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KMG - Q2 2018 KMG Chemicals Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the KMG Second Quarter Fiscal 2018 Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded. I would now like to turn the conference over to Eric Glover, Investor Relations Manager. You may begin.

Eric Glover - *KMG Chemicals, Inc. - IR Manager*

Thank you. Good afternoon, and welcome to the KMG Second Quarter Fiscal 2018 Financial Results Conference Call. I'm joined today by Chris Fraser, our Chairman and CEO; and Monte Green, our Interim CFO and Director of Corporate Development. In a moment, we'll hear comments from them followed by Q&A.

During today's call, we will discuss financial measures not calculated according to generally accepted accounting principles. Please refer to today's earnings release available on our website for the reasons we are presenting non-GAAP financial information and for the appropriate tables that reconcile these measures to our GAAP results.

Before we begin, I'd like to remind everyone that the information on this conference call includes certain forward-looking statements that are based upon assumptions that in the future may prove not to have been accurate and are subject to significant risks and uncertainties, including statements regarding the future performance of the company.

I'll now turn the call over to Chris Fraser, Chairman and CEO. Please go ahead, sir.

Christopher T. Fraser - *KMG Chemicals, Inc. - Chairman*

Thank you, Eric. Good afternoon, and thank you, everyone, for joining us today. Our Q2 earnings release was issued today after the market closed, and our 10-Q will be filed tomorrow. After my remarks, Monte will review the financials, and then we'll take your questions.

Building on a strong performance in the first quarter, KMG achieve record quarterly results in sales, adjusted EBITDA and earnings per share in the second quarter highlighted by organic growth in our existing businesses, significant contribution from last year's acquisitions of Sealweld and Flowchem and continued strong cash flow. We also successfully repriced our term loan during the second quarter, generating substantial interest expense savings that will further strengthen our earnings and cash flow going forward.

Our performance in the second quarter and through the first half of our fiscal year reflects solid and consistent execution across all of our global operations, the fundamental strengths of our diverse and market leading businesses, growth in operating efficiencies from strategic acquisitions and investments made over the past several years, and strength in earnings from the reduction of our leverage and the recent repricing of our debt.

Second quarter sales grew 44% from the prior year to a record $113.9 million, and second quarter adjusted EPS of $1.04 also reached a record. This marked our 14th consecutive quarter of double-digit year-over-year growth in adjusted earnings per share.

Our 2 reporting segments, electronic chemicals and performance materials, each generated record financial results leading to record consolidated adjusted EBITDA of $29.4 million, our 16th consecutive quarter of double-digit year-over-year growth in adjusted EBITDA. Second quarter sales in our performance materials segment more than quadrupled from the same period last year to a record $39.9 million, driven by the contributions from Flowchem and Sealweld as well as product volume growth in both industrial lubricants and wood treating chemicals. Sequentially, sales grew 8% in the segment.

In our wood treating chemicals business, second quarter product volume grew from the prior year period primarily due to the replacement of utility poles damaged by recent natural disasters in the U.S. and the Caribbean. Although higher costs for certain raw materials limited some of the benefits from the growth in product volume, our wood treating chemicals business continued to generate solid and dependable cash flow.

Our pipeline performance business benefited from favorable market dynamics in the oil and gas sector. With improving energy prices and rising energy demand helping to drive increased oil and gas production, especially in the U.S. As a result, domestic energy producers and suppliers have increased capital and maintenance spending, leading to strong year-over-year volume growth in our existing industrial lubricants and sealants business, which provides a range of products that enable valves to operate optimally and safely.

The acquisition of Sealweld also contributed to our segment performance in the quarter, has provided complementary growth opportunities in the pipeline services market, including valve maintenance and technician training. Flowchem contributed significantly to both sales and EBITDA in our performance materials segment. As expected, Flowchem experienced solid sequential volume growth in the second quarter aided by favorable seasonal trends and continued strong domestic demand. Serving pipeline operators in North America and throughout the world, Flowchem has directly benefited from increased domestic oil production. As oil production has risen, particularly in the Permian, Bakken and Eagle Ford regions, pipeline takeaway and throughput capacity continues to be constrained. As a result, pipeline operators continue to increase utilization of drag reducing agents or DRAs to optimize throughput and lower operating pressure.

The adoption of DRAs and the increased utilization of these products by domestic and international pipeline operators reflect their tremendous value. DRAs can maximize pipeline throughput capacity, immediately enhancing revenue and profits at relatively minimal incremental costs. We remain excited about the growth opportunity that Flowchem's leading DRA technology and solutions address on a global basis. Rising oil production in capacity constrained regions, aging pipeline infrastructure and the construction of new pipelines are important trends that will drive further usage and market penetration of DRAs, both domestically and internationally.

Turning to our electronic chemicals segment, which supplies high-purity process chemicals to semiconductor manufacturers worldwide. The global semiconductor industry continues to experience positive trends, driven by the proliferation of semiconductors in the technology and products we use on a daily basis, along with the rise of newer end markets like cloud computing, the Internet of Things, automotive and artificial intelligence. Increasing chip complexity and manufacturing advancements that require ever tightening, purity and quality specifications are also important growth drivers for our electronic chemicals business.

To maximize the value from these opportunities, we made strategic investments over the past several years that have strengthened our capabilities, broadened our product offering and improved our efficiency. This highlights some of those key steps we've taken consolidating our global manufacturing operations, improving our efficiency, strategically repositioning our electronic chemicals business to participate in higher margins and higher growth opportunities in both digital and analog semiconductor markets, investing in our supply chain to strengthen our global capabilities, and collaborating closely with our global customers to ensure that our products meet their evolving needs for purity, quality and volume.

As you may recall, in last year's second quarter, we experienced extraordinarily strong sales growth of 12% year-over-year as our volume growth increased to meet rising demand from some of our key global customers to ramp production in new or recently expanded fabrication facilities. In spite of this strength we saw last year, I'm pleased that our electronic chemicals business generated 6% year-over-year sales growth in the current quarter to a record $73.9 million.

Our global footprint remains an important advantage as we experienced year-over-year growth in all geographic regions with particular strength in Europe and Asia. Our EC business achieved record EBITDA margins in the current quarter, benefiting from our enhanced efficiency and a favorable product mix.

Now turning to our fiscal 2018 outlook. Based on our strong financial performance in the first half and our expectation for continued year-over-year growth in the second half in both our electronic chemicals and performance materials segments, we are raising our sales and adjusted EBITDA forecast for the year. We now forecast fiscal 2018 sales of $445 million to $455 million, up from our prior guidance of $435 million to $450 million with higher estimated sales growth rates in both electronic chemicals and performance materials segments. Given our current visibility, we project that sales in our third quarter will be similar to the level in our second quarter and that sales in our fourth quarter will represent the highest level of our fiscal year primarily due to seasonal trends and the projected timing of some international shipments.

As we indicated this past October, we anticipate that rising raw material costs in our penta business will act as a headwind on EBITDA in the second half of fiscal 2018. Additionally, we expect higher stock-based compensation expense of approximately $8 million in fiscal 2018 compared to our prior estimate of approximately $6.5 million. Balancing these considerations against our expectations for continued growth in both our electronic chemicals and performance materials segments, we increased our fiscal 2018 consolidated adjusted EBITDA forecast to $114 million to $118 million, up from our prior guidance of $110 million to $115 million.

In summary, KMG continues to make progress operationally, financially and strategically. Our businesses are performing at a high level, fueled by the continued dedication and talent of our global team and aided by favorable tailwinds and positive momentum in each of our end markets. Our investments in our people, systems and process have advanced -- have enhanced our capabilities, and I'm confident in our ability to generate continued growth and deliver long-term value for our shareholders.

Before we move on to review the financials, I'd like to introduce Monte Green, our Interim CFO and Director of Corporate Development. Monte has been instrumental in leading our successful M&A program and integration efforts over the past few years and was substantially involved in a recent equity offering and debt repricing. I am pleased that Monte has stepped into the additional role of Interim CFO, and I thank him for his efforts and dedication.

I'll now turn the call over to Monte.

Marvin Green - *KMG Chemicals, Inc. - Director of Corporate Development*

Thank you, Chris, and good afternoon, everyone. In my remarks, I will reference adjusted or non-GAAP numbers as we believe non-GAAP information can provide useful insight into the underlying operating performance of our business. The non-GAAP numbers I reference are reconciled to the corresponding GAAP numbers in today's earnings release. As shown in today's earnings release and in the first quarter of fiscal 2018, we have specified amortization of intangible assets as a separate line item in our operating expenses due to the significant amount of amortization expense related to the intangible assets we now incur, largely due to the acquisition of Flowchem. Going forward, we intend to continue to exclude the portion of amortization expense directly attributable to Flowchem and related tax effects from our calculation of adjusted net income and adjusted earnings per share.

