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DELTA REPORT

10-Q

AZZ - AZZ INC

10-Q - MAY 31, 2024 COMPARED TO 10-Q - NOVEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1315
CHANGES	160
DELETIONS	643
ADDITIONS	512

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended November 30, 2023 May 31, 2024

or

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

Commission file number: 1-12777

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AZZ Inc.

(Exact name of registrant as specified in its charter)

Texas	**75-0948250**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Museum Place, Suite 500	
3100 West 7th Street	
Fort Worth, Texas	**76107**
(Address of principal executive offices)	(Zip Code)

(817) 810-0095
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock	AZZ	New York Stock Exchange

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 ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the 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	☐		

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 ☒

As of December 29, 2023 June 28, 2024, the registrant had outstanding 25,076,871 29,816,258 shares of common stock; $1.00 par value per share.

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PART I. FINANCIAL INFORMATION

AZZ INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)
(Unaudited)

		As of			As of	
		November 30, 2023	February 28, 2023			
		May 31, 2024			May 31, 2024	February 29, 2024
Assets	**Assets**					
Assets						
Assets						
Current assets:						
Current assets:						
Current assets:	Current assets:					
Cash and cash equivalents	Cash and cash equivalents	$ 7,509	$ 2,820			
Trade accounts receivable, net of allowance for credit losses of $2,096 and $5,752 at November 30, 2023 and February 28, 2023, respectively		142,463	156,443			
Cash and cash equivalents						
Cash and cash equivalents						

Trade accounts receivable, net of allowance for credit losses of $2,322 and $2,347 at May 31, 2024 and February 29, 2024, respectively				
Other receivables	Other receivables	31,005	26,969	
Inventories	Inventories	126,737	143,920	
Contract assets	Contract assets	75,719	79,273	
Prepaid expenses and other	Prepaid expenses and other	9,295	7,991	
Total current assets				
Total current assets				
Total current assets	Total current assets	392,728	417,416	
Property, plant and equipment, net	Property, plant and equipment, net	525,338	498,503	
Right-of-use assets	Right-of-use assets	22,830	26,392	
Goodwill	Goodwill	705,487	702,512	
Deferred tax assets	Deferred tax assets	5,820	12,467	
Intangible assets, net	Intangible assets, net	451,289	469,392	
Investment in joint venture	Investment in joint venture	97,238	84,760	
Other assets	Other assets	8,026	10,037	
Total assets	Total assets	$ 2,208,756	$2,221,479	
Liabilities and Shareholders' Equity				
Total assets				
Total assets				
Liabilities, Mezzanine Equity and Shareholders' Equity				
Current liabilities:	Current liabilities:			
Current liabilities:				
Current liabilities:				
Accounts payable				
Accounts payable				
Accounts payable	Accounts payable	$ 95,158	$ 84,256	
Income tax payable	Income tax payable	45	272	
Accrued salaries and wages	Accrued salaries and wages	25,868	26,262	
Other accrued liabilities	Other accrued liabilities	72,476	70,047	
Lease liability, short-term	Lease liability, short-term	6,453	6,403	
Total current liabilities	Total current liabilities	200,000	187,240	
Total current liabilities				
Total current liabilities				
Long-term debt, net	Long-term debt, net	980,004	1,058,120	
Lease liability, long-term	Lease liability, long-term	17,112	20,704	
Deferred tax liabilities	Deferred tax liabilities	33,370	40,536	
Other long-term liabilities	Other long-term liabilities	57,120	61,419	
Total liabilities	Total liabilities	1,287,606	1,368,019	
Commitments and contingencies (Note 17)				
Total liabilities				
Total liabilities				
Commitments and contingencies (Note 16)				Commitments and contingencies (Note 16)
Mezzanine equity:				
Series A Convertible Preferred Stock, $1 par value; 240 shares authorized; 240 shares issued and outstanding February 29, 2024; aggregate liquidation preference $312,520 at February 29, 2024				
Series A Convertible Preferred Stock, $1 par value; 240 shares authorized; 240 shares issued and outstanding February 29, 2024; aggregate liquidation preference $312,520 at February 29, 2024				

Series A Convertible Preferred Stock, $1 par value; 240 shares authorized; 240 shares issued and outstanding February 29, 2024; aggregate liquidation preference $312,520 at February 29, 2024			
Shareholders' equity:	Shareholders' equity:		
Series A Convertible Preferred Stock, $1 par, shares authorized 240; 240 shares issued and outstanding at November 30, 2023 and February 28, 2023		240	240
Common Stock, $1 par value; 100,000 shares authorized; 25,077 and 24,912 shares issued and outstanding at November 30, 2023 and February 28, 2023, respectively		25,077	24,912
Common stock, $1 par value; 100,000 shares authorized; 29,814 and 25,102 shares issued and outstanding at May 31, 2024 and February 29, 2024, respectively			
Common stock, $1 par value; 100,000 shares authorized; 29,814 and 25,102 shares issued and outstanding at May 31, 2024 and February 29, 2024, respectively			
Common stock, $1 par value; 100,000 shares authorized; 29,814 and 25,102 shares issued and outstanding at May 31, 2024 and February 29, 2024, respectively			
Capital in excess of par value	Capital in excess of par value	333,555	326,839
Retained earnings	Retained earnings	566,235	506,042
Accumulated other comprehensive loss	Accumulated other comprehensive loss	(3,957)	(4,573)
Total shareholders' equity	Total shareholders' equity	921,150	853,460
Total liabilities and shareholders' equity		$ 2,208,756	$ 2,221,479
Total liabilities, mezzanine equity and shareholders' equity			

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

AZZ INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2023	**2022**	**2023**	**2022**
Sales	$ 381,605	$ 373,301	$ 1,171,020	$ 987,145
Cost of sales	293,456	300,219	888,606	752,455
Gross margin	88,149	73,082	282,414	234,690
Selling, general and administrative	35,325	27,689	103,087	97,247
Operating income	52,824	45,393	179,327	137,443
Interest expense	25,855	26,123	82,331	61,739
Equity in earnings of unconsolidated subsidiaries	(8,742)	(1,006)	(11,136)	(1,006)
Other (income) expense, net	41	(610)	(9)	(582)
Income from continuing operations before income taxes	35,670	20,886	108,141	77,292
Income tax expense	8,780	2,447	24,397	18,380
Net income from continuing operations	26,890	18,439	83,744	58,912
Income from discontinued operations, net of tax	—	1,665	—	17,126
Loss on disposal of discontinued operations, net of tax	—	(40,646)	—	(130,073)
Net loss from discontinued operations	—	(38,981)	—	(112,947)
Net income (loss)	26,890	(20,542)	83,744	(54,035)
Dividends on preferred stock	(3,600)	(3,600)	(10,800)	(4,640)
Net income (loss) available to common shareholders	$ 23,290	$ (24,142)	$ 72,944	$ (58,675)
Basic earnings (loss) per share				

Earnings per common share from continuing operations	$	0.93	$	0.60	$	2.91	$	2.19
Loss per common share from discontinued operations	$	—	$	(1.57)	$	—	$	(4.55)
Earnings (loss) per common share	$	0.93	$	(0.97)	$	2.91	$	(2.37)
Diluted earnings (loss) per share								
Earnings per common share from continuing operations	$	0.92	$	0.59	$	2.86	$	2.17
Loss per common share from discontinued operations	$	—	$	(1.56)	$	—	$	(4.52)
Earnings (loss) per common share	$	0.92	$	(0.97)	$	2.86	$	(2.35)
Weighted average shares outstanding - Basic		25,077		24,867		25,024		24,804
Weighted average shares outstanding - Diluted		29,330		24,995		29,278		24,984
Cash dividends declared per common share	$	0.17	$	0.17	$	0.51	$	0.51

	Three Months Ended May 31,			
	2024		2023	
Sales	$	413,208	$	390,873
Cost of sales		310,538		293,854
Gross margin		102,670		97,019
Selling, general and administrative		32,921		31,523
Operating income		69,749		65,496
Interest expense, net		(22,774)		(28,706)
Equity in earnings of unconsolidated subsidiaries		3,824		1,420
Other income (expense), net		204		(38)
Income before income taxes		51,003		38,172
Income tax expense		11,401		9,650
Net income		39,602		28,522
Dividends on Series A Preferred Stock		(1,200)		(3,600)
Redemption premium on Series A Preferred Stock		(75,198)		—
Net income (loss) available to common shareholders	$	(36,796)	$	24,922
Basic earnings (loss) per common share	$	(1.38)	$	1.00
Diluted earnings (loss) per common share	$	(1.38)	$	0.98
Weighted average shares outstanding - Basic		26,751		24,940
Weighted average shares outstanding - Diluted		26,751		29,150
Cash dividends declared per common share	$	0.17	$	0.17

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

AZZ INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)
(Unaudited)

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2023	2022	2023	2022

Net income (loss) available to common shareholders	$ 23,290	$ (24,142)	$ 72,944	$ (58,675)
Other comprehensive income (loss):				
Unrealized translation gain (loss)	3,029	(5,019)	1,293	(7,765)
Reclassification of foreign currency translation adjustment from accumulated other comprehensive loss to loss on sale of discontinued operations	—	27,750	—	27,750
Unrealized gain (loss) on derivatives qualified for hedge accounting:				
Unrealized gain (loss) on interest rate swap, net of tax(1)	(115)	(3,512)	1,867	(3,512)
Amounts reclassified from accumulated other comprehensive income to earnings, net of tax(2)	(1,057)	—	(2,544)	—
Other comprehensive income	1,857	19,219	616	16,473
Comprehensive income (loss)	$ 25,147	$ (4,923)	$ 73,560	$ (42,202)

(1) Net of tax expense (benefit) of $(42) and $678 for the three and nine months ended November 30, 2023, respectively.

(2) Net of tax benefit of $(384) and $(924) for the three and nine months ended November 30, 2023, respectively.

	Three Months Ended May 31,	
	2024	2023
Net income (loss) available to common shareholders	$ (36,796)	$ 24,922
Other comprehensive income (loss):		
Unrealized translation gain (loss)	(425)	19
Unrealized translation gain for unconsolidated subsidiary(1)	—	1,112
Unrealized gain (loss) on derivatives qualified for hedge accounting:		
Unrealized gain (loss) on interest rate swap, net of tax(2)	2,219	(3,384)
Amounts reclassified from accumulated other comprehensive income to earnings, net of tax(3)	(1,100)	(549)
Unrealized gain (loss) on interest rate swap, net of tax for unconsolidated subsidiary(4)	141	(165)
Other comprehensive income (loss)	835	(2,967)
Comprehensive income (loss)	$ (35,961)	$ 21,955

(1) Unrealized translation gain for unconsolidated subsidiary is related to our unconsolidated investment in the AVAIL JV and represents our 40% interest in this amount.

(2) Net of tax expense (benefit) of $625 and ($1,229) for the three months ended May 31, 2024 and May 31, 2023, respectively.

(3) Net of tax benefit of ($348) and ($199) for the three months ended May 31, 2024 and May 31, 2023, respectively. See Note 8.

(4) Unrealized gain (loss) on interest rate swap, net of tax for unconsolidated subsidiary is related to our unconsolidated investment in the AVAIL JV and represents our 40% interest in this amount. Net of tax expense (benefit) of $44 and ($60) for the three months ended May 31, 2024 and May 31, 2023, respectively.

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

AZZ INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended November 30,	
	2023	2022
Cash flows from operating activities		
Net income (loss) available to common shareholders	$ 72,944	$ (58,675)
Less: Net loss from discontinued operations	—	112,947

Plus: Dividends on preferred stock	10,800	4,640
Net income from continuing operations	83,744	58,912
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Bad debt expense (recovery)	53	(38)
Depreciation and amortization	59,034	55,813
Deferred income taxes	(274)	(20,421)
Equity in earnings of unconsolidated entities	(11,136)	(1,006)
Impairment of long-lived assets	—	235
Net (gain) on sale of property, plant and equipment	(39)	(1,381)
Amortization of debt financing costs	9,105	5,916
Share-based compensation expense	6,207	7,138
Changes in current assets and current liabilities	38,819	(34,969)
Changes in other long-term assets and long-term liabilities	(4,585)	(1,577)
Net cash provided by operating activities of continuing operations	180,928	68,622
Cash flows from investing activities		
Purchase of property, plant and equipment	(66,900)	(35,085)
Acquisition of subsidiaries, net of cash acquired	—	(1,283,448)
Proceeds from sale of subsidiaries, net	—	106,766
Other investing activities	47	4,114
Net cash used in investing activities of continuing operations	(66,853)	(1,207,653)
Cash flows from financing activities		
Proceeds from issuance of common stock	1,465	1,767
Payments for taxes related to net share settlement of equity awards	(791)	(2,592)
Proceeds from revolving loan	189,000	255,000
Payments on revolving loan	(274,000)	(322,000)
Proceeds from long term debt	—	1,540,000
Payments of debt financing costs	(1,299)	(87,555)
Payments on long term debt and finance leases	(268)	(366,500)
Payments of dividends	(23,551)	(12,664)
Net cash provided by (used in) financing activities of continuing operations	(109,444)	1,005,456
Effect of exchange rate changes on cash	58	(2,199)
Net cash provided by operating activities from discontinued operations	—	7,973
Net cash used in investing activities from discontinued operations	—	(3,991)
Net cash provided by financing activities from discontinued operations	—	120,000
Net cash provided by discontinued operations	—	123,982
Net increase (decrease) in cash and cash equivalents	4,689	(11,792)
Cash and cash equivalents at beginning of period	2,820	15,082
Cash and cash equivalents from continuing operations at end of period	$ 7,509	$ 3,290

	Three Months Ended May 31,	
	2024	**2023**
Cash flows from operating activities		
Net income (loss) available to common shareholders	$ (36,796)	$ 24,922
Plus: Dividends on Series A Preferred Stock	1,200	3,600
Plus: Redemption premium on Series A Preferred Stock	75,198	—
Net income	39,602	28,522
Adjustments to reconcile net income to net cash provided by operating activities:		
Bad debt expense	330	18
Depreciation and amortization	20,323	18,524

Deferred income taxes	3,164	(2,022)
Equity in earnings of unconsolidated entities	(3,824)	(1,420)
Distribution on investment in AVAIL joint venture	539	—
Net loss (gain) on sale of property, plant and equipment	(16)	(2)
Amortization of debt financing costs	3,109	3,029
Share-based compensation expense	2,535	1,904
Changes in current assets and current liabilities	7,610	(1,002)
Changes in other long-term assets and long-term liabilities	(1,428)	(658)
Net cash provided by operating activities	71,944	46,893
Cash flows from investing activities		
Purchase of property, plant and equipment	(27,396)	(17,036)
Other investing activities	17	9
Net cash used in investing activities	(27,379)	(17,027)
Cash flows from financing activities		
Proceeds from secondary public offering and issuance of additional common stock	308,723	—
Redemption of Series A Preferred Stock	(308,920)	—
Payments for taxes related to net share settlement of equity awards	(4,567)	(1,710)
Proceeds from revolving loan	75,000	92,000
Payments on revolving loan	(70,000)	(112,000)
Payments of debt financing costs	(715)	—
Payments on long term debt and finance lease liabilities	(30,196)	—
Payments of dividends	(7,867)	(7,835)
Net cash used in financing activities	(38,542)	(29,545)
Effect of exchange rate changes on cash	174	737
Net increase in cash and cash equivalents	6,197	1,058
Cash and cash equivalents at beginning of period	4,349	2,820
Cash and cash equivalents at end of period	$ 10,546	$ 3,878

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

AZZ INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands)

(Unaudited)

	Three Months Ended November 30, 2023							
	Series A Preferred Stock		Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount				
Balance at August 31, 2023	240	$ 240	25,077	$ 25,077	$ 331,366	$ 547,208	$ (5,814)	$ 898,077
Share-based compensation	—	—	—	—	2,189	—	—	2,189
Dividends on preferred stock	—	—	—	—	—	(3,600)	—	(3,600)
Dividends paid on common shares	—	—	—	—	—	(4,263)	—	(4,263)
Net income	—	—	—	—	—	26,890	—	26,890
Other comprehensive income	—	—	—	—	—	—	1,857	1,857
Balance at November 30, 2023	240	$ 240	25,077	$ 25,077	$ 333,555	$ 566,235	$ (3,957)	$ 921,150

Nine Months Ended November 30, 2023

	Series A Preferred Stock		Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount				
Balance at February 28, 2023	240	$ 240	24,912	$ 24,912	$ 326,839	$ 506,042	$ (4,573)	$ 853,460
Share-based compensation	—	—	—	—	6,207	—	—	6,207
Common stock issued under stock-based plans and related income tax expense	—	—	123	123	(914)	—	—	(791)
Common stock issued under employee stock purchase plan	—	—	42	42	1,423	—	—	1,465
Dividends on preferred stock	—	—	—	—	—	(10,800)	—	(10,800)
Dividends paid on common shares	—	—	—	—	—	(12,751)	—	(12,751)
Net income	—	—	—	—	—	83,744	—	83,744
Other comprehensive income	—	—	—	—	—	—	616	616
Balance at November 30, 2023	240	$ 240	25,077	$ 25,077	$ 333,555	$ 566,235	$ (3,957)	$ 921,150

	Three Months Ended May 31, 2024					
	Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
Balance at February 29, 2024	25,102	$ 25,102	$ 103,330	$ 576,231	$ (3,894)	$ 700,769
Share-based compensation	—	—	2,535	—	—	2,535
Common stock issued under stock-based plans and related tax expense	112	112	(4,679)	—	—	(4,567)
Secondary public offering and issuance of additional common stock	4,600	4,600	304,123	—	—	308,723
Dividends on Series A Preferred Stock	—	—	—	(1,200)	—	(1,200)
Cash dividends paid on common stock	—	—	—	(4,267)	—	(4,267)
Redemption premium on Series A Preferred Stock	—	—	—	(75,198)	—	(75,198)
Net income	—	—	—	39,602	—	39,602
Other comprehensive income	—	—	—	—	835	835
Balance at May 31, 2024	29,814	$ 29,814	$ 405,309	$ 535,168	$ (3,059)	$ 967,232

	Three Months Ended November 30, 2022							
	Series A Preferred Stock		Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount				
Balance at August 31, 2022	240	$ 240	24,862	$ 24,862	$ 323,386	$ 541,203	$ (30,070)	$ 859,621
Share-based compensation	—	—	—	—	2,348	—	—	2,348
Common stock issued under stock-based plans and related income tax expense	—	—	14	14	(301)	—	—	(287)
Dividends on preferred stock	—	—	—	—	—	(3,600)	—	(3,600)
Dividends paid on common shares	—	—	—	—	—	(4,246)	—	(4,246)
Net income (loss)	—	—	—	—	—	(20,542)	—	(20,542)
Other comprehensive income	—	—	—	—	—	—	19,219	19,219
Balance at November 30, 2022	240	$ 240	24,876	$ 24,876	$ 325,433	$ 512,815	$ (10,851)	$ 852,513

