

AZZ INC  
Form 10-K  
April 20, 2017  
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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, 2017

OR

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

For the transition period from to

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

76107

Fort Worth, Texas

(Address of principal executive offices)

(Zip Code)

(817) 810-0095

(Registrant's telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

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

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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 No

ý ..

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).

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Yes No  
 ý ..

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, 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 company	Emerging growth company
x	o	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  
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As of August 31, 2016 (the last business day of its most recently completed second fiscal quarter), the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$1,704,959,032 based on the closing sale price of \$66.43 per share as reported on the New York Stock Exchange. For purposes of determining the above stated amount, only the directors, executive officers and 10% or greater shareholders of the registrant have been deemed affiliates; however, this does not represent a conclusion by the registrant that any or all such persons are affiliates of the registrant.

As of April 10, 2017, there were 26,020,582 shares of the registrant's common stock (\$1.00 par value) outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the definitive Proxy Statement for the Annual Meeting of Shareholders to be held July 11, 2017 (Proxy Statement) - Part III

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### 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 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 Galvanizing Segment. AZZ Galvanizing is a leading provider of metal finishing solutions for corrosion protection, including hot dip galvanizing to the North American steel fabrication industry. 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.

#### 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.

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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.

### Galvanizing Segment

The Galvanizing Segment provides hot dip galvanizing 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, 2017, we operated forty-one galvanizing plants, which are located in Alabama, Arkansas, Arizona, Colorado, Indiana, Illinois, Louisiana, Kentucky, Minnesota, Mississippi, Missouri, Nebraska, Nevada, Ohio, Oklahoma, Tennessee, Texas, Virginia and West Virginia in the United States and Ontario, Quebec and Nova Scotia, Canada.

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

On June 30, 2014, we completed the acquisition of substantially all the assets of Zalk Steel & Supply Co. (“Zalk Steel”), a Minneapolis, Minnesota-based galvanizing company. Zalk Steel was acquired to expand AZZ Galvanizing's existing geographic footprint in the upper Midwest region of the United States.

For additional information on the Galvanizing 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, 2017, the Company employed approximately 4,183 persons consisting of approximately 3,830 in the United States, approximately 204 in Canada, 135 in Europe, and 14 in other countries.

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## 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	60	President and Chief Executive Officer	2013
		Chief Executive Officer, FlexSteel Pipeline Technologies, Inc.	2013-2013
		President, Flow Solutions Group, Flowserve Corp.	2009-2012
		President, Pump Division, Flowserve Corp.	2003-2009
		Senior Vice President of Finance, Chief Financial Officer	2014
Paul W. Fehlman	53	Vice President, Finance, Engineered Products Division, Flowserve Corp.	2011-2013
		Vice President, Investor Relations and FP&A, Flowserve Corp.	2009-2011
		Vice President, Treasurer, Flowserve Corp.	2004-2009
Tim E. Pendley	55	Senior Vice President, Galvanizing Segment	2009
		Vice President Operations, Galvanizing Segment	2004-2009
		Vice President, Chief Accounting Officer	2013
Robert J. Steines	54	Vice President, Corporate Controller, Great Lakes Dredge and Dock	2012-2013
		Vice President, Finance, Neuromodulation Division St. Jude Medical	2006-2011
		Chief Legal Officer and Secretary	2014
Tara D. Mackey	47	Chief Legal Counsel and Corporate Secretary, First Parts, Inc.	2013-2014
		General Counsel and Corporate Secretary, Silverleaf Resorts Inc.	2011-2013
		VP, Assistant General Counsel and Corporate Secretary, SuperMedia LLC	2008-2011
Matt V. Emery	49	Vice President, Chief Information and Human Resource Officer Senior Director of Information Technologies, Hewlett-Packard	2013
		Vice President, Corporate Development	2004-2013
Chris M. Bacius	56	Vice President Mergers & Acquisition, Flowserve Corporation	2014
		Vice President Business Development, Flowserve Corporation	2012-2014
			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

AZZ files or furnishes annual, quarterly and current reports, proxy statements and other documents with the SEC under the Securities Exchange Act of 1934 (the "Exchange Act"). The public may read and copy any materials that AZZ files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an Internet website that contains reports, proxy and information statements, and other information regarding issuers, including AZZ, that file electronically with the SEC. The public can obtain any documents that AZZ files with the SEC at <http://www.sec.gov>.

