

Altra Industrial Motion Corp.
Form 10-Q
May 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2018

or

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

For the transition period from _____ to _____

Commission File Number: 001-33209

ALTRA INDUSTRIAL MOTION CORP.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	61-1478870 (I.R.S. Employer Identification No.)
300 Granite Street, Suite 201, Braintree, MA (Address of principal executive offices)	02184 (Zip Code)

(781) 917-0600

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(Registrant's telephone number, including area code)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post 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 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 (Do not check if a smaller reporting company.) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of May 9, 2018, 29,383,365 shares of Common Stock, \$0.001 par value per share, were outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

ALTRA INDUSTRIAL MOTION CORP.

Condensed Consolidated Balance Sheets

Amounts in thousands, except share amounts

March 31, 2018 December 31, 2017

	March 31, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 46,396	\$ 51,994
Trade receivables, less allowance for doubtful accounts of \$4,815 and \$4,542 at March 31, 2018 and December 31, 2017, respectively	150,794	135,499
Inventories	148,684	145,611
Income tax receivable	4,872	6,634
Prepaid expenses and other current assets	17,745	17,344
Assets held for sale	1,119	1,081
Total current assets	369,610	358,163
Property, plant and equipment, net	194,293	191,918
Intangible assets, net	160,767	159,613
Goodwill	209,722	206,040
Deferred income taxes	1,669	2,608
Other non-current assets, net	2,466	2,315
Total assets	\$ 938,527	\$ 920,657
LIABILITIES, AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 62,363	\$ 68,014
Accrued payroll	26,244	32,091
Accruals and other current liabilities	43,131	32,921
Income tax payable	9,948	9,082
Current portion of long-term debt	1,430	384
Total current liabilities	143,116	142,492
Long-term debt - less current portion	278,282	275,587
Deferred income taxes	52,342	52,250
Pension liabilities	25,749	25,038
Long-term taxes payable	5,419	6,322
Other long-term liabilities	20,655	22,263
Commitments and Contingencies (Note 12)		
Stockholders' equity:		
Common stock (\$0.001 par value, 90,000,000 shares authorized, 29,103,205, and 29,058,117 issued and outstanding at March 31, 2018 and December 31, 2017,	29	29

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respectively)		
Additional paid-in capital	223,149	223,336
Retained earnings	227,198	223,204
Accumulated other comprehensive loss	(37,412)	(49,864)
Total stockholders' equity	412,964	396,705
Total liabilities, and stockholders' equity	\$938,527	\$ 920,657

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

ALTRA INDUSTRIAL MOTION CORP.

Condensed Consolidated Statements of Operations

Amounts in thousands, except per share data

	Quarter Ended	
	March 31,	March 31,
	2018	2017
	(Unaudited)	(Unaudited)
Net sales	\$240,385	\$ 215,435
Cost of sales	166,159	149,268
Gross profit	74,226	66,167
Operating expenses:		
Selling, general and administrative expenses	47,130	40,384
Research and development expenses	6,473	6,223
Restructuring costs	943	1,898
	54,546	48,505
Income from operations	19,680	17,662
Other non-operating income and expense:		
Loss on settlement of pension plan	5,086	
Interest expense, net	1,834	1,705
Other non-operating expense, net	(146)	(530)
Loss on extinguishment of convertible debt	—	1,797
	6,774	2,972
Income before income taxes	12,906	14,690
Provision for income taxes	3,905	4,364
Net income	\$9,001	\$ 10,326
Weighted average shares, basic	29,073	28,763
Weighted average shares, diluted	29,225	28,897
Net income per share:		
Basic net income	\$0.31	\$ 0.36
Diluted net income	\$0.31	\$ 0.36
Cash dividend declared	\$0.17	\$ 0.15

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

ALTRA INDUSTRIAL MOTION CORP.

Condensed Consolidated Statements of Comprehensive Income

Amounts in thousands

	Quarter Ended	
	March 31,	March 31,
	2018	2017
	(Unaudited)	(Unaudited)
Net Income	\$9,001	\$ 10,326
Other Comprehensive income:		
Foreign currency translation adjustment	7,730	3,912
Reclassification adjustment from loss on partial settlement of pension plan, net of tax	3,815	
Change in defined benefit pension plans, net of tax	577	—
Change in fair value of derivative financial instruments	330	818
Other comprehensive income:	12,452	4,730
Comprehensive income	\$21,453	\$ 15,056

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

ALTRA INDUSTRIAL MOTION CORP.

Condensed Consolidated Statements of Cash Flows

Amounts in thousands

	Year to Date Ended	
	March 31, 2018	March 31, 2017
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Net income	\$9,001	\$ 10,326
Adjustments to reