

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

**DMC Global Inc.**

**Form: 10-Q**

**Date Filed: 2020-04-23**

Corporate Issuer CIK: 34067

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**Form 10-Q**

(Mark One)

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

For the quarterly period ended **March 31, 2020**

OR

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934**

FOR THE TRANSITION PERIOD FROM                      TO                      .

Commission file number **001-14775**

**DMC GLOBAL INC.**

(Exact name of Registrant as Specified in its Charter)

**Delaware**  
(State of Incorporation or Organization)

**84-0608431**  
(I.R.S. Employer Identification No.)

**11800 Ridge Parkway, Suite 300, Broomfield, Colorado 80021**  
(Address of principal executive offices, including zip code)

**(303) 665-5700**  
(Registrant's telephone number, including area code)

| Title of each class           | Trading Symbol | Name of exchange on which registered |
|-------------------------------|----------------|--------------------------------------|
| Common Stock, \$.05 Par Value | BOOM           | The Nasdaq Global Select Market      |

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 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, 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 under the Act). Yes  No

The number of shares of Common Stock outstanding was 14,751,242 as of April 23, 2020.

## CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains “forward-looking statements” within the meaning of section 27A of the Securities Act of 1933 and section 21E of the Securities Exchange Act of 1934. We intend the forward-looking statements throughout this quarterly report on Form 10-Q to be covered by the safe harbor provisions for forward-looking statements. Statements contained in this report which are not historical facts are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from projected results. These statements can sometimes be identified by our use of forward-looking words such as “may,” “believe,” “plan,” “anticipate,” “estimate,” “expect,” “intend,” and other phrases of similar meaning. Such statements include the planned reduction in spending and our 2020 capital budget, expected well completions during the second quarter of 2020 and levels of product demand, increases in NobelClad order activity expected later in the year and NobelClad’s backlog. The forward-looking information is based on information available as of the date of this quarterly report and on numerous assumptions and developments that are not within our control. Although we believe that our expectations as expressed in these forward-looking statements are reasonable, we cannot assure you that our expectations will turn out to be correct. Factors that could cause actual results to differ materially include, but are not limited to, those factors referenced in our Annual Report on Form 10-K for the year ended December 31, 2019 and such things as the following: impacts of COVID-19 and any preventative or protective actions taken by governmental authorities, including economic recessions or depressions; the ability to obtain new contracts at attractive prices; the size and timing of customer orders and shipments; product pricing and margins; our ability to realize sales from our backlog; fluctuations in customer demand; fluctuations in foreign currencies; competitive factors; the timely completion of contracts; the timing and size of expenditures; the timely receipt of government approvals and permits; the price and availability of metal and other raw material; fluctuations in tariffs or quotas; changes in laws and regulations, both domestic and foreign, impacting our business and the business of the end-market users we serve; the adequacy of local labor supplies at our facilities; current or future limits on manufacturing capacity at our various operations; our ability to successfully integrate acquired businesses; the impact of pending or future litigation or regulatory matters; the availability and cost of funds; our ability to access our borrowing capacity under our credit facility; and changes in global economic conditions. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management’s analysis only as of the date hereof. We undertake no obligation to publicly release the results of any revision to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

---

## INDEX

Page

### PART I - FINANCIAL INFORMATION

|               |   |           |
|---------------|---|-----------|
| <u>Item 1</u> | <u>Condensed Consolidated Financial Statements</u>  | <u>4</u>  |
|               | <u>Condensed Consolidated Balance Sheets as of March 31, 2020 (unaudited) and December 31, 2019</u>                             | <u>4</u>  |
|               | <u>Condensed Consolidated Statements of Operations for the three months ended March 31, 2020 and 2019 (unaudited)</u>           | <u>5</u>  |
|               | <u>Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2020 and 2019 (unaudited)</u> | <u>6</u>  |
|               | <u>Condensed Consolidated Statement of Stockholders' Equity for the three months ended March 31, 2020 and 2019 (unaudited)</u>  | <u>7</u>  |
|               | <u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2020 and 2019 (unaudited)</u>           | <u>8</u>  |
|               | <u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>   | <u>9</u>  |
| <u>Item 2</u> | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                                    | <u>21</u> |
| <u>Item 3</u> | <u>Quantitative and Qualitative Disclosure about Market Risk</u>  | <u>29</u> |
| <u>Item 4</u> | <u>Controls and Procedures</u>  | <u>29</u> |

### PART II - OTHER INFORMATION

|                |  |           |
|----------------|--|-----------|
| <u>Item 1</u>  | <u>Legal Proceedings</u>   | <u>30</u> |
| <u>Item 1A</u> | <u>Risk Factors</u>  | <u>30</u> |
| <u>Item 2</u>  | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>30</u> |
| <u>Item 3</u>  | <u>Defaults Upon Senior Securities</u>                             | <u>31</u> |
| <u>Item 4</u>  | <u>Mine Safety Disclosures</u>                                     | <u>31</u> |
| <u>Item 5</u>  | <u>Other Information</u>   | <u>31</u> |
| <u>Item 6</u>  | <u>Exhibits</u>  | <u>31</u> |
|                | <u>Signatures</u>  | <u>31</u> |

**Part I - FINANCIAL INFORMATION**
**ITEM 1. Condensed Consolidated Financial Statements**

**DMC GLOBAL INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Amounts in Thousands, Except Share and Per Share Data)

|   | March 31, 2020<br>(unaudited) | December 31, 2019 |
|---|-------------------------------|-------------------|
| <b>ASSETS</b>   |                               |                   |
| <b>Current assets:</b>  |                               |                   |
| Cash and cash equivalents   | \$ 16,451                     | \$ 20,353         |
| Accounts receivable, net of allowance for doubtful accounts of \$ 2,320 and \$967, respectively                             | 51,011                        | 60,855            |
| Inventories   | 61,445                        | 53,728            |
| Prepaid expenses and other  | 9,534                         | 9,417             |
| <b>Total current assets</b>   | <b>138,441</b>                | <b>144,353</b>    |
| Property, plant and equipment   | 173,538                       | 174,741           |
| Less - accumulated depreciation   | (66,721)                      | (66,507)          |
| <b>Property, plant and equipment, net</b>   | <b>106,817</b>                | <b>108,234</b>    |
| Purchased intangible assets, net  | 5,199                         | 5,880             |
| Deferred tax assets   | 3,902                         | 3,836             |
| Other assets  | 14,581                        | 15,118            |
| <b>Total assets</b>   | <b>\$ 268,940</b>             | <b>\$ 277,421</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                               |                   |
| <b>Current liabilities:</b>   |                               |                   |
| Accounts payable  | \$ 29,020                     | \$ 34,758         |
| Accrued expenses  | 7,146                         | 6,903             |
| Dividend payable  | 1,883                         | 1,866             |
| Accrued income taxes  | 8,666                         | 9,651             |
| Accrued employee compensation and benefits  | 7,268                         | 10,668            |
| Contract liabilities  | 4,367                         | 2,736             |
| Current portion of long-term debt   | 3,125                         | 3,125             |
| Other current liabilities   | 1,618                         | 1,716             |
| <b>Total current liabilities</b>  | <b>63,093</b>                 | <b>71,423</b>     |
| Long-term debt  | 10,406                        | 11,147            |
| Deferred tax liabilities  | 3,692                         | 3,786             |
| Other long-term liabilities   | 18,060                        | 18,924            |
| <b>Total liabilities</b>  | <b>95,251</b>                 | <b>105,280</b>    |
| Commitments and contingencies (Note 11)   |                               |                   |
| <b>Stockholders' equity</b>   |                               |                   |
| Preferred stock, \$0.05 par value; 4,000,000 shares authorized; no issued and outstanding shares                            | —                             | —                 |
| Common stock, \$0.05 par value; 25,000,000 shares authorized; 14,751,242 and 14,652,675 shares outstanding, respectively    | 763                           | 756               |
| Additional paid-in capital  | 86,832                        | 85,639            |
| Retained earnings   | 121,224                       | 119,002           |
| Other cumulative comprehensive loss   | (26,643)                      | (25,803)          |
| Treasury stock, at cost, and company stock held for deferred compensation, at par; 509,593 and 464,532 shares, respectively | (8,487)                       | (7,453)           |
| <b>Total stockholders' equity</b>   | <b>173,689</b>                | <b>172,141</b>    |
| <b>Total liabilities and stockholders' equity</b>   | <b>\$ 268,940</b>             | <b>\$ 277,421</b> |

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

**DMC GLOBAL INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Amounts in Thousands, Except Share and Per Share Data)  
(unaudited)

|   | Three months ended March 31, |                   |
|---|------------------------------|-------------------|
|   | 2020                         | 2019              |
| Net sales   | \$ 73,564                    | \$ 100,135        |
| Cost of products sold                             | 49,094                       | 63,730            |
| Gross profit                                      | <u>24,470</u>                | <u>36,405</u>     |
| Costs and expenses:                               |                              |                   |
| General and administrative expenses               | 8,126                        | 9,168             |
| Selling and distribution expenses                 | 8,527                        | 6,309             |
| Amortization of purchased intangible assets       | 354                          | 398               |
| Restructuring expenses, net and asset impairments | 1,116                        | 78                |
| Total costs and expenses                          | <u>18,123</u>                | <u>15,953</u>     |
| Operating income                                  | 6,347                        | 20,452            |
| Other income (expense):                           |                              |                   |
| Other income (expense), net                       | 115                          | (21)              |
| Interest expense, net                             | <u>(238)</u>                 | <u>(373)</u>      |
| Income before income taxes                        | 6,224                        | 20,058            |
| Income tax provision                              | 2,069                        | 4,888             |
| Net income  | <u>\$ 4,155</u>              | <u>\$ 15,170</u>  |
| Net income per share                              |                              |                   |
| Basic   | <u>\$ 0.28</u>               | <u>\$ 1.02</u>    |
| Diluted   | <u>\$ 0.28</u>               | <u>\$ 1.01</u>    |
| Weighted average shares outstanding:              |                              |                   |
| Basic   | <u>14,697,164</u>            | <u>14,606,052</u> |
| Diluted   | <u>14,717,836</u>            | <u>14,671,689</u> |
| Dividends declared per common share               | <u>\$ 0.125</u>              | <u>\$ 0.02</u>    |

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

**DMC GLOBAL INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(Amounts in Thousands)**  
**(unaudited)**

|  | Three months ended March 31, |                  |
|--|------------------------------|------------------|
|  | 2020                         | 2019             |
| Net income   | \$ 4,155                     | \$ 15,170        |
| Change in cumulative foreign currency translation adjustment | (840)                        | (419)            |
| Total comprehensive income                                   | <u>\$ 3,315</u>              | <u>\$ 14,751</u> |