In addition, we make available, free of charge, on our Internet website, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file this material with, or furnish it to, the SEC. You may review these documents, under the heading "Investor Relations," subheading "SEC Filings," on our website at <http://www.azz.com>.

## 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.



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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:

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AZZ Inc.  
Investor Relations  
One Museum Place, Suite 500  
3100 West 7th Street  
Fort Worth, TX 76107

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### 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 Galvanizing Segments.

A portion of the revenues from our Energy and Galvanizing 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; 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 Galvanizing 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;
- 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.

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 an 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.

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.

Item 1B. Unresolved Staff Comments

None.

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## Item 2. Properties

The following table sets forth information about the Company's principal facilities, owned or leased, on February 28, 2017:

Location	Land/Acres	Buildings/Sq. Footage	Segment/Occupant
Crowley, Texas	26.3	168,797	Energy Segment
Houston, Texas	5.4	61,600	Energy Segment
Richland, Mississippi	6.7	60,981	Energy Segment
Pittsburg, Kansas	15.3	87,800	Energy Segment
Medway, Massachusetts	—	(Leased) 85,000	Energy Segment
Fulton, Missouri	—	(Leased) 120,410	Energy Segment
Hamilton, Ontario Canada	—	(Leased) 78,000	Energy Segment
Fort Worth, Texas	—	(Leased) 201,000	Energy Segment
Norcross, Georgia	5.5	(Leased) 15,000	Energy Segment
Norcross, Georgia	11.0	(Leased) 161,229	Energy Segment
College Station, Texas	—	(Leased) 377	Energy Segment
Chanute, Kansas	—	(Leased) 1,000	Energy Segment
Spring, Texas	—	(Leased) 1,000	Energy Segment
York, Pennsylvania	—	(Leased) 4,855	Energy Segment
St. Petersburg, Florida	6.4	(Leased) 26,155	Energy Segment
Millington, MD	11.7	(Leased) 96,958	Energy Segment
Edmonton, AB Canada	—	(Leased) 17,680	Energy Segment
Hellevoetsluis, Netherlands	1.6	(Leased) 30,785	Energy Segment
Radom, Poland	—	(Leased) 56,000	Energy Segment
Barueri, Brazil	0.4	(Leased) 18,478	Energy Segment
Beaumont, Texas	12.9	33,700	Galvanizing Segment
Big Spring, Texas	15.2	109,000	Galvanizing Segment
Crowley, Texas	28.5	79,200	Galvanizing Segment
Houston, Texas	25.2	61,800	Galvanizing Segment
Houston, Texas	23.7	128,764	Galvanizing Segment
Hurst, Texas	17.5	145,522	Galvanizing Segment
Kennedale, Texas	6.0	24,390	Galvanizing Segment
San Antonio, Texas	15.0	17,275	Galvanizing Segment
Waskom, Texas	10.6	30,400	Galvanizing Segment
Atkinson, Nebraska	12.9	26,480	Galvanizing Segment
Moss Point, Mississippi	13.5	16,000	Galvanizing Segment
Richland, Mississippi	5.6	22,800	Galvanizing Segment
Citronelle, Alabama	10.8	34,000	Galvanizing Segment
Goodyear, Arizona	16.8	36,800	Galvanizing Segment
Prairie Grove, Arkansas	11.5	34,000	Galvanizing Segment
Belle Chasse, Louisiana	9.5	34,000	Galvanizing Segment
Morgan City, Louisiana	1.6	14,300	Galvanizing Segment
Port Allen, Louisiana	22.2	48,700	Galvanizing Segment
McCarran, Nevada	23.7	43,379	Galvanizing Segment
Cincinnati, Ohio	15.0	81,700	Galvanizing Segment
Canton, Ohio	13.6	60,756	Galvanizing Segment
Hamilton, Indiana	49.3	110,700	Galvanizing Segment