Our strong financial performance in the second quarter, as compared to the prior year, was driven by: one, growth across all geographic regions in our electronic chemicals segment; two, organic growth in our industrial lubricants business as well as our wood treating chemicals business; three, significant contributions from Sealweld and Flowchem; four, enhanced operating leverage and improved operational efficiency throughout our global operations; and five, significant interest expense savings from the reduction in leverage and the successful repricing of our term loan.

On a GAAP basis, we experienced favorable tax benefits from recent U.S. tax reform and benefits related to stock-based compensation. The benefit from tax reform and other items shown in the reconciliation tables in our earnings release was excluded from our adjusted EBITDA and adjusted earnings per share.

On an adjusted basis, second quarter diluted earnings per share were a record $1.04 compared to $0.57 in the same period last year. Second quarter consolidated adjusted EBITDA margins were 25.8% compared to 16.5% in the second quarter of last year. Electronic chemicals segment adjusted EBITDA margins grew to a record 20.3%, an increase of 278 basis points from Q2, 2017. The increase was due to a more favorable product mix and operational efficiencies. Performance materials segments adjusted EBITDA margins increased to 42.9% in the second quarter from 34.7% in Q2 2017, reflecting the contribution from Flowchem and improved product volume in our industrial lubricants business partially offset by higher raw materials and cost in our wood treating chemicals business.

Second quarter operating cash flow totaled $15.7 million, up from $8.5 million in last year's second quarter. Q2 2018 operating cash flow benefited from higher earnings in our electronic chemicals and performance materials segments and the acquisition of Sealweld and Flowchem. This improvement was partially offset by an increase in working capital of $7.7 million, which was primarily driven by inventory replenishment in both our electronic chemicals and performance materials segments to support our customers' expanded growth in the second half of our fiscal 2018 year.

During the second quarter, we used cash generated from operations to reduce our debt by $18 million. Over the past 2 quarters, we have reduced debt by $196 million, which includes approximately $176 million in proceeds from our equity offering in October plus $20 million in cash generated from operations. As of January 31, 2018, long-term debt, as shown in the balance sheet, was $337 million, down from $353 million at the end of our first quarter and $526 million at the end of our fiscal 2017 year.

In December, we repriced our credit facilities, reducing the spread on our term loan by 125 basis points from 4.0% to 2.75%. As a result, the interest rate on our term loan as of January 31, 2018, was equal to LIBOR plus 2.75%.

Net debt, which we calculate as long-term debt minus cash and cash equivalents, was $315.1 million as of January 31, 2018. Using the midpoint of our updated projected fiscal 2018 EBITDA guidance, our current net debt-to-EBITDA leverage ratio is now approximately 2.7x, down from approximately 2.9x at the end of our first fiscal quarter and down from approximately 5.3x when we closed the Flowchem transaction 9 months ago.

Due to the reduction in our leverage and the repricing of our term loan, second quarter interest expense was lower by $3 million compared to the first quarter of fiscal 2018. Capital expenditures were $3.2 million in the second quarter, and $9 million for the fiscal year-to-date, which includes investments in technology, supply chain and the expansion of our manufacturing facility in Singapore. We continue to anticipate total CapEx of approximately $29 million in fiscal 2018, which includes a portion of our planned capital expenditure or capital investment in Singapore.

Turning now to our income statement. Gross profit margin improved 380 basis points per year-over-year to 43.3% due to improved margins in our performance materials segment, a favorable product mix in our electronic chemicals segment and manufacturing efficiencies. Distribution expense decreased by $1.1 million from last year's second quarter as a result of the capitalization of certain costs into inventory of $2 million. The decrease was partially offset by increased freight costs due to higher volume and less favorable freight market conditions.

SG&A expense increased by $3.1 million from last year's second quarter. The increase was primarily due to 3 factors: one, an expense associated with the amendment of our credit agreement; two, an increase in stock-based compensation expense; and three, the addition of Sealweld and Flowchem. As Chris noted in his comments, we anticipate stock-based compensation expense will be approximately $8 million in fiscal 2018, up from our prior estimate of approximately $6.5 million due to our continued strong financial performance and higher stock price.

Depreciation and amortization expense in the second quarter totaled $7.6 million, including $3.9 million in amortization of intangible assets compared to $3.5 million of depreciation and amortization expense in the same period last year. D&A increased in Q2 2018 largely due to the acquisitions of Sealweld and Flowchem. We continue to anticipate total depreciation and amortization expense for fiscal 2018 year will be approximately $30 million to $31 million. Of this amount, we estimate amortization of intangible assets will be approximately $16 million.