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

**DMC GLOBAL INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(Amounts in Thousands, Except Share Data)  
(unaudited)

|  | Common Stock      |               | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Other<br>Cumulative<br>Comprehensive<br>Loss | Treasury Stock and<br>Company Stock Held for<br>Deferred Compensation |                   | Total             |
|--|-------------------|---------------|----------------------------------|----------------------|--|---|-------------------|-------------------|
|  | Shares            | Amount        |                                  |                      |  | Shares  | Amount            |                   |
| Balances, December 31, 2019  | 15,117,207        | \$ 756        | \$ 85,639                        | \$ 119,002           | \$ (25,803)                                  | (464,532)   | \$ (7,453)        | \$ 172,141        |
| Net income   | —                 | —             | —                                | 4,155                | —  | —   | —                 | 4,155             |
| Change in cumulative foreign currency translation adjustment                       | —                 | —             | —                                | —                    | (840)  | —   | —                 | (840)             |
| Shares issued in connection with stock compensation plans                          | 143,628           | 7             | (7)                              | —                    | —  | —   | —                 | —                 |
| Adjustment for cumulative effect from change in accounting principle (ASU 2016-13) | —                 | —             | —                                | (50)                 | —  | —   | —                 | (50)              |
| Stock-based compensation   | —                 | —             | 1,200                            | —                    | —  | —   | —                 | 1,200             |
| Dividends declared   | —                 | —             | —                                | (1,883)              | —  | —   | —                 | (1,883)           |
| Treasury stock activity  | —                 | —             | —                                | —                    | —  | (45,061)  | (1,034)           | (1,034)           |
| Balances, March 31, 2020   | <u>15,260,835</u> | <u>\$ 763</u> | <u>\$ 86,832</u>                 | <u>\$ 121,224</u>    | <u>\$ (26,643)</u>                           | <u>(509,593)</u>  | <u>\$ (8,487)</u> | <u>\$ 173,689</u> |

|  | Common Stock      |               | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Other<br>Cumulative<br>Comprehensive<br>Loss | Treasury Stock   |                   | Total             |
|--|-------------------|---------------|----------------------------------|----------------------|--|------------------|-------------------|-------------------|
|  | Shares            | Amount        |                                  |                      |  | Shares           | Amount            |                   |
| Balances, December 31, 2018                                  | 14,987,962        | \$ 749        | \$ 80,077                        | \$ 89,291            | \$ (35,014)                                  | (82,186)         | \$ (817)          | \$ 134,286        |
| Net income   | —                 | —             | —                                | 15,170               | —  | —                | —                 | 15,170            |
| Change in cumulative foreign currency translation adjustment | —                 | —             | —                                | —                    | (419)  | —                | —                 | (419)             |
| Shares issued in connection with stock compensation plans    | 101,118           | 6             | (6)                              | —                    | —  | 7,502            | —                 | —                 |
| Stock-based compensation                                     | —                 | —             | 1,051                            | —                    | —  | —                | —                 | 1,051             |
| Dividends declared   | —                 | —             | —                                | (299)                | —  | —                | —                 | (299)             |
| Treasury stock activity                                      | —                 | —             | —                                | —                    | —  | (28,700)         | (878)             | (878)             |
| Balances, March 31, 2019                                     | <u>15,089,080</u> | <u>\$ 755</u> | <u>\$ 81,122</u>                 | <u>\$ 104,162</u>    | <u>\$ (35,433)</u>                           | <u>(103,384)</u> | <u>\$ (1,695)</u> | <u>\$ 148,911</u> |

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements



**DMC GLOBAL INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Amounts in Thousands)  
(unaudited)

|  | Three months ended March 31, |                  |
|--|------------------------------|------------------|
|  | 2020                         | 2019             |
| <b>Cash flows provided by operating activities:</b>                                      |                              |                  |
| Net income   | \$ 4,155                     | \$ 15,170        |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b> |                              |                  |
| Depreciation   | 2,352                        | 1,798            |
| Amortization of purchased intangible assets  | 354                          | 398              |
| Amortization of deferred debt issuance costs   | 40                           | 47               |
| Stock-based compensation   | 1,118                        | 1,171            |
| Deferred income taxes  | (160)                        | 343              |
| Loss on disposal of property, plant and equipment  | 13                           | —                |
| Restructuring expenses, net and asset impairments  | 1,116                        | 78               |
| <b>Change in:</b>  |                              |                  |
| Accounts receivable, net   | 10,277                       | (13,722)         |
| Inventories  | (8,187)                      | 110              |
| Prepaid expenses and other   | 383                          | 1,178            |
| Accounts payable   | (2,752)                      | 5,342            |
| Contract liabilities   | 955                          | 1,363            |
| Accrued expenses and other liabilities   | (4,744)                      | (6,279)          |
| Net cash provided by operating activities  | <u>4,920</u>                 | <u>6,997</u>     |
| <b>Cash flows used in investing activities:</b>  |                              |                  |
| Acquisition of property, plant and equipment   | (5,121)                      | (6,601)          |
| Proceeds on sale of property, plant and equipment  | —                            | 204              |
| Net cash used in investing activities  | <u>(5,121)</u>               | <u>(6,397)</u>   |
| <b>Cash flows provided by (used in) financing activities:</b>                            |                              |                  |
| Borrowings on bank lines of credit, net  | —                            | 2,750            |
| Repayments on capital expenditure facility   | (781)                        | (781)            |
| Payment of dividends   | (1,866)                      | (298)            |
| Treasury stock purchases   | (1,034)                      | (853)            |
| Net cash provided by (used in) financing activities                                      | <u>(3,681)</u>               | <u>818</u>       |
| Effects of exchanges rates on cash   | (20)                         | 81               |
| Net increase (decrease) in cash and cash equivalents                                     | (3,902)                      | 1,499            |
| Cash and cash equivalents, beginning of the period                                       | 20,353                       | 13,375           |
| Cash and cash equivalents, end of the period   | <u>\$ 16,451</u>             | <u>\$ 14,874</u> |

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

**DMC GLOBAL INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Amounts in Thousands, Except Share and Per Share Data)**  
**(unaudited)**

**1. BASIS OF PRESENTATION**

The information included in the condensed consolidated financial statements is unaudited but includes all normal and recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the interim periods presented. These condensed consolidated financial statements should be read in conjunction with the financial statements that are included in our Annual Report filed on Form 10-K for the year ended December 31, 2019.

**2. SIGNIFICANT ACCOUNTING POLICIES**

Principles of Consolidation

The condensed consolidated financial statements include the accounts of DMC Global Inc. (“DMC”, “we”, “us”, “our”, or the “Company”) and its controlled subsidiaries. Only subsidiaries in which controlling interests are maintained are consolidated. All significant intercompany accounts, profits, and transactions have been eliminated in consolidation.

Accounts Receivable

In June 2016, the Financial Accounting Standards Board (FASB) issued a new accounting pronouncement regarding credit losses for financial instruments. The new standard requires entities to measure expected credit losses for certain financial assets held at the reporting date using a current expected credit loss model, which is based on historical experience, adjusted for current conditions and reasonable and supportable forecasts. The Company's financial instruments within the scope of this guidance primarily include accounts receivable.

On January 1, 2020, we adopted the new standard under the modified retrospective approach, such that comparative information has not been restated and continues to be reported under accounting standards in effect for those periods. The Company recognized the cumulative effect of the new accounting standard as an adjustment to the January 1, 2020 balance of Retained Earnings in the Condensed Consolidated Balance Sheet, and the adoption of the new accounting standard did not have a material impact on the Company's financial position and results of operations given limited historical write-off activity within each of the Company's segments.

In accordance with the new standard, the Company has disaggregated pools of accounts receivable balances by business, geography and/or customer risk profile, and has used history and other experience to establish an allowance for credit losses at the time the receivable is recognized, rather than the historical approach of establishing reserves when accounts receivable balances age or demonstrate they will not be collected. To measure expected credit losses, we have elected to pool trade receivables by segment and analyze DynaEnergetics and NobelClad accounts receivable balances as separate populations. Within each segment, receivables exhibit similar risk characteristics.

During the three months ended March 31, 2020, due to the COVID-19 pandemic and resulting unprecedented macroeconomic conditions combined with a sharp decline in oil and gas prices, we increased our expected loss rate. In addition, we continued to review receivables outstanding, including aged balances, and in circumstances where we are aware of a specific customer's inability to meet its financial obligation to us, we recorded a specific allowance for credit losses (with the offsetting expense charged to Selling and Distribution expenses in our Condensed Consolidated Statements of Operations) against the amounts due, reducing the net recognized receivable to the amount we estimate will be collected. In total, provisions of \$2,299 were recorded during the three months ended March 31, 2020. The following table summarizes activity in the allowance for credit losses on receivables from DynaEnergetics and NobelClad customers:

|  | DynaEnergetics  | NobelClad     | DMC Global Inc. |
|--|-----------------|---------------|-----------------|
| Allowance for doubtful accounts, December 31, 2019                   | \$ 945          | \$ 22         | \$ 967          |
| Adjustment for cumulative effect from change in accounting principle | \$ 50           | \$ —          | \$ 50           |
| Current period provision for expected credit losses                  | 1,987           | 312           | 2,299           |
| Write-offs charged against the allowance                             | (962)           | —             | (962)           |
| Impacts of foreign currency exchange rates and other                 | (34)            | —             | (34)            |
| Allowance for doubtful accounts, March 31, 2020                      | <u>\$ 1,986</u> | <u>\$ 334</u> | <u>\$ 2,320</u> |

### Revenue Recognition

The Company's revenues are primarily derived from consideration paid by customers for tangible goods. The Company analyzes its different goods by segment to determine the appropriate basis for revenue recognition. Revenue is not generated from sources other than contracts with customers and revenue is recognized net of any taxes collected from customers, which are subsequently remitted to governmental authorities. There are no material upfront costs for operations that are incurred from contracts with customers.

Our rights to payments for goods transferred to customers arise when control is transferred at a point in time and not on any other criteria. Payment terms and conditions vary by contract, although terms generally include a requirement of payment within 30 to 60 days. In instances when we require customers to make advance payments prior to the shipment of their orders, we record a contract liability. We have determined that our contract liabilities do not include a significant financing component given the short duration between order initiation and order fulfillment within each of our segments. Please refer to Note 5 "Contract Liabilities" for further information on contract liabilities and Note 9 "Business Segments" for disaggregated revenue disclosures.