	Nine Months Ended November 30, 2022							
	Series A Preferred Stock		Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount				
Balance at February 28, 2022	—	$ —	24,688	$ 24,688	$ 85,847	$ 584,154	$ (27,324)	$ 667,365
Share-based compensation	—	—	—	—	7,118	—	—	7,118
Issuance of Class A convertible preferred stock in exchange for convertible debt	240	240	—	—	233,482	—	—	233,722
Common stock issued under stock-based plans and related income tax expense	—	—	136	136	(2,728)	—	—	(2,592)
Common stock issued under employee stock purchase plan	—	—	52	52	1,714	—	—	1,766
Dividends on preferred stock	—	—	—	—	—	(4,640)	—	(4,640)
Dividends paid on common shares	—	—	—	—	—	(12,664)	—	(12,664)
Net income (loss)	—	—	—	—	—	(54,035)	—	(54,035)
Other comprehensive income	—	—	—	—	—	—	16,473	16,473
Balance at November 30, 2022	240	$ 240	24,876	$ 24,876	$ 325,433	$ 512,815	$ (10,851)	$ 852,513

	Three Months Ended May 31, 2023					
	Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
Balance at February 28, 2023	24,912	$ 24,912	$ 93,357	$ 506,042	$ (4,573)	$ 619,738
Share-based compensation	—	—	1,904	—	—	1,904
Common stock issued under stock-based plans and related tax expense	101	101	(1,812)	—	—	(1,711)
Dividends on Series A Preferred Stock	—	—	—	(3,600)	—	(3,600)
Cash dividends paid on common stock	—	—	—	(4,235)	—	(4,235)
Net income	—	—	—	28,522	—	28,522
Other comprehensive loss	—	—	—	—	(2,967)	(2,967)
Balance at May 31, 2023	25,013	$ 25,013	$ 93,449	$ 526,729	$ (7,540)	$ 637,651

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

AZZ INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. The Company and Basis of Presentation

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 provider of hot-dip galvanizing and coil coating solutions to a broad range of end-markets in North America. We have three distinct operating segments: the AZZ Metal Coatings segment, the AZZ Precoat Metals segment, and the AZZ Infrastructure Solutions segment. The Company's Our AZZ Metal Coatings segment is a leading provider of metal finishing solutions for corrosion protection, including hot-dip galvanizing, spin galvanizing, powder coating, anodizing and plating to the North American steel fabrication industry and other industries. The AZZ Precoat Metals segment provides aesthetic and corrosion protective coatings and related value-added services for steel and aluminum coil, primarily serving the construction; appliance; heating, ventilation, and air conditioning (HVAC); container; transportation and other end markets in North America. The AZZ Infrastructure Solutions segment consists of the Company's represents our 40% non-controlling interest in AIS Investment Holdings LLC (the "AVAIL JV"). AIS Investment Holdings LLC is primarily 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 markets worldwide. AIS Investment Holdings LLC was wholly-owned by the Company until September 30, 2022, when AZZ contributed its' AZZ Infrastructure Solutions segment, excluding AZZ Crowley Tubing and excluding certain receivables retained by AZZ ("AIS"), to the AVAIL JV and sold a 60% interest in the AVAIL JV to Fernweh Group LLC ("Fernweh"). For the three and nine months ended November 30, 2022, financial data for the AZZ Infrastructure Solutions segment is segregated and reported as discontinued operations.

Presentation

The accompanying condensed consolidated balance sheet as of February 28, 2023 February 29, 2024 was derived from audited financial statements. The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete consolidated financial statements. These financial statements should be read in conjunction with the audited financial statements and related notes for the fiscal year ended February 28, 2023 February 29, 2024, included in the Company's our Annual Report on Form 10-K covering such period. period which was filed with the SEC on April 22, 2024. Certain previously reported amounts have been reclassified to conform to current period presentation. See Note 3 for more information about results of operations reported in discontinued operations in the consolidated statement of operations and statement of cash flows for the three and nine months ended November 30, 2022.

The Company's Our fiscal year ends on the last day of February and is identified as the fiscal year for the calendar year in which it ends. For example, the fiscal year ending February 29, 2024 February 28, 2025 is referred to as fiscal 2024. 2025.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, which are necessary to present fairly the financial position of the Company as of November 30, 2023 May 31, 2024, the results of its operations for the three and nine months ended November 30, 2023 May 31, 2024 and 2022, 2023, and cash flows for the nine three months ended November 30, 2023 May 31, 2024 and 2022. 2023. The interim results reported herein are not necessarily indicative of results for a full year.

Significant Accounting Policies

Other receivables

Other receivables includes income taxes receivable, receivables for supplier rebates, and other miscellaneous receivables.

Accounting Pronouncements Not Yet Adopted

In November 2023, the FASB issued ASU Accounting Standards Update ("ASU") 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures* ("ASU 2023-07"), which expands disclosures about a public entity's reportable segments and requires more enhanced information about a reportable segment's expenses, interim segment profit or loss, and how a public entity's chief operating decision maker uses reported segment profit or loss information in assessing segment performance and allocating resources. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024. We are currently assessing do not expect the impact adoption of this update on ASU 2023-07 to affect our consolidated financial statement disclosures. position or our results of operations, but will result in additional disclosures for our annual reporting periods beginning after February 28, 2025 and interim reporting periods in fiscal 2026.

AZZ INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*("ASU 2023-09"), which expands disclosures in an entity's income tax rate reconciliation table and regarding cash taxes paid both in the U.S. and foreign jurisdictions. The update will be effective for annual periods beginning after December 15, 2024. We are currently assessing expect to adopt ASU 2023-07 effective March 1, 2025 and the impact adoption will not affect our financial position or our results of this update on our consolidated financial statement operations, but will result in additional disclosures.

2. Acquisitions

Precoat Acquisition

On May 13, 2022, the Company acquired Precoat Metals for a purchase price of approximately $1.3 billion (the "Precoat Acquisition"). AZZ Precoat Metals is the leading independent provider of metal coil coating solutions in North America. The acquisition represented a continued transition of the Company to a focused provider of coating and galvanizing services for critical applications. The Company completed the final purchase accounting valuation during the first quarter of fiscal year 2024.

The Company accounted for the Precoat Acquisition as a business combination under the acquisition method of accounting. Goodwill from the acquisition of $527.8 million represents the excess purchase price over the estimated value of net tangible and intangible assets and liabilities assumed, and is expected to be deductible for income tax purposes. The Company's chief operating decision maker assesses performance and allocates resources to Precoat separately from the AZZ Metal Coatings segment; therefore, Precoat is accounted for as a separate segment, the AZZ Precoat Metals segment. See Note 8 for more information about the Company's operating segments. Goodwill from the acquisition was allocated to the AZZ Precoat Metals segment. Assets acquired and liabilities assumed in the Precoat Acquisition were recorded at their estimated fair values as of the acquisition date.

When determining the fair values of assets acquired and liabilities assumed, management made significant estimates, judgments and assumptions. The Company engaged third-party valuation experts to assist in determination of fair value of property and equipment, intangible assets, pension benefit obligation and certain other assets and liabilities. Management believes that the current information provides a reasonable basis for the fair values of assets acquired and liabilities assumed. During the first quarter of fiscal 2024, the Company made purchase price allocation adjustments that impacted goodwill, contract assets and accrued expenses.

The following table represents the summary of the assets acquired and liabilities assumed, in aggregate, related to the Precoat Acquisition, as of the date of the acquisition (in thousands):

	May 13, 2022
Assets	
Accounts receivable, net	$ 77,422
Inventories	43,369
Contract assets	68,314
Prepaid expenses and other	2,247
Property, plant and equipment	305,503
Right-of-use assets	13,753
Goodwill	527,793
Deferred tax asset	8,660
Intangible assets, net	446,000
Other assets	546
Total fair value of assets acquired	$ 1,493,607
Liabilities	
Accounts payable	$ (99,223)
Accrued expenses	(31,761)
Other accrued liabilities	(5,330)
Lease liability, short-term	(2,440)
Lease liability, long-term	(11,313)
Other long-term liabilities	(60,091)
Total fair value of liabilities assumed	$ (210,158)
Total purchase price, net of cash acquired	**$ 1,283,449**

Intangible assets include customer relationships, tradenames and technology. Other long-term liabilities include the pension obligation and certain environmental liabilities assumed as part of the Precoat Acquisition. See Notes 16 and 17 for more information about these long-term liabilities.

Unaudited Pro Forma Information

The following unaudited pro forma financial information for the three and nine months ended November 30, 2022 combines the historical results of the Company and the acquisition of Precoat Metals, assuming that the companies were combined as of March 1, 2022. The pro forma financial information includes business combination accounting effects from the Precoat Acquisition, including amortization expense from acquired intangible assets, depreciation expense from acquired property, plant and equipment, interest expense from financing transactions which occurred to fund the Precoat Acquisition, acquisition-related transaction costs and tax-related effects. The pro forma information as presented below is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition of Precoat Metals had taken place on March 1, 2022 or of future operating performance.

	Three Months Ended November 30, 2022	Nine Months Ended November 30, 2022
Revenue	$ 373,301	$ 1,180,165
Net income from continuing operations(1)	$ 18,439	$ 43,442

(1) Net income for the nine months ended November 30, 2022 includes acquisition costs of approximately $45.0 million, of which $11.5 million was incurred by AZZ and $33.5 million was incurred by Precoat Metals prior to the acquisition.

3. Discontinued Operations

On September 30, 2022, AZZ contributed its AZZ Infrastructure Solutions ("AIS") segment, excluding AZZ Crowley Tubing, to a joint venture, AIS Investment Holdings LLC (the "AVAIL JV") and sold a 60% interest in the AVAIL JV to Fernweh Group LLC ("Fernweh"). On September 30, 2022, the AVAIL JV was deconsolidated. Beginning October 1, 2022,

AZZ INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the Company began accounting for its 40% interest in the AVAIL JV under the equity method of accounting. The AVAIL JV is included in the AZZ Infrastructure Solutions segment.

The divestiture of the AZZ Infrastructure Solutions segment represents an intentional strategic shift in our operations and will allow the Company to become a focused provider of coating and galvanizing solutions for critical applications. As a result, the results of the AIS segment were classified as discontinued operations in our condensed statements of operations and excluded from both continuing operations and segment results for the three and nine months ended November 30, 2022.

As part of recognizing the business as held for sale in accordance with GAAP, the Company was required to measure AIS at the lower of its carrying amount or fair value less cost to sell. As a result of this analysis, during fiscal 2023, the Company recognized a non-cash, pre-tax loss on disposal of $159.9 million, of which $45.0 million was recognized during the three months ended November 30, 2022, and $114.9 million was recognized during the second quarter of fiscal 2023. The loss is included in "Loss on disposal of discontinued operations" in the consolidated statements of operations. The loss was determined by comparing the fair value of the consideration received for the sale of a 60% interest in the AIS JV and the fair value of the Company's retained 40% investment in the AIS JV with the net assets of the AIS JV immediately prior to the transaction.The fair value of the Company's retained investment in the AIS JV was determined in a manner consistent with the transaction price received for the sale of the 60% interest in the AIS JV.

The results of operations from discontinued operations for the three and nine months ended November 30, 2022, have been reflected as discontinued operations in the consolidated statements of operations and consist of the following (in thousands):

	Three Months Ended November 30, 2022	Nine Months Ended November 30, 2022
Sales	$ 42,300	$ 256,224
Cost of sales	35,020	202,707
Gross margin	7,280	53,517
Selling, general and administrative	4,074	26,186
Loss on disposal of discontinued operations	45,010	159,910
Operating loss from discontinued operations	(41,804)	(132,579)
Interest expense	2	8
Other (income) expense, net	2,002	6,270
Loss from discontinued operations before income tax	(43,808)	(138,857)
Income tax benefit	(4,827)	(25,910)
Net loss from discontinued operations	$ (38,981)	$ (112,947)
Loss per common share from discontinued operations:		
Basic loss per share	$ (1.57)	$ (4.55)
Diluted loss per share	$ (1.56)	$ (4.52)

The depreciation, amortization, capital expenditures, and significant operating and investing non-cash items of the discontinued operations consist of the following (in thousands):

	Nine Months Ended November 30, 2022
Depreciation and amortization	$ 7,279
Purchase of property, plant and equipment	4,831
Non-cash loss on disposal of discontinued operations	(159,910)
Gain on sale of property, plant and equipment	486

AZZ INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. 2. Inventories

The following table summarizes the components of inventory (in thousands):

	As of	
	November 30, 2023	February 28, 2023
As of		As of

		May 31, 2024	May 31, 2024	February 29, 2024
Raw material	Raw material	$ 120,761	$138,227	
Work in process	Work in process	1,587	1,558	
Finished goods	Finished goods	4,389	4,135	
Total inventories	Total inventories	$ 126,737	$143,920	

Our inventory reserve was $3.6 million and $4.5 million as of May 31, 2024 and February 29, 2024, respectively.

AZZ INC.
5. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. Earnings Per Share

Basic earnings per share is based on the weighted average number of common shares outstanding during each year. Diluted earnings per share is calculated by giving effect to the potential dilution that could occur if securities or other contracts to issue common shares were exercised and converted into common shares during the year.

On April 30, 2024, we completed a secondary offering in which we sold 4.6 million common shares. The weighted average number of shares for the period outstanding for the three months ended May 31, 2024 are included in weighted average shares outstanding for basic earnings per share. See Note 14. Following the secondary offering, there were 29.8 million common shares outstanding.

AZZ INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2023	2022	2023	2022
Numerator:				
Net income from continuing operations	$ 26,890	$ 18,439	$ 83,744	$ 58,912
Dividends on preferred stock	(3,600)	(3,600)	(10,800)	(4,640)
Numerator for basic earnings per share continuing operations	$ 23,290	$ 14,839	$ 72,944	$ 54,272
Dividends on preferred stock	3,600	—	10,800	—
Numerator for diluted earnings per share continuing operations	$ 26,890	$ 14,839	$ 83,744	$ 54,272
Net loss from discontinued operations	$ —	$ (38,981)	$ —	$ (112,947)
Net income (loss) available to common shareholders	$ 23,290	$ (24,142)	$ 72,944	$ (58,675)
Dividends on preferred stock	3,600	—	10,800	—
Numerator for diluted earnings per share—net income (loss) available to common shareholders	$ 26,890	$ (24,142)	$ 83,744	$ (58,675)
Denominator:				
Weighted average shares outstanding for basic earnings per share	25,077	24,867	25,024	24,804
Effect of dilutive securities:				
Employee and director stock awards	136	128	137	180
Series A Convertible Preferred Stock	4,117	—	4,117	—
Denominator for diluted earnings per share	29,330	24,995	29,278	24,984
Basic earnings (loss) per share				
Earnings per common share from continuing operations	$ 0.93	$ 0.60	$ 2.91	$ 2.19

Loss per common share from discontinued operations	$	—	$	(1.57)	$	—	$	(4.55)
Earnings (loss) per common share	$	0.93	$	(0.97)	$	2.91	$	(2.37)
Diluted earnings (loss) per share								
Earnings per common share from continuing operations	$	0.92	$	0.59	$	2.86	$	2.17
Loss per common share from discontinued operations	$	—	$	(1.56)	$	—	$	(4.52)
Earnings (loss) per common share	$	0.92	$	(0.97)	$	2.86	$	(2.35)

	Three Months Ended May 31,			
	2024		2023	
Numerator:				
Net income	$	39,602	$	28,522
Dividends on Series A Preferred Stock		(1,200)		(3,600)
Redemption premium on Series A Preferred Stock		(75,198)		—
Numerator for basic earnings per share	$	(36,796)	$	24,922
Dividends on Series A Preferred Stock		—		3,600
Numerator for diluted earnings per share	$	(36,796)	$	28,522
Denominator:				
Weighted average shares outstanding for basic earnings per share		26,751		24,940
Effect of dilutive securities:				
Employee and director stock awards		—		93
Series A Convertible Preferred Stock		—		4,117
Denominator for diluted earnings per share		26,751		29,150
Basic earnings (loss) per common share	$	(1.38)	$	1.00
Diluted earnings (loss) per common share	$	(1.38)	$	0.98

For the three months ended November 30, 2023 May 31, 2024 and 2022, approximately 120,819 2023, there were 310,787 and 103,403 121,509 shares, respectively, related to employee equity awards respectively, that were excluded from the computation of diluted earnings per share, as their effect would have been anti-dilutive. For the nine three months ended November 30, 2023 and 2022, 126,356 and 78,862 May 31, 2024, all shares respectively, related to the Series A Convertible Preferred Stock (3.1 million weighted average shares) were excluded from the computation of diluted earnings per share, as their effect would have been anti-dilutive. In addition, all shares related to the Series A Convertible Preferred Stock (4.1 million weighted average shares) were excluded from the computation of diluted earnings per share for the three and nine months ended November 30, 2022, as their effect would have been be anti-dilutive. These shares could be dilutive in future periods.

6. Sales

4. Disaggregated Sales

The following table presents disaggregated sales for continuing operations, by customer industry (in thousands):

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2023	2022	2023	2022
	Three Months Ended May 31,			
	Three Months Ended May 31,			
	Three Months Ended May 31,			

		2024			
		2024			
		2024			
Sales:					
Sales:					
Sales:	Sales:				
Construction	Construction	$214,081	$205,316	$ 637,035	$493,573
Construction					
Construction					
Industrial	Industrial	35,489	37,330	118,273	118,457
Industrial					
Industrial					
Transportation					
Transportation					
Transportation					
Consumer	Consumer	29,384	29,864	99,537	78,972
Transportation		35,871	33,597	107,734	98,715
Electrical/Utility		24,804	26,131	76,116	69,100
Consumer					
Consumer					
Utilities					
Utilities					
Utilities					
Other (1)	Other (1)	41,976	41,063	132,325	128,328
Other (1)					
Other (1)					
Total Sales					
Total Sales					
Total Sales	Total Sales	$381,605	$373,301	$1,171,020	$987,145

(1) Other includes less significant markets, such as agriculture, recreation, petro-chem, AZZ Tubular products and sales from recycling.

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(1) Other includes less significant markets, such as agriculture, recreation, petro-chem, AZZ Tubular products and sales from recycling.

See also Note 8 6 for sales information by operating segment.