Overall, second quarter GAAP earnings per share was a record $1.59. GAAP EPS included several extraordinary items, including an $11 million onetime benefit from recent U.S. tax reform primarily reflecting the remeasurement of deferred tax liabilities at the new lower corporate tax rate of 21% compared to 35% previously; our $1.9 million non-cash charge related to the amendment of our credit agreement and reduction in our debt; a fair value gain of $3 million on our interest rate swap, which is marked to market each quarter for financial reporting purposes. For the remainder of fiscal 2018, we project an effective tax rate of approximately 25%.

Operator, let's now open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Robert Koort of Goldman Sachs.

Dylan Scott Carter Campbell - *Goldman Sachs Group Inc., Research Division - Research Analyst*

This is Dylan Campbell on for Bob. If we doubled the first half EBITDA performance and take the run rate of that, that essentially gets us to the bottom end of your fiscal 2018 EBITDA guidance. So does that seem to imply, I guess, an acceleration of growth going into the second half of the year? And would you say that's more from the performance materials business or from electronic chemicals?

Christopher T. Fraser - *KMG Chemicals, Inc. - Chairman*

Yes. So it's a combination of several factors. One of which is that the -- our second half is typically stronger than our first half in EC, electronic chemicals business. So we expect that to continue. If you think about the seasonality of it, Q3 and Q4, typically, Q4 is stronger than some of the prior quarters. In addition, with the Flowchem business, the DRA business, the Q3 is relatively strong quarter similar to Q2, and Q4 is typically stronger than Q1. So when you add all that up, it gets us to higher than -- the second half results will be higher than the first half. So the bottom end assumes that we're basically repeating our first half. The higher end of the range assumes that will be some pickup like typical years in the second half versus the first half.

Dylan Scott Carter Campbell - *Goldman Sachs Group Inc., Research Division - Research Analyst*

Got it. That makes sense. And then for your performance materials sales growth for the quarter, would you be able to break out, I guess, the organic growth for the legacy business? And between that and I guess, what the growth for the, I guess, stand-alone Flowchem and Sealweld businesses were during the quarter?

Christopher T. Fraser - *KMG Chemicals, Inc. - Chairman*

Yes. So we don't typically break those out individually. But needless to say, if I just talk about some of them on a high level, we saw a year-over-year growth in wood treating on volume. As I mentioned the storms, we got some benefit from some of those effects, both in Puerto Rico, some of the storms here in the Southwest. In addition -- but it was down sequentially as we would expect. It's a lower quarter for us. Q2 is typically lower volume than Q1 in the wood treating business. Similarly, in industrial lubricants, we had nice volume growth on the Val-Tex piece, which we do have a comparison to, and then we've now got the addition of Sealweld in this quarter versus Q2 of last year when it wasn't in. So on a like-for-like basis, we saw volume growth in industrial lubricants, and then we got the additional business of Sealweld. And then if I speak about the Flowchem business, we saw a nice sequential growth, which we were anticipating. It has to do with the seasonality plus some of the demand drivers that I spoke about. So that met or slightly exceeded our expectations in Q2. We expect that to continue in Q3. And so obviously, last year, we didn't have

Flowchem, but when you add it all up, it's pretty significant growth in that segment. But if I break it down to give you some like-for-like comparisons like I just did, hopefully, that helps you a little bit.

Operator

Our next question comes from the line of Mike Harrison of Seaport Global Securities.

Michael Joseph Harrison - *Seaport Global Securities LLC, Research Division - MD & Senior Chemicals Analyst*

Just looking at the Flowchem acquisition and just sort of the integration process. Wondering if you've been able to capitalize on any synergy opportunities. Any changes to this point in the cost structure of the business? And maybe can you help us understand how margin performance in that performance materials business looked in the second quarter compared to your expectations or your plan?

Christopher T. Fraser - *KMG Chemicals, Inc. - Chairman*

Yes. So let me talk about the integration. So that's progressing well. Flowchem has a lot of very good quality people, and we've been able to work with them to look at some opportunities, kind of the backroom activities, if you will, to provide some value there. We don't see significant synergies as we've kind of outlined from the beginning, in the operational side, it's going to be more about some of the backroom administrative activities, everything from HR to IT to some of the accounting and finance roles. But we do see some future opportunities around the cross-selling opportunities across industrial lubricants with Flowchem. There are some customers that there is overlap. There's customers that see some value in a more complete comprehensive offering values and solutions to them. So that's an ongoing discussion. There's ongoing opportunities and sharing of information that will continue to provide some value, and even more in the future as we align things even closer. From a margin standpoint, the performance materials in the quarter, I'm talking about EBITDA margin, was slightly better than we expected, part of that had to do with the growth at Flowchem and the mix of the relative businesses. So it came together nicely for us in the quarter. If we look at the remainder of the year, we expect that we'll be able to keep that similar margin and possibly even improve on it as we get some higher volumes in some of the higher margin products and businesses.