### Income Taxes

We recognize deferred tax assets and liabilities for the expected future income tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities. Any effects of changes in income tax rates or tax laws are included in the provision for income taxes in the period of enactment. The deferred income tax impact of tax credits is recognized as an immediate adjustment to income tax expense. We recognize deferred tax assets for the expected future effects of all deductible temporary differences to the extent we believe these assets will more likely than not be realized. We record a valuation allowance when, based on current circumstances, it is more likely than not that all or a portion of the deferred tax assets will not be realized. In making such determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies, recent financial operations and their associated valuation allowances, if any.

We recognize the tax benefits from uncertain tax positions only when it is more likely than not, based on the technical merits of the position that it will be sustained upon examination, including the resolution of any related appeals or litigation. The tax benefits recognized in the consolidated financial statements from such a position are measured as the largest benefit that is more likely than not to be realized upon ultimate resolution. We recognize interest and penalties related to uncertain tax positions in operating expense.

### Earnings Per Share

The Company computes earnings per share ("EPS") using a two-class method, which is an earnings allocation formula that determines EPS for (i) each class of common stock (the Company has a single class of common stock), and (ii) participating securities according to dividends declared and participation rights in undistributed earnings. Restricted stock awards are considered participating securities as they receive non-forfeitable rights to dividends similar to common stock.

Basic EPS is then calculated by dividing net income available to common stockholders of the Company by the weighted average number of shares of common stock outstanding during the period. Diluted EPS adjusts basic EPS for the effects of restricted stock awards, performance share units and other potentially dilutive financial instruments (dilutive securities), only in the periods in which such effect is dilutive. The effect of the dilutive securities is reflected in diluted EPS by application of the more dilutive of (1) the treasury stock method or (2) the two-class method assuming nonvested shares are not converted into shares of common stock. For the periods presented, diluted EPS using the treasury stock method was less dilutive than the two-class method; as such, only the two-class method has been included below.

|  | Three months ended March 31, |            |
|--|------------------------------|------------|
|  | 2020                         | 2019       |
| Net income as reported   | \$ 4,155                     | \$ 15,170  |
| Less: Distributed net income available to participating securities     | (30)                         | (6)        |
| Less: Undistributed net income available to participating securities   | (37)                         | (312)      |
| Numerator for basic net income per share:                              | 4,088                        | 14,852     |
| Add: Undistributed net income allocated to participating securities    | 37                           | 312        |
| Less: Undistributed net income reallocated to participating securities | (37)                         | (311)      |
| Numerator for diluted net income per share:                            | 4,088                        | 14,853     |
| Denominator:   |                              |            |
| Weighted average shares outstanding for basic net income per share     | 14,697,164                   | 14,606,052 |
| Effect of dilutive securities  | 20,672                       | 65,637     |
| Weighted average shares outstanding for diluted net income per share   | 14,717,836                   | 14,671,689 |
| Net income per share:  |                              |            |
| Basic  | \$ 0.28                      | \$ 1.02    |
| Diluted  | \$ 0.28                      | \$ 1.01    |

#### Deferred compensation

The Company maintains a Non-Qualified Deferred Compensation Plan (the “Plan”) as part of its overall compensation package for certain employees. Participants are eligible to defer a portion of their annual salary, their annual incentive bonus, and their equity awards through the Plan on a tax-deferred basis. Deferrals into the Plan are not matched or subsidized by the Company, nor are they eligible for above-market or preferential earnings.

The Plan provides for deferred compensation obligations to be settled either by delivery of a fixed number of shares of DMC’s common stock or in cash, in accordance with participant contributions and elections. For deferred equity awards, subsequent to equity award vesting and after a period prescribed by the Plan, participants can elect to diversify contributions of equity awards into other investment options available to Plan participants. Once diversified, contributions of equity awards will be settled by delivery of cash.

The Company has established a grantor trust commonly known as a “rabbi trust” and contributed certain assets to satisfy the future obligations to participants in the Plan. These assets are subject to potential claims of the Company’s general creditors. The assets held in the trust include unvested RSAs, vested company stock awards, company-owned life insurance (“COLI”) on certain employees, and money market and mutual funds. Unvested RSAs and common stock held by the trust are reflected in the Consolidated Balance Sheets within “Treasury stock, at cost, and company stock held for deferred compensation, at par” at the par value of the common stock or unvested RSAs. These accounts are not adjusted for subsequent changes in the fair value of the common stock. COLI is accounted for at the cash surrender value while money market and mutual funds held by the trust are accounted for at fair value, and the balance of \$4,360 as of March 31, 2020 is reflected in the Consolidated Balance Sheets within “Other assets.”

Deferred compensation obligations that will be settled in cash are accounted for on an accrual basis in accordance with the terms of the Plan and the balance of \$5,657 as of March 31, 2020 is reflected in the Consolidated Balance Sheets within “Other long-term liabilities.” These obligations are adjusted based on changes in value of the underlying investment options chosen by Plan participants. Deferred compensation obligations that will be settled by delivery of a fixed number of previously vested shares of the Company’s common stock are reflected in the Consolidated Statements of Stockholders’ Equity within “Common stock” at the par value of the common stock or unvested RSAs. These accounts are not adjusted for subsequent changes in the fair value of the common stock.

#### Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We are required to use an established hierarchy for fair value

measurements based upon the inputs to the valuation and the degree to which they are observable or not observable in the market. The three levels in the hierarchy are as follows:

- Level 1 — Inputs to the valuation based upon quoted prices (unadjusted) for identical assets or liabilities in active markets that are accessible as of the measurement date.
- Level 2 — Inputs to the valuation include quoted prices in either markets that are not active, or in active markets for similar assets or liabilities, inputs other than quoted prices that are observable, and inputs that are derived principally from or corroborated by observable market data.
- Level 3 — Inputs to the valuation that are unobservable inputs for the asset or liability.

The highest priority is assigned to Level 1 inputs and the lowest priority to Level 3 inputs.

The carrying value of accounts receivable and payable, accrued expenses, revolving loans under our credit facility and borrowings under our capital expenditure facility approximate their fair value. Our revolving loans and borrowings under our capital expenditure facility reset each month at market interest rates. All of these items are considered Level 1 assets and liabilities.

Our foreign currency forward contracts are valued using quoted market prices or are determined using a yield curve model based on current market rates. As a result, we classify these investments as Level 2 in the fair value hierarchy. Money market funds and mutual funds of \$2,571 held to satisfy future deferred compensation obligations are valued based upon the market values of underlying securities, and therefore we classify these assets as Level 2 in the fair value hierarchy.

We did not hold any Level 3 assets or liabilities as of March 31, 2020 or December 31, 2019. The asset impairment charges recorded in the fourth quarter of 2019 was calculated using Level 3 inputs.

#### Recently Adopted Accounting Standards

In June 2016, the FASB issued a new accounting pronouncement regarding credit losses for financial instruments. The new standard requires entities to measure expected credit losses for certain financial assets held at the reporting date using a current expected credit loss model, which is based on historical experience, adjusted for current conditions and reasonable and supportable forecasts. The Company adopted the new standard on January 1, 2020. The Company's financial instruments within the scope of this guidance primarily include trade receivables. Please refer to "Accounts Receivable" for further information.

#### Recent Accounting Pronouncements

In December 2019, the FASB issued a new accounting pronouncement regarding accounting for income taxes. The new standard removes certain exceptions to the general principles in ASC 740 *Income Taxes* and also clarifies and amends existing guidance to provide for more consistent application. The new standard will become effective for the Company in the first quarter of fiscal 2021 and early adoption is permitted. We are evaluating the impact that the adoption of this update will have on our consolidated financial statements.

### **3. INVENTORIES**

Inventories are stated at the lower of cost (first-in, first-out) or net realizable value. Significant cost elements included in inventory are material, labor, freight, subcontract costs, and manufacturing overhead. As necessary, we adjust inventory to its net realizable value by recording provisions for excess, slow moving and obsolete inventory. We regularly review inventory quantities on hand and values, and compare them to estimates of future product demand, market conditions, production requirements and technological developments.

Inventories consisted of the following:

|                 | March 31, 2020   | December 31, 2019 |
|-----------------|------------------|-------------------|
| Raw materials   | \$ 26,337        | \$ 26,173         |
| Work-in-process | 15,189           | 12,194            |
| Finished goods  | 19,562           | 15,045            |
| Supplies        | 357              | 316               |
|                 | <u>\$ 61,445</u> | <u>\$ 53,728</u>  |

#### 4. PURCHASED INTANGIBLE ASSETS

Our purchased intangible assets consisted of the following as of March 31, 2020:

|                          | Gross            | Accumulated<br>Amortization | Net             |
|--------------------------|------------------|-----------------------------|-----------------|
| Core technology          | \$ 17,098        | \$ (11,899)                 | \$ 5,199        |
| Customer relationships   | 35,865           | (35,865)                    | —               |
| Trademarks / Trade names | 1,942            | (1,942)                     | —               |
| Total intangible assets  | <u>\$ 54,905</u> | <u>\$ (49,706)</u>          | <u>\$ 5,199</u> |

Our purchased intangible assets consisted of the following as of December 31, 2019:

|                          | Gross            | Accumulated<br>Amortization | Net             |
|--------------------------|------------------|-----------------------------|-----------------|
| Core technology          | \$ 17,717        | \$ (11,837)                 | \$ 5,880        |
| Customer relationships   | 35,091           | (35,091)                    | —               |
| Trademarks / Trade names | 1,988            | (1,988)                     | —               |
| Total intangible assets  | <u>\$ 54,796</u> | <u>\$ (48,916)</u>          | <u>\$ 5,880</u> |

The change in the gross value of our purchased intangible assets from December 31, 2019 to March 31, 2020 was due to foreign currency translation and an adjustment due to the recognition of tax benefit of tax amortization previously applied to certain goodwill related to the NobelClad and DynaEnergetics reporting units. After the goodwill was written off at September 30, 2017 and December 31, 2015, respectively, the tax amortization reduces other noncurrent intangible assets related to the historical acquisition.

#### 5. CONTRACT LIABILITIES

On occasion, we require customers to make advance payments prior to the shipment of goods in order to help finance our inventory investment on large orders or to keep customers' credit limits at acceptable levels. Contract liabilities were as follows:

|                | March 31, 2020  | December 31, 2019 |
|----------------|-----------------|-------------------|
| NobelClad      | \$ 2,291        | \$ 1,427          |
| DynaEnergetics | 2,076           | 1,309             |
| Total          | <u>\$ 4,367</u> | <u>\$ 2,736</u>   |

We expect to recognize the revenue associated with contract liabilities over a time period no longer than one year. Of the \$ 2,736 recorded as contract liabilities at December 31, 2019, \$836 was recorded to net sales during the three months ended March 31, 2020.

