company completed the acquisition of all the assets and outstanding shares of Rogers Brothers Company ("Rogers Brothers"), a privately held company, based in Rockford, Illinois. Rogers Brothers provides galvanizing services to a multi-state area within the Midwest. The acquisition supports AZZ's goal of continued geographic expansion as well as portfolio expansion of its metal coatings services. The goodwill arising from this acquisition was allocated to the Metal Coatings Segment and is not deductible for income tax purposes.

On September 6, 2017, the Company completed the acquisition of all the assets and outstanding shares of Powergrid Solutions, Inc. ("PSI"), a privately held company, based in Oshkosh, Wisconsin. PSI designs, engineers and manufactures customized low and medium-voltage power quality, power generation and distribution equipment. PSI's product portfolio includes metal-enclosed, metal-clad and padmount switchgear, serving the utility, commercial, industrial and renewable energy markets since 1982. The acquisition of PSI is a key addition to the Company's electrical switchgear portfolio. The addition of PSI's low-voltage and padmount switchgear allows AZZ to offer a comprehensive portfolio of customized switchgear solutions to both existing and new customers in a diverse set of industries. The goodwill arising from this acquisition was allocated to the Energy Segment and is deductible for income tax purposes.

On June 30, 2017, the Company completed the acquisition of the assets of Enhanced Powder Coating Ltd., ("EPC"), a privately held, high specification, National Aerospace and Defense Contractors Accreditation Program, ("NADCAP"), certified provider of powder coating, plating and anodizing services based in Gainesville, Texas. EPC, founded in 2003, offers a full spectrum of finish technology including powder coating, abrasive blasting and plating for heavy

industrial, transportation, aerospace and light commercial industries. The acquisition of EPC is consistent with the Company's strategic initiative to grow its Metal Coatings segment with products and services that complement its industry-leading galvanizing business. The goodwill arising from this acquisition was allocated to the Metal Coatings Segment and is deductible for income tax purposes.

Table of Contents

AZZ INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On March 1, 2016, the Company completed an acquisition of the equity securities of Power Electronics, Inc. ("PEI"), a Millington, Maryland-based manufacturer and integrator of electrical enclosure systems. The acquisition of PEI will enhance our capacity to serve existing and new customers in a diverse set of industries along the Eastern seaboard of the United States. The goodwill arising from this acquisition was allocated to the Energy Segment and is deductible for income tax purposes.

On February 1, 2016, the Company completed its acquisition of substantially all the assets of Alpha Galvanizing Inc., an Atkinson, Nebraska-based business unit of Olson Industries, Inc. ("Alpha Galvanizing"). Alpha Galvanizing has served steel fabrication customers that manufacture electrical utility poles, agricultural machinery and industrial manufacturing components since 1996. Alpha Galvanizing was acquired to expand the footprint of AZZ Metal Coatings and to support AZZ's locations in Minnesota and Denver, Colorado, as well as serve customers in the upper Midwest region. The goodwill arising from this acquisition was allocated to the Metal Coatings Segment and is deductible for income tax purposes.

On June 5, 2015, the Company completed the acquisition of substantially all the assets of US Galvanizing, LLC, a provider of steel corrosion coating services and a wholly-owned subsidiary of Trinity Industries, Inc. The acquisition of the US Galvanizing, LLC assets includes six galvanizing facilities located in Hurst, Texas; Kennedale, Texas; Big Spring, Texas; San Antonio, Texas; Morgan City, Louisiana; and Kosciusko, Mississippi. Additionally, the transaction includes Texas Welded Wire, a secondary business integrated within US Galvanizing's Hurst, Texas facility. US Galvanizing, LLC was acquired to expand AZZ's Southern locations. The goodwill arising from this acquisition was allocated to the Metal Coatings Segment and is deductible for income tax purposes.