Contract Assets and Liabilities

The timing of revenue recognition, billings and cash collections results in accounts receivable, contract assets (unbilled receivables), and contract liabilities (customer advances and deposits) on the consolidated balance sheets. Our contract assets and contract liabilities are primarily related to the AZZ Precoat Metals segment. Customer billing can occur subsequent to revenue recognition, resulting in contract assets. In addition, the Company we can receive advances or deposits from its our customers, before revenue is recognized, resulting in contract liabilities. These assets and liabilities are reported on the consolidated balance sheets on a contract-by-contract basis at the end of each reporting period.

The increases or decreases in contract assets and contract liabilities during the three months ended May 31, 2024 were primarily due to normal timing differences between AZZ's performance and customer payments. As of November 30, 2023 May 31, 2024 and February 28, 2023 February 29, 2024, the balance for contract assets was $75.7 million $93.3 million and $79.3 million, respectively, primarily related to the AZZ Precoat Metals segment. Contract liabilities of $1.0 million $0.7 million and $1.3 million $1.0 million as of November 30, 2023 May 31, 2024 and February 28, 2023 February 29, 2024, respectively, are included in "Other accrued liabilities" in the consolidated balance sheets.

7. 5. Supplemental Cash Flow Information

In order to determine To arrive at net cash provided by operating activities, net income is adjusted by, among other things, changes in current assets and current liabilities as follows (in thousands):

		Nine Months Ended November 30,			
		2023	2022		
	Three Months Ended May 31,			Three Months Ended May 31,	
	2024			2024	2023
Decrease (increase) in current assets:	Decrease (increase) in current assets:				
Accounts receivable, net					
Accounts receivable, net					
Accounts receivable, net	Accounts receivable, net	$13,922	$ (6,927)		
Other receivables	Other receivables	(4,033)	(9,503)		
Inventories	Inventories	17,191	(14,646)		
Contract assets	Contract assets	1,136	(3,950)		
Prepaid expenses and other	Prepaid expenses and other	(1,304)	(6,195)		
Increase (decrease) in current liabilities:	Increase (decrease) in current liabilities:				
Accounts payable	Accounts payable	8,654	(15,122)		
Accounts payable					
Accounts payable					
Income taxes payable	Income taxes payable	(227)	(3,784)		
Accrued expenses	Accrued expenses	3,480	25,158		
Changes in current assets and current liabilities	Changes in current assets and current liabilities	$38,819	$(34,969)		

Cash flows related to interest and income taxes were as follows (in thousands):

	Nine Months Ended November 30,			
	2023	2022		
	Three Months Ended May 31,		Three Months Ended May 31,	
	2024		2024	2023

Cash paid for interest	Cash paid for interest	$ 74,993	$52,488
Cash paid for income taxes	Cash paid for income taxes	17,683	15,627

Supplemental disclosures of non-cash investing and financing activities were as follows (in thousands):

	Nine Months Ended November 30,	
	2023	2022
Issuance of preferred stock in exchange for convertible notes	$ —	$ 233,722
Accrued dividends on preferred stock	2,400	4,640
Accruals for capital expenditures	4,768	960

	Three Months Ended May 31,	
	2024	2023
Accrued dividends on Series A Preferred Stock	$ —	$ 2,400
Accruals for capital expenditures	8,517	2,409

8. 6. Operating Segments

Segment Information

The Company's Our Chief Executive Officer, who is the chief operating decision maker ("CODM"), reviews financial information presented on an operating segment basis for purposes of making operating decisions and assessing financial performance. Sales and operating income are the primary measures used by the CODM to evaluate segment operating performance and to allocate resources to the AZZ Metal Coatings and the AZZ Precoat Metals segments, and net income is the primary measure used by the CODM to evaluate performance and allocate resources to the AZZ Infrastructure Solutions segment. Expenses related to certain centralized administration or executive functions that are not specifically related to an operating segment are included in Corporate. As presented in Note 3, the AVAIL JV operating results for the period prior to deconsolidation are included within discontinued operations, with the exception of AZZ Crowley Tubing, which was retained by the Company and merged into the AZZ Metal Coatings segment. See Note 3 for the results of operations related to the AZZ Infrastructure Solutions segment.

A summary of each of the Company's our operating segments is as follows:

AZZ Metal Coatings — provides hot-dip galvanizing, spin galvanizing, powder coating, anodizing and plating, and other metal coating applications to the steel fabrication industry and other industries through facilities located throughout the United States and Canada. Hot-dip galvanizing is a metallurgical manufacturing process in which molten zinc reacts to steel. The zinc alloying with steel, which provides corrosion protection and extends the life cycle lifecycle of fabricated steel for several decades.

AZZ Precoat Metals — engages in the advanced application of protective and decorative coatings and related value-added manufacturing for steel and aluminum coil primarily serving the construction; appliance; heating, ventilation and air conditioning (HVAC); container; transportation and other end markets.

AZZ Infrastructure Solutions — consists of the equity in earnings of the Company's our 40% investment in the AVAIL JV, as well as other expenses directly related to AIS receivables and liabilities that were retained following the divestiture of the AIS business. The AVAIL JV provides is a global provider of application-critical equipment, highly engineered technologies, and specialized products and services designed to support primarily industrial and electrical applications. The product offerings include custom switchgear, electrical enclosures, medium- and high-voltage bus ducts, explosion proof and hazardous duty lighting products. The AZZ Infrastructure Solutions segment also focuses on life-cycle extension for the power generation, refining transmission, distribution, oil and gas, and industrial infrastructure, through providing automated weld overlay solutions for corrosion and erosion mitigation. markets.

Net income from continuing operations (loss) by segment for the three and nine months ended November 30, 2023 May 31, 2024 and 2022 2023 was as follows (in thousands):

	Three Months Ended November 30, 2023				
	Metal Coatings	Precoat Metals	Infrastructure Solutions(1)	Corporate(2)(3)	Total
Sales	$163,186	$218,419	$ —	$ —	$381,605
Cost of sales	115,952	177,504	—	—	293,456
Gross margin	47,234	40,915	—	—	88,149
Selling, general and administrative	9,392	8,163	290	17,480	35,325
Operating income (loss) from continuing operations	37,842	32,752	(290)	(17,480)	52,824
Interest expense	—	—	—	25,855	25,855
Equity in earnings of unconsolidated subsidiaries	—	—	(8,742)	—	(8,742)
Other expense	29	—	—	12	41
Income (loss) from continuing operations before income tax	$ 37,813	$ 32,752	$ 8,452	(43,347)	35,670
Income tax expense				8,780	8,780
Net income (loss) from continuing operations				$ (52,127)	$ 26,890

	Three Months Ended May 31, 2024				
	Metal Coatings	Precoat Metals	Infrastructure Solutions(1)	Corporate(2)	Total
Selling, general and administrative					
Selling, general and administrative					
Operating income (loss)					
Operating income (loss)					
Operating income (loss)					
Interest expense					
Interest expense					
Other income					
Income (loss) before income tax					
Net income (loss)					

See notes below.

	Three Months Ended May 31, 2023				
	Metal Coatings	Precoat Metals	Infrastructure Solutions(1)	Corporate(2)	Total
Sales	$ 168,794	$ 222,079	$ —	$ —	$ 390,873
Cost of sales	117,858	175,996	—	—	293,854
Gross margin	50,936	46,083	—	—	97,019
Selling, general and administrative	5,466	8,392	22	17,643	31,523
Operating income (loss)	45,470	37,691	(22)	(17,643)	65,496

Interest expense	—	—	—	(28,706)	(28,706)
Equity in earnings of unconsolidated subsidiaries	—	—	1,420	—	1,420
Other expense	(24)	—	—	(14)	(38)
Income (loss) before income tax	$ 45,446	$ 37,691	$ 1,398	(46,363)	38,172
Income tax expense				9,650	9,650
Net income (loss)				$ (56,013)	$ 28,522

(1) Infrastructure Solutions segment includes the equity in earnings from our investment in the AVAIL JV as well as other expenses related to receivables and liabilities that were retained following the sale of the AIS business.

(2) Interest expense and Income tax expense are included in the Corporate segment as these items are not allocated to the segments.

	Nine Months Ended November 30, 2023				
	Metal Coatings	Precoat Metals	Infrastructure Solutions(1)	Corporate(2)(3)	Total
Sales	$ 501,816	$ 669,204	$ —	$ —	$ 1,171,020
Cost of sales	353,280	535,326	—	—	888,606
Gross margin	148,536	133,878	—	—	282,414
Selling, general and administrative	20,143	24,429	6,244	52,271	103,087
Operating income (loss) from continuing operations	128,393	109,449	(6,244)	(52,271)	179,327
Interest expense	—	—	—	82,331	82,331
Equity in earnings of unconsolidated subsidiaries	—	—	(11,136)	—	(11,136)
Other (income) expense	40	—	—	(49)	(9)
Income (loss) from continuing operations before income tax	$ 128,353	$ 109,449	$ 4,892	(134,553)	108,141
Income tax expense				24,397	24,397
Net income (loss) from continuing operations				$ (158,950)	$ 83,744

(1) Infrastructure Solutions segment includes the Company's equity in (earnings) loss from its investment in the AVAIL JV, as well as other expenses related to receivables and liabilities that were retained by the Company following the sale of the AIS business.

(2) Interest expense and Income tax expense are included in the Corporate segment as these items are not allocated to the segments.

(3) For fiscal year 2024, amortization expense for acquired intangible assets is included in Corporate expenses in "Selling, general and administrative" expense as these expenses are not allocated to the segments.

	Three Months Ended November 30, 2022				
	Metal Coatings	Precoat Metals	Infrastructure Solutions(1)	Corporate(2)(3)	Total
Sales	$ 158,274	$ 215,027	$ —	$ —	$ 373,301
Cost of sales	120,134	180,085	—	—	300,219
Gross margin	38,140	34,942	—	—	73,082
Selling, general and administrative	4,594	13,889	—	9,206	27,689
Operating income (loss) from continuing operations	33,546	21,053	—	(9,206)	45,393
Interest expense	—	—	—	26,123	26,123
Equity in earnings of unconsolidated subsidiaries	—	—	(1,006)	—	(1,006)
Other income	(124)	—	—	(486)	(610)
Income (loss) from continuing operations before income tax	$ 33,670	$ 21,053	$ 1,006	(34,843)	20,886
Income tax expense				2,447	2,447
Net income (loss) from continuing operations				$ (37,290)	$ 18,439

	Nine Months Ended November 30, 2022				
	Metal Coatings	Precoat Metals(4)	Infrastructure Solutions(1)	Corporate(2)(3)	Total
Sales	$ 487,567	$ 499,578	$ —	$ —	$ 987,145
Cost of sales	350,152	402,303	—	—	752,455
Gross margin	137,415	97,275	—	—	234,690
Selling, general and administrative	13,603	33,361	—	50,283	97,247
Operating income (loss) from continuing operations	123,812	63,914	—	(50,283)	137,443
Interest expense	—	—	—	61,739	61,739
Equity in earnings of unconsolidated subsidiaries	—	—	(1,006)	—	(1,006)
Other (income) expense	6	(41)	—	(547)	(582)
Income (loss) from continuing operations before income tax	$ 123,806	$ 63,955	$ 1,006	(111,475)	77,292
Income tax expense				18,380	18,380
Net income (loss) from continuing operations				$ (129,855)	$ 58,912

(1) Infrastructure Solutions segment includes the Company's equity in (earnings) loss from its investment in the AVAIL JV.

(2) Interest expense and Income tax expense are included in the Corporate segment as these items are not allocated to the segments.

(3) For fiscal year 2023, amortization expense for acquired intangible assets is included in Metal Coatings expenses in "Cost of sales" and in Precoat Metals in "Selling, general and administrative" expense.

(4) For the nine months ended November 30, 2022, Precoat Metals segment includes results from May 13, 2022 - November 30, 2022.

Asset balances by operating segment for each period were as follows (in thousands):

		As of		As of	
		November 30, 2023	February 28, 2023		
		May 31, 2024		May 31, 2024	February 29, 2024
Assets:	Assets:				
Metal Coatings					
Metal Coatings					
Metal Coatings	Metal Coatings	$ 559,149	$ 588,337		
Precoat Metals	Precoat Metals	1,504,828	1,488,810		
Infrastructure Solutions - Investment in Joint Venture	Infrastructure Solutions - Investment in Joint Venture	97,238	84,760		
Corporate	Corporate	47,541	59,572		
Total assets	Total assets	$ 2,208,756	$2,221,479		
Total assets					
Total assets					

Financial Information About Geographical Areas

Financial information about geographical areas for the periods presented was as follows (in thousands):. The geographic area is based on the location of the operating facility and no customer accounted for 10 percent or more of consolidated sales.

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2023	2022	2023	2022
	Three Months Ended May 31,			
	Three Months Ended May 31,			
	Three Months Ended May 31,			
	2024			
	2024			
	2024			
Sales:				
Sales:				
Sales: Sales:				
United States United States	$ 370,485	$ 363,660	$ 1,140,344	$ 951,855
United States				
United States				
Canada				
Canada				
Canada Canada	11,120	9,641	30,676	35,290
Total Total	$ 381,605	$ 373,301	$ 1,171,020	$ 987,145
Total				
Total				

	As of			
	November 30, 2023	February 28, 2023		
	As of		As of	
	May 31, 2024		May 31, 2024	February 29, 2024
Property, plant and equipment, net: Property, plant and equipment, net:				
United States				
United States				
United States United States	$ 506,070	$478,722		
Canada Canada	19,268	19,781		
Total Total	$ 525,338	$498,503		
Total				
Total				

9. 7. Investments in Unconsolidated Entity

AVAIL JV

Following the sale of its 60% controlling interest in the AVAIL JV to Fernweh, AIS was deconsolidated and the Company began accounting We account for its our 40% interest in the AVAIL JV under the equity method of accounting. The AVAIL JV is included accounting and include our equity in earnings as part of the AZZ Infrastructure Solutions segment. We record our equity in earnings in the AVAIL JV on a one-month lag, to allow sufficient time to review and assess which totaled $3.8 million in equity in earnings for the joint venture's effect on our reported results. three months ended May 31, 2024. As of November 30, 2023 May 31, 2024, our investment in the AVAIL JV is $97.2 million. We recorded $11.1 million was $101.6 million, which includes an excess of equity in earnings during $10.2 million over the nine months ended November 30, 2023. The Company has a related-party payable with underlying value of the net assets of the AVAIL JV. As of November 30, 2023 and February 28, 2023, the balance was $4.6 million and $6.3 million, respectively, The excess is accounted for as equity method goodwill.

Summarized Balance Sheet

	As of November 30, 2023 May 31, 2024(1)
Current assets	$ 273,535 279,806
Long-term assets	173,312 171,533
Total assets	$ 446,847 451,339
Current liabilities	102,225 113,512
Long-term liabilities	132,175 126,625
Total liabilities	$ 234,400 240,137
Total partners' capital	212,447 211,202
Total liabilities and partners' capital	$ 446,847 451,339

Summarized Operating Data

	May 31, 2024(1)
Sales	$ 129,107
Gross profit	31,526
Net income	8,160

(1) We report our equity in earnings on a one-month lag basis; therefore, amounts in the summarized financials above are as of and for the three months ended April 30, 2024. Amounts in the table above exclude certain adjustments made by us to record equity in earnings of the AVAIL JV under U.S GAAP for public companies, primarily to reverse the amortization of goodwill.

Summarized Operating Data

	Three Months Ended November 30, 2023(1)	Nine Months Ended November 30, 2023(1)
Sales	$ 127,156	$ 346,493
Gross profit	36,150	87,013
Net income	13,139	21,969

(1) The Company reports on a one-month lag basis; therefore, amounts in the summarized financials above are as of and for the three and nine months ended October 31, 2023. Amounts in the table above exclude certain adjustments made by the Company to record equity in earnings of the AVAIL JV, primarily related to goodwill amortization.

10. 8. Derivative Instruments

Interest Rate Swap Derivative

As a policy, the Company does we do not hold, issue or trade derivative instruments for speculative purposes. The Company may We periodically enter into forward sale contracts to purchase a specified volume of zinc at fixed prices. These contracts are not accounted for as derivatives because they meet the criteria for the normal purchases and normal sales scope exception in ASC 815.

Accounting Standards Codification ("ASC") 815, *Derivatives and Hedging*.

We manage our exposure to fluctuations in interest rates using a mix of fixed and variable-rate debt. We utilize on our floating-rate debt by entering into interest rate swap agreements to change the variable interest rate to a fixed rate on convert a portion of our variable-rate debt. debt to a fixed rate. On September 27, 2022, the Company we entered into an a fixed-rate interest rate swap agreement, which was subsequently amended on October 7, 2022 (the "2022 Swap"), with banks that are parties to the 2022 Credit

Agreement. On October 7, 2022, the agreement was amended Agreement, to change the SOFR-based component of the interest rate on a rate. The 2022 Swap converts the SOFR portion of to 4.277%. On March 20, 2024, we repriced our variable-rate debt Term Loan B to a fixed rate of 4.277% SOFR plus 3.25%, resulting in a total fixed rate of 8.627% (the "2022 Swap"). On August 17, 2023, the Company repriced its Term Loan B, to which the 2022 Swap is related, to reduce the interest rate to SOFR + 3.75%. Following the repricing, the 2022 Swap has a total fixed rate of 8.027% 7.527%. The 2022 Swap had an initial notional amount of $550.0 million and a maturity date of September 30, 2025. The notional amount of the interest rate swap decreases by a pro-rata portion of any quarterly principal payments made on the Term Loan B, and the current notional amount is $543.1 million $540.4 million as of May 31, 2024. The objective of the 2022 Swap is to eliminate the variability of cash flows in interest payments attributable to changes in benchmark one-month SOFR interest rates, for approximately one-half of the total amount a portion of our variable-rate debt. The hedged risk is the interest rate risk exposure to changes in interest payments, attributable to changes in benchmark one-month SOFR interest rates over the interest rate swap term. The changes in cash flows of the interest rate swap are expected to 2022 Swap exactly offset changes in cash flows of the variable-rate debt. We designated the 2022 Swap as a cash flow hedge at inception. Cash settlements, in the form of cash payments or cash receipts of to settle the 2022 Swap are recognized in interest expense.

At November 30, 2023 May 31, 2024, changes in fair value attributable to the effective portion of the 2022 Swap were included on the condensed consolidated balance sheets in accumulated other comprehensive income. For derivative instruments that qualify for hedge accounting treatment, the fair value is recognized on our condensed consolidated balance sheets as derivative assets or liabilities with offsetting changes in fair value, to the extent effective, recognized in accumulated other comprehensive income until reclassified into earnings when the interest expense on the underlying debt is reflected in earnings. The portion of a cash flow hedge that does not offset the change in the fair value of the transaction being hedged, which is commonly referred to as the ineffective portion, is immediately recognized in earnings. During the nine three months ended November 30, 2023 May 31, 2024, we reclassified $3.5 million $1.4 million before income tax, or $2.5 million $1.1 million net of tax, from other comprehensive income to earnings.