#### 6. LEASES

The Company leases real properties for use in manufacturing and as administrative and sales offices, and leases automobiles and office equipment. The Company determines if a contract contains a lease arrangement at the inception of the contract. For leases in which the Company is the lessee, leases are classified as either finance or operating. Right of use (ROU)

assets are initially measured at the present value of lease payments over the lease term plus initial direct costs, if any, with the classification affecting the pattern of expense recognition. If a lease does not provide a discount rate and the rate cannot be readily determined, an incremental borrowing rate is used to determine the future lease payments. Lease and non-lease components within the Company's lease agreements are accounted for together.

Nearly all of the Company's leasing arrangements are classified as operating leases. ROU asset and lease liability balances were as follows for the periods presented:

|                              | March 31, 2020   | December 31, 2019 |
|------------------------------|------------------|-------------------|
| ROU asset                    | 9,906            | 10,423            |
| Current lease liability      | 1,618            | 1,716             |
| Long-term lease liability    | 9,454            | 9,777             |
| <b>Total lease liability</b> | <b>\$ 11,072</b> | <b>\$ 11,493</b>  |

The ROU asset was included in "Other assets" while the current lease liability was reported in "Other current liabilities" and the long-term lease liability was reported in "Other long-term liabilities" on the Company's Condensed Consolidated Balance Sheet. Cash paid for operating lease liabilities are recorded as cash flows from operating activities in the Company's Condensed Consolidated Statements of Cash Flows. For the three months ended March 31, 2020 and 2019, operating lease costs were \$1,102 and \$685, respectively, which were included in the Company's Condensed Consolidated Statements of Operations. Short term and variable lease costs were not material for the three months ended March 31, 2020.

Certain of the Company's leases contain renewal options and options to extend the leases for up to five years, and a majority of these options are reflected in the calculation of the ROU asset and lease liability due to the likelihood of renewal.

The following table summarizes the weighted average lease terms and discount rates for operating lease liabilities:

|  | March 31, 2020 |
|--|----------------|
| Weighted average remaining lease term (in years) | 8.97           |
| Weighted average discount rate                   | 5.7 %          |

The following table represents maturities of operating lease liabilities as of March 31, 2020:

|  |                  |
|--|------------------|
| Due within 1 year                          | \$ 1,618         |
| Due after 1 year through 2 years           | 1,749            |
| Due after 2 years through 3 years          | 1,553            |
| Due after 3 years through 4 years          | 1,372            |
| Due after 4 years through 5 years          | 1,246            |
| Due after 5 years                          | 5,925            |
| <b>Total future minimum lease payments</b> | <b>13,463</b>    |
| Less imputed interest                      | (2,391)          |
| <b>Total</b>                               | <b>\$ 11,072</b> |

## 7. DEBT

Outstanding borrowings consisted of the following:

|   | March 31, 2020 | December 31, 2019 |
|---|----------------|-------------------|
| Syndicated credit agreement:            |                |                   |
| U.S. Dollar revolving loan              | \$ —           | \$ —              |
| Capital expenditure facility            | 14,094         | 14,875            |
| Outstanding borrowings                  | 14,094         | 14,875            |
| Less: debt issuance costs               | (563)          | (603)             |
| Total debt                              | 13,531         | 14,272            |
| Less: current portion of long-term debt | (3,125)        | (3,125)           |
| Long-term debt                          | \$ 10,406      | \$ 11,147         |

#### Syndicated Credit Agreement

On March 8, 2018, we entered into a five-year \$75,000 syndicated credit agreement (“credit facility”) which replaced in its entirety our prior syndicated credit facility entered into on February 23, 2015. The credit facility allows for revolving loans of up to \$50,000 with a \$ 20,000 US dollar equivalent sublimit for alternative currency loans. In addition, the agreement provided for a \$25,000 Capital Expenditure Facility (“Capex Facility”) which was used to assist in financing our DynaEnergetics manufacturing expansion project in Blum, Texas. At the end of year one, the Capex Facility converted to a term loan which is amortizable at 12.5% of principal per year with a balloon payment for the outstanding balance upon the credit facility maturity date in 2023. The Capex Facility bears interest at a LIBOR-based variable rate which at March 31, 2020 was 2.49%. In 2019, we prepaid an additional \$ 7,000 above the required amortization amount. The credit facility has a \$100,000 accordion feature to increase the commitments under the revolving loan class and/or by adding a term loan subject to approval by applicable lenders. We entered into the credit facility with a syndicate of three banks, with KeyBank, N.A. acting as administrative agent. The syndicated credit facility is secured by the assets of DMC including accounts receivable, inventory, and fixed assets, as well as guarantees and share pledges by DMC and its subsidiaries.

Borrowings under the \$ 50,000 revolving loan can be in the form of one, two, three, or six month London Interbank Offered Rate (“LIBOR”) loans. Additionally, US dollar borrowings on the revolving loan can be in the form of Base Rate loans (Base Rate borrowings are based on the greater of the administrative agent’s Prime rates, an adjusted Federal Funds rate or an adjusted LIBOR rate). LIBOR loans bear interest at the applicable LIBOR rate plus an applicable margin (varying from 1.50% to 3.00%). Base Rate loans bear interest at the defined Base rate plus an applicable margin (varying from 0.50% to 2.00%). All revolver loan borrowings and repayments have been in the form of one-month or two-month loans and are reported on a net basis in our Condensed Consolidated Statements of Cash Flows.

Borrowings under the \$ 20,000 alternate currency sublimit can be in euros, Canadian dollars, pounds sterling, and in any other currency acceptable to the administrative agent. Alternative currency borrowings denominated in euros, pounds sterling, and any other currency that is dealt with on the London Interbank Deposit Market shall be comprised of LIBOR loans and bear interest at the LIBOR rate plus an applicable margin (varying from 1.50% to 3.00%).

The credit facility includes various covenants and restrictions, certain of which relate to the payment of dividends or other distributions to stockholders; redemption of capital stock; incurrence of additional indebtedness; mortgaging, pledging or disposition of major assets; and maintenance of specified ratios. As of March 31, 2020, we were in compliance with all financial covenants and other provisions of our debt agreements.

We also maintain a line of credit with a German bank for certain European operations. This line of credit provides a borrowing capacity of € 4,000, of which €881 is available as of March 31, 2020 after considering outstanding letters of credit.

Included in long-term debt are deferred debt issuance costs of \$563 and \$603 as of March 31, 2020 and December 31, 2019, respectively. Deferred debt issuance costs are being amortized over the remaining term of the credit facility which expires on March 8, 2023.

On April 14, 2020, the Company received loan proceeds of \$ 6,700 under the Paycheck Protection Program. On April 23, 2020, the U.S. Small Business Administration (“SBA”) issued guidance regarding eligibility requirements for the loan as they apply to publicly traded companies. The Company returned \$6,700 to the SBA on April 23, 2020. Please refer to Note 13 “Subsequent Events” for further information.



## 8. INCOME TAXES

The effective tax rate for each of the periods reported differs from the U.S. statutory rate primarily due to variation in contribution to consolidated pre-tax income from each jurisdiction for the respective periods, differences between the U.S. and foreign tax rates (which range from 20% to 34%), permanent differences between book and taxable income, and changes to valuation allowances on our deferred tax assets.

We assess the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use existing deferred tax assets. Additionally, a three-year cumulative loss at a Consolidated Financial Statement level may be viewed as negative evidence impacting a jurisdiction that by itself is not in a three-year cumulative loss position. During the three months ended March 31, 2020, we did not record any adjustments to valuation allowances. At March 31, 2019, the Company was no longer in a three-year cumulative loss position in the U.S. and we believe sufficient future taxable income will be generated to use existing deferred tax assets in that jurisdiction. Accordingly, during the three months ended March 31, 2019, we released valuation allowances of \$368 in that jurisdiction and certain states. The Company will continue to monitor the realizability of deferred tax assets and the need for valuation allowances and will record adjustments in the periods in which facts support such adjustments.

The Tax Cuts and Jobs Act ("TCJA") provides that foreign earnings generally can be repatriated to the U.S. without federal tax consequence. We have reassessed the assertion that cumulative earnings by our foreign subsidiaries are indefinitely reinvested. We continue to permanently reinvest the earnings of our international subsidiaries and therefore we do not provide for U.S. income taxes or withholding taxes that could result from the distribution of those earnings to the U.S. parent. If any such earnings were ultimately distributed to the U.S. in the form of dividends or otherwise, or if the shares of our international subsidiaries were sold or transferred, we could be subject to additional U.S. federal and state income taxes. Due to the multiple avenues in which earnings can be repatriated, and because a large portion of these earnings are not liquid, it is not practical to estimate the amount of additional taxes that might be payable on these amounts of undistributed foreign income.

During the first quarter of 2020, we took advantage of a provision under the recent Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") and filed for a quick refund of our 2019 U.S. tax overpayment of \$2,700. During the fourth quarter of 2019, our German operating entities commenced a tax audit for fiscal years 2015 through 2017. If any issues addressed in the audit are resolved in a manner not consistent with our expectations, the Company could be required to adjust its provision for income taxes in future periods.

## 9. BUSINESS SEGMENTS

Our business is organized into two segments: DynaEnergetics and NobelClad. DynaEnergetics designs, manufactures and distributes products utilized by the global oil and gas industry principally for the perforation of oil and gas wells. NobelClad is a global leader in the production of explosion-welded clad metal plates for use in the construction of corrosion resistant industrial processing equipment and specialized transition joints.

Our reportable segments are separately managed strategic business units that offer different products and services. Each segment's products are marketed to different customer types and require different manufacturing processes and technologies.