Michael Joseph Harrison - *Seaport Global Securities LLC, Research Division - MD & Senior Chemicals Analyst*

All right. And in terms of the expected growth rate within the DRAs business, I think that you've previously talked about kind of a 5% to 9% number. Is there an update to that number? Or are we kind of -- with the higher guidance, are we now just looking toward the higher end of that range?

Christopher T. Fraser - *KMG Chemicals, Inc. - Chairman*

Yes. It's a good question, Mike. So yes, I would say that we are moving towards the higher end of that range, and when we first gave our guidance and got involved in this business, we had assumed kind of a apples-to-apples growth of about 5%, but if certain dynamics occurred, we could see getting up to the upper end of that range with further penetration or if production grew in certain areas. And what we're seeing actually happen here is the growth of production in the U.S. domestic market, particularly in the Permian, is constraining some of these pipelines even more than we had anticipated. So we are seeing some enhanced demand there. So overall, as we look at it, where we are today, and it's partly [one of] our guidance uptick is that we expect the growth to be closer to the higher end of our range when we talk about the 5% to 9%.

Michael Joseph Harrison - *Seaport Global Securities LLC, Research Division - MD & Senior Chemicals Analyst*

All right. Then switching over to electronic chemicals for a minute, obviously, very strong against the good comp. Wondering, was there anything unusual driving that strength that you saw? And maybe just help us understand the visibility that you guys have on what looks like a better growth rate in that business.

Christopher T. Fraser - *KMG Chemicals, Inc. - Chairman*

Yes. So we went into 2018, we were guiding and expecting about a 5% year-over-year growth on our fiscal '18 versus '17. And as you've seen, we've experienced better than that. Here, we had 10% in the first quarter year-over-year, and we've had now 6% in the second quarter. So we're really pleased with that growth. It exceeded our expectations. And then as we look at for the rest of the year, we're expecting a continuation of that growth higher than our 5%. In fact, we're expecting the second half to be closer to 6%, which would give us a full year expectation of 7% or possibly even higher than that. So we just -- the global silicon wafer area shipment is running higher than we had anticipated for the year, and there's projections in '18 for that to be, from a calendar year basis, a 4-ish-percent, which exceeded what we had thought it was going to be on a calendar basis. So I think it lines up very nicely for us to up our projections. And the discussions we're having with our customers, there's just a continued strong trend in that business in semiconductors right now and it's really a broad-based solid trend and fundamentals around not only the proliferation of more and more semiconductors but the whole idea around big data and the memory required to handle the data generation as well as the logic that's required to handle it, whether it's in cloud computing or it's connecting our various devices from our -- devices that we carry around every day or what's happening around automotive and the proliferation of sensors and data that's being driven with that. So there's just a solid growth trend that we see there. We think it's going to continue for some time, so we're optimistic that it's going to continue into 2019 and beyond. So that gave us a perspective to increase our guidance and continue with the solid growth that was exceeding our expectations going into 2018.

Operator

(Operator Instructions) Our next question comes from the line of Rosemarie Morbelli of Gabelli & Company.

Rosemarie Jeanne Pitras-Morbelli - *G. Research, LLC - Research Analyst*

I was wondering -- going back to the electronics. I mean, every quarter I ask you if this new higher level of margin is sustainable, and you are always cautious. So where do we stand now at 17%? And what would cause it to go back to at least the first quarter level? I mean, were there something special in the mix in the quarter that you are not expecting to recur?