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AZZ INC.
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9. Debt

The Company's Our long-term debt instruments and balances outstanding for each of the periods presented (in thousands):

		As of		As of	
		November 30, 2023	February 28, 2023		
		As of May 31, 2024		May 31, 2024	February 29, 2024
Revolving Credit Facility	Revolving Credit Facility	$ 10,000	$ 95,000		
Term Loan B	Term Loan B	1,030,250	1,030,250		
Term Loan B					
Term Loan B					
Total debt, gross	Total debt, gross	$ 1,040,250	$1,125,250		
Unamortized debt issuance costs	Unamortized debt issuance costs	(60,246)	(67,130)		
Total debt, net		980,004	1,058,120		
Less current portion of long-term debt		—	—		
Long-term debt, net	Long-term debt, net	$ 980,004	$1,058,120		
Long-term debt, net					
Long-term debt, net					

2022 Credit Agreement and Term Loan B

The Company has We have a credit agreement with a syndicate of financial institutions as lenders that was entered into on May 13, 2022 (the, and was subsequently amended on August 17, 2023, December 20, 2023 and March 20, 2024 (collectively referred to herein as the "2022 Credit Agreement"). On August 17, 2023, the Company repriced the $1.0 billion Term Loan B, which was outstanding under the 2022 Credit Agreement as of November 30, 2023. The repricing reduced the interest rate margin by 50 basis points to an interest rate of Secured Overnight Financing Rate ("SOFR") plus 3.75% and removed the Credit Spread Adjustment, as defined in the 2022 Credit Agreement, of 10 basis points.

The 2022 Credit Agreement includes the following significant terms:

i. provides for a senior secured initial term loan in the aggregate principal amount of $1.3 billion (the "Term Loan B"), due May 13, 2029, which is secured by substantially all of the assets of the Company; as of May 31, 2024, the outstanding balance of the Term Loan B was $950.3 million;
ii. provides for a maximum senior secured Revolving Credit Facility in the aggregate principal amount of $400.0 million (the "Revolving Credit Facility"), due May 13, 2027;
iii. includes a letter of credit sub-facility of up to $100.0 million, which is part of, and not in addition to, the Revolving Credit Facility;

iv. borrowings under the Term Loan B bear an a tiered interest rate of SOFR Secured Overnight Financing Rate ("SOFR") plus 3.75% 3.25% (following the repricing on August 17, 2023 March 20, 2024 as noted above) described below) and the Revolving Credit Facility bears an a leverage-based rate with various tiers between 2.75% and 3.50%; as of May 31, 2024, the interest rate of was SOFR plus 4.25% (as of November 30, 2023—see Note 18 for information related to the repricing of the Company's Revolving Credit Facility on December 20, 2023); 2.75%;
v. includes customary affirmative and negative covenants, and events of default; including restrictions on the incurrence of non-ordinary course debt, investment and dividends, subject to various exceptions; and,
vi. includes a maximum quarterly leverage ratio financial covenant, with reporting requirements to our banking group at each quarter-end.

On March 20, 2024, we repriced the Term Loan B. The Company utilizes repricing adjusted the Term Loan B spread from a rate of SOFR plus 3.75% to SOFR plus 3.25%.

We primarily utilize proceeds from the Revolving Credit Facility primarily to finance working capital needs, capital improvements, quarterly cash dividends, acquisitions and for other general corporate purposes.

As defined in the credit agreement, 2022 Credit Agreement, quarterly prepayments were due against the outstanding principal of the Term Loan B and were payable on the last business day of each May, August, November and February, beginning August 31, 2022, in a quarterly aggregate principal amount of $3.25 million, with the entire remaining principal amount due on May 13, 2029, the maturity date. Additional prepayments made against the Term Loan B contribute to these required quarterly payments. Due to a prepayment of $240.0 million that the Company prepayments made on against the Term Loan B during fiscal year 2023 in connection with the sale of the AIS business, since August 31, 2022, the quarterly mandatory principal payment requirement has been met, and the quarterly payments of $3.25 million are not required at this time.

The weighted average interest rate for the Company's our outstanding debt, including the Revolving Credit Facility and the Term Loan B, was 8.54% at November 30, 2023. 8.09% and 9.07% as of May 31, 2024 and 2023, respectively.

The Company's credit agreement required the Company Debt Compliance, Outstanding Borrowings and Letters of Credit

Our 2022 Credit Agreement requires us to maintain a maximum Total Net Leverage Ratio (as defined in the loan agreement) no greater than 6.25 through November 2022. For each subsequent quarter, the maximum ratio decreases by 25 basis points through May 31, 2024, when the maximum Total Net Leverage Ratio reaches 4.5. As of November 30, 2023, the Company was required to maintain a Total Net Leverage Ratio no greater than 5.0. As of November 30, 2023 May 31, 2024, we were in compliance with all covenants or and other requirements set forth in the debt agreements. 2022 Credit Agreement.

As of November 30, 2023 May 31, 2024, we had $1.04 billion $985.3 million of floating- and fixed-rate debt outstanding on the Revolving Credit Facility and the Term Loan B, with varying maturities through fiscal 2029. As of November 30, 2023, we are in compliance with each of the covenants related to these outstanding borrowings. Additionally, as of November 30, 2023, we We had approximately $375.5 $350.7 million of additional credit available for future draws or letters as of credit.

Letters of Credit May 31, 2024.

As of November 30, 2023 May 31, 2024, we had total outstanding letters of credit in the amount of $14.5 $14.3 million. These letters of credit are issued for a number of reasons, but are most commonly issued in lieu of customer retention withholding payments covering warranty, performance periods and insurance collateral.

12. Other Disclosures

Interest expense is comprised as follows (in thousands):

	Three Months Ended May 31,	
	2024	2023
Gross Interest expense	$ 24,207	$ 28,962
Less: Capitalized interest	(1,433)	(256)
Interest expense, net	$ 22,774	$ 28,706

Capitalized interest for the three months ended May 31, 2024 of approximately $1.4 million relates to interest cost on the construction of the greenfield aluminum coil coating facility in Washington, Missouri, and increased from the prior year period due to the higher average construction work in process.

10. Fair Value Measurements

Recurring Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. In accordance with ASC 820, *Fair Value Measurements and Disclosures Measurement* ("ASC 820"), certain of the Company's our assets and liabilities, which are carried at fair value, are classified in one of the following three categories:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market-based inputs, other than Level 1, or unobservable inputs corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data and reflect the Company's own assumptions.

The carrying amount of the Company's our financial instruments (cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities) approximates the fair value of these instruments based upon either their short-term nature.

nature or their variable market rate of interest. We have not made an option to elect fair value accounting for any of our financial instruments.

Interest Rate Swap Agreement

The Company's Our derivative instrument consists of an interest rate swap contract, the 2022 Swap, which is considered a Level 2 of the fair value hierarchy and included in "Other assets" in the condensed consolidated balance sheet sheets as of November 30, 2023 May 31, 2024. The valuation of the 2022 Swap is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of the derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including swap rates, spread and/or index levels and interest rate curves. See Note 10 8 for more information.

The Company's Our financial instrument instruments that is are measured at fair value on a recurring basis as of November 30, 2023 May 31, 2024 and February 28, 2023 is February 29, 2024 are as follows (dollars in thousands):

	Carrying Value November 30, 2023	Fair Value Measurements Using			Carrying Value February 28, 2023	Fair Value Measurements Using		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Assets (Liabilities):								
Interest Rate Swap Agreement	$ 2,975	$ —	$ 2,975	$ —	$ 3,925	$ —	$ 3,925	$ —
Total Assets	$ 2,975				$ 3,925			

	Carrying Value May 31, 2024	Fair Value Measurements Using			Carrying Value February 29, 2024	Fair Value Measurements Using		
		Level 1	Level 2	Assets measured at Net Asset Value		Level 1	Level 2	Assets measured at Net Asset Value
Assets:								
Interest Rate Swap Agreement	$ 4,806	$ —	$ 4,806	$ —	$ 3,410	$ —	$ 3,410	$ —
Total Assets	$ 4,806				$ 3,410			
Liabilities:								
Pension Liability	30,257	—	—	30,257	31,148	—	—	31,148
Total Liabilities	$ 30,257				$ 31,148			

Non-recurring Fair Value Measurements

Investment in Joint Venture

The fair value of our investment in the unconsolidated AVAIL JV that is accounted for under the equity method was determined based on the transaction price. Subsequent measurement of the fair value of the AVAIL JV is determined based on using the income approach. approach at the date on which we entered into the joint venture. The income approach uses discounted cash flow models that require various observable and non-observable inputs, such as operating margins, revenues, product costs, operating expenses, capital expenditures, terminal-year values and risk-adjusted discount rates. These valuations resulted in Level 3 nonrecurring non-recurring fair value measurements. As of November 30, 2023,

We assess our investment in the estimated fair unconsolidated AVAIL JV for recoverability when events and circumstances are present that suggest there has been a decline in value, and if it is determined that a loss in value of the investment in is other than temporary, the AVAIL JV approximates the carrying value of $97.2 million. investment is written down to its fair value.

Long-Term Debt

The fair value values of the Company's Term Loan B is based on quoted market prices in active markets and is included in the Level 1 fair value hierarchy. The fair value of the Company's revolving credit facility is our long-term debt instruments are estimated based on market values for debt issues issued with similar characteristics or rates currently available for debt with similar terms and is included in the terms. These valuations are Level 2 non-recurring fair value hierarchy. measurements.

The principal amount of our outstanding debt was $1.04 billion $985.3 million and $1.13 billion $1,010.3 million at November 30, 2023 May 31, 2024 and February 28, 2023 February 29, 2024, respectively. The estimated fair value of our outstanding debt was $1.04 billion $992.6 million and $1.13 billion $1,010.3 million at November 30, 2023 May 31, 2024 and February 28, 2023 February 29, 2024, respectively. excluding unamortized debt issuance costs. The estimated fair values of our outstanding debt were determined based on the present value of future cash flows using model-derived valuations that use observable inputs such as interest rates and credit spreads.

13. 11. Leases

The Company is We are a lessee under various leases for facilities and equipment. As of November 30, 2023 May 31, 2024, the Company was we were the lessee for 159 149 operating leases and 25 46 finance leases with terms of 12 months or more. Many of the operating These leases either have renewal options of between one are reflected on our balance sheet in "Right-of-use assets," "Lease liability - short-term" and five years or convert to month-to-month agreements at the end of the specified lease term. "Lease liability - long-term."

The Company's Our operating leases are primarily for (i) operating facilities, (ii) vehicles and equipment used in operations, (iii) facilities used for back-office functions and (iv) equipment used for back-office functions, and (v) temporary storage. The majority of the Company's long-term lease expenses our vehicle and equipment leases have both a fixed and variable component.

Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheets and the Company recognizes we recognize lease expense for these leases on a straight-line basis over the lease term. The Company has We have a significant number of short-term leases, including month-to-month agreements. The Company's Our short-term lease agreements include expenses incurred hourly, daily, monthly and for other durations of time of one year or less. The Company's Our future lease commitments as of November 30, 2023 May 31, 2024 do not reflect all of the Company's our short-term lease commitments.

The following table outlines the classification of the Company's right-of-use ("ROU") asset and lease liabilities in the consolidated balance sheets as of November 30, 2023 May 31, 2024 and February 28, 2023 February 29, 2024 (in thousands):

	Balance Sheet Classification	As of November 30, 2023	February 28, 2023	Balance Sheet Classification	As of May 31, 2024	February 29, 2024
Assets	**Assets**					
Right-of-use assets	Right-of-use assets	$ 22,830	$26,392			
Operating right-of-use assets						
Operating right-of-use assets						
Operating right-of-use assets						
Finance right-of-use assets						
Liabilities	**Liabilities**					

Operating lease liabilities — short-term

Operating lease liabilities — short-term

Operating lease liabilities — short-term	Operating lease liabilities — short-term	Lease liability - short-term	$ 5,999	$ 6,119
Operating lease liabilities — long-term	Operating lease liabilities — long-term	Lease liability - long-term	15,732	19,659
Finance lease liabilities — short-term	Finance lease liabilities — short-term	Lease liability - short-term	454	284
Finance lease liabilities — long-term	Finance lease liabilities — long-term	Lease liability - long-term	1,380	1,045

Supplemental information related to the Company's portfolio of AZZ's operating leases from continuing operations was as follows (in thousands, except years and percentages):

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2023	2022	2023	2022
Operating cash flows from operating leases included in lease liabilities	$ 1,811	$ 2,862	$ 5,471	$ 8,069
Lease liabilities obtained from new ROU assets - operating	60	2,396	1,942	4,938
Decrease in ROU assets related to lease terminations	—	—	(1,294)	—
Operating and financing cash flows from financing leases included in lease liabilities	130	70	330	182
Lease liabilities obtained from new ROU assets - financing	173	—	773	398

	Three Months Ended May 31,	
	2024	2023
Operating cash flows from operating leases included in lease liabilities	$ 1,779	$ 1,825
Lease liabilities obtained from new ROU assets - operating	217	1,509
Financing cash flows from finance leases included in lease liabilities	196	70
Operating cash flows from finance leases included in lease liabilities	68	16
Lease liabilities obtained from new ROU assets - finance leases	410	—

	As of	
	November 30, 2023	February 28, 2023

	As of		As of	
	May 31, 2024		May 31, 2024	February 29, 2024

Weighted-average remaining lease term - operating leases	Weighted-average remaining lease term - operating leases	4.29 years	5.04 years	Weighted-average remaining lease term - operating leases	3.97 years	4.12 years
Weighted-average discount rate - operating leases	Weighted-average discount rate - operating leases	4.44 %	4.31 %	Weighted-average discount rate - operating leases	4.55 %	4.49 %
Weighted-average remaining lease term - financing leases		4.25 years	4.61 years			
Weighted-average discount rate - financing leases		5.66 %	5.15 %			
Weighted-average remaining lease term - finance leases				Weighted-average remaining lease term - finance leases	5.08 years	5.21 years
Weighted-average discount rate - finance leases				Weighted-average discount rate - finance leases	6.86 %	6.70 %

The following table outlines the classification of lease expense related to operating and finance leases from continuing operations, in the statements of operations (in thousands):

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2023	2022	2023	2022
Cost of sales	$ 2,997	$ 3,306	$ 9,234	$ 8,590
Selling, general and administrative	495	494	1,500	1,435
Total lease cost	$ 3,492	$ 3,800	$ 10,734	$ 10,025

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	Three Months Ended May 31,	
	2024	2023
Operating lease expense:		
Cost of sales	$ 3,003	$ 3,026
Selling, general and administrative	489	499
Total operating lease expense	3,492	3,525
Financing lease expense:		
Cost of sales	223	76
Interest expense	68	16
Total financing lease expense	291	92

Total lease expense	$ 3,783	$ 3,617

As of May 31, 2024, maturities of our lease liabilities were as follows (in thousands):

Fiscal year:	Operating Leases	Finance Leases	Total
2025	$ 4,940	$ 816	$ 5,756
2026	5,740	1,015	6,755
2027	4,552	976	5,528
2028	2,529	889	3,418
2029	1,917	672	2,589
2030	462	447	909
Thereafter	796	170	966
Total lease payments	$ 20,936	$ 4,985	$ 25,921
Less imputed interest	(1,778)	(784)	(2,562)
Total	$ 19,158	$ 4,201	$ 23,359

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of November 30, 2023, maturities of the Company's lease liabilities were as follows (in thousands):

Fiscal year:	Operating Leases	Finance Leases	Total
2024	$ 1,787	$ 136	$ 1,923
2025	6,532	536	7,068
2026	5,583	459	6,042
2027	4,410	423	4,833
2028	2,441	349	2,790
2029	1,871	138	2,009
Thereafter	1,252	24	1,276
Total lease payments	$ 23,876	$ 2,065	$ 25,941
Less imputed interest	(2,145)	(231)	(2,376)
Total	$ 21,731	$ 1,834	$ 23,565

The Company subleases multiple buildings in Columbia, South Carolina to multiple subtenants. The Columbia sublease agreements are by and between AZZ Precoat Metals and multiple subtenants. Sublease income is recognized over the term of the sublease on a straight-line basis and is reported in the consolidated statement of operations in "Cost of sales." The Company recognized $0.3 million and $0.8 million of income from subleases during the three and nine months ended November 30, 2023, respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. 12. Income Taxes

Continuing Operations

The provision for income taxes from continuing operations reflects an effective tax rate of 24.6% 22.4% for the three months ended November 30, 2023 May 31, 2024, compared to 11.7% 25.3% for the three months ended November 30, 2022 May 31, 2023. The increase in the effective tax rate is attributable to a favorable adjustment in the prior year period due to the recognition of an outside basis difference related to the AVAIL JV.

The provision for income taxes from continuing operations reflects an effective tax rate of 22.6% for the nine months ended November 30, 2023, compared to 23.8% for the prior year comparable period. The decrease in the effective tax rate is attributable to an unfavorable adjustment in the prior year related to management fees recorded as a result of continuing operations versus discontinued operations reporting.

Discontinued Operations

The following table outlines income or loss and the related higher discrete items driven by tax expense (benefit) from discontinued operations deductions for the three and nine months ended November 30, 2022 (in thousands):

	Three Months Ended November 30, 2022		Nine Months Ended November 30, 2022	
Income from discontinued operations before income taxes	$	1,202	$	21,053
Income tax (expense) benefit		463		(3,927)
Income from discontinued operations, net of tax	**$**	**1,665**	**$**	**17,126**
Loss on disposal of discontinued operations	$	(45,010)	$	(159,910)
Income tax benefit		4,364		29,837
Loss on disposal of discontinued operations, net of tax	**$**	**(40,646)**	**$**	**(130,073)**

The provision for income taxes from discontinued operations reflects an effective tax rate of 11.0% and 18.7% for the three and nine months ended November 30, 2022.

stock compensation.

15. 13. Mezzanine Equity

Series A Convertible Preferred Stock

On August 5, 2022 May 9, 2024, we fully redeemed our 240,000 shares of 6.0% Series A Convertible Preferred Stock ("Series A Preferred Stock"), for $308.9 million. The payment was calculated as the Company exchanged its face value of the Series A Preferred Stock of $240.0 million, aggregate principal multiplied by the Return Factor (as defined below) of 1.4, less dividends paid to date of $27.1 million. The redemption premium of $75.2 million, which is calculated as the difference between the redemption amount and the book value of 6.0% $233.7 million, was recorded as a deemed dividend, and reduces net income available to common shareholders. The Series A Preferred Stock was redeemed using proceeds from the April 2024 Secondary Offering.

