

Sales to the Energy market of \$181.7 million reflected a 24 percent increase from fiscal year 2018. Excluding surcharge revenue, sales increased 18 percent. The results were driven by revenue and volume increases during the first half of the fiscal year in the oil and gas sub-market, particularly rental and replacement activity through our Amega West Services (“Amega West”) business, and higher demand for materials used in power generation applications.

Transportation market sales remained flat from fiscal year 2018 at \$157.7 million. Excluding surcharge revenue, sales decreased 1 percent on 6 percent lower shipment volume. The results reflect a strengthening of heavy-duty truck applications, partially offset by trade actions and global economic uncertainty.

Industrial and Consumer market sales increased 2 percent to \$371.5 million for fiscal year 2019. Excluding surcharge revenue, sales increased 1 percent on 4 percent lower shipment volume. The results reflect the impact of stronger demand for materials used in consumer goods including the sporting sub-market.

## Gross Profit

Gross profit in fiscal year 2019 increased to \$444.8 million, or 18.7 percent of net sales from \$382.3 million, or 17.7 percent of net sales for fiscal year 2018. Excluding the impact of the surcharge revenue, our gross margin in fiscal year 2019 was 22.9 percent compared to 21.3 percent in fiscal year 2018. The results reflect the impact of improved product mix coupled with capacity gains and operating cost reductions compared to the same period a year ago. Fiscal year 2019 also reflects an \$11.4 million benefit related to an insurance recovery in our third fiscal quarter.

Our surcharge mechanism is structured to recover increases in raw material costs, although in certain cases with a lag effect as discussed above. While the surcharge generally protects the absolute gross profit dollars, it does have a dilutive effect on gross margin as a percent of sales. The following represents a summary of the dilutive impact of the surcharge on gross margin. We present and discuss these financial measures because management believes removing the impact of surcharge provides a more consistent and meaningful basis for comparing results of operations from period to period. See the section “Non-GAAP Financial Measures” below for further discussion of these financial measures.

(\$ in millions)	Fiscal Year	
	2019	2018
Net sales	\$ 2,380.2	\$ 2,157.7
Less: surcharge revenue	438.1	365.4
Net sales excluding surcharge revenue	\$ 1,942.1	\$ 1,792.3
Gross profit	\$ 444.8	\$ 382.3
Gross margin	18.7%	17.7%
Gross margin excluding surcharge revenue	22.9%	21.3%

## Selling, General and Administrative Expenses

Selling, general and administrative expenses in fiscal year 2019 were \$203.4 million, or 8.5 percent of net sales (10.5 percent of net sales excluding surcharge revenue), compared to \$193.0 million, or 8.9 percent of net sales (10.8 percent of net sales excluding surcharge revenue), in fiscal year 2018. Selling, general and administrative expenses increased in fiscal year 2019 primarily due to higher depreciation, insurance and acquisition related costs partially offset by lower variable compensation expense compared to fiscal year 2018.

## Operating Income

Our operating income in fiscal year 2019 increased to \$241.4 million, or 10.1 percent of net sales as compared with \$189.3 million, or 8.8 percent of net sales in fiscal year 2018. Excluding surcharge revenue and special items, adjusted operating margin was 12.5 percent for the fiscal year 2019 and 10.6 percent for the same period a year ago. The increase in the operating margin reflects steady demand and improved product mix coupled with operating cost improvements offset by higher selling, general and administrative expenses compared to the same period a year ago.