Christopher T. Fraser - *KMG Chemicals, Inc. - Chairman*

Yes. So we did, Rosemarie, have a favorable mix. We were pleased by that, and a part of it was positioning ourselves, as I mentioned, with certain customers in end markets and providing some of the higher purity products that have higher margin. So we were pleased with the mix that allowed us to get to that higher margin. I am always cautious as I don't want to get too far ahead of ourselves, but you're right. We continue to improve our margin. And the part that I'm very confident about is our ability to operate our plants efficiently. And there are -- our operations, our manufacturing folks do an excellent job of continuing to drive for continuous improvement and increased efficiencies, and we continue to see the benefit of that. So we saw some of that in Q2. Obviously, with higher volumes, that allows us to get better margins. In addition, we did have this product mix element. I would say that I can't, with full confidence, say that the product mix is going to continue to replicate on going forward basis, but the operational side, I expect to continue. So having said all of that, I would say our Q2 margin is probably a little bit higher than we'll anticipate for the rest of the year, but I do expect us to have a higher margin than we did in Q1 for the remainder part of the year. And I hope that 3 months from now you're saying the same thing again, and say, "Chris, you were, I'd say, cautiously optimistic and you outperformed." So I'm hopeful that we'll have that conversation again, but that -- hopefully, this gives you a little bit of perspective.

Rosemarie Jeanne Pitras-Morbelli - *G. Research, LLC - Research Analyst*

It does. Can you help me understand a little more about the mix? What is it that you were selling this quarter and that you anticipate to continue selling that may eventually dry out or maybe not?

Christopher T. Fraser - *KMG Chemicals, Inc. - Chairman*

Yes. I wouldn't expect it to dry out. It's more than -- so we have a large number of products. And depending on the region of the world as well as the product, we can, from one quarter to the next, have a mix that can be a regional mix. Our margins are higher in some regions versus others as well as some products. So it's a combination of both. As we saw in this quarter, it was more of a product driven, so some of our higher-priced, higher-margin products, we had higher volumes than we had from a relative standpoint in prior quarters. So I don't expect to necessarily to dry up. It may be more that some of the volume growth that we see in following quarters may be more so in some of the lower-margin products that we could dilute some of that margin mix that I'm talking about.

Rosemarie Jeanne Pitras-Morbelli - *G. Research, LLC - Research Analyst*

And with this kind of margin, are you seeing more competitors coming in that particular space? Is that something that you should be concerned about or we should be concerned about?

Christopher T. Fraser - *KMG Chemicals, Inc. - Chairman*

So we never take our competition lightly, and we constantly are positioning ourselves to best serve our customers, provide them the most value that we can and at the same time, making sure we're competitive in all fronts, whether it's on the cost side or on our end product value that we provide. So I don't really want to get into specifics around any individual competitor, but having said that, we take care of what we can, which is driving our profits to the extent we can that makes sense in the marketplace through the things that we can control and take advantage and position ourselves in the marketplace to benefit from whatever growth or drivers that are there. So again, we don't -- I don't -- we don't overly concern ourselves about competition, but we never take our competition lightly. And we're keenly focused on how we position ourselves to most benefit the -- in the most beneficial place to take advantage of the market opportunity that it presents ourselves.

Rosemarie Jeanne Pitras-Morbelli - *G. Research, LLC - Research Analyst*

That is very helpful. And if I may ask one other question about your performance materials business. Outside of the benefit, if I can call it that, from the hurricane on the wood treatment area, any benefit on the pipeline maintenance of valves, et cetera, that you may -- that have may -- they have kind of brought up stronger demand in the quarter due to pent-up demand and then we go back to a more normalized type of level? I know that you said you would be at the high end, but I am just wondering the impact.

Christopher T. Fraser - *KMG Chemicals, Inc. - Chairman*

Sure, good question. So year-over-year, we did see a growth in volume on our Val-Tex business, which is specifically the business we owned a year ago in Q2. And so we saw that increased volume, and we anticipate that the -- with oil prices where they are, the rig count level that it is at as well as the oil production and gas production that has been considerable, specifically in the U.S., that we expect to see that positive trend going for us for the rest of the year. So I don't see it going back. I see a continued year-over-year growth in that area. And Sealweld just gives us even more of an avenue to pursue some of that growth and positions us well to take advantage of it. So I don't see it going back. I think the maintenance spending has been unlocked in today's oil prices and gas prices. There will be continued good market drivers. In addition, I think as we brought this business together, Val-Tex, Sealweld and now Flowchem, again, we just got a very solid product offering. We're working with very good customers who are well positioned in their space, and we think if we continue to provide value to them that will give us the opportunity to continue to grow in at least a -- at the market pace but even better than that.

Operator

I'm showing no further questions in queue at this time. I would like to turn the conference back over to Chris Fraser for closing remarks.

Christopher T. Fraser - *KMG Chemicals, Inc. - Chairman*

Great. Thank you. We appreciate your participation today and your interest in KMG. We look forward to speaking with you on our third quarter conference call in June. Thank you.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes today's program. You may now disconnect. Everyone, have a great day.