On August 5, 2022, we exchanged our $240.0 million 6.00% convertible subordinated notes which were due June 30, 2030, for 240,000 shares of 6.0% Series A Convertible Preferred Stock, following the receipt of shareholder approval for the issuance of preferred stock. Series A Preferred Stock. The Series A Convertible Preferred Stock has a $1.00 par value per share, and ranked senior to the common stock of the Company, including with respect to both income and capital, but junior to our indebtedness. The Series A Preferred Stock is classified as "Mezzanine equity" in the consolidated balance sheets and was fully redeemed on May 9, 2024.

Liquidation Preference

If we undergo a change of control, bankruptcy, insolvency, liquidation or de-listing of AZZ’s common stock (a “Fundamental Change Event”), holders of Series A Preferred Stock may elect to (i) receive the as-converted value of AZZ’s common stock at the then-current Conversion Price, (ii) require us to redeem the Series A Preferred Stock in cash for the Redemption Amount (as defined below) or (iii) retain their shares of Series A Preferred Stock if the Fundamental Change Event is a non-cash change of control.

The Series A Preferred Stock has a liquidation preference, as defined by U.S. GAAP, equal to the Redemption Amount. Under U.S. GAAP, the liquidation preference is defined as the amount that would be required to be paid to the shareholders upon liquidation or dissolution of the Company. As of February 29, 2024, the holders of the shares of Series A Preferred Stock were entitled to a liquidation preference of approximately $312.5 million in the event of any liquidation, dissolution or winding up of the Company as of such year end.

The Certificate of Designation for the Series A Preferred Stock defines "liquidation preference" as $1,000 per share plus any unpaid dividends, which we refer to herein as the "Series A Base Amount."

Dividends

The Series A Preferred Stock accumulates a 6.0% dividend per annum, or $15.00 per share per quarter. Dividends are payable in cash or in kind, by accreting and increasing the Series A Base Amount (“PIK Dividends”). Dividends are payable on the sum of (i) the aggregate liquidation preference amount of $240.0 million plus (ii) any PIK Dividends. Dividends are accrued daily and paid quarterly in arrears, on March 31, June 30, September 30 and December 31 of each year. Following the calendar quarter ending June 30, 2027, we may not elect PIK Dividends and dividends on the Series A Preferred Stock must be paid in cash. All dividends have been paid in cash through May 31, 2024. The dividend will increase annually by one percentage point, beginning with the dividend payable for the calendar quarter ending September 30, 2028. Dividends declared and paid for each of the three months ended May 31, 2024 and May 31, 2023 were $3.6 million.

Conversion Features

Subject to a minimum conversion threshold of 1,000 shares of Series A Preferred Stock per conversion and customary anti-dilution and dividend adjustments, the Series A Preferred Stock is convertible by the holder at any time into shares of the Company's AZZ's common stock at a conversion price of for $58.30 per common share. The preferred stock accumulates a 6.0% dividend per annum. Dividends are payable quarterly on March 31, June 30, September 30 and December 31 of each year. share (the “Conversion Price”). In addition, the preferred shares are subject after May 13, 2024, we will be entitled to a minimum conversion threshold provide holders of 1,000 shares per conversion, and customary anti-dilution and dividend adjustments. The preferred shares have full voting rights as if converted and have a fully participating liquidation preference.

As of both November 30, 2023 and February 28, 2023, the 240,000 shares of outstanding Series A Convertible Preferred Stock had accrued dividends with notice of $2.4 million and could be converted into 4.1 million shares a mandatory conversion of a portion of the Series A Preferred Stock (which may not exceed 25% of the amount of Series A Preferred Stock issued in any single quarter) at the Conversion Price if the closing price of our common stock at the option exceeds 185% of the holder.

Conversion Price for 20 consecutive trading

days prior to the date of such notice and so long as the shelf registration statement filed November 4, 2022 to cover resales of the converted common stock remains effective and available for use.

Participation Rights

Holders of Series A Preferred Stock will participate equally and ratably with the holders of AZZ's common stock in any dividends paid on AZZ's common stock in excess of our current $0.17 quarterly dividend when, as and if declared by the Board as if such shares of Series A Preferred Stock had been converted to shares of common stock immediately prior to the record date for the payment of such dividend.

Redemption Features

AZZ will have the right to redeem the Series A Preferred Stock at a price equal to the greater of (i) the Series A Base Amount plus accrued but unpaid dividends; (ii) the initial Series A Base Amount (excluding any prior PIK dividends) multiplied by the Return Factor less all dividends paid through the redemption date; or (iii) the amount the holder of such share of convertible preferred stock would have received had such holder, immediately prior to such redemption date, converted such shares of convertible preferred stock into common shares (such greater amount, the “Redemption Amount”).

The redemption price under option (ii) contains a "Return Factor," which will be equal to 1.4 until May 13, 2024 and, (a) in each of the three years thereafter, will increase by 0.15, (b) will increase by an additional 0.15 after May 13, 2024 (the second anniversary of the issuance date of the Series A Preferred Stock) if (i) our ratio of net debt to earnings before interest, taxes, depreciation and amortization (“EBITDA”) (as defined in the 2022 Credit Agreement) on the second anniversary of the issuance date of the Series A Preferred Stock is greater than 3.5-to-1 and (ii) prior to May 13, 2024,we have not consummated dispositions of assets that, in the aggregate, resulted in proceeds in excess of $200.0 million and (c) will increase by an additional 0.20 on May 13, 2028, (the sixth anniversary of the issuance date of the Series A Preferred Stock) and each anniversary thereafter.

The redemption price under option (iii) is subject to provisions of the Certificate of Designation that limits our right to redeem to the period following the two year anniversary of the initial issuance, limits the quarterly conversion to up to 25% of the number of shares of convertible preferred stock outstanding, and requires our market price per share of common stock to exceed 185% of the conversion price.

As of February 29, 2024, the Redemption Amount for the Series A Preferred stock was $312.5 million.

Voting Rights

Holders of Series A Preferred Stock will be entitled to a number of votes on all matters presented to holders of voting capital stock of AZZ equal to the number of shares of the AZZ’s common stock then issuable upon conversion of such holders’ Series A Preferred Stock. The vote or consent of the holders of at least a majority of the outstanding shares of Series A Preferred Stock will be required for certain actions, including:

a. issuances by AZZ of equity securities that are senior to, or equal in priority with, the Series A Preferred Stock, including any additional shares of Series A Preferred Stock;
b. incurrence of any additional indebtedness (including refinancings of existing indebtedness) by the Company unless our ratio of net debt to EBITDA (as defined in the 2022 Credit Agreement) does not exceed 5.5x;
c. refinancings of the 2022 Credit Agreement, subject to certain exceptions;
d. dividends or distributions upon, or redemptions of, shares of AZZ’s common stock unless our ratio of net debt to EBITDA (as defined in the 2022 Credit Agreement) does not exceed 5.5x;
e. any acquisition, investment, sale, disposition or similar transaction (whether of an entity, business, equity interests or assets) that has total consideration (including assumption of liabilities) of at least $250.0 million (or, when our market capitalization is $2.0 billion or greater, has total consideration (including assumption of liabilities) of at least $500.0 million);
f. amendments to our organizational documents that would have an adverse effect on the holders of Series A Preferred Stock;
g. any affiliate transaction except those on arms’-length terms; and
h. any voluntary dissolution, liquidation, bankruptcy, winding up or deregistration or delisting of AZZ’s common stock.

The holders of Series A Preferred Stock will also have customary information and preemptive rights, and the Series A Preferred Stock will be subject to customary anti-dilution provisions. The Series A Preferred Stock and all shares of common stock issuable upon conversion of the Series A Preferred Stock will have customary demand and piggyback registration rights pursuant to the registration rights agreement, which was entered into on May 13, 2022 with BTO Pegasus Holdings DE L.P., a Delaware limited partnership (together with its assignees, “Blackstone”). Holders of Series A Preferred Stock will also be prohibited from transferring shares of Series A Preferred Stock to any competitor of AZZ or activist investors, subject to certain exceptions.

14. Equity

April 2024 Secondary Offering

On April 30, 2024, we completed a secondary public offering in which we sold 4.6 million shares of our common stock at $70.00 per share (the "April 2024 Secondary Offering"). We received gross proceeds of $322.0 million, and paid offering expenses of $13.3 million, for net proceeds of $308.7 million. The proceeds from the April 2024 Offering were used to redeem the Series A Preferred Stock. See Note 13.

Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income (loss) ("AOCI"), after tax, for the three and nine months ended November 30, 2023 May 31, 2024 and 2022 2023 consisted of the following (in thousands):

	Three Months Ended May 31,								Three Month May 3
	2024								
	Foreign Currency Translation Gain (Loss)	Foreign Currency Translation Gain (Loss) for Unconsolidated Subsidiary, Net of Tax	Net Actuarial Gain (Loss), Net of Tax	Interest Rate Swap, Net of Tax	Interest Rat Swap, Net c Tax for Unconsolidat Subsidiary				

	Three Months Ended November 30,							
	2023				2022			
	Foreign Currency Translation Gain (Loss)	Net Actuarial Gain (Loss), Net of Tax	Interest Rate Swap, Net of Tax	Total	Foreign Currency Translation Gain (Loss)	Net Actuarial Gain (Loss), Net of Tax	Interest Rate Swap, Net of Tax	Total
	Foreign Currency Translation Gain (Loss)							
Balance as of beginning of period	$ (9,307)	$ 119	$ 3,374	$ (5,814)	$ (30,070)	$ —	$ —	$ (30,070)
Other comprehensive income before reclassification	3,029	—	(115)	2,914	(5,019)	—	(3,512)	(8,531)
Amounts reclassified from AOCI	—	—	(1,057)	(1,057)	27,750	—	—	27,750
Net change in AOCI	3,029	—	(1,172)	1,857	22,731	—	(3,512)	19,219
Balance as of end of period	$ (6,278)	$ 119	$ 2,202	$ (3,957)	$ (7,339)	$ —	$ (3,512)	$ (10,851)

	Nine Months Ended November 30,							
	2023				2022			
	Foreign Currency Translation Gain (Loss)	Net Actuarial Gain (Loss), Net of Tax	Interest Rate Swap, Net of Tax	Total	Foreign Currency Translation Gain (Loss)	Net Actuarial Gain (Loss), Net of Tax	Interest Rate Swap, Net of Tax	Total

	Three Months Ended May 31,	Three Months May 31
	2023	2023

		Foreign Currency Translation Gain (Loss)								Foreign Currency Translation Gain (Loss)	Foreign Currency Translation Gain (Loss) for Unconsolidated Subsidiary, Net of Tax	Net Actuarial Gain (Loss), Net of Tax	Interest Rate Swap, Net of Tax	Interest Rate Swap, Net of Tax for Unconsolidate Subsidiary
Balance as of beginning of period	**Balance as of beginning of period**	$ (7,571)	$ 119	$ 2,879	$ (4,573)	$ (27,324)	$ —	$ —	$ (27,324)					
Other comprehensive income before reclassification	Other comprehensive income before reclassification	1,293	—	1,867	3,160	(7,765)	—	(3,512)	(11,277)					
Amounts reclassified from AOCI	Amounts reclassified from AOCI	—	—	(2,544)	(2,544)	27,750	—	—	27,750					
Net change in AOCI	Net change in AOCI	1,293	—	(677)	616	19,985	—	(3,512)	16,473					
Balance as of end of period	**Balance as of end of period**	$ (6,278)	$ 119	$ 2,202	$ (3,957)	$ (7,339)	$ —	$ (3,512)	$ (10,851)					

AZZ INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

16. 15. Defined Benefit Pension Plan

Pension and Employee Benefit Obligations

In the Company's our Precoat Metals segment, certain current or past employees participate in a defined benefit pension plan (the "Plan"). Prior to the Precoat Acquisition, benefit accruals were frozen for all participants. After the freeze, participants no longer accrued benefits under the Plan, and new hires of AZZ Precoat Metals are not eligible to participate in the Plan. As of November 30, 2023 May 31, 2024, the Plan was underfunded, and the Company has we have a pension liability of $31.6 $30.3 million, which is included in "Other long-term liabilities" in the consolidated balance sheets and represents the underfunded portion of the Plan.

The components of net benefit cost other than the employer service cost are included in "Selling, general and administrative" expense. We recognized $0.2 million of net benefit cost for the three months ended May 31, 2024. We paid employer contributions of $1.1 million into the Plan during the three months ended May 31, 2024. We expect to pay $6.7 million of contributions into the Plan during the remainder of fiscal 2025.
17.

16. Commitments and Contingencies

Legal

The Company and its subsidiaries are named defendants and plaintiffs in various routine lawsuits incidental to our business. These proceedings include labor and employment claims, various commercial disputes, use of the Company's intellectual property, worker's compensation and environmental matters, all arising in the normal course of business. As discovery progresses on all outstanding legal matters, the Company will continue to evaluate opportunities to either settle the

disputes for nuisance value or potentially enter into mediation as a way to resolve the disputes prior to trial. As the pending cases progress through additional discovery and potential mediation, our assessment of the likelihood of an unfavorable outcome on the pending lawsuits may change. 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 believes it has strong defenses to all of these matters and 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.

The Company's prior-owned affiliate – The Calvert Company entered into a series of commercial contracts in 2011 and 2015 to provide equipment and services to a power plant in Georgia. The general contractor on the project, WECTEC (a subsidiary of Westinghouse), filed bankruptcy in New York in March of 2017. The Company's affiliate continued to perform work on the project for the owners/licensee under an interim bridge contract. We believe the affiliate was eventually terminated for convenience on the project, and the affiliate filed an adversary proceeding in bankruptcy court against WECTEC and the owners to collect all unpaid amounts. The owners of the Georgia power plant filed a countersuit in April of 2018. In connection with the Company selling the majority interest in the AIS business to Fernweh Group on September 30, 2022, the Company agreed to retain this lawsuit. After a long and protracted discovery process and motion practice, we determined in the quarter ended August 30, 2023 that the most favorable outcome to the Company to resolve the dispute may be a negotiated settlement. This decision was made in consideration of the expenses of a lengthy jury trial and potentially protracted appeal process; the resources necessary to continue the prosecution and defense of the case given the size of the discovery and the number of issues involved; the risk factors typically associated with jury verdicts in light of all of the political circumstances currently present in Georgia regarding the power plant; and the benefit of resolving a dispute whose genesis arose more than twelve years ago based solely upon risk avoidance, and not upon the merits of the case. During the third quarter of fiscal 2024, all of the parties entered into a confidential settlement agreement, with no parties admitting any guilt or negligence and the Company agreed to pay the owners/licensee $5.75 million on or around January 15, 2024 to resolve all outstanding matters related to the dispute. In addition, the agreement included the forgiveness of the Company's receivable from WECTEC of $3.7 million, which was fully reserved by the Company. This settlement of $5.75 million was accrued during the second quarter of fiscal year 2024, and is included in "Selling, general and administrative" expense in the consolidated statement of operations for the nine months ended November 30, 2023 and in "Other accrued liabilities" in the consolidated balance sheet as of November 30, 2023. The settlement was included in the AZZ Infrastructure Solutions segment, and the settlement payment will be made in the fourth quarter of fiscal 2024.

In 2017, Southeast Texas Industries, Inc. (“STI”) filed a breach of contract lawsuit against the Company in the 1st District Court of Jasper County, Texas (the “Court”). In 2020, the Company we filed a counter suit against STI for amounts due to the Company AZZ for work performed. The parties unsuccessfully mediated the case in November 2021. On October 16, 2023, the case went to trial, and on October 27, 2023, the jury rendered a verdict in favor of STI and against AZZ Beaumont in the amount of $4.5 $5.5 million in damages for breach of contract and breach of express warranty. After a final judgment amount is entered with the Court, the Company expects we expect to pursue all available appellate options as the Company believes it has we believe we have strong grounds for appeal, which may take up to 2 two years. As of November 30, 2023 May 31, 2024, the Company has we have recorded a legal accrual of $4.5 $5.5 million, which is included in "Other accrued liabilities" on our consolidated balance sheets, reflecting the Company's our best estimate of the probable loss. It is reasonably possible that our Our estimate of the probable loss may change after: (i) the hearing on attorney fees, which is currently scheduled for January 26, 2024; (ii) after the Judge renders a final judgement; or (iii) throughout the appellate process. The Company expects to purchase We have purchased a supersedeas bond to cover the final judgment amount throughout the duration of the appellate process.

A litigation matter between the Company AZZ, as Plaintiff, and a previous customer of an affiliate of the AIS business, which was retained following the disposition of the AIS business, is scheduled to go to trial during the fourth quarter of in fiscal 2024. The Company is the Plaintiff and believes that it will be able to recover its damages against the Defendant. 2026. As of November 30, 2023 May 31, 2024, the Company has we have a receivable due from the Defendant, net of allowance, of $5.2 million, which is included in "Accounts "Trade accounts receivable, net" net of allowance for credit losses" in the consolidated balance sheets, sheets. This receivable balance represents our best estimate of the amount we expect to collect, which may change following completion of the trial.

Prior to AZZ's acquisition of Precoat Metals on May 13, 2022, Precoat Metals sold its Armorel Arkansas facility to Nucor Coatings Corporation ("Nucor") via a purchase agreement dated October 27, 2020 ("2020 Agreement"). Nucor subsequently filed a lawsuit against Precoat Metals for indemnification for breach of environmental representations and warranties made in the 2020 Agreement. In the lawsuit, Nucor asserted that it has sustained certain damages resulting from Precoat Metal’s breach of its indemnification obligations that were set forth in the 2020 Agreement. The parties attended a mediation on March 18, 2024, and although the Company believes believed Nucor’s case was deficient and it had very strong defenses to the allegations asserted by Nucor, management determined that it was still in the best interest of the Company to settle all matters for the estimated cost of defense to retain its current commercial relationships with Nucor, who is collectible. However, neither both a customer and

supplier to the likelihood Company. The parties mutually agreed to resolve all disputed matters for $5.25 million. The parties are currently preparing a definitive settlement agreement which will resolve all outstanding matters related to the dispute. The settlement amount will be paid within 60 days after a definitive settlement agreement is signed by both parties. The $5.25 million settlement amount is included in "Other accrued liabilities" in the consolidated balance sheet as of an unfavorable outcome nor May 31, 2024. The settlement payment expected to be made in the ultimate collectability second quarter of this receivable, if any, can be determined at this time. fiscal 2025.

Environmental

The Company assumed certain environmental liabilities as part of the Precoat Acquisition described in Note 2. As of November 30, 2023 May 31, 2024, the reserve balance for our environmental liabilities was $22.0 $20.9 million, of which $3.2 $2.9 million is classified as current. Environmental remediation liabilities include costs directly associated with site investigation and clean up, such as materials, external contractor costs, legal and consulting expenses and incremental internal costs directly related to ongoing remediation plans. Estimates used to record environmental remediation liabilities are based on the Company's best estimate of

probable future costs based on site-specific facts and circumstances known at the time of the estimate and these estimates are updated on a quarterly basis. Estimates of the cost for the potential or ongoing remediation plans are developed using internal resources and third-party environmental engineers and consultants.