The Company paid \$44.8 million, \$22.7 million and \$60.6 million, for these acquisitions, net of cash acquired, during fiscal 2018, 2017 and 2016, respectively. These acquisitions were not significant individually or in the aggregate for any fiscal year. Accordingly, disclosures of the purchase price allocations and unaudited pro forma results of operations have not been provided.

## Note 16 – Subsequent Events

On March 12, 2018, the Company purchased certain assets through a bankruptcy sales process from Lectrus Corporation, a privately-held corporation based in Chattanooga, Tennessee. Lectrus designs and manufactures custom metal enclosures and provides electrical and mechanical integration. The acquisition will complement AZZ's current metal enclosure and switchgear businesses.

On March 31, 2018, the Company made the final principal payment of \$14.3 million to fully settle the 2008 Senior Notes on the scheduled maturity date.

## Note 17 – Selected Quarterly Financial Data (Unaudited)

	Quarter ended			
	May 31,	August 31,	November 30,	February 28,
	2017	2017	2017	2018
	(in thousands, except per share data)			
Net sales	\$205,283	\$196,329	\$208,158	\$200,660
Gross profit	47,382	43,800	31,117	38,010
Net income	12,062	9,786	(166	) 23,487
Basic earnings (loss) per share	0.46	0.38	(0.01	) 0.91
Diluted earnings (loss) per share	0.46	0.38	(0.01	) 0.90

Table of Contents

AZZ INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Quarter ended			
	May 31,	August 31,	November 30,	February 28,
	2016	2016	2016	2017
	(in thousands, except per share data)			
Net sales	\$250,366	\$200,790	\$228,116	\$184,266
Gross profit	65,128	42,104	51,297	46,803
Net income	22,189	10,159	16,646	12,270
Basic earnings per share	0.86	0.39	0.64	0.47
Diluted earnings per share	0.85	0.39	0.64	0.47

Table of Contents

## Schedule II

AZZ Inc.

## Valuation and Qualifying Accounts and Reserves

(In thousands)

	Year Ended		
	February 28, 2018	February 28, 2017	February 29, 2016
Allowance for Doubtful Accounts			
Balance at beginning of year	\$347	\$ 264	\$1,472
Additions (reductions) charged or credited to income	3,290	48	(1,072 )
(Write offs) recoveries, net	(3,084)	20	(176 )
Other	16	11	48
Effect of exchange rate	—	4	(8 )
Balance at end of year	\$569	\$ 347	\$264

55

Table of Contents

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure  
None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of its principal executive officer and principal financial officer, have evaluated, as required by Rule 13a-15(e) under the Securities Exchange Act of 1934 ("the Exchange Act"), the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the principal executive officer and principal financial officer concluded that, due to the material weakness described below, the Company's disclosure controls and procedures were not effective as of the end of the period covered by this Form 10-K to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and were not effective as of the end of the period covered by this Form 10-K to provide reasonable assurance that such information is accumulated and communicated to the Company's management, including the principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

Management's Report on Internal Controls Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) of the Exchange Act. Management, with the participation of its principal executive officer and principal financial officer assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control - Integrated Framework (2013)," issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon its assessment, management concluded that the Company did not maintain effective internal control over financial reporting as of February 28, 2018 due to the following:

Subsequent to filing the Company's quarterly report on Form 10-Q for the period ended August 31, 2017, an error was discovered related to the Company's historical revenue recognition policies and procedures. In particular, the Company determined that for certain contracts within its Energy Segment for which revenue was historically recognized upon contract completion and transfer of title, the Company instead should have applied the percentage-of-completion method in accordance with the FASB's Accounting Standards Codification No. 605-35, Construction-Type and Production-Type Contracts. This error resulted in a material misstatement of the financial statements and required restatement of the financial statements included in the Company's Form 10-K for the fiscal year ended February 28, 2017 and in the Company's Form 10-Q for the quarterly periods ended May 31, 2017 and August 31, 2017. This error, which was not detected timely by management, was the result of inadequate design of controls pertaining to the Company's review and ongoing monitoring of its revenue recognition policies. The deficiency represents a material weakness in the Company's internal control over financial reporting.