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Muncie, Indiana	6.6	50,200	Galvanizing Segment
Plymouth, Indiana	40.0	42,900	Galvanizing Segment
Joliet, Illinois	12.0	113,900	Galvanizing Segment
Dixon, Illinois	21.3	59,600	Galvanizing Segment
Peoria, Illinois	7.4	42,600	Galvanizing Segment
Peoria, Illinois	—	(Leased) 66,400	Galvanizing Segment
Winsted, Minnesota	10.4	81,200	Galvanizing Segment
Bristol, Virginia	3.6	38,000	Galvanizing Segment
Poca, West Virginia	22.0	14,300	Galvanizing Segment
Commerce, Colorado	3.9	31,940	Galvanizing Segment
Chelsea, Oklahoma	15.0	30,700	Galvanizing Segment
Tulsa, Oklahoma	29.8	186,726	Galvanizing Segment
Port of Catoosa, Oklahoma	4.0	(Leased) 42,360	Galvanizing Segment
Nashville, Tennessee	12.0	27,055	Galvanizing Segment
St. Louis, Missouri	5.6	1,800	Galvanizing Segment
Kansas City, Missouri	—	(Leased) 18,000	Galvanizing Segment
Minneapolis, Minnesota	4.3	67,260	Galvanizing Segment
Louisville, Kentucky	5.9	23,007	Galvanizing Segment
Montreal, QC Canada	4.4	85,000	Galvanizing Segment
Acton, ON Canada	6.3	32,090	Galvanizing Segment
Acton, ON Canada	4.1	24,180	Galvanizing Segment
Halifax, NS Canada	2.9	33,832	Galvanizing Segment
Fort Worth, Texas	—	(Leased) 41,000	Corporate Offices

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Item 3. Legal Proceedings

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.

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## 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, 2017 and February 29, 2016.

	High	Low	Dividends Declared
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
Fiscal 2016			
First Quarter	\$49.57	\$42.89	\$ 0.15
Second Quarter	\$54.01	\$45.01	\$ 0.15
Third Quarter	\$60.36	\$46.39	\$ 0.15
Fourth Quarter	\$60.30	\$47.04	\$ 0.15

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 \$16.6 million, \$15.5 million, and \$14.9 million during fiscal 2017, 2016, and 2015, 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 of 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 2017, the Company purchased 100,000 shares at an average price of \$52.82 per share under the Company's share repurchase program. As of February 28, 2017, 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, 2017 was 899. 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, 2012, 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, 2012

For Fiscal Year Ended on the Last Day of February

**Legend**

Symbol	CRSP Total Returns Index for:	2/12	2/13	2/14	2/15	2/16	2/17
	AZZ Inc.	100.00	180.89	182.27	189.05	212.74	249.82
	CRSP Index for NYSE Stock Market (US Companies)	100.00	115.37	141.85	159.21	143.61	180.86
	CRSP Index for NYSE Stocks (SIC 5000-5099 US Companies) Wholesale Trade - Durable Goods	100.00	112.25	142.27	148.00	134.49	170.92

**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 02/29/2012.

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

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## Item 6. Selected Financial Data.

	Fiscal Year				
	2017 (a)	2016 (b)	2015 (c)	2014 (d)	2013 (e)
	(In thousands, except per share amounts)				
Summary of operations:					
Net sales	\$858,930	\$903,192	\$816,687	\$751,723	\$570,594
Net income	60,921	76,790	64,943	59,597	60,456
Earnings per share:					
Basic earnings per common share	2.35	2.98	2.53	2.34	2.39
Diluted earnings per common share	2.33	2.96	2.52	2.32	2.37
Total assets	977,839	982,010	936,914	953,253	694,205
Total debt	272,290	326,982	337,848	405,616	210,714
Total liabilities	448,200	500,794	516,862	577,340	360,271
Shareholders' equity	529,639	481,216	420,052	375,913	333,934
Working capital	154,688	160,929	149,492	152,165	143,533
Cash provided by operating activities	111,176	143,589	118,157	107,275	92,738
Capital expenditures	41,434	39,861	29,377	43,472	24,923
Depreciation & amortization	50,357	47,417	46,089	43,305	29,363
Cash dividend per common share	0.64	0.60	0.58	0.56	0.53
Weighted average shares outstanding - basic	25,965	25,800	25,676	25,514	25,320
Weighted average shares outstanding - diluted	26,097	25,937	25,778	25,693	25,561

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

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

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

(d) Includes the acquisition of Aquilex SRO on March 29, 2013. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations - Year ended February 28, 2014.

(e) Includes the acquisition of NLI, on June 1, 2012, the acquisition of Galvcast on October 1, 2012 and the acquisition of G3 on January 2, 2013.