The Company accrues the anticipated cost of environmental remediation when the obligation is probable and the amount can be reasonably estimated. If a range of amounts can be reasonably estimated and no amount within the range is a better estimate than any other amount, then the minimum of the range is accrued. While any revisions to the Company's environmental remediation liabilities could be material to the operating results of any fiscal quarter or fiscal year, the Company does not expect such additional remediation expenses to have an adverse material effect on its financial position, results of operations, or cash flows.

Capital Commitments—Greenfield Aluminum Coil Coating Facility

We are expanding our coatings capabilities by constructing a new 25-acre aluminum coil coating facility in Washington, Missouri that is expected to be operational in 2025. calendar year 2025 (the Company fiscal year 2026). The new greenfield facility will be included in the AZZ Precoat Metals segment and is supported by a take-or-pay contract for approximately 75% of the output from the new plant. We expect to spend approximately $125.8 $124.0 million in progress capital payments over the estimated two-year construction timeline and we currently have capital commitments life of approximately $48.4 million. We expect to pay approximately $71.2 million in fiscal 2024, the project, of which $33.6 $60.8 million was paid prior to fiscal 2025 and $16.2 million was paid during the current nine-month period. three months ended May 31, 2024. The remaining payments in balance of $47.0 million is to occur prior to the end of fiscal 2025, of which we have capital commitments of $28.6 million.

Commodity pricing

As of May 31, 2024 are expected, we had non-cancelable forward contracts to be funded through cash flows from operations purchase approximately $37.9 million of zinc at various volumes and borrowings prices. We also had non-cancelable forward contracts to purchase approximately $9.2 million of natural gas at various volumes and prices. All such contracts expire by the first quarter of fiscal 2026. We had no other contracted commitments for any other commodities including steel, aluminum, copper, zinc, nickel-based alloys, natural gas, except for those entered into under the Revolving Credit Facility. The project is not expected to result in a material adverse effect on our business, results normal course of operations, cash flow or financial condition. business.

18. Subsequent Events

On December 20, 2023, the Company repriced the $400.0 million Revolving Credit Facility, which was outstanding under the 2022 Credit Agreement. The repricing converted from a rate of SOFR + 425 plus a Credit Spread Adjustment of 10 basis points, to a tiered rate ranging from SOFR plus 275 - 350 basis points, depending on the Company's net leverage ratio, with no Credit Spread Adjustment.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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," "could," "should," "expects," "plans," "will," "might," "would," "projects," "currently," "intends," "outlook," "forecasts," "targets," "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. Forward-looking statements speak only as of the date they are made and are subject to risks that could cause them to differ materially from actual results. Certain factors could affect the outcome of the matters described herein. This Quarterly Report may contain forward-looking statements that involve risks and uncertainties including, but not limited to, changes in customer demand for our products and services, manufactured solutions, including demand by the construction markets, the industrial markets, and the metal coatings markets. We could also experience additional increases in labor costs, components and raw materials including zinc and natural gas, which are used in our hot-dip galvanizing process; supply-chain vendor delays; customer requested delays of our products or services; manufactured solutions; delays in additional acquisition opportunities; an increase in our debt leverage and/or interest rates on our debt, of which a significant portion is tied to variable interest rates; 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 manufactured solutions that we provide; economic volatility, including a prolonged economic downturn or macroeconomic conditions such as inflation or changes in the political stability in the United States and other foreign markets in which we operate; acts of war or terrorism inside the United States or abroad; and other changes in economic and financial conditions. AZZ has provided additional information regarding risks associated with the business, including in Part I, Item 1A. Risk Factors, in AZZ's Annual Report on Form 10-K for the fiscal year ended February 28, 2023 February 29, 2024 and other filings with the SEC, available for viewing on AZZ's website at www.azz.com and on the SEC's website at www.sec.gov.

You are urged to consider these factors carefully when 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.

The following discussion should be read in conjunction with management's discussion and analysis contained in our Annual Report on Form 10-K for the fiscal year ended February 28, 2023 February 29, 2024, and with the condensed consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q.

Business Operations Update

Our results for the three months ended May 31, 2024 (the "current quarter"), were favorably impacted by the growth in demand for our manufactured solutions in the construction, industrial and transportation industries, coupled with our value driven pricing strategy.

The demand for our manufactured solutions was the primary contributor to net income of $39.6 million for the three months ended May 31, 2024. However, net income attributable to common shareholders was a loss of $36.8 million, after deducting preferred dividends and the redemption premium on our Series A Preferred Stock. Our operating results for the three months ended May 31, 2024, including operating results by segment, are described in the summary on the following page, and detailed descriptions can be found below under “Results of Operations.”

Our operations generated $71.9 million of cash in the current three-month period, which includes $7.6 million generated from reduction in working capital. Our operating cash flows were used to make $27.4 million of capital investments in our business and return $7.9 million to our common and preferred shareholders through dividend payments. Financing activities included the issuance of common shares, generating $308.7 million in cash flows, which we used to fund the redemption of our Series A Preferred Stock of $308.9 million. In addition, we reduced our outstanding debt through $25.0 million in net payments on our Term Loan B and Revolving Credit Facility. As a result of this and other activity, our cash and cash equivalents were $10.5 million as of May 31, 2024, an increase of $6.7 million from May 31, 2023. As of May 31, 2024, we had $350.7 million available under the Revolving Credit Facility. The components of our liquidity and descriptions of our cash flows, capital investments, and other matters impacting our liquidity and capital resources can be found below under “Liquidity and Capital Resources.”

Outlook

While it is difficult to predict future North American economic activity and its impact on the demand for our galvanizing and coil coating solutions, as well the impact that political or regulatory developments may have on us, we have noted several factors below that have impacted or may impact our results of operations during the first quarter of fiscal 2025.

- Sales prices in our AZZ Metal Coatings segment are expected to remain consistent with current levels, although fluctuations in mix and some competitive pressures may impact selling price.
- Sales prices in our AZZ Precoat Metals segment are expected to remain consistent with current levels, with expected seasonal fluctuations in mix due to an increase in construction business, which may impact the average selling price.
- Demand in our AZZ Metal Coatings and AZZ Precoat Metals segments is expected to follow our typical seasonal patterns.
- Customer inventories for our AZZ Metal Coatings segment remain consistent, which should support the continued demand for our metal coatings solutions.
- Customer inventories for our AZZ Precoat Metals segment remain at historical levels, which should support the continued demand for our coil coating solutions.

RESULTS OF OPERATIONS

Overview

We are a provider of hot-dip galvanizing and coil coating solutions to a broad range of end-markets, predominantly in North America. We operate three distinct business segments, the AZZ Metal Coatings segment, the AZZ Precoat Metals segment, and the AZZ Infrastructure Solutions segment. For the three and nine months ended November 30, 2023, the AZZ Infrastructure Solutions segment consists of the Company's 40% investment in the AVAIL JV. For the three and nine months ended November 30, 2022, the AZZ Infrastructure Solutions segment includes the results of operations of the AIS business prior to the divestiture of the AVAIL JV. See Note 3 of our consolidated financial statements for more information about the divestiture of the AVAIL JV. Our discussion and analysis of financial condition and results of operations is divided by each of our segments, along with corporate costs and other costs not specifically identifiable to a segment. For a reconciliation of segment operating income to consolidated operating income, see Note 86 to the consolidated financial statements. Management believes that the most meaningful analysis of our results of operations is to analyze our performance by segment. We use sales and operating income by segment to evaluate the performance of our segments. Segment operating income consists of sales less cost of sales and selling, general and administrative expenses that are specifically identifiable to a segment.

QUARTER ENDED NOVEMBER 30, 2023 MAY 31, 2024 COMPARED TO THE QUARTER ENDED NOVEMBER 30, 2022 MAY 31, 2023

Segment Sales and Operating Income from Continuing Operations

The following table reflects the breakdown of net income from continuing operations by segment (in thousands):

		Three Months Ended November 30, 2023									
		Metal Coatings	Precoat Metals	Infrastructure Solutions[1]	Corporate[2] [3]	Total					
	Three Months Ended May 31, 2024						Three Months Ended May 31, 2024				
	Metal Coatings						Metal Coatings	Precoat Metals	Infrastructure Solutions[1]	Corporate[2]	Total
Sales	Sales	$163,186	$218,419	$ —	$ —	$381,605					
Cost of sales	Cost of sales	115,952	177,504	—	—	293,456					

Gross margin	Gross margin	47,234	40,915	—	—	88,149
Selling, general and administrative	Selling, general and administrative	9,392	8,163	290	17,480	35,325
Selling, general and administrative						
Selling, general and administrative						
Operating income (loss) from continuing operations		37,842	32,752	(290)	(17,480)	52,824
Operating income (loss)						
Operating income (loss)						
Operating income (loss)						
Interest expense	Interest expense	—	—	—	25,855	25,855
Interest expense						
Interest expense						
Equity in earnings of unconsolidated subsidiaries	Equity in earnings of unconsolidated subsidiaries	—	—	(8,742)	—	(8,742)
Other expense		29	—	—	12	41
Income (loss) from continuing operations before income tax		$ 37,813	$ 32,752	$ 8,452	(43,347)	35,670
Other income						
Income (loss) before income tax						
Income tax expense	Income tax expense				8,780	8,780
Net income (loss) from continuing operations					$ (52,127)	$ 26,890
Net income (loss)						

(1) Infrastructure Solutions segment includes the Company's equity in (earnings) loss from its investment in the AVAIL JV, as well as other expenses related to receivables and liabilities that were retained by the Company following the sale of the AIS business.

(2) Interest expense and Income tax expense are included in the Corporate segment as these items are not allocated to the segments.

(3) For fiscal year 2024, amortization expense for acquired intangible assets is included in Corporate expenses in "Selling, general and administrative" expense as these expenses are not allocated to the segments.

	Three Months Ended November 30, 2022				
	Metal Coatings	**Precoat Metals**	**Infrastructure Solutions(1)**	**Corporate(2)(3)**	**Total**
Sales	$ 158,274	$ 215,027	$ —	$ —	$ 373,301
Cost of sales	120,134	180,085	—	—	300,219
Gross margin	38,140	34,942	—	—	73,082
Selling, general and administrative	4,594	13,889	—	9,206	27,689
Operating income (loss) from continuing operations	33,546	21,053	—	(9,206)	45,393
Interest expense	—	—	—	26,123	26,123
Equity in earnings of unconsolidated subsidiaries	—	—	(1,006)	—	(1,006)
Other income	(124)	—	—	(486)	(610)
Income (loss) from continuing operations before income tax	$ 33,670	$ 21,053	$ 1,006	(34,843)	20,886
Income tax expense				2,447	2,447

Net income (loss) from continuing operations				$ (37,290)	$ 18,439

(1) Infrastructure Solutions segment includes the Company's equity in (earnings) loss from its investment in the AVAIL JV.

(2) Interest expense and Income tax expense are included in the Corporate segment as these items are not allocated to the segments.

(3) For fiscal year 2023, amortization expense for acquired intangible assets is included in Metal Coatings expenses in "Cost of sales" and in Precoat Metals in "Selling, general and administrative" expense.

See notes below.

	Three Months Ended May 31, 2023				
	Metal Coatings	Precoat Metals	Infrastructure Solutions(1)	Corporate(2)	Total
Sales	$ 168,794	$ 222,079	$ —	$ —	$ 390,873
Cost of sales	117,858	175,996	—	—	293,854
Gross margin	50,936	46,083	—	—	97,019
Selling, general and administrative	5,466	8,392	22	17,643	31,523
Operating income (loss)	45,470	37,691	(22)	(17,643)	65,496
Interest expense	—	—	—	(28,706)	(28,706)
Equity in earnings of unconsolidated subsidiaries	—	—	1,420	—	1,420
Other expense	(24)	—	—	(14)	(38)
Income (loss) before income tax	$ 45,446	$ 37,691	$ 1,398	(46,363)	38,172
Income tax expense				9,650	9,650
Net income (loss)				$ (56,013)	$ 28,522

(1) Infrastructure Solutions segment includes our equity in earnings from our investment in the AVAIL JV as well as other expenses related to receivables and liabilities that were retained following the sale of the AIS business.

(2) Interest expense and Income tax expense are included in the Corporate segment as these items are not allocated to the segments.

Sales

For the three months ended November 30, 2023 (the "current quarter"), current quarter, consolidated sales increased $8.3 million $22.3 million, or 2.2% 5.7%, compared to the three months ended November 30, 2022 May 31, 2023 (the "prior year quarter"). Sales for the AZZ Metal Coatings segment increased $4.9 million $7.9 million, or 3.1% 4.7%, for the current quarter, compared to the prior year quarter. The increase was primarily due to an increase in the selling price, a higher volume of steel processed $11.7 million, partially offset by a lower volume of steel processed during the quarter. average selling price due to product mix $3.0 million, and a decrease in other sales $0.9 million.

Sales for the AZZ Precoat Metals segment increased $3.4 million $14.4 million, or 1.6% 6.5% for the current quarter. The increase is primarily due to an increase in selling price, partially offset by a lower higher volume of coil coated in the current period. quarter, while the average price remained flat.

Operating Income

For the current quarter, consolidated operating income increased $7.4 million $4.3 million, or 16.4% 6.5%, compared to the prior year quarter.

Operating income for the AZZ Metal Coatings segment increased $4.3 million $2.5 million, or 12.8% 5.4% for the current quarter, compared to the prior year quarter. The current quarter increase was due to increased sales as described above, coupled with lower cost of sales, partially offset by higher selling, general and administrative expenses. cost of sales. The decrease increase in cost of sales of $4.2 million $4.9 million was primarily due to lower zinc and overhead costs, and a change in classification of amortization of intangible assets of $1.9 million, partially offset by an increase in labor costs. Selling, general costs $1.9 million and administrative expense increased due to the recognition of a $4.5 million legal accrual, and the change in classification of certain compensation and information technology overhead costs of $0.7 million $5.3 million, to the AZZ Metal Coatings segment, from the Corporate segment. offset by lower zinc costs $2.3 million.

Operating income for the AZZ Precoat Metals segment increased $11.7 million $2.4 million, or 55.6% 6.4% for the current quarter. The increase is primarily due to: lower applied to increased sales as described above, offset by higher cost of sales (primarily driven by improved efficiencies which offset higher cost of labor and materials, as well as lower freight costs); lower selling, general and administrative expense (primarily salaries and wages and expense. Cost of sales increased $11.8 million, primarily due to variable costs related to the change in classification increased volume of amortization of intangible assets of $4.3 million); and the steel processed, coupled with an increase in sales as described above.

Operating income for the AZZ Infrastructure Solutions segment decreased $0.3 million, due to legal expenses. depreciation expense.

Corporate Expenses

Corporate selling, general and administrative expenses increased $8.3 million $0.6 million, or 89.9% 3.4%, for the current quarter, compared to the prior year quarter. The increase is primarily due to: amortization expense of $5.9 million related to all intangible assets, which is included in corporate expense in the current quarter, and allocated to the segments in the prior year quarter; a decrease in income from the transition services agreement associated with the AVAIL JV; and employee-related costs; partially offset by the allocation of certain compensation and information technology costs to the segments, that were previously included in corporate expenses.

Interest Expense

Interest expense for the current quarter decreased $0.3 million $5.9 million, to $25.9 million $22.8 million, compared to $26.1 million $28.7 million for the prior year quarter. The decrease in interest expense is primarily attributable to a decrease in the weighted average debt outstanding partially offset by an increase of $120.0 million and a decrease in the weighted average interest rates rate on our outstanding debt. debt of 0.98% in the current quarter compared to the prior quarter, coupled with higher capitalized interest of $1.2 million.

Equity in Earnings of Unconsolidated Entities

Equity in earnings of unconsolidated subsidiaries for the current quarter increased $7.7 million $2.4 million, to $8.7 million $3.8 million, compared to $1.0 million $1.4 million in the prior year quarter. The increase is primarily due to higher earnings from the AVAIL JV, primarily driven by AVAIL's enclosure, high-voltage and three months of equity in earnings in the current quarter, compared to one month in the prior year quarter, as the AVAIL JV equity in earnings are recorded on a one-month lag. medium-voltage bus businesses.

See Note 9 7 of our consolidated financial statements for more information about the AVAIL JV.

Income Taxes

The provision for income taxes from continuing operations reflects an effective tax rate of 24.6% 22.4% for the three months ended November 30, 2023 May 31, 2024, compared to 11.7% 25.3% for the three months ended November 30, 2022 May 31, 2023. The increase in the effective tax rate is attributable to a favorable adjustment in the prior year period due to the recognition of an outside basis difference related to the AVAIL JV.

Income from Discontinued Operations

The results of our AZZ Infrastructure Solutions segment were classified as discontinued operations in our condensed consolidated statements of operations and excluded from continuing operations for all periods presented. The results of operations from discontinued operations for the three months ended November 30, 2022 consist of the following (in thousands):

		Three Months Ended November 30, 2022
Sales	$	42,300
Cost of sales		35,020
Gross margin		7,280
Selling, general and administrative		4,074
Loss on disposal of discontinued operations		45,010
Operating loss from discontinued operations		(41,804)
Interest expense		2
Other (income) expense, net		2,002
Loss from discontinued operations before income tax		(43,808)
Income tax benefit		(4,827)
Net loss from discontinued operations	$	(38,981)

See Note 3 to our consolidated financial statements included in this Quarterly Report on Form 10-Q for more information.

NINE MONTHS ENDED NOVEMBER 30, 2023 COMPARED TO THE NINE MONTHS ENDED NOVEMBER 30, 2022

Segment Sales and Operating Income from Continuing Operations

The following table reflects the breakdown of net income from continuing operations by segment (in thousands):

	Nine Months Ended November 30, 2023				
	Metal Coatings	Precoat Metals	Infrastructure Solutions(1)	Corporate(2)(3)	Total
Sales	$ 501,816	$ 669,204	$ —	$ —	$ 1,171,020
Cost of sales	353,280	535,326	—	—	888,606
Gross margin	148,536	133,878	—	—	282,414
Selling, general and administrative	20,143	24,429	6,244	52,271	103,087
Operating income (loss) from continuing operations	128,393	109,449	(6,244)	(52,271)	179,327
Interest expense	—	—	—	82,331	82,331
Equity in earnings of unconsolidated subsidiaries	—	—	(11,136)	—	(11,136)
Other (income) expense	40	—	—	(49)	(9)
Income (loss) from continuing operations before income tax	$ 128,353	$ 109,449	$ 4,892	(134,553)	108,141
Income tax expense				24,397	24,397
Net income (loss) from continuing operations				$ (158,950)	$ 83,744

(1) Infrastructure Solutions segment includes the Company's equity in (earnings) loss from its investment in the AVAIL JV, as well as other expenses related to receivables and liabilities that were retained by the Company following the sale of the AIS business.