Segment information is as follows:

|                | Three months ended March 31, |                   |
|----------------|------------------------------|-------------------|
|                | 2020                         | 2019              |
| Net sales      |                              |                   |
| DynaEnergetics | \$ 53,220                    | \$ 79,836         |
| NobelClad      | 20,344                       | 20,299            |
| Net sales      | <u>\$ 73,564</u>             | <u>\$ 100,135</u> |

|                                | Three months ended March 31, |           |
|--------------------------------|------------------------------|-----------|
|                                | 2020                         | 2019      |
| Operating income               |                              |           |
| DynaEnergetics                 | \$ 8,606                     | \$ 23,110 |
| NobelClad                      | 1,476                        | 1,830     |
| Segment operating income       | 10,082                       | 24,940    |
| Unallocated corporate expenses | (2,617)                      | (3,317)   |
| Stock-based compensation       | (1,118)                      | (1,171)   |
| Other income (expense), net    | 115                          | (21)      |
| Interest expense, net          | (238)                        | (373)     |
| Income before income taxes     | \$ 6,224                     | \$ 20,058 |

|  | Three months ended March 31, |          |
|--|------------------------------|----------|
|  | 2020                         | 2019     |
| Depreciation and amortization              |                              |          |
| DynaEnergetics                             | \$ 1,772                     | \$ 1,399 |
| NobelClad                                  | 834                          | 797      |
| Segment depreciation and amortization      | \$ 2,606                     | \$ 2,196 |
| Corporate and other (1)                    | \$ 100                       | \$ —     |
| Consolidated depreciation and amortization | \$ 2,706                     | \$ 2,196 |

(1) Prior to Q4 2019, the Company fully allocated corporate and other depreciation to the segments.

The disaggregation of revenue earned from contracts with customers based on the geographic location of the customer is as follows.

#### DynaEnergetics

|                      | Three months ended March 31, |           |
|----------------------|------------------------------|-----------|
|                      | 2020                         | 2019      |
| United States        | \$ 46,271                    | \$ 67,959 |
| Egypt                | 1,311                        | 862       |
| Canada               | 668                          | 3,458     |
| United Arab Emirates | 667                          | 2,503     |
| Kuwait               | 509                          | —         |
| Indonesia            | 479                          | 239       |
| Malaysia             | 381                          | —         |
| Pakistan             | 345                          | 342       |
| India                | 316                          | 29        |
| Germany              | 300                          | 55        |
| Rest of the world    | 1,973                        | 4,389     |
| Total DynaEnergetics | \$ 53,220                    | \$ 79,836 |

**NobelClad**

|                        | Three months ended March 31, |                  |
|------------------------|------------------------------|------------------|
|                        | 2020                         | 2019             |
| United States          | \$ 9,042                     | \$ 9,643         |
| Canada                 | 1,768                        | 2,024            |
| France                 | 1,491                        | 757              |
| Spain                  | 1,247                        | 62               |
| South Korea            | 990                          | 468              |
| Germany                | 986                          | 1,003            |
| Norway                 | 960                          | 622              |
| United Arab Emirates   | 739                          | 985              |
| Singapore              | 574                          | —                |
| Netherlands            | 547                          | 634              |
| Sweden                 | 482                          | 301              |
| Belgium                | 364                          | 886              |
| Australia              | 249                          | 448              |
| Greece                 | 168                          | 17               |
| India                  | 77                           | 125              |
| Rest of the world      | 660                          | 2,324            |
| <b>Total NobelClad</b> | <b>\$ 20,344</b>             | <b>\$ 20,299</b> |

During the three months ended March 31, 2020 and 2019, one customer in our DynaEnergetics segment accounted for greater than 10% of consolidated net sales.

**10. DERIVATIVE INSTRUMENTS**

We are exposed to foreign currency exchange risk resulting from fluctuations in exchange rates, primarily the U.S. dollar to euro, the U.S. dollar to Canadian dollar, and, to a lesser extent, other currencies, arising from inter-company and third-party transactions entered into by our subsidiaries that are denominated in currencies other than their functional currency. Changes in exchange rates with respect to these transactions result in unrealized gains or losses if such transactions are unsettled at the end of the reporting period or realized gains or losses at settlement of the transaction. We use foreign currency forward contracts to offset foreign exchange rate fluctuations on foreign currency denominated asset and liability positions. None of these contracts are designated as accounting hedges, and all changes in the fair value of the forward contracts are recognized in "Other income (expense), net" within our Condensed Consolidated Statements of Operations.

We execute derivatives with a specialized foreign exchange brokerage firm. The primary credit risk inherent in derivative agreements is the possibility that a loss may occur from the nonperformance of a counterparty to the agreements. We perform a review of the credit risk of our counterparties at the inception of the contract and on an ongoing basis. We anticipate that our counterparties will be able to fully satisfy their obligations under the agreements but will take action if doubt arises regarding the counterparties' ability to perform.

As of March 31, 2020 and 2019, the notional amounts of the forward currency contracts the Company held were \$ 20,424 and \$ 11,638, respectively. At March 31, 2020 and 2019, the fair values of outstanding foreign currency forward contracts were \$0.

The following table presents the location and amount of net gains (losses) from hedging activities:

| Derivative                 | Statements of Operations Location | Three months ended March 31, |        |
|----------------------------|-----------------------------------|------------------------------|--------|
|                            |                                   | 2020                         | 2019   |
| Foreign currency contracts | Other income (expense), net       | \$ 834                       | \$ 122 |

## 11. COMMITMENTS AND CONTINGENCIES

### Contingent Liabilities

The Company records an accrual for contingent liabilities when a loss is both probable and reasonably estimable. If some amount within a range of loss appears to be a better estimate than any other amount within the range, that amount is accrued. When no amount within a range of loss appears to be a better estimate than any other amount, the lowest amount in the range is accrued.

### Legal Proceedings

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse effect on our business, financial condition or operating results.

## 12. RESTRUCTURING AND ASSET IMPAIRMENTS

During the first quarter of 2020, DMC reduced its workforce by 264 positions to address a sharp decline in activity levels in the Company's core oil and gas end market in March principally due to the COVID-19 pandemic. The workforce reduction impacted full-time, part-time and temporary direct-labor roles in manufacturing and assembly at DynaEnergetics as well as general and administrative positions at DynaEnergetics, NobelClad, and at DMC's corporate office. Additionally, during the first quarter of 2020, DynaEnergetics continued activities to prepare its Tyumen, Siberia facility for sale later in 2020. As of March 31, 2020, total DynaEnergetics Siberia's assets classified as held for sale was \$437.

During the fourth quarter of 2017, NobelClad announced plans to consolidate its European production facilities by closing manufacturing operations in France. During the first quarter of 2019, NobelClad entered into a sales agreement with a buyer for the production facility. In preparation for the sale, NobelClad moved certain machinery and equipment to its manufacturing facility in Germany and sold other machinery and equipment to third-parties.

Total restructuring and impairment charges incurred for these programs are as follows and are reported in the "Restructuring expenses, net and asset impairments" line item in our Condensed Consolidated Statements of Operations:

|                | Three months ended March 31, 2020 |                      |                  |                 |
|----------------|-----------------------------------|----------------------|------------------|-----------------|
|                | Severance                         | Contract Termination |                  | Total           |
|                |                                   | Costs                | Other Exit Costs |                 |
| NobelClad      | \$ 54                             | \$ —                 | \$ 5             | \$ 59           |
| DynaEnergetics | 707                               | 11                   | 220              | 938             |
| Corporate      | 119                               | —                    | —                | 119             |
| <b>Total</b>   | <b>\$ 880</b>                     | <b>\$ 11</b>         | <b>\$ 225</b>    | <b>\$ 1,116</b> |

|           | Three months ended March 31, 2019 |                      |                  |                  |       |
|-----------|-----------------------------------|----------------------|------------------|------------------|-------|
|           | Asset Impairment                  | Contract Termination | Equipment Moving | Other Exit Costs | Total |
|           |                                   |                      |                  |                  |       |
| NobelClad | \$ (116)                          | \$ 39                | \$ 144           | \$ 11            | \$ 78 |

During the three months ended March 31, 2020, the changes to the restructuring liability associated with these programs is summarized below:

|                            | December 31, 2019 | Net expense     | Payments and Other Adjustments | Currency Adjustments | March 31, 2020  |
|----------------------------|-------------------|-----------------|--------------------------------|----------------------|-----------------|
| Severance                  | \$ 2,404          | \$ 880          | \$ (269)                       | \$ (307)             | \$ 2,708        |
| Contract termination costs | —                 | 11              | —                              | —                    | 11              |
| Equipment moving costs     | —                 | —               | —                              | —                    | —               |
| Other exit costs           | 271               | 225             | (491)                          | —                    | 5               |
| <b>Total</b>               | <b>\$ 2,675</b>   | <b>\$ 1,116</b> | <b>\$ (760)</b>                | <b>\$ (307)</b>      | <b>\$ 2,724</b> |

### 13. SUBSEQUENT EVENTS

#### Paycheck Protection Program

On April 14, 2020, the Company received loan proceeds of \$ 6,700 under the Paycheck Protection Program (“PPP”). The PPP was established under the recent Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) and is administered by the U.S. Small Business Administration. On April 23, 2020, the U.S. Small Business Administration (“SBA”) issued guidance regarding eligibility requirements for the loan as they apply to publicly traded companies. The Company returned \$6,700 to the SBA on April 23, 2020.

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

The following discussion should be read in conjunction with our historical consolidated financial statements and notes, as well as the selected historical consolidated financial data that is included in our Annual Report filed on Form 10-K for the year ended December 31, 2019.

Unless stated otherwise, all currency amounts are presented in thousands of U.S. dollars (000s).

### Overview

#### General

DMC Global Inc. ("DMC") operates two technical product and process business segments serving the energy, industrial and infrastructure markets. These segments, DynaEnergetics and NobelClad, operate globally through an international network of manufacturing, distribution and sales facilities.

Our diversified segments each provide a suite of unique technical products to niche sectors of the global energy, industrial and infrastructure markets, and each has established a strong or leading position in the markets in which it participates. With an underlying focus on generating free cash flow, our objective is to sustain and grow the market share of our businesses through increased market penetration, development of new applications, and research and development of new and adjacent products that can be sold across our global network of sales and distribution facilities. We routinely explore acquisitions of related businesses that could strengthen or add to our existing product portfolios, or expand our geographic footprint and market presence. We also seek acquisition opportunities outside our current markets that would complement our existing businesses and enable us to build a stronger and more diverse company.

#### DynaEnergetics

DynaEnergetics designs, manufactures and distributes products utilized by the global oil and gas industry principally for the perforation of oil and gas wells. These products are sold to oilfield service companies in the U.S., Europe, Canada, Africa, the Middle East, and Asia. DynaEnergetics also sells directly to end-users. The market for perforating products, which are used during the well completion process, generally corresponds with oil and gas exploration and production activity. Exploration activity over the last several years has led to increasingly complex well completion operations, which in turn, has increased the demand for high quality and technically advanced perforating products.

Cost of products sold for DynaEnergetics includes the cost of metals, explosives and other raw materials used to manufacture shaped charges, detonating products and perforating guns as well as employee compensation and benefits, freight in, depreciation of manufacturing facilities and equipment, manufacturing supplies and other manufacturing overhead expenses.