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

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 Galvanizing 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 pretax 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, 2017, we recorded net sales of \$858.9 million compared to the prior year’s net sales of \$903.2 million. Of the total net sales for fiscal 2017, approximately 56.3% of our net sales were generated from the Energy Segment and approximately 43.7% were generated from the Galvanizing Segment. Net income for fiscal 2017 was \$60.9 million compared to \$76.8 million for fiscal 2016. Net income as a percentage of net sales was 7.1% for fiscal 2017 as compared to 8.5%

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for fiscal 2016. Earnings per share fell by 21.3% to \$2.33 per share for fiscal 2017 compared to \$2.96 per share for fiscal 2016, on a diluted basis.

**Results of Operations**

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

**Backlog**

We ended fiscal 2017 with a backlog of \$346.4 million, a slight increase compared to fiscal 2016. The Company's backlog as of year end pertains solely to the Energy Segment's operations. The book-to-ship ratio remained flat compared to fiscal 2016. The book-to-ship ratio was 1.00 to 1 for fiscal 2017 and 1.00 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	\$334,456	2/28/2015	\$332,595
Bookings		858,934		905,053
Acquired Backlog		11,903		—
Shipments		858,930		903,192
Backlog as reported	2/28/2017	\$346,363	2/29/2016	\$334,456
Book-to-Ship Ratio		1.00		1.00

**Net Sales**

Our total net sales for fiscal 2017 decreased by \$44.3 million, or 4.9%, as compared to fiscal 2016.

The following table reflects the breakdown of revenue by segment:

	2017	2016
	(In thousands)	
Net sales:		
Energy	\$483,394	\$500,830
Galvanizing	375,536	402,362
Total Net Sales	\$858,930	\$903,192

Our Energy Segment recorded net sales for fiscal 2017 of \$483.4 million, a decrease of 3.5% compared to fiscal 2016 net sales of \$500.8 million. The decrease in net sales for fiscal 2017 was caused by several factors including reduced turnarounds in the U.S. refinery market, continued softness in the petrochemical market, and delays in the release of several large projects in the U.S. and overseas.

Our Galvanizing Segment, which consisted of forty-one hot dip galvanizing 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 \$6.4 million, or 11.0%, for fiscal 2017, to \$52.0 million as compared to \$58.5 million for fiscal 2016. Operating margins for this segment were 10.8% for fiscal 2017 as compared to 11.7% 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 Galvanizing 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





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decrease is attributable to lower volumes in fiscal 2017 and the \$7.3 million of realignment charge related to the shutdown of two galvanizing 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.

**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. Catharines 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 28.1% for fiscal 2017 and 26.4% 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.

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Year ended February 29, 2016 compared with year ended February 28, 2015

**Backlog**

We ended fiscal 2016 with a backlog of \$334.5 million, an increase of 0.6% as compared to fiscal 2015. 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 2015. The book-to-ship ratio was 1.00 to 1 for fiscal 2017 and 1.01 to 1 for fiscal 2016.

The following table reflects bookings and shipments for fiscal 2016 and 2015.

**Backlog Table**

(In thousands)

	Period Ended		Period Ended	
Backlog	2/28/2015	\$332,595	2/28/2014	\$325,013
Bookings		905,053		824,269
Shipments		903,192		816,687
Backlog as reported	2/29/2016	\$334,456	2/28/2015	\$332,595
Book-to-Ship Ratio		1.00		1.01

**Net Sales**

Our total net sales for fiscal 2016 increased by \$86.5 million, or 10.6%, as compared to fiscal 2015.

The following table reflects the breakdown of revenue by segment:

	2016	2015
	(In thousands)	
Net sales:		
Energy	\$500,830	\$458,339
Galvanizing	402,362	358,348
Total Net Sales	\$903,192	\$816,687

Our Energy Segment recorded net sales for fiscal 2016 of \$500.8 million, an increase of 9.3% compared to fiscal 2015 net sales of \$458.3 million. The increase in net sales for fiscal 2016 was attributable to greater penetration and project scope expansion in specialty welding services for petroleum refining both domestically and internationally.