Management is actively engaged in the planning for, and implementation of, remediation efforts to address the material weakness identified above. The remediation plan includes i) the implementation of new controls designed to evaluate the appropriateness of revenue recognition policies and procedures, ii) new controls over recording revenue transactions, and iii) additional training.

Management believes the measures described above and others that may be implemented will remediate the material weaknesses that we have identified. As management continues to evaluate and improve internal control over financial reporting, we may decide to take additional measures to address control deficiencies or determine to modify, or in appropriate circumstances not to complete, certain of the remediation measures identified.

Management's assessment and conclusion on the effectiveness of internal control over financial reporting did not include an assessment of the internal controls of Rogers Brothers Company, Powergrid Solutions, Inc. or Enhanced Powder Coating Ltd, whose acquisitions were completed during fiscal year 2018. These entities constituted approximately 5.2% of the Company's total assets as of February 28, 2018 and 2.4% and 0.8% of revenues and net income, respectively, for the year then ended. Management did not assess the effectiveness of internal control over financial reporting of these entities because of the timing of the acquisitions during the fiscal year.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements or fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. The Company's independent registered public accounting firm, BDO USA, LLP has issued an audit report on the Company's internal control over financial reporting, which is included herein.

Table of Contents

Changes in Internal Controls Over Financial Reporting

Subject to the remediation efforts noted above, there have been no changes in the Company's internal control over financial reporting during the three months ended February 28, 2018, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

57

---



Table of Contents

## PART III

## Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item with regard to executive officers is included in Part I, Item 1 of this Annual Report on Form 10-K under the heading “Executive Officers of the Registrant.”

Information regarding directors of AZZ required by this Item is incorporated by reference to the section entitled “Election of Directors” set forth in the Proxy Statement for our 2018 Annual Meeting of Shareholders.

The information regarding compliance with Section 16(a) of the Exchange Act required by this Item is incorporated by reference to the section entitled “Section 16(a) Beneficial Ownership Reporting Compliance” set forth in the Proxy Statement for our 2018 Annual Meeting of Shareholders.

Information regarding our audit committee financial experts and code of ethics and business conduct required by this Item is incorporated by reference to the section entitled “Matters Relating to Corporate Governance, Board Structure, Director Compensation and Stock Ownership” set forth in the Proxy Statement for our 2018 Annual Meeting of Shareholders.

No director or nominee for director has any family relationship with any other director or nominee or with any executive officer of our company.

## Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference to the section entitled “Executive Compensation” and the section entitled “Matters Relating to Corporate Governance, Board Structure, Director Compensation and Stock Ownership – Fees Paid to Directors” set forth in our Proxy Statement for our 2018 Annual Meeting of Shareholders.

## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated herein by reference to the section entitled “Executive Compensation” and the section entitled “Matters Relating to Corporate Governance, Board Structure, Director Compensation and Stock Ownership – Security Ownership of Management” set forth in the Proxy Statement for our 2018 Annual Meeting of Shareholders.

## Equity Compensation Plan

The following table provides a summary of information as of February 28, 2018, relating to our equity compensation plans in which our Common Stock is authorized for issuance.

## Equity Compensation Plan Information:

	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a))
Equity compensation plans approved by shareholders <sup>(1)</sup>	148,513 <sup>(2)</sup>	\$ 43.29	1,304,407 <sup>(3)</sup>
Total	148,513	\$ 43.29	1,304,407

(1) Consists of the Amended and Restated 2005 Long-Term Incentive Plan and the 2014 Long-Term Incentive Plan.

(2) See Note 11, “Stock Compensation” to our “Notes to Consolidated Financial Statements” for further information.

(3) The average term of outstanding stock appreciation rights is 2.68 years.

(3) Consists of 1,304,407 shares remaining available for future issuance under the Amended and Restated 2005 Long-Term Incentive Plan.