#### NobelClad

NobelClad is a global leader in the production of explosion-welded clad metal plates for use in the construction of corrosion resistant industrial processing equipment and specialized transition joints. While a significant portion of the demand for our clad metal products is driven by maintenance and retrofit projects at existing chemical processing, petrochemical processing, oil refining, and aluminum smelting facilities, new plant construction and large plant expansion projects also account for a significant portion of total demand. These industries tend to be cyclical in nature and timing of new order inflow remains difficult to predict. We use backlog as a primary means to measure the immediate outlook for our NobelClad business. We define "backlog" at any given point in time as all firm, unfulfilled purchase orders and commitments at that time. Most firm purchase orders and commitments are realized, and we expect to fill most backlog orders within the following 12 months. NobelClad's backlog increased to \$41,301 at March 31, 2020 from \$31,660 at December 31, 2019.

Cost of products sold for NobelClad includes the cost of metals and alloys used to manufacture clad metal plates, the cost of explosives, employee compensation and benefits, freight in, outside processing costs, depreciation of manufacturing facilities and equipment, manufacturing supplies and other manufacturing overhead expenses.

## Factors Affecting Results

- Consolidated sales were \$73,564, down 14% versus the fourth quarter of 2019 and down 27% versus the first quarter of 2019 as the COVID-19 pandemic drove a sharp decline in in oil and gas demand and well completion activity at DynaEnergetics.
- DynaEnergetics sales of \$53,220 in the first quarter of 2020 decreased 33% compared with the first quarter of 2019 and decreased 18% compared with the fourth quarter of 2019. We entered 2020 with lower crude oil prices, which resulted in a slow-down in well-completions activity in the North American unconventional oil and gas market early in the first quarter. Oil prices and demand for well perforating systems fell sharply late in the first quarter primarily due to the oil supply-demand imbalance primarily associated with the COVID-19 pandemic.
- NobelClad's sales of \$20,344 in the first quarter of 2020 decreased 7% compared with the first quarter of 2019 and were flat compared to the fourth quarter of 2019.
- Consolidated gross profit of 33.3% in the first quarter of 2020 decreased from 36.4% in the first quarter of 2019. The decrease primarily was due to the unfavorable impact of lower volume on fixed manufacturing overhead expenses, less favorable project mix in NobelClad, and a lower proportion of sales in DynaEnergetics relative to NobelClad.
- Consolidated selling, general and administrative expenses were \$16,653 in the first quarter of 2020 compared with \$15,477 in the first quarter of 2019. The increase primarily was due to current period provisions for expected credit losses attributable to the worsening global economy.
- Restructuring expenses of \$1,116 in the first quarter of 2020 primarily related to downsizing our direct labor workforce at DynaEnergetics in response to declining crude oil prices and corresponding demand for well perforating systems.
- Net cash of \$2,920 decreased \$3,161 from \$6,081 at December 31, 2019. Net cash is a non-GAAP measure calculated as total cash and cash equivalents (\$16,451 at March 31, 2020) less total debt (\$13,531 at March 31, 2020).

## Outlook

Global crude oil demand began to collapse late in the first quarter as efforts to contain the COVID-19 pandemic sharply reduced economic activity around the world. The demand decline has been exacerbated by rapidly rising crude supplies and dwindling storage capacity. The economic downturn has led to a severe disruption of our core energy markets at DynaEnergetics. Well completions during the second quarter are anticipated to be down more than 60% year over year. In light of these challenges, we moved quickly to reduce our activity-based cost structure, limit spending and protect our balance sheet. Following are several recent cost-containment actions:

- A workforce reduction of 264 positions, including 97 temporary workers. The reduction eliminated 32% of DMC's workforce, which primarily involved direct labor positions at DynaEnergetics.
- The implementation of reduced work weeks at DynaEnergetics.
- A 25% reduction in selling, general and administrative expense beginning in the 2020 second quarter as compared with the quarterly SG&A run rate of \$16.3 million in 2019.
- A 50% reduction in the capital budget, which is now projected in a range of \$13 million and is limited to maintenance programs and previously commenced projects.
- On April 23, 2020, DMC announced that its Board of Directors suspended our quarterly dividend in order to preserve capital and provide the flexibility to weather the uncertain environment.

At NobelClad, first quarter bookings of \$29,000 were the second highest quarter in the past five years. This led to a 30% sequential increase in NobelClad's order backlog. One of NobelClad's largest orders during the first quarter was related to a newly developed composite metals application for engineered wood manufacturing. While it is unclear what impact COVID-19 will have on medium-term customer activity, we remain optimistic about NobelClad's long-term growth prospects.

We will continue to closely monitor the impacts on product demand, operations, supply chain, and potential for material impairments and credit losses as the COVID-19 pandemic and resulting economic impacts evolve.

## Use of Non-GAAP Financial Measures

Adjusted EBITDA is a non-GAAP (generally accepted accounting principles) measure that we believe provides an important indicator of our ongoing operating performance and that we use in operational and financial decision-making. We define EBITDA as net income plus or minus net interest, taxes, depreciation and amortization. Adjusted EBITDA excludes from EBITDA stock-based compensation, restructuring and impairment charges and, when appropriate, other items that management does not utilize in assessing DMC's operating performance (as further described in the tables below). As a result, internal management reports used during monthly operating reviews feature Adjusted EBITDA and certain management incentive awards are based, in part, on the amount of Adjusted EBITDA achieved during the year.

Net cash and net debt are non-GAAP measures we use to supplement information in our Condensed Consolidated Financial Statements. We define net cash as total cash and cash equivalents less total debt and net debt as total debt less cash and cash equivalents. In addition to conventional measures prepared in accordance with GAAP, the Company uses this information to evaluate its performance, and we believe that certain investors may do the same.

The presence of non-GAAP financial measures in this report is not intended to be considered in isolation or as a substitute for, or superior to, DMC's GAAP information, and investors are cautioned that the non-GAAP financial measures are limited in their usefulness. Because not all companies use identical calculations, DMC's presentation of non-GAAP financial measures may not be comparable to other similarly titled measures of other companies.



## Consolidated Results of Operations

### Three months ended March 31, 2020 compared with three months ended March 31, 2019

|   | Three months ended March 31, |            | \$ change   | % change |
|---|------------------------------|------------|-------------|----------|
|   | 2020                         | 2019       |             |          |
| Net sales                                   | \$ 73,564                    | \$ 100,135 | \$ (26,571) | (27)%    |
| Gross profit                                | 24,470                       | 36,405     | (11,935)    | (33)%    |
| Gross profit percentage                     | 33.3 %                       | 36.4 %     |             |          |
| COSTS AND EXPENSES:                         |                              |            |             |          |
| General and administrative expenses         | 8,126                        | 9,168      | (1,042)     | (11)%    |
| % of net sales                              | 11.0 %                       | 9.2 %      |             |          |
| Selling and distribution expenses           | 8,527                        | 6,309      | 2,218       | 35 %     |
| % of net sales                              | 11.6 %                       | 6.3 %      |             |          |
| Amortization of purchased intangible assets | 354                          | 398        | (44)        | (11)%    |
| % of net sales                              | 0.5 %                        | 0.4 %      |             |          |
| Restructuring expenses, net                 | 1,116                        | 78         | 1,038       | 1,331 %  |
| Operating income                            | 6,347                        | 20,452     | (14,105)    | (69)%    |
| Other income (expense), net                 | 115                          | (21)       | 136         | 648 %    |
| Interest expense, net                       | (238)                        | (373)      | 135         | 36 %     |
| Income before income taxes                  | 6,224                        | 20,058     | (13,834)    | (69)%    |
| Income tax provision                        | 2,069                        | 4,888      | (2,819)     | (58)%    |
| Net income                                  | 4,155                        | 15,170     | (11,015)    | (73)%    |
| Adjusted EBITDA                             | \$ 11,287                    | \$ 23,897  | \$ (12,610) | (53)%    |

**Net sales** decreased \$26,571 compared with 2019. The decline relates to lower demand for well perforating systems from DynaEnergetics. Well completion activity declined throughout the first quarter, as an oil supply-demand imbalance primarily associated with the COVID-19 pandemic drove a more than 65% decline in crude oil prices.

**Gross profit percentage** decreased to 33.3% compared with 2019 primarily due to the unfavorable impact of lower volume on fixed manufacturing overhead expenses in DynaEnergetics, less favorable project mix in NobelClad, and a lower proportion of sales in DynaEnergetics relative to NobelClad.

**General and administrative expenses** decreased \$1,042 compared with 2019 primarily due to lower employee benefits expenses and payroll taxes of \$965 as well as lower variable bonus expenses of \$367. The decline was partially offset by higher outside service costs of \$244.

**Selling and distribution expenses** increased \$2,218 compared with 2019 primarily due to higher provisions for expected credit losses of \$2,299 in the first quarter of 2020.

**Restructuring expenses, net** of \$1,116 in 2020 primarily related to downsizing our direct labor workforce at DynaEnergetics in response to declining crude oil prices and corresponding demand for well perforating systems.

**Operating income** decreased by \$14,105 primarily due to lower earnings in DynaEnergetics and NobelClad segments in the first quarter of 2020.

**Other income (expense), net** of \$115 in 2020 primarily related to net unrealized and realized foreign currency exchange gains. Currency gains and losses can arise when subsidiaries enter into inter-company and third-party transactions that are denominated in currencies other than their functional currency, including foreign currency forward contracts used to offset foreign exchange rate fluctuations on certain foreign currency denominated asset and liability positions.

**Interest expense, net** of \$238 decreased compared with 2019 primarily due to a lower average outstanding debt balance in 2020.

**Income tax provision** of \$2,069 was recorded on pretax income of \$6,224. The effective rate was impacted unfavorably by geographic mix of pretax income, state taxes, and certain compensation expenses that are not tax deductible in the U.S. The effective rate was also impacted favorably by discrete items of \$371. We recorded an income tax provision of \$4,888 on pretax income of \$20,058 for the first quarter of 2019. The effective rate for the first quarter of 2019 was impacted by favorable discrete items of \$765.

**Net income** for the three months ended March 31, 2020 was \$4,155, or \$0.28 per diluted share, compared to \$15,170, or \$1.01 per diluted share, for the same period in 2019.