(2) Interest expense and Income tax expense are included in the Corporate segment as these items are not allocated to the segments.

(3) For fiscal year 2024, amortization expense for acquired intangible assets is included in Corporate expenses in "Selling, general and administrative" expense as these expenses are not allocated to the segments.

	Nine Months Ended November 30, 2022				
	Metal Coatings	Precoat Metals(4)	Infrastructure Solutions(1)	Corporate(2)(3)	Total
Sales	$ 487,567	$ 499,578	$ —	$ —	$ 987,145
Cost of sales	350,152	402,303	—	—	752,455
Gross margin	137,415	97,275	—	—	234,690
Selling, general and administrative	13,603	33,361	—	50,283	97,247
Operating income (loss) from continuing operations	123,812	63,914	—	(50,283)	137,443
Interest expense	—	—	—	61,739	61,739
Equity in earnings of unconsolidated subsidiaries	—	—	(1,006)	—	(1,006)
Other (income) expense	6	(41)	—	(547)	(582)
Income (loss) from continuing operations before income tax	$ 123,806	$ 63,955	$ 1,006	(111,475)	77,292
Income tax expense				18,380	18,380
Net income (loss) from continuing operations				$ (129,855)	$ 58,912

(1) Infrastructure Solutions segment includes the Company's equity in (earnings) loss from its investment in the AVAIL JV.

(2) Interest expense and Income tax expense are included in the Corporate segment as these items are not allocated to the segments.

(3) For fiscal year 2023, amortization expense for acquired intangible assets is included in Metal Coatings expenses in "Cost of sales" and in Precoat Metals in "Selling, general and administrative" expense.

(4) For the nine months ended November 30, 2022, Precoat Metals segment includes results from May 13, 2022 - November 30, 2022.

Sales

For the nine months ended November 30, 2023 (the "current nine-month period"), consolidated sales increased $183.9 million, or 18.6%, compared to the nine months ended November 30, 2022 (the "prior year nine-month period"). Sales for the AZZ Metal Coatings segment increased $14.2 million, or 2.9%, for the current nine-month period, compared to the prior year nine-month period. The increase in sales was primarily due to an increase in the volume of steel processed during the period, and improved price realization for our superior quality and service. Sales for the AZZ Precoat Metals segment increased $169.6 million, or 34.0% for the current nine-month period, primarily due to: the current year including a full nine-month period compared to the period from May 13, 2022 through November 30, 2023 for the prior year nine-month period, which contributed $178.4 million in sales, partially offset by a decrease of $8.8 million in sales due to lower volume of coil coated, partially offset by an increase in selling price.

Operating Income

For the current nine-month period, consolidated operating income increased $41.9 million, or 30.5%, compared to the prior year nine-month period.

Operating income for the AZZ Metal Coatings segment increased $4.6 million, or 3.7% for the current nine-month period, compared to the prior year nine-month period. The increase was due to improved sales as described above offset by higher cost of sales and higher selling, general and administrative expenses. Cost of sales increased $3.1 million, primarily due to higher labor and overhead costs, partially offset by a change in classification of amortization of intangible assets of $5.4 million and a decrease in zinc costs. Selling, general and administrative expense increased due to the recognition of a $4.5 million legal accrual, and the change in classification of certain compensation and information technology costs of $2.0 million to the AZZ Metal Coatings segment, from the Corporate segment.

Operating income for the AZZ Precoat Metals segment increased $45.5 million, or 71.2%. The increase is primarily due to the inclusion of a full 1st quarter of fiscal 2024 compared to a partial fiscal quarter of 2023, which contributed $31.0 million, and increases in operating income for the 2nd and 3rd quarters of current nine-month period compared to the prior year nine-month period. The increases in the 2nd and 3rd quarters were due to: lower applied cost of sales (primarily driven by improved efficiencies which offset higher cost of labor and materials, as well as lower freight costs); lower selling, general and administrative expense (primarily salaries and wages and the change in classification of amortization of intangible assets of $12.2 million); and the increase in sales as described above.

Operating income for the AZZ Infrastructure Solutions segment decreased $6.2 million, due to a legal settlement of $5.75 million and legal expenses associated with the settlement and other matters.

Corporate Expenses

Corporate selling, general and administrative expenses increased $2.0 million, or 4.0%, for the current nine-month period, compared to the prior year nine-month period. The increase is primarily due to: amortization expense of $18.1 million related to all intangible assets, which is included in corporate expense in the current nine-month period, and allocated to the segments in the prior year nine-month period; a decrease in transition services agreement fees associated with the AVAIL JV; and employee-related costs. These increases were offset by a decrease in acquisition costs of $15.3 million incurred in the prior year nine-month period and the allocation of certain compensation and information technology costs to the segments in the current nine-month period, that were previously included in corporate expenses.

Interest Expense

Interest expense for the current nine-month period increased $20.6 million, to $82.3 million, compared to $61.7 million for the prior year nine-month period. The increase in interest expense is attributable to the debt that was obtained in conjunction with the Precoat Acquisition, which was outstanding for the full current nine-month period, compared to the prior year, as well as higher rates of interest on our borrowings.

Equity in Earnings of Unconsolidated Entities

Equity in earnings of unconsolidated subsidiaries for the current nine-month period increased $10.1 million, to $11.1 million, compared to $1.0 million in the prior year nine-month period. The increase is primarily due to higher earnings from the AVAIL JV, and nine months of equity in earnings in the current nine-month period, compared to one month in the prior year nine-month period, as the AVAIL JV equity in earnings are recorded on a one-month lag. See Note 9 of our consolidated financial statements for more information about the AVAIL JV.

Income Taxes

The provision for income taxes from continuing operations reflects an effective tax rate of 22.6% for the nine months ended November 30, 2023, compared to 23.8% for the prior year comparable period. The decrease in the effective tax rate is attributable to an unfavorable adjustment in the prior year related to management fees recorded as a result of continuing operations versus discontinued operations reporting.

Income from Discontinued higher discrete items Operations, net of driven by tax

The results of our AZZ Infrastructure Solutions segment were classified as discontinued operations in our condensed consolidated statements of operations and excluded from continuing operations deductions for all periods presented. The results of operations from discontinued operations for the prior year nine-month period consist of the following (in thousands):

		Nine Months Ended stock compensation. November 30, 2022
Sales	$	256,224
Cost of sales		202,707
Gross margin		53,517
Selling, general and administrative		26,186
Loss on disposal of discontinued operations		159,910
Operating loss from discontinued operations		(132,579)
Interest expense		8
Other (income) expense, net		6,270
Loss from discontinued operations before income tax		(138,857)
Income tax benefit		(25,910)
Net loss from discontinued operations	$	(112,947)

See Note 3 to our consolidated financial statements included in this Quarterly Report on Form 10-Q for more information.

LIQUIDITY AND CAPITAL RESOURCES

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

As of May 31, 2024, our total liquidity of $361.2 million consisted of available capacity on our Revolving Credit Facility of $350.7 million and cash and cash equivalents of $10.5 million.

Cash Flows

The following table summarizes our cash flows by category for the periods presented (in thousands):

	Nine Months Ended November 30,			
	2023		2022	
Net cash provided by operating activities of continuing operations	$	180,928	$	68,622
Net cash used in investing activities of continuing operations		(66,853)		(1,207,653)
Net cash provided by (used in) financing activities of continuing operations		(109,444)		1,005,456
Net cash provided by operating activities from discontinued operations		—		7,973
Net cash used in investing activities from discontinued operations		—		(3,991)
Net cash provided by financing activities from discontinued operations		—		120,000
Working Capital		192,728		230,176

	Three Months Ended May 31,	
	2024	2023
Net cash provided by operating activities	71,944	46,893
Net cash used in investing activities	(27,379)	(17,027)
Net cash used in financing activities	(38,542)	(29,545)

Net cash provided by operating activities of continuing operations for the nine-month current three-month period was $180.9 $71.9 million, compared to $68.6 million for the prior year nine-month period. The increase in cash provided driven primarily by operating activities is primarily attributable to increases in net income from continuing operations and of $39.6 million, adjusted to exclude non-cash charges, net of non-cash income of $22.5 million, an increase in depreciation and amortization, cash resulting from a decrease in deferred income taxes and increases from changes reduction in working capital of $7.6 million, an increase in cash resulting from other long-term assets and liabilities, including deferred taxes, of $1.7 million and a cash distribution on the investment in the current nine-month period compared AVAIL JV of $0.5 million. The reduction in working capital is due primarily to the prior year nine-month period. Changes in current assets and current liabilities increased cash provided by operating activities by $73.8 million, due to decreases in accounts receivable, other receivables, inventories and prepaid expenses and increases in accounts payable, partially accrued expenses and income taxes payable; offset by decreases increases in other accrued liabilities. prepaid expenses and contract assets due to insurance renewals and higher sales, respectively. Net cash provided by operating activities from discontinued operations was $8.0 million used to fund $27.4 million of capital expenditures, make net payments on long-term debt and finance leases liabilities of $25.2 million, make dividend payments of $7.9 million and make payments for taxes related to net share settlement of equity awards of $4.6 million. We also completed a secondary public offering of 4.6 million shares of our common stock, which provided cash of $308.7 million, which was used to redeem our 240,000 shares of Series A Preferred Stock for $308.9 million.

Net cash provided by operating activities for the prior year nine-month period.

Net cash used in investing activities of continuing operations for the nine-month three-month period was $66.9 $46.9 million, compared driven primarily by net income of $28.5 million, adjusted to $1.21 billion for the prior year nine-month period. The exclude non-cash charges, net of non-cash income of $22.1 million, offset by a decrease in cash used resulting from an increase in investing activities for the current quarter was attributable to the Precoat Acquisition completed in the first quarter working capital of fiscal 2023. In the current year, cash used in investing activities was primarily due to cash used for capital expenditures $1.0 million and increased from the prior year nine-month period due to the construction of the coil coating facility in Washington, Missouri. Net cash used in investing activities from discontinued operations was $4.0 million for the prior year nine-month period.

Net cash used in financing activities of continuing operations for the nine-month period was $109.4 million compared to net cash provided by financing activities of $1.01 billion for the prior year nine-month period. The a decrease in cash resulting from financing other long-term assets and liabilities, including deferred taxes, of $2.7 million. Net cash provided by operating activities during the current quarter was primarily attributable to proceeds from long-term debt in the prior year nine-month period, which were used to fund the Precoat Acquisition. $17.0 million of capital expenditures, make net payments on long-term debt and finance leases liabilities of $20.0 million, make dividend payments of $7.8 million and make payments for taxes related to net share settlement of equity awards of $1.7 million.

Financing and Capital

2022 Credit Agreement and Term Loan B

The Company has We have a credit agreement with a syndicate of financial institutions as lenders that was entered into on May 13, 2022 (the , and was subsequently amended on August 17, 2023, December 20, 2023 and March 20, 2024 (collectively referred to herein as the "2022 Credit Agreement"). On August 17, 2023, the Company repriced the $1.0 billion Term Loan B, which was outstanding under the 2022 Credit Agreement as of November 30, 2023. The repricing reduced the interest rate margin by 50 basis points to an interest rate of Secured Overnight Financing Rate ("SOFR") plus 3.75% and removed the Credit Spread Adjustment, as defined in the 2022 Credit Agreement, of 10 basis points.

The 2022 Credit Agreement includes the following significant terms:

i. provides for a senior secured initial term loan in the aggregate principal amount of $1.3 billion (the "Term Loan B"), due May 13, 2029, which is secured by substantially all of the assets of the Company; as of May 31, 2024, the outstanding balance of the Term Loan B was $950.3 million;
ii. provides for a maximum senior secured Revolving Credit Facility in the aggregate principal amount of $400.0 million (the "Revolving Credit Facility"), due May 13, 2027;
iii. includes a letter of credit sub-facility of up to $100.0 million, which is part of, and not in addition to, the Revolving Credit Facility;
iv. borrowings under the Term Loan B bear an a tiered interest rate of SOFR Secured Overnight Financing Rate ("SOFR") plus 3.75% 3.25% (following the repricing on August 17, 2023 March 20, 2024 as noted above) described below) and the Revolving Credit Facility bears an a leverage-based rate with various tiers between 2.75% and 3.50% as of May 31, 2024 the interest rate of was SOFR plus 4.25% (as of November 30, 2023—see below for information related to the repricing of the Company's Revolving Credit Facility on December 20, 2023); 2.75%;
v. includes customary affirmative and negative covenants, and events of default; including restrictions on the incurrence of non-ordinary course debt, investment and dividends, subject to various exceptions; and,
vi. includes a maximum quarterly leverage ratio financial covenant, with reporting requirements to our banking group at each quarter-end.

On December 20, 2023 March 20, 2024, the Company we repriced the $400.0 million Revolving Credit Facility, which was outstanding under the 2022 Credit Agreement. Term Loan B. The repricing converted adjusted the Term Loan B spread from a rate of SOFR + 425 plus a Credit Spread Adjustment of 10 basis points, 3.75% to a tiered rate ranging from SOFR plus 275 - 350 basis points, depending on the Company's net leverage ratio, with no Credit Spread Adjustment. 3.25%.

The Company utilizes We primarily utilize proceeds from the Revolving Credit Facility primarily to finance working capital needs, capital improvements, quarterly cash dividends, acquisitions and for other general corporate purposes.

As defined in the credit agreement, 2022 Credit Agreement, quarterly prepayments were due against the outstanding principal of the Term Loan B and were payable on the last business day of each May, August, November and February, beginning August 31, 2022, in a quarterly aggregate principal amount of $3.25 million, with the entire remaining principal amount due on May 13, 2029, the maturity date. Additional prepayments made against the Term Loan B contribute to these required quarterly payments. Due to a prepayment of $240.0 million that the Company prepayments made on against the Term Loan B during fiscal year 2023 in connection with the sale of the AIS business, since August 31, 2022, the quarterly mandatory principal payment requirement has been met, and the quarterly payments of $3.25 million are not required at this time.

The weighted average interest rate for the Company's our outstanding debt, including the Revolving Credit Facility and the Term Loan B, was 8.54% at November 30, 2023. 8.09% and 9.07% as of May 31, 2024 and 2023, respectively.

The Company's credit agreement required the Company Debt Compliance and Outstanding Borrowings

Our 2022 Credit Agreement requires us to maintain a maximum Total Net Leverage Ratio (as defined in the loan agreement) no greater than 6.25 through November 2022. For each subsequent quarter, the maximum ratio decreases by 25 basis points through May 31, 2024, when the maximum Total Net Leverage Ratio reaches 4.5. As of November 30, 2023, the Company was required to maintain a Total Net Leverage Ratio no greater than 5.0. As of November 30, 2023 May 31, 2024, we were in compliance with all covenants or and other requirements set forth in the debt agreements.

2022 Credit Agreement.

As of November 30, 2023 May 31, 2024, we had $1.04 billion $985.3 million of floating- and fixed-rate debt outstanding on the Revolving Credit Facility and the Term Loan B, with varying maturities through fiscal 2029. As of November 30, 2023, we are in compliance with each of the covenants related to these outstanding borrowings. Additionally, as of November 30, 2023, we We had approximately $375.5 $350.7 million of additional credit available for future draws or letters as of credit. May 31, 2024.

Letters of Credit

As of November 30, 2023 May 31, 2024, we had total outstanding letters of credit in the amount of $14.5 $14.3 million. These letters of credit are issued for a number of reasons, but are most commonly issued in lieu of customer retention withholding payments covering warranty, performance periods and insurance collateral.

Interest Rate Swap

We manage our exposure to fluctuations in interest rates using a mix of fixed and variable-rate debt. We utilize on our floating-rate debt by entering into interest rate swap agreements to change the variable interest rate to a fixed rate on convert a portion of our variable-rate debt. debt to a fixed rate. On September 27, 2022, the Company we entered into an a fixed-rate interest rate swap agreement, which was subsequently amended on October 7, 2022, (the "2022 Swap"), with banks that are parties to the 2022 Credit Agreement. On October 7, 2022, the agreement was amended Agreement, to change the SOFR-based component of the interest rate on a rate. The 2022 Swap converts the SOFR portion of to 4.277%. On March 20, 2024, we repriced our variable-rate debt Term Loan B to a fixed rate of 4.277% SOFR plus 3.25%, resulting in a total fixed rate of 8.627% (the "2022 Swap"). On August 17, 2023, the Company repriced its Term Loan B, to which the 2022 Swap is related, to reduce the interest rate to SOFR + 3.75%. Following the repricing, the 2022 Swap has a total fixed rate of 8.027% 7.527%. The 2022 Swap had an initial notional amount of $550.0 million and a maturity date of September 30, 2025. The notional amount of the interest rate swap decreases by a pro-rata portion of any quarterly principal payments made on the Term Loan B, and the current notional amount is $543.1 million $540.4 million as of May 31, 2024. The objective of the 2022 Swap is to eliminate the variability of cash flows in interest payments attributable to changes in benchmark one-month SOFR interest rates, for approximately one-half of the total amount a portion of our variable-rate debt. The hedged risk is the interest rate risk exposure to changes in interest payments, attributable to changes in benchmark one-month SOFR interest rates over the interest rate swap term. The changes in cash flows of the interest rate swap are expected to 2022 Swap exactly offset changes in cash flows of the variable-rate debt. We designated the 2022 Swap as a cash flow hedge at inception. Cash settlements, in the form of cash payments or cash receipts of to settle the 2022 Swap are recognized in interest expense.

April 2024 Secondary Offering

On April 30, 2024, we completed a secondary public offering in which we sold 4.6 million shares of our common stock at $70.00 per share (the "April 2024 Secondary Offering"). We received gross proceeds of $322.0 million, and paid offering expenses of $13.3 million, for net proceeds of $308.7 million. The proceeds from the April 2024 Offering were used to redeem the Series A Preferred Stock.

Series A Convertible Preferred Stock

On May 9, 2024, we fully redeemed our 240,000 shares of 6.0% Series A Convertible Preferred Stock ("Series A Preferred Stock"), for $308.9 million. The payment was calculated as the face value of the Series A Preferred Stock of $240.0 million, multiplied by the Return Factor (as defined below) of 1.4, less dividends paid to date of $27.1 million. The redemption premium of $75.2 million, which is calculated as the difference between the redemption amount and the book value of $233.7 million, was recorded as a deemed dividend, and reduces net income available to common shareholders. The Series A Preferred Stock was redeemed using proceeds from the April 2024 Secondary Offering.