Our Galvanizing Segment, which consisted of forty-three hot dip galvanizing facilities as of February 28, 2016, generated net sales of \$402.4 million, a 12.3% increase from the prior year's net sales of \$358.3 million. The volume of steel processed for the fiscal year increased 15.6% while sales prices were slightly lower in fiscal 2016 compared to fiscal 2015. The acquisition of US Galvanizing, LLC and Alpha Galvanizing Inc. accounted for a significant portion of the increase in net sales and steel processed in the current year. The solar and original equipment manufacturer (OEM) markets also added to the increased sales and steel processed volumes during the year.

**Operating Income**

Operating income for the Energy Segment increased \$19.8 million, or 51.1%, for fiscal 2016, to \$58.5 million as compared to \$38.7 million for fiscal 2015. Operating margins for this segment were 11.7% for fiscal 2016 as compared to 8.4% for fiscal 2015. This increase was attributable to increased net sales, improved pricing, and better execution overall. During 2015, operating income was impacted by realignment charges described in Note 6 in the Notes to the Consolidated Financial Statements and certain cost overruns on projects at NLI and Aquilex SRO.

Operating income for the Galvanizing Segment increased \$6.2 million, or 7.0%, for fiscal 2016 to \$94.8 million as compared to \$88.6 million for the prior year. Operating margins were 23.6% for fiscal 2016 as compared to 24.7% for fiscal 2015. As noted within the net sales discussion, the acquisition of US Galvanizing, LLC and Alpha Galvanizing Inc. were the primary contributors of operating income growth which was partially offset by higher zinc costs year over year.

Corporate expenses were \$30.9 million for fiscal 2016 and \$20.4 million for fiscal 2015. During fiscal 2016, we experienced higher legal fees associated with attorney fees related to a commercial lawsuit which settled during the

fourth quarter, higher

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outside costs associated with various acquisitions and divestiture activities, and charges taken in the fourth quarter related to rectifying incorrect matching payments made to employee benefit plans of certain employees in prior years. During fiscal 2015, the Company recognized a \$9.1 million gain from the reversal of the contingent liability associated with the acquisition of NLI. Based on the criteria set forth in the acquisition agreement, we no longer believe an additional payment to the previous owners is probable. Excluding the gain from the reversal of the NLI contingency, for the year, general corporate expenses would have totaled \$29.5 million during fiscal 2015 and the year over year comparison would have been relatively flat.

### Interest

Interest expense for fiscal 2016 decreased 8.5% to \$15.2 million as compared to \$16.6 million in fiscal 2015. This decrease is the result of lower borrowings during fiscal 2016 stemming from mandatory and elective principal reductions. For additional information on outstanding debt, see Note 12 to the Consolidated Financial Statements. As of February 29, 2016, we had gross outstanding debt of \$327.0 million compared to \$337.8 million at the end of fiscal 2015. AZZ's debt to equity ratio was 0.68 to 1 at the end of fiscal 2016 compared to 0.80 to 1 at the end of fiscal 2015. Net Gain On Sale of Property, Plant and Equipment and Insurance Proceeds

We recorded a net gain of \$0.3 million from the sale of plant, property and equipment and insurance proceeds during fiscal 2016. The net gain is primarily related to the sale of our St. Catherines property located in Ontario, Canada. We recorded a net gain of \$2.5 million from the sale of property, plant and equipment and insurance proceeds in fiscal 2015. The gain from the prior fiscal year is primarily attributable to the property, plant and equipment lost as a result of the fires at our Joliet, Illinois, Goodyear, Arizona and New Orleans, Louisiana galvanizing facilities, offset by insurance proceeds.

### Other (Income) Expense

For fiscal 2016, a total of \$3.1 million in expense was recorded to other (income) expense, net, which was primarily attributable to a fourth quarter settlement of a commercial lawsuit, in addition to some currency translation losses. For fiscal 2015, we recorded \$2.7 million of expense to other (income) expense, net, which was attributable to the demolition and cleanup efforts at our New Orleans, Louisiana and Goodyear, Arizona galvanizing facilities, following fires at the two facilities.

### Provision For Income Taxes

The provision for income taxes reflected an effective tax rate of 26.4% for fiscal 2016 and 27.9% for fiscal 2015. 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 2017 was \$111.2 million compared to \$143.6 million provided by operating activities for fiscal 2016. The decrease in cash provided by operating activities for fiscal 2017 is attributable to a decrease in net income and by a less favorable impact of changes in working capital.