**Adjusted EBITDA** decreased compared with 2019 primarily due to the factors discussed above. See “Overview” above for the explanation of the use of Adjusted EBITDA. The following is a reconciliation of the most directly comparable GAAP measure to Adjusted EBITDA.

|   | Three months ended March 31, |           |
|---|------------------------------|-----------|
|   | 2020                         | 2019      |
| <b>Net income</b>                                 | \$ 4,155                     | \$ 15,170 |
| Interest expense, net                             | 238                          | 373       |
| Provision for income taxes                        | 2,069                        | 4,888     |
| Depreciation                                      | 2,352                        | 1,798     |
| Amortization of purchased intangible assets       | 354                          | 398       |
| <b>EBITDA</b>                                     | 9,168                        | 22,627    |
| Restructuring expenses, net and asset impairments | 1,116                        | 78        |
| Stock-based compensation                          | 1,118                        | 1,171     |
| Other (income) expense, net                       | (115)                        | 21        |
| <b>Adjusted EBITDA</b>                            | \$ 11,287                    | \$ 23,897 |

### Business Segment Financial Information

We primarily evaluate performance and allocate resources based on segment revenues, operating income and adjusted EBITDA as well as projected future performance. Segment operating income is defined as revenues less expenses identifiable to the segment. Segment operating income will reconcile to consolidated income before income taxes by deducting unallocated corporate expenses, including stock-based compensation, net other expense, and net interest expense.

### DynaEnergetics

#### Three months ended March 31, 2020 compared with three months ended March 31, 2019

|   | Three months ended March 31, |           | \$ change   | % change |
|---|------------------------------|-----------|-------------|----------|
|   | 2020                         | 2019      |             |          |
| Net sales   | \$ 53,220                    | \$ 79,836 | \$ (26,616) | (33) %   |
| Gross profit                                      | 19,476                       | 31,232    | (11,756)    | (38) %   |
| Gross profit percentage                           | 36.6 %                       | 39.1 %    |             |          |
| COSTS AND EXPENSES:                               |                              |           |             |          |
| General and administrative expenses               | 3,832                        | 3,722     | 110         | 3 %      |
| Selling and distribution expenses                 | 5,840                        | 4,099     | 1,741       | 42 %     |
| Amortization of purchased intangible assets       | 260                          | 301       | (41)        | (14) %   |
| Restructuring expenses, net and asset impairments | 938                          | —         | 938         | n/a      |
| Operating income                                  | 8,606                        | 23,110    | (14,504)    | (63) %   |
| Adjusted EBITDA                                   | \$ 11,316                    | \$ 24,509 | \$ (13,193) | (54) %   |

**Net sales** were \$26,616 lower than in 2019 due to lower demand for well perforating systems. Well completion activity declined throughout the first quarter, as an oil supply-demand imbalance primarily associated with the COVID-19 pandemic drove a more than 65% decline in crude oil prices.

**Gross profit percentage** decreased to 36.6% compared with 2019 primarily due to the unfavorable impact of lower sales volume on fixed manufacturing overhead expenses.

**Selling and distribution expenses** increased \$1,741 compared with 2019 primarily due to higher provisions for expected credit losses of \$1,987 associated with specifically identified at-risk customer balances combined with an increase to our current expected credit loss reserve. The increase was partially offset by lower expenses for salaries and wages, variable bonus and other payroll-related costs of \$212.

**Restructuring expenses, net** of \$938 in 2020 primarily related to downsizing our direct labor workforce in response to declining crude oil prices and corresponding demand for well performing systems primarily due to the oil supply-demand imbalance primarily associated with the COVID-19 pandemic.

**Operating income** decreased by \$14,504 compared with 2019 primarily due to a decline in unit sales volume, the impact of fixed overhead costs on lower unit sales, and increases in selling and distribution expenses and restructuring expenses in the current year.

**Adjusted EBITDA** decreased compared with 2019 due to the factors discussed above. See "Overview" above for the explanation of the use of Adjusted EBITDA. The following is a reconciliation of the most directly comparable GAAP measure to Adjusted EBITDA.

|   | Three months ended March 31, |           |
|---|------------------------------|-----------|
|   | 2020                         | 2019      |
| Operating income                                  | \$ 8,606                     | \$ 23,110 |
| Adjustments:                                      |                              |           |
| Restructuring expenses, net and asset impairments | 938                          | —         |
| Depreciation                                      | 1,512                        | 1,098     |
| Amortization of purchased intangibles             | 260                          | 301       |
| Adjusted EBITDA                                   | \$ 11,316                    | \$ 24,509 |

**NobelClad**

**Three months ended March 31, 2020 compared with three months ended March 31, 2019**

|   | Three months ended March 31, |           | \$ change | % change |
|---|------------------------------|-----------|-----------|----------|
|   | 2020                         | 2019      |           |          |
| Net sales                                   | \$ 20,344                    | \$ 20,299 | \$ 45     | — %      |
| Gross profit                                | 5,154                        | 5,360     | (206)     | (4) %    |
| Gross profit percentage                     | 25.3 %                       | 26.4 %    |           |          |
| COSTS AND EXPENSES:                         |                              |           |           |          |
| General and administrative expenses         | 974                          | 1,244     | (270)     | (22) %   |
| Selling and distribution expenses           | 2,551                        | 2,111     | 440       | 21 %     |
| Amortization of purchased intangible assets | 94                           | 97        | (3)       | (3) %    |
| Restructuring expenses, net                 | 59                           | 78        | (19)      | (24) %   |
| Operating income                            | 1,476                        | 1,830     | (354)     | (19) %   |
| Adjusted EBITDA                             | \$ 2,369                     | \$ 2,705  | \$ (336)  | (12) %   |

**Net sales** of \$20,344 were flat compared with 2019.

**Gross profit percentage** of 25.3% decreased compared with 2019 primarily due to less favorable project mix.

**General and administrative expenses** decreased \$270 compared with 2019 primarily due to lower employee benefits expenses of \$212.

**Selling and distribution expenses** increased \$440 compared with 2019 primarily due to higher provisions for expected credit losses of \$312 primarily associated with a customer that declared bankruptcy during the first quarter of 2020.

**Restructuring expenses, net** of \$59 in 2020 related to severance costs.

**Operating income** decreased \$354 compared with 2019 primarily due to higher selling and distribution expenses.

**Adjusted EBITDA** decreased compared with 2019 primarily due to the factors discussed above. See “Overview” above for the explanation of the use of Adjusted EBITDA. The following is a reconciliation of the most directly comparable GAAP measure to Adjusted EBITDA.

|   | Three months ended March 31, |          |
|---|------------------------------|----------|
|   | 2020                         | 2019     |
| Operating income                                  | \$ 1,476                     | \$ 1,830 |
| Adjustments:                                      |                              |          |
| Restructuring expenses, net and asset impairments | 59                           | 78       |
| Depreciation                                      | 740                          | 700      |
| Amortization of purchased intangibles             | 94                           | 97       |
| Adjusted EBITDA                                   | \$ 2,369                     | \$ 2,705 |

## Liquidity and Capital Resources

We have historically financed our operations from a combination of internally generated cash flow, revolving credit borrowings, and various long-term debt arrangements. With due consideration of the COVID-19 global pandemic and severe disruption of our core oil and gas end markets, we believe that cash flow from operations and funds available under our current credit facilities and any future replacement thereof will be sufficient to fund the working capital, debt service, and other capital expenditure requirements of our current business operations for the foreseeable future. Nevertheless, our ability to generate sufficient cash flows from operations will depend upon our success in executing our strategies. If we are unable to (i) realize sales from our backlog; (ii) secure new customer orders; (iii) continue selling products at attractive margins; and (iv) continue to implement cost-effective internal processes, our ability to meet cash requirements through operating activities could be impacted. Furthermore, any restriction on the availability of borrowings under our credit facilities could negatively affect our ability to meet future cash requirements. We will continue to monitor the continuing unprecedented financial and market conditions, including the impacts COVID-19 will have on credit availability and capital markets.

### Debt facilities

On March 8, 2018, we entered into a five-year \$75,000 credit facility which replaced in its entirety our prior syndicated credit facility entered into on February 23, 2015. The credit facility allows for revolving loans of up to \$50,000 with a \$20,000 US dollar equivalent sublimit for alternative currency loans. In addition, the agreement provides for a \$25,000 Capex Facility which was used to assist in financing our DynaEnergetics manufacturing expansion project in Blum, Texas. At the end of year one, the Capex Facility converted to a term loan which is amortizable at 12.5% of principal per year with a balloon payment for the outstanding balance upon the credit facility maturity date in 2023. In 2019, we prepaid an additional \$7,000 above the required amortization amount. The facility has a \$100,000 accordion feature to increase the commitments under the revolving loan class and/or by adding a term loan subject to approval by applicable lenders. We entered into the credit facility with a syndicate of three banks, with KeyBank, N.A. acting as administrative agent. The syndicated credit facility is secured by the assets of DMC including accounts receivable, inventory, and fixed assets, as well as guarantees and share pledges by DMC and its subsidiaries.

Borrowings under the \$50,000 revolving loan can be in the form of one, two, three, or six month London Interbank Offered Rate (“LIBOR”) loans. Additionally, US dollar borrowings on the revolving loan can be in the form of Base Rate loans (Base Rate borrowings are based on the greater of the administrative agent’s Prime rates, an adjusted Federal Funds rate or an adjusted LIBOR rate). LIBOR loans bear interest at the applicable LIBOR rate plus an applicable margin (varying from 1.50% to 3.00%). Base Rate loans bear interest at the defined Base rate plus an applicable margin (varying from 0.50% to 2.00%). All revolver loan borrowing and repayments under the credit facility have been in the form of one-month or two-month loans and are reported on a net basis in our Condensed Consolidated Statements of Cash Flows.

Borrowings under the \$20,000 Alternate Currency sublimit can be in euros, Canadian dollars, pounds sterling, and in any other currency acceptable to the administrative agent. Alternative currency borrowings denominated in euros, pounds sterling, and any other currency that is dealt with on the London Interbank Deposit Market shall be comprised of LIBOR loans and bear interest at the LIBOR rate plus an applicable margin (varying from 1.50% to 3.00%).

As of March 31, 2020, U.S. dollar revolving loans of zero and borrowings of \$14,094 under our Capex Facility were outstanding under our credit facility. Our available borrowing capacity was \$50,000 as of March 31, 2020. Future borrowings are subject to compliance with financial covenants that could significantly limit such availability.

There are currently two significant financial covenants under our credit facility, a debt-to-EBITDA leverage ratio ("leverage ratio") and a debt service coverage ratio. The leverage ratio is defined in the credit facility for any trailing four quarter period as the ratio of Consolidated Funded Indebtedness (as defined in the agreement) on the last day of such period to Consolidated Pro Forma EBITDA for such period. For the March 31, 2020 reporting period, the maximum leverage ratio permitted by our syndicated credit facility was 3.00 to 1.0. The actual leverage ratio as of March 31, 2020, calculated in accordance with the credit facility, as amended, was 0.2 to 1.0.