On August 5, 2022, we exchanged our $240.0 million 6.00% convertible subordinated notes due June 30, 2030 for 240,000 shares of 6.0% Series A Preferred Stock, following the receipt of shareholder approval for the issuance of Series A Preferred Stock. The Series A Preferred Stock has a $1.00 par value per share, and ranked senior to the common stock of the Company, including with respect to both income and capital, but junior to our indebtedness. The Series A Preferred Stock is classified as "Mezzanine equity" in the consolidated balance sheets and was fully redeemed on May 9, 2024.

Greenfield Aluminum Coil Coating Facility

We are expanding our coatings capabilities by constructing a new 25-acre aluminum coil coating facility in Washington, Missouri that is expected to be operational in 2025. calendar year 2025 (the Company fiscal year 2026). The new greenfield facility will be included in the AZZ Precoat Metals segment and is supported by a take-or-pay contract for approximately 75% of the output from the new plant. We expect to spend approximately $125.8 $124.0 million in progress capital payments over the estimated two-year construction timeline and we currently have capital commitments life of approximately $48.4 million. We expect to pay approximately $71.2 million in fiscal 2024, the project, of which

$33.6 $60.8 million was paid prior to fiscal 2025 and $16.2 million was paid during the current nine-month period. three months ended May 31, 2024. The remaining balance of $47.0 million is to occur prior to the end of fiscal 2025, of which we have capital commitments of $28.6 million. The remaining payments in fiscal 2024 2025 are expected to be funded through cash flows from operations and borrowings under the Revolving Credit Facility. The project is not expected to result in a material adverse effect on our business, results of operations, cash flow or financial condition. operations.

Share Repurchase Program

During the nine three months ended November 30, 2023 May 31, 2024 and 2022, to prioritize repayments of debt, including debt incurred to finance the Precoat Acquisition, the Company 2023, we did not repurchase shares of common stock under the 2020 Share Authorization. The Company has $84.0 million As of May 31, 2024, we had $53.2 million available under the 2020 Share Authorization that may be used to purchase shares. shares in the future. See Part II, "Item 2. Unregistered Sales of Equity Securities and Use of Proceeds."

Other Exposures

We have exposure to commodity price increases in all three of our operating segments, primarily zinc and natural gas in the AZZ Metal Coatings segment, and natural gas, steel and aluminum in the AZZ Precoat Metals segment. We attempt to minimize these increases through by entering into agreements with our zinc suppliers and such agreements generally include fixed cost contract purchases on zinc premiums, and by entering into agreements with our natural gas. gas suppliers to fix a portion of our purchase cost. 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 to match inflationary increases where competitively feasible. We have indirect exposure to copper, aluminum, steel and nickel-based alloys in the AZZ Infrastructure Solutions segment through our 40% investment in the AVAIL JV.

As of May 31, 2024, we had non-cancelable forward contracts to purchase approximately $37.9 million of zinc at various volumes and prices. We also had non-cancelable forward contracts to purchase approximately $9.2 million of natural gas at various volumes and prices. All such contracts expire by the first quarter of fiscal 2026. We had no other contracted commitments for any other commodities including steel, aluminum, copper, zinc, nickel-based alloys, natural gas, except for those entered into under the normal course of business.

Off Balance Sheet Arrangements and Contractual Obligations

As of November 30, 2023 May 31, 2024, the Company we did not have any off-balance sheet arrangements as defined under SEC rules. Specifically, there were no off-balance sheet transactions, arrangements, obligations (including contingent obligations), or other relationships with unconsolidated entities or other persons that have, or may have, a material effect on the financial condition, changes in financial condition, sales or expenses, results of operations, liquidity, capital expenditures or capital resources of the Company.

As of November 30, 2023, we had outstanding letters of credit in the amount of $14.5 million. These letters of credit are issued for a number of reasons, but are most commonly issued to support collateral requirements with insurance companies.

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with U.S. GAAP requires us to make judgments, assumptions, and estimates that affect the amounts reported in the condensed consolidated financial statements and the accompanying notes. We continuously evaluate our estimates and assumptions based upon current facts, historical experience, and various other factors that we believe are reasonable under the circumstances to determine reported amounts of assets, liabilities, sales and expenses that are not readily apparent from other sources.

There were no significant changes to our critical accounting policies and estimates compared to the critical accounting policies and estimates disclosed in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, of our Annual Report on Form 10-K for the year ended February 28, 2023 February 29, 2024.

Non-GAAP Disclosures Recent Accounting Pronouncements

In addition See Note 1 to reporting financial results in accordance with Generally Accepted Accounting Principles in the United States ("GAAP"), we provided adjusted net income and adjusted earnings per share, (collectively, the "Adjusted Earnings Measures"), which are non-GAAP measures. Management believes that the presentation of these measures provides investors with greater transparency when comparing operating results across a broad spectrum of companies, which provides a more complete understanding of our financial performance, competitive position and prospects for future capital investment and debt reduction. Management also believes that investors regularly rely on non-GAAP financial measures, such as adjusted net income and adjusted earnings per share, to assess operating performance and that such measures may highlight trends in our business that may not otherwise be apparent when relying on financial measures calculated in accordance with GAAP.

In calculating adjusted net income and adjusted earnings per share, management excludes intangible asset amortization, acquisition expenses, transaction related expenses and certain legal settlements and accruals. Management also provides EBITDA and Adjusted EBITDA, which are non-GAAP measures. Management defines EBITDA as earnings excluding depreciation, amortization, interest, and provision for income taxes. Adjusted EBITDA is defined as earnings excluding depreciation, amortization, interest, provision for income taxes, acquisition expenses, transaction related expenses and certain legal settlements and accruals. Management believes EBITDA and Adjusted EBITDA are used by investors to analyze operating performance and evaluate the Company's ability to incur and service debt and its capacity for making capital expenditures in the future. EBITDA and Adjusted EBITDA are also useful to investors to help assess the Company's estimated enterprise value. In addition, management believes that the adjustments shown below are useful to investors in order to allow them to compare the Company's financial results during the periods shown without the effect of each of these adjustments.

Management provides non-GAAP financial measures for informational purposes and to enhance understanding of the Company's GAAP condensed consolidated financial statements. Readers should consider these measures in addition to, but not instead statements, included herein, for a full description of or superior to, recent accounting pronouncements, including the Company's actual and expected dates of adoption and estimated effects on our consolidated results of operations and financial statements prepared in accordance with GAAP. These non-GAAP financial measures may be determined or calculated differently condition, which is incorporated herein by other companies, limiting the usefulness of those measures for comparative purposes.

The following tables provide a reconciliation for the three and nine months ended November 30, 2023 and 2022 between the various measures calculated in accordance with GAAP to the Adjusted Earnings Measures (in thousands, except per share data): reference.

Adjusted Net Income and Adjusted Earnings Per Share from Continuing Operations

	Three Months Ended November 30,				Nine Months Ended November 30,			
	2023		2022		2023		2022	
	Amount	Per Diluted Share(1)	Amount	Per Diluted Share(1)	Amount	Per Diluted Share(1)	Amount	Per Diluted Share(1)
Net income from continuing operations	$ 26,890		$ 18,439		$ 83,744		$ 58,912	
Less: preferred stock dividends	(3,600)		(3,600)		(10,800)		(4,640)	
Net income from continuing operations available to common shareholders	23,290		14,839		72,944		54,272	
Impact of after-tax interest expense for convertible notes	—		—		—		—	
Impact of preferred stock dividends	3,600		—		10,800		—	
Net income and diluted earnings per share from continuing operations(2)	26,890	$ 0.92	14,839	$ 0.59	83,744	$ 2.86	54,272	$ 2.17
Impact of preferred stock dividends	—		—		—		4,640	
Net income and diluted earnings per share from continuing operations for Adjusted net income calculation(2)	26,890	0.92	14,839	0.59	83,744	2.86	58,912	2.10
Adjustments:								
Acquisition and transaction-related expenditures(3)	—	—	—	—	—	—	15,320	0.55
Amortization of intangible assets	5,872	0.20	6,133	0.25	18,108	0.62	17,615	0.63
Legal settlement and accrual(4)	4,500	0.15	—	—	10,250	0.35	—	—
Subtotal	10,372	0.35	6,133	0.25	28,358	0.97	32,935	1.18
Tax impact(5)	(2,489)	(0.08)	(1,472)	(0.06)	(6,806)	(0.23)	(7,904)	(0.28)
Total adjustments	7,883	0.27	4,661	0.19	21,552	0.74	25,031	0.90
Adjusted net income and adjusted earnings per share from continuing operations	$ 34,773	$ 1.19	$ 19,500	$ 0.78	$ 105,296	$ 3.60	$ 83,943	$ 3.00
Weighted average shares outstanding - Diluted		29,330		24,995		29,278		28,022

(1) Earnings per share amounts included in the table above may not sum due to rounding differences. Year-to-date earnings per share does not always represent the sum of the quarters' earnings per share when the preferred shares for any quarter in the year-to-date period are anti-dilutive.

(2) For the nine months ended November 30, 2022, the calculation of diluted earnings per share is based on weighted average shares outstanding of 24,984, as the preferred shares are anti-dilutive for this calculation. The calculation of adjusted diluted earnings per share is based on weighted average shares outstanding of 28,022, as the preferred shares are dilutive for this calculation. Adjusted net income for adjusted earnings per share also includes the addback of preferred dividends.

(3) Includes Corporate expenses related to the Precoat Metals acquisition and the divestiture of AZZ Infrastructure Solutions business into the AVAIL JV.

(4) For the three months ended November 30, 2023, represents a legal accrual related to the Metal Coatings segment of $4.5 million. For the nine months ended November 20, 2023, consists of the $4.5 million accrual for the Metal Coatings segment and $5.75 million for the settlement of a litigation matter related to the AIS segment that was retained following the sale of the AIS business. See Note 17.

(5) The non-GAAP effective tax rate for each of the periods presented is estimated at 24.0%.

Adjusted EBITDA from Continuing Operations

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2023	2022	2023	2022
Net income from continuing operations	$ 26,890	$ 18,439	$ 83,744	$ 58,912

Interest expense	25,855	26,123	82,331	61,739
Income tax expense	8,780	2,447	24,397	18,380
Depreciation and amortization	20,357	21,938	59,034	55,813
Adjustments:				
Acquisition and transaction-related expenditures	—	—	—	15,320
Legal settlement and accrual	4,500	—	10,250	—
Adjusted EBITDA from continuing operations	$ 86,382	$ 68,947	$ 259,756	$ 210,164

Adjusted EBITDA from Continuing Operations by Segment

A reconciliation of adjusted EBITDA by segment to net income from continuing operations is as follows (in thousands):

	Three Months Ended November 30, 2023				
	Metal Coatings	**Precoat Metals**	**Infrastructure Solutions**	**Corporate**	**Total**
Net income (loss) from continuing operations	$ 37,813	$ 32,752	$ 8,452	$ (52,127)	$ 26,890
Interest expense	—	—	—	25,855	25,855
Income tax expense	—	—	—	8,780	8,780
Depreciation and amortization	6,678	7,501	—	6,178	20,357
Adjustments:					
Legal accrual	4,500	—	—	—	4,500
Adjusted EBITDA from continuing operations	$ 48,991	$ 40,253	$ 8,452	$ (11,314)	$ 86,382

	Nine Months Ended November 30, 2023				
	Metal Coatings	**Precoat Metals**	**Infrastructure Solutions**	**Corporate**	**Total**
Net income (loss) from continuing operations	$ 128,353	$ 109,449	$ 4,892	$ (158,950)	$ 83,744
Interest expense	—	—	—	82,331	82,331
Income tax expense	—	—	—	24,397	24,397
Depreciation and amortization	19,647	20,407	—	18,980	59,034
Adjustments:					
Legal settlement and accrual	4,500	—	5,750	—	10,250
Adjusted EBITDA from continuing operations	$ 152,500	$ 129,856	$ 10,642	$ (33,242)	$ 259,756

	Three Months Ended November 30, 2022				
	Metal Coatings	**Precoat Metals**	**Infrastructure Solutions**	**Corporate**	**Total**
Net income (loss) from continuing operations	$ 33,670	$ 21,053	$ 1,006	$ (37,290)	$ 18,439
Interest expense	—	—	—	26,123	26,123
Income tax expense	—	—	—	2,447	2,447
Depreciation and amortization	8,225	13,381	—	332	21,938
Adjusted EBITDA from continuing operations	$ 41,895	$ 34,434	$ 1,006	$ (8,388)	$ 68,947

	Nine Months Ended November 30, 2022				
	Metal Coatings	**Precoat Metals**	**Infrastructure Solutions**	**Corporate**	**Total**
Net income (loss) from continuing operations	$ 123,806	$ 63,955	$ 1,006	$ (129,855)	$ 58,912
Interest expense	—	—	—	61,739	61,739
Income tax expense	—	—	—	18,380	18,380
Depreciation and amortization	24,785	29,891	—	1,137	55,813
Adjustments:					

Acquisition and transaction-related expenditures	—	—	—	15,320	15,320
Adjusted EBITDA from continuing operations	$ 148,591	$ 93,846	$ 1,006	$ (33,279)	$ 210,164

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to the Company's our market risk disclosures during the three and nine months ended November 30, 2023 May 31, 2024. For a discussion of the Company's our exposure to market risk, refer to the Company's our market risk disclosures set forth in Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, of our Annual Report on Form 10-K for the year ended February 28, 2023 February 29, 2024.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, management of the Company has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this Form 10-Q to provide reasonable assurance that information required to be disclosed in Company reports, filed or submitted, under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules; and (ii) accumulated and communicated to our management, including our principal executive and financial officers, as appropriate to allow timely discussions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no significant changes in the Company's internal controls over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company and its subsidiaries are named defendants and plaintiffs in various routine lawsuits incidental to its business. These proceedings include labor and employment claims, worker’s compensation, environmental matters, and various commercial disputes, all of which arise in the normal course of conducting business. As discovery progresses on all outstanding legal matters, the Company will continue to evaluate opportunities to either settle the disputes for nuisance value or potentially enter into mediation as a way to resolve the disputes prior to trial. As the pending cases progress through additional discovery, including expert testimony and mediation, our assessment of the likelihood of an unfavorable outcome on one or more of the pending lawsuits may change. 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, believes it has strong defenses to all of these matters and 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 1A. Risk Factors

There are numerous factors that affect our business, financial condition, results of operations and cash flows, many of which are beyond our control. In addition to other information set forth in this Quarterly Report, careful consideration should be given to “Item 1A. Risk Factors” in Part I and “Item 7. Management’s Discussion and Analysis of Financial Condition and

Results of Operations” in Part II of our Annual Report, which contain descriptions of significant factors that might cause the

actual results of operations in future periods to differ materially from those currently projected in the forward-looking statements contained therein.

There have been no material changes from risk factors previously disclosed in the Company’s most recent Annual Report on Form 10-K. See the discussion of the Company’s risk factors under Part I, Item 1A. in the Company’s Annual Report on Form 10-K for the fiscal year ended February 28, 2023 February 29, 2024.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On November 10, 2020, the Company's Board of Directors authorized a $100 million share repurchase program pursuant to which the Company may repurchase its common stock (the "2020 Share Authorization"). Repurchases under the 2020 Share Authorization will be made through open market and/or private transactions, in accordance with applicable federal securities laws, and could include repurchases pursuant to Rule 10b5-1 trading plans, which allows stock repurchases when the Company might otherwise be precluded from doing so.

The Company did not purchase any shares of common stock under the 2020 Share Authorization during the nine three months ended November 30, 2023 May 31, 2024. The Company has $84.0 As of May 31, 2024, we had $53.2 million remaining under the 2020 Share Authorization that may be used to repurchase outstanding shares of common stock. stock in the future.

Item 5. Other Information.

During the nine three months ended November 30, 2023 May 31, 2024, none of our directors or executive officers adopted, modified or terminated a Rule 10b5-1 trading arrangement or a non-Rule 10b5-1 trading arrangement as defined in Item 408 of Regulation S-K.

Item 6. Exhibits

10.1 1.1	Second Third Amendment to Credit Agreement, dated as of December 20, 2023 March 20, 2024, by and among AZZ Inc., the Guarantors, the Lenders, and Citibank, N.A., as Administrative Agent and Collateral Agent (incorporated by reference to Exhibit 10.1 to the Company's Company's Current Report on Form 8-K filed with the SEC on December 21, 2023) March 20, 2024.)
10.1	Underwriting Agreement, dated April 25, 2024, among AZZ Inc., Evercore Group L.L.C., Jeffries LLC and each of the other Underwriters named in Schedule A to the Underwriting Agreement (incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed with the SEC on April 26, 2024.)
31.1+	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2+	Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1+	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2+	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS+	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH+	Inline XBRL Taxonomy Extension Schema Document
101.CAL+	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF+	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB+	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE+	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Date File (embedded with the Inline XBRL document).

+ Filed Indicates filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AZZ Inc.
(Registrant)

Date: January 9, July 10, 2024

By: /s/ Tiffany Moseley
Tiffany Moseley
Chief Accounting Officer and
Principal Accounting Officer

Exhibit 31.1
Certification by Thomas E. Ferguson Chief Executive Officer
Pursuant to Securities Exchange Act Rule 13a-14(a)

I, Thomas E. Ferguson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of AZZ Inc. for the period ended November 30, 2023 May 31, 2024 (the "Report");

2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and d) Disclosed in this Report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Dated: January 9, July 10, 2024

/s/ Thomas E. Ferguson
Thomas E. Ferguson
President and Chief Executive Officer

Exhibit 31.2
Certification by Philip A. Schlom Chief Financial Officer
Pursuant to Securities Exchange Act Rule 13a-14(a)

I, Philip A. Schlom, Jason Crawford, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of AZZ Inc. for the period ended November 30, 2023 May 31, 2024 (the "Report");

2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and d) Disclosed in this Report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Dated: January 9, July 10, 2024

/s/ Philip A. Schlom Jason Crawford
Philip A. Schlom Jason Crawford
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, Thomas E. Ferguson, has executed this certification in connection with the filing of AZZ Inc.'s (the "Company") Quarterly Report on Form 10-Q for the period ended November 30, 2023 May 31, 2024 (the "Report"). The undersigned hereby certifies pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. to my knowledge the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: January 9, July 10, 2024

/s/ Thomas E. Ferguson
Thomas E. Ferguson
President and Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, Philip A. Schlom, Jason Crawford, has executed this certification in connection with the filing of AZZ Inc.'s (the "Company") Quarterly Report on Form 10-Q for the period ended November 30, 2023 May 31, 2024 (the "Report"). The undersigned hereby certifies pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. to my knowledge the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: January 9, July 10, 2024

/s/ Philip A. Schlom Jason Crawford
Philip A. Schlom Jason Crawford
Chief Financial Officer

DISCLAIMER

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