Net cash used in investing activities for fiscal 2017 was \$63.3 million compared to net cash used in investing activities of \$99.3 million for fiscal 2016. The decrease in cash used during fiscal 2017 was primarily attributable to fewer acquisitions, partially offset by increased capital expenditures.

Net cash used in financing activities for fiscal 2017 was \$76.6 million compared to net cash used in financing activities of \$25.3 million for fiscal 2016. The increase in cash used during fiscal 2017 was primarily attributable to increased net principal payments under our debt agreements and the purchase of 100,000 treasury shares.

We consider the undistributed earnings of our foreign subsidiaries as of fiscal year ended February 28, 2017, to be indefinitely reinvested and, accordingly, no U.S. income taxes have been provided thereon. Should the Company decide to repatriate the foreign earnings, we would need to adjust our income tax provision in the period we determined that the earnings will no longer be indefinitely invested outside the United States. As of fiscal year ended February 28, 2017, the amount of cash associated with indefinitely reinvested foreign earnings was approximately \$7.2 million. We have not, nor do we anticipate the need to repatriate

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earnings to the United States to satisfy domestic liquidity needs arising in the ordinary course of business including liquidity needs associated with our domestic debt service requirements. However, the Company may repatriate some cash to the U.S. through settlement of inter-company loans or return of capital distributions in a tax efficient manner. During fiscal 2017, we spent \$64.1 million on capital expenditures including acquisitions, net of cash. The breakdown of capital spending by segment for fiscal 2017, 2016 and 2015 can be found in Note 13 to the Consolidated Financial Statements.

On March 27, 2013, we entered into a Credit Agreement (the “Credit Agreement”) with Bank of America and other lenders. The Credit Agreement provides for a \$75.0 million term facility and a \$225.0 million revolving credit facility that includes 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.

Interest rates for borrowings under the Credit Agreement are based on either a Eurodollar Rate or a Base Rate plus a margin ranging from 1.0% to 2.0% depending on our Leverage Ratio (as defined in the 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 Credit Agreement also carries a Commitment Fee for the unfunded portion ranging from 0.20% to 0.30% per annum, depending on our Leverage Ratio.

The \$75.0 million term facility under the Credit Agreement requires quarterly principal and interest payments, which commenced on June 30, 2013 and are required to be made through March 27, 2018, the maturity date.

The Credit Agreement provides various financial covenants requiring us, among other things, to a) maintain on a consolidated basis net worth equal to at least the sum of \$230.0 million, plus 50.0% of future net income, b) maintain on a consolidated basis a Leverage Ratio not to exceed 3.25:1.0, c) maintain on a consolidated basis a Fixed Charge Coverage Ratio (as defined in the Credit Agreement) of at least 1.75:1.0 and d) not to make Capital Expenditures (as defined in the Credit Agreement) on a consolidated basis in an amount in excess of \$60.0 million during the fiscal year ended February 28, 2014 and \$50.0 million during any subsequent year.

On August 8, 2016 we executed the First Amendment to the Credit Agreement. The changes included, among other things, amendments to covenants including removing the cap on Capital Expenditures, raising the limits on asset disposition and other secured debt, and establishing a basket for investments specifically in joint ventures. The amendment also removed limitations on dividends and on redemption of equity interest as long as the Company’s Leverage Ratio remained below 2.75:1.0.

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 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 2017 Credit Agreement will be used to finance working capital needs, capital improvements, dividends, future acquisitions and letter of credit needs.

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”) due March 31, 2018 through a private placement (the “2008 Note Offering”). 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 Company entered into an additional Note Purchase Agreement on January 21, 2011 (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”), due in January of 2021, through a private placement (the “2011 Note Offering”). Pursuant to the

2011 Agreement, the Company's payment obligations with respect to the 2011 Notes may be accelerated under certain circumstances.

The 2008 Notes and the 2011 Notes each provide for various financial covenants requiring us, among other things, to a) maintain on a consolidated basis net worth (as defined in the Note Purchase Agreement) 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



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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 of February 28, 2017, the Company was in compliance with all of its debt covenants.