Table of Contents

Description of Other Plans for the Grant of Equity Compensation

Long Term Incentive Plans

The description of the 2005 Long Term Incentive Plan and 2014 Long Term Incentive Plan provided in Note 11 to the consolidated financial statements included in this Annual Report on Form 10-K are incorporated by reference under this Item.

Item 13. Certain Relationships and Related transactions, and Director Independence

The information required by this Item is incorporated by reference to the sections entitled “Certain Relationships and Related Party Transactions” and “Director Independence” set forth in the Proxy Statement for our 2018 Annual Meeting of Shareholders.

Item 14. Principal Accountant Fees and Services

Information required by this Item is incorporated by reference to the sections entitled “Other Business – Independent Auditor Fees” and “Other Business – Pre-approval of Non-audit Fees” set forth in our Proxy Statement for our 2018 Annual Meeting of Shareholders.

Table of Contents

PART IV

Item 15. Exhibits and Financial Statement Schedules

A. Financial Statements

<sup>1</sup> The financial statements filed as a part of this Annual Report on Form 10-K are listed in the “Index to Consolidated Financial Statements” on page 26.

2. Financial Statement Schedule

Schedule II – Valuation and Qualifying Accounts and Reserves filed as a part of this Annual Report on Form 10-K is listed in the “Index to Consolidated Financial Statements” on page 55.

Schedules and compliance information other than those referred to above have been omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and the notes thereto.

B. Exhibits Required by Item 601 of Regulation S-K

A list of the exhibits required by Item 601 of Regulation S-K and filed as part of this Annual Report on Form 10-K is set forth in the Index to Exhibits beginning on page 61, which immediately precedes such exhibits.

Item 16. Form 10-K Summary

None.

Table of Contents

Index to Exhibits as Required By Item 601 of Regulation S-K.

3.1 Amended and Restated Certificate of Formation of AZZ Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed by the Registrant on July 14, 2015)

3.2 Amended and Restated Bylaws of AZZ Inc. (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K filed by the Registrant on July 14, 2015)

4.1 Form of Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended August 31, 2000)

10.1 Amended and Restated Credit Agreement, dated March 21, 2017 by and among AZZ Inc. as borrower, Bank of America N.A. as Administrative Agent, Swing Line Lender and L/C Issuer, and the other Lender's party thereto (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed March 24, 2017)

10.2 Note Purchase Agreement dated March 31, 2008, by and among AZZ incorporated and the purchasers listed therein (incorporated by reference to Exhibit 10(1) to the Registrant's Current Report on Form 8-K filed April 2, 2008)

10.3 Note Purchase Agreement, dated as of January 20, 2011, by and among AZZ incorporated and the purchasers identified therein (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed January 21, 2011)

10.4\* AZZ incorporated Amended and Restated 2005 Long-Term Incentive Plan (incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement on Form DEF 14A filed June 4, 2008)

10.5\* Form of AZZ incorporated Fiscal Year 2005 Stock Appreciation Rights Plan for Directors (incorporated by reference to Exhibit 10(53) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended August 31, 2004)

10.6\* Form of AZZ incorporated Fiscal Year 2005 Stock Appreciation Rights Plan for Key Employees (incorporated by reference to Exhibit 10(54) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended August 31, 2004)

10.7\* AZZ Inc. 2014 Long-Term Incentive Plan (incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement on Form DEF 14A filed May 29, 2014)

10.8\* First Amendment to AZZ Inc. 2014 Long Term Incentive Plan (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by the Registrant on January 21, 2016)

10.9\* Amended Form of Restricted Share Unit Award Agreement (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed by the Registrant on January 21, 2016)

10.10\* Amended Form of Stock Appreciation Rights Award Agreement (incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed by the Registrant on January 21, 2016)

10.11\* Amended Form of Performance Award Agreement (incorporated by reference to Exhibit 10.6 to the Registrant's Current Report on Form 8-K filed by the Registrant on January 21, 2016)