The debt service coverage ratio, as defined in the credit facility, means, for any period, the ratio of Consolidated Pro Forma EBITDA less the sum of cash dividends, cash income taxes and Consolidated Unfunded Capital Expenditures (as defined in the agreement) to Debt Service Charges (as defined in the agreement). The minimum debt service coverage ratio permitted by our credit facility for the March 31, 2020 reporting period is 1.35 to 1.0. The actual debt service coverage ratio for the trailing twelve months ended March 31, 2020 was 7.7 to 1.0.

Our credit facility also includes various other covenants and restrictions, certain of which relate to the payment of dividends or other distributions to stockholders, redemption of capital stock, incurrence of additional indebtedness, mortgaging, and pledging or disposition of major assets. As of March 31, 2020, we were in compliance with all financial covenants and other provisions of our debt agreements.

We also maintain a line of credit with a German bank for certain DynaEnergetics operations. This line of credit provides a borrowing capacity of €4,000.

#### *Other contractual obligations and commitments*

Our long-term debt balance decreased to \$10,406 at March 31, 2020 from \$11,147 at December 31, 2019. Our other contractual obligations and commitments have not materially changed since December 31, 2019.

#### *Cash flows provided by operating activities*

Net cash provided by operating activities was \$4,920 for the three months ended March 31, 2020 compared with \$6,997 in the same period last year. The decrease primarily was due to a decline in net income, partially offset by lower working capital needs in 2020 compared with 2019.

#### *Cash flows used in investing activities*

Net cash flows used in investing activities for the three months ended March 31, 2020 of \$5,121 primarily related to acquisitions of property, plant and equipment at DynaEnergetics. Net cash flows used in investing activities for the three months ended March 31, 2019 totaled \$6,397 and primarily related to the acquisitions of property, plant and equipment for the construction of DynaEnergetics' manufacturing, assembly and administrative space on its site in Blum, Texas and expenditures related to the relocation of DMC Global's corporate office and NobelClad's U.S. administrative offices. Net cash flows used in investing activities was partially offset by proceeds from the sale of NobelClad's French production facility during the second quarter of 2019.

#### *Cash flows (used in) provided by financing activities*

Net cash flows used in financing activities for the three months ended March 31, 2020 totaled \$3,681 compared with \$818 of cash provided by financing activities for the three months ended March 31, 2019 and was primarily due to borrowings of our revolving loans in 2019 combined with higher dividend payments in the first quarter of 2020.

#### *Payment of Dividends*

On February 26, 2020, our Board of Directors declared a quarterly cash dividend of \$0.125 per share which was paid on April 15, 2020. The dividend of \$1.883 was payable to shareholders of record as of March 31, 2020. We also paid a quarterly cash dividend of \$0.02 per share in the first quarter of 2019.

We paid quarterly dividends subject to capital availability and periodic determinations that cash dividends were in the best interests of our stockholders and the Company. On April 23, 2020, DMC announced that its Board of Directors suspended the quarterly dividend indefinitely due to the uncertain economic outlook caused by the COVID-19 pandemic. Future dividends may be affected by, among other items, our views on potential future capital requirements, future business prospects, debt covenant compliance considerations, changes in income tax laws, and any other factors that our Board of Directors deems relevant. Any determination to pay cash dividends will be at the discretion of the Board of Directors.

#### **Critical Accounting Policies**

Except as described below, our critical accounting policies have not changed from those reported in our Annual Report on Form 10-K for the year ended December 31, 2019.

#### **ITEM 3. Quantitative and Qualitative Disclosure about Market Risk**

There were no material changes in market risk for changes in foreign currency exchange rates and interest rates from the information provided in Item 7A – Quantitative and Qualitative Disclosures About Market Risk in the company's Annual Report on Form 10-K for the year ended December 31, 2019.

#### **ITEM 4. Controls and Procedures**

##### *Evaluation of Disclosure Controls and Procedures*

Our Chief Executive Officer and Chief Financial Officer have evaluated the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report, and they have concluded that these controls and procedures are effective.

##### *Changes in Internal Control over Financial Reporting*

There were no changes that occurred during the fiscal quarter covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

**Part II - OTHER INFORMATION****Item 1. Legal Proceedings**

Please see Note 11 to the Condensed Consolidated Financial Statements.

**Item 1A. Risk Factors**

There have been no significant changes in the risk factors identified as being attendant to our business in our Annual Report on Form 10-K for the year ended December 31, 2019, except as provided below.

**Our business, results of operations, financial condition, cash flows and stock price can be adversely affected by pandemics, epidemics or other public health emergencies, such as the recent outbreak of COVID-19.**

Our business, results of operations, financial condition, cash flows and stock price can be adversely affected by pandemics, epidemics or other public health emergencies, such as the recent outbreak of COVID-19 which has spread from China to many other countries including the United States. In March 2020, the World Health Organization characterized COVID-19 as a pandemic, and the President of the United States declared the COVID-19 outbreak a national emergency. The outbreak has resulted in governments around the world implementing increasingly stringent measures to help control the spread of the virus, including quarantines, "shelter in place" and "stay at home" orders, travel restrictions, business curtailments, school closures, and other measures. In addition, governments and central banks in several parts of the world have enacted fiscal and monetary stimulus measures to counteract the impacts of COVID-19.

We are considered a critical infrastructure industry, as defined by the U.S. Department of Homeland Security. Although we have continued to operate our facilities to date consistent with federal guidelines and state and local orders, the outbreak of COVID-19 and any preventive or protective actions taken by governmental authorities may have a material adverse effect on our operations, supply chain, customers and transportation networks. The impacts of COVID-19 have further reduced demand for oil and gas, which has exerted additional downward pressure on oil and gas prices. This has significantly impacted the demand for our products, product pricing and our ability to collect receivables from our customers, and has had, and may continue to have, a material adverse impact on our financial condition, results of operations and cash flows. The extent to which COVID-19 may adversely impact our business depends on future developments, which are highly uncertain and unpredictable, depending upon the severity and duration of the outbreak and the effectiveness of actions taken globally to contain or mitigate its effects. Any resulting financial impact cannot be estimated reasonably at this time, but may materially adversely affect our business, results of operations, financial condition and cash flows. Even after the COVID-19 pandemic has subsided, we may experience materially adverse impacts to our business due to any resulting economic recession or depression. Additionally, concerns over the economic impact of COVID-19 have caused extreme volatility in financial and other capital markets which has and may continue to adversely impact our stock price and our ability to access capital markets. To the extent the COVID-19 pandemic adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described in our Annual Report on Form 10-K for the year ended December 31, 2019, such as those relating to our products and financial performance.

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

In connection with the vesting of Company restricted common stock under our equity incentive plans during the first quarter of 2020, we retained shares of common stock in satisfaction of withholding tax obligations. These shares are held as treasury shares by the Company.

|                                 | Total number of shares purchased (1) (2) |    | Average price paid per share |
|---------------------------------|--|----|------------------------------|
| January 1 to January 31, 2020   | —  | \$ | —                            |
| February 1 to February 29, 2020 | 11,980                                   | \$ | 38.57                        |
| March 1 to March 31, 2020       | 16,623                                   | \$ | 34.31                        |
| Total                           | 28,603                                   | \$ | 36.09                        |

(1) Share purchases in 2020 were to offset tax withholding obligations that occur upon the vesting of restricted common stock under the terms of the 2016 Equity Incentive Plan.

(2) As of March 31, 2020, the maximum number of shares that may yet be purchased would not exceed the employees' portion of taxes withheld on unvested shares (397,944).

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

Our Coolspring property is subject to regulation by the Federal Mine Safety and Health Administration ("MSHA") under the Federal Mine Safety and Health Act of 1977 (the "Mine Act"). Pursuant to Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (The "Dodd-Frank Act"), issuers that are operators, or that have a subsidiary that is an operator, of a coal or other mine in the United States are required to disclose in their periodic reports filed with the SEC information regarding specified health and safety violations, orders and citations, related assessments and legal actions, and mining-related fatalities. During the quarter ended March 31, 2020, we had no such specified health and safety violations, orders or citations, related assessments or legal actions, mining-related fatalities, or similar events in relation to our United States operations requiring disclosure pursuant to Section 1503(a) of the Dodd-Frank Act.

### Item 5. Other Information

None.

### Item 6. Exhibits

[31.1 Certification of the President and Chief Executive Officer pursuant to 17 CFR 240.13a-14\(a\) or 17 CFR 240.15d-14\(a\), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)

[31.2 Certification of the Chief Financial Officer pursuant to 17 CFR 240.13a-14\(a\) or 17 CFR 240.15d-14\(a\), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)

[32.1 Certification of the President and 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 the 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 The following materials from the Quarterly Report on Form 10-Q of DMC Global Inc. for the quarter ended March 31, 2020, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statement of Stockholders' Equity, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.\*

---

\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

### SIGNATURES

In accordance with 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.

**DMC Global Inc.**

(Registrant)

Date: April 23, 2020

/s/ Michael Kuta

Michael Kuta, Chief Financial Officer (Duly Authorized Officer and Principal Financial and Accounting Officer)



### CERTIFICATIONS

I, Kevin T. Longe, certify that:

1. I have reviewed this quarterly report on Form 10-Q of DMC Global Inc.;
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 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 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 control over financial reporting.

Dated: April 23, 2020

/s/ Kevin T. Longe

Kevin T. Longe

President and Chief Executive Officer

of DMC Global Inc.

## CERTIFICATIONS

I, Michael Kuta, certify that:

1. I have reviewed this quarterly report on Form 10-Q of DMC Global Inc.;
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 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 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 control over financial reporting.

Dated: April 23, 2020

/s/ Michael Kuta

Michael Kuta

Chief Financial Officer of DMC Global Inc.

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

In connection with the Quarterly Report of DMC Global Inc. (the "Company") on Form 10-Q for the period ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kevin T. Longe, President and Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

April 23, 2020

/s/ Kevin T. Longe

---

Kevin T. Longe

President and Chief Executive Officer

of DMC Global Inc.

A signed original of this written statement required by Section 906 has been provided to DMC Global Inc. and will be retained by DMC Global Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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

In connection with the Quarterly Report of DMC Global Inc. (the "Company") on Form 10-Q for the period ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael Kuta, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

April 23, 2020

/s/ Michael Kuta

---

Michael Kuta

Chief Financial Officer of DMC Global Inc.

A signed original of this written statement required by Section 906 has been provided to DMC Global Inc. and will be retained by DMC Global Inc. and furnished to the Securities and Exchange Commission or its staff upon request.