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 Galvanizing 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 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:

	Operating Leases    Debt		Interest	Total
	(In thousands)			
2018	\$6,627	\$16,629	\$11,573	\$34,829
2019	5,629	130,661	8,079	144,369
2020	3,347	—	6,775	10,122
2021	2,655	125,000	6,775	134,430
2022	2,542	—	—	2,542
Thereafter	8,042	—	—	8,042
Total	\$28,842	\$272,290	\$33,202	\$334,334

**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, 2017, the Company had outstanding letters of credit in the amount of \$23.1 million. 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, 2017, a warranty reserve in the amount of \$2.1 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

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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 collectability 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** - 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. In connection with our acquisition of NLI on June 1, 2012, the Company had a contingent obligation to make an additional payment of up to \$20.0 million based on the future financial performance of the NLI business. During fiscal 2015, the Company deemed this additional payment not probable or likely to occur and the accrual recorded at the end of fiscal 2014 of \$9.1 million was reversed. The accrual reversal was recorded to selling, general and administrative expense. As of June 2016, the measurement period for this contingency payment has expired and no additional payment was made.

**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 Galvanizing 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

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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 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.

We consider the earnings of certain non-U.S. subsidiaries to be indefinitely invested outside the United States on the basis of estimates that future domestic cash generation will be sufficient to meet future domestic cash needs and our specific plans for reinvestment of those subsidiary earnings. We have not recorded a deferred tax liability related to the U.S. federal and state income taxes and foreign withholding taxes on approximately \$24.8 million of undistributed earnings of foreign subsidiaries indefinitely invested outside the United States. If we decide to repatriate the foreign earnings, we would need to adjust our income tax provision in the period we determined that the earnings will no longer be indefinitely invested outside the United States.

**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.

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, 2017, 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 Galvanizing 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

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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, 2017, 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.

Item 8. Consolidated Financial Statements and Supplementary Data.

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Report of Independent Registered Public Accounting Firm  
Board of Directors and Shareholders  
AZZ Inc.  
Fort Worth, Texas

We have audited the accompanying consolidated balance sheets of AZZ Inc. as of February 28, 2017 and February 29, 2016 and the related consolidated statements of income and comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended February 28, 2017. Our audits also included the financial statement schedule listed in Item 15 of this Form 10-K. We have also audited AZZ Inc.'s internal control over financial reporting as of February 28, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). AZZ Inc.'s management is responsible for these financial statements, financial statement schedule, maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements, financial statement schedule and to express an opinion on the company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements and the schedule are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our audit of internal control over financial reporting 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 audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AZZ Inc. as of February 28, 2017 and February 29, 2016 and the results of its operations and its cash flows for each of the three years in the period ended February 28, 2017, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, AZZ Inc. maintained, in all material respects, effective internal control over financial reporting as of February 28, 2017, based on the COSO criteria. Also in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As indicated in the accompanying 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 Power Electronics, Inc. (PEI), whose acquisition was completed on March 1, 2016. PEI is included in the consolidated balance sheet of AZZ Inc. as of February 28, 2017 and the related consolidated statements of income and comprehensive income, shareholders' equity, and cash flows for the year then ended. PEI constituted approximately 1.8% of the Company's total assets as of February 28, 2017 and 4.0% and 8.3% of revenues and net income, respectively, for the year then ended. Management did not assess the effectiveness of internal control over financial reporting of PEI because of the timing of the acquisition. Our audit of internal control over financial reporting of AZZ Inc. also did not include an evaluation of the internal control over financial reporting of PEI.

/s/ BDO USA, LLP

Dallas, Texas  
April 20, 2017

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AZZ Inc.

## CONSOLIDATED STATEMENTS OF INCOME

	Year Ended		
	February 28, 2017	February 29, 2016	February 28, 2015
	(In thousands, except per share data)		
Net Sales	\$858,930	\$903,192	\$816,687
Cost of Sales	654,146	673,081	610,991
Gross Profit	204,784	230,111	205,696
Selling, General and Administrative	106,424	107,823	98,871
Operating Income	98,360	122,288	106,825
Interest Expense	14,732	15,155	16,561
Net (Gain) Loss On Sale of Property, Plant and Equipment, and Insurance Proceeds	76	(327)	(2,525)
Other Expense (Income) - net	(1,197)	3,092	2,659
Income Before Income Taxes	84,749	104,368	90,130
Income Tax Expense	23,828	27,578	25,187
Net Income	\$60,921	\$76,790	\$64,943
Earnings Per Common Share			
Basic Earnings Per Share	\$2.35	\$2.98	\$2.53
Diluted Earnings Per Share	\$2.33	\$2.96	\$2.52
Weighted Average Shares Outstanding			
Basic	25,965	25,800	25,676
Diluted	26,097	25,937	25,778