10.12\* AZZ Inc. Senior Management Bonus Plan (incorporated by reference to Appendix B to the Registrant's Definitive Proxy Statement on Form DEF 14A filed May 28, 2015)

10.13\* First Amendment to Senior Management Bonus Plan (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed by the Registrant on January 21, 2016)

10.14\* AZZ incorporated Employee Stock Purchase Plan (incorporated by reference to Appendix B to the Registrant's Definitive Proxy Statement on Form DEF14A filed June 4, 2008)

10.15\* Amended and Restated Employment Agreement between AZZ Inc. and Thomas Ferguson, dated September 29, 2016 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed September 29, 2016)

10.16\* Change in Control Agreement by and between AZZ incorporated and Thomas Ferguson, dated as of November 4, 2013 (incorporated by reference to Exhibit 10(2) to the Registrant's Current Report on Form 8-K filed November 7, 2013)

10.17\*

Employment Agreement by and between AZZ incorporated and Paul Fehlman, dated as of February 24, 2014 (incorporated by reference to Exhibit 10(1) to the Registrant's Current Report on Form 8-K filed February 27, 2014)

10.18\* Change in Control Agreement by and between AZZ incorporated and Paul Fehlman, dated as of February 24, 2014 (incorporated by reference to Exhibit 10(2) to the Registrant's Current Report on Form 8-K filed February 27, 2014)

10.19\* Form of Change in Control Agreement by and between AZZ incorporated and certain officers thereof (incorporated by reference to Exhibit 10(18) to the Registrant's Annual Report on Form 10-K for the fiscal year ended February 28, 2002)

Table of Contents

10.20*	<u>AZZ Inc. Compensation Recovery Policy (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by the Registrant on January 21, 2016)</u>
10.21*	<u>AZZ Inc. Severance Pay Plan (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by the Registrant on October 3, 2017.)</u>
14.1	Code of Conduct. AZZ Inc. Code of Conduct may be accessed via the Company's Website at <a href="http://www.azz.com">www.azz.com</a> .
21.1	<u>Subsidiaries of the Registrant</u> (Filed herewith)
23.1	<u>Consent of BDO USA, LLP</u> (Filed herewith)
31.1	<u>Certification by Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934 and Section 302 of the Sarbanes-Oxley Act of 2002</u> (Filed herewith)
31.2	<u>Certification by Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934 and Section 302 of the Sarbanes-Oxley Act of 2002</u> (Filed herewith)
32.1	<u>Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u> (Filed herewith)
32.2	<u>Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u> (Filed herewith)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

\* Management contract, compensatory plan or arrangement

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AZZ Inc.  
(Registrant)

May 15, 2018 By: /s/ Thomas E. Ferguson  
Thomas E. Ferguson,  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of AZZ and in the capacities and on the dates indicated.

May 15, 2018 /s/ Kevern R. Joyce  
Kevern R. Joyce  
Chairman of the Board of Directors

May 15, 2018 /s/ Thomas E. Ferguson  
Thomas E. Ferguson  
President, Chief Executive Officer and Director (Principal Executive Officer)

May 15, 2018 /s/ Paul W. Fehlman  
Paul W. Fehlman,  
Senior Vice President and Chief Financial Officer (Principal Financial Officer)

May 15, 2018 /s/ James Drew Byelick  
James Drew Byelick  
Vice President and Chief Accounting Officer

May 15, 2018 /s/ Daniel R. Feehan  
Daniel R. Feehan  
Director

May 15, 2018 /s/ Daniel E. Berce  
Daniel E. Berce  
Director

May 15, 2018 /s/ Paul Eisman  
Paul Eisman  
Director

May 15, 2018 /s/ Venita McCellon-Allen  
Venita McCellon-Allen  
Director

May 15, 2018 /s/ Ed McGough  
Ed McGough  
Director



May 15, 2018 /s/ Steven R. Purvis  
Steven R. Purvis  
Director

May 15, 2018 /s/ Stephen E. Pirnat  
Stephen E. Pirnat  
Director

63