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

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AZZ Inc.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended February 28, 2017 (In thousands)	February 29, 2016	February 28, 2015
Net Income	\$ 60,921	\$ 76,790	\$ 64,943
Other Comprehensive Loss:			
Foreign Currency Translation Adjustments - Unrealized Translation Gains (Losses)	1,520	(7,674 )	(11,760 )
Interest Rate Swap, Net of Income Tax of \$29, \$29 and \$29, respectively.	(54 )	(54 )	(54 )
Other Comprehensive Income (Loss)	1,466	(7,728 )	(11,814 )
Comprehensive Income	\$ 62,387	\$ 69,062	\$ 53,129

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

AZZ Inc.  
CONSOLIDATED BALANCE SHEETS

	February 28, 2017	February 29, 2016
	(In thousands, except per share data)	
Assets		
Current assets:		
Cash and cash equivalents	\$11,302	\$40,191
Accounts receivable, net of allowance for doubtful accounts of \$347 and \$264 in 2017 and 2016, respectively	138,470	131,416
Inventories - net	123,208	102,135
Costs and estimated earnings in excess of billings on uncompleted contracts	20,546	32,287
Deferred income tax assets	249	200
Prepaid expenses and other	2,762	3,105
Total current assets	296,537	309,334
Property, plant, and equipment, net	228,610	226,333
Goodwill	306,579	292,527
Intangibles and other assets	146,113	153,816
	\$977,839	\$982,010
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$49,816	\$46,748
Income tax payable	778	2,697
Accrued salaries and wages	23,429	30,473
Other accrued liabilities	18,390	20,406
Customer advance payment	20,860	15,652
Billings in excess of costs and estimated earnings on uncompleted contracts	11,948	9,237
Debt due within one year	16,629	23,192
Total current liabilities	141,850	148,405
Debt due after one year, net	254,800	302,429
Deferred income tax liabilities	51,550	49,960
Total liabilities	448,200	500,794
Commitments and Contingencies		
Shareholders' equity:		
Common Stock, \$1.00 par value; 100,000 shares authorized; 25,964 shares issued and outstanding at February 28, 2017 and 25,874 at February 29, 2016	25,964	25,874
Capital in excess of par value	37,739	35,148
Retained earnings	495,030	450,754
Accumulated other comprehensive loss	(29,094 )	(30,560 )
Total shareholders' equity	529,639	481,216
	\$977,839	\$982,010

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

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AZZ Inc.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended		
	February 28, 2017	February 29, 2016	February 28, 2015
	(In thousands)		
Cash flows from operating activities:			
Net income	\$60,921	\$76,790	\$64,943
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	50,357	47,417	46,089
Deferred income taxes	1,509	2,707	15,818
Net loss on disposition of property, plant & equipment due to realignment	6,602	286	2,651
Net (gain) loss on sale of property, plant & equipment and insurance proceeds	76	(327)	(2,525)
Share-based compensation expense	5,870	4,538	4,080
Amortization of deferred debt issuance costs	1,262	1,347	1,431
Provision for doubtful accounts	48	(1,072)	458
Effects of changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(4,912)	(843)	(9,382)
Inventories	(17,951)	11,124	(879)
Prepaid expenses and other assets	(1,977)	1,996	5,543
Net change in billings related to costs and estimated earnings on uncompleted contracts	14,509	5,739	(5,635)
Accounts payable	1,245	(2,236)	11,025
Other accrued liabilities and income taxes payable	(6,383)	(3,877)	(15,460)
Net cash provided by operating activities:	111,176	143,589	118,157
Cash flows from investing activities:			
Proceeds from the sale or insurance settlement of property, plant, and equipment	769	1,137	1,330
Acquisition of subsidiaries, net of cash acquired	(22,679)	(60,584)	(11,518)
Purchases of property, plant and equipment	(41,434)	(39,861)	(29,377)
Net cash used in investing activities:	(63,344)	(99,308)	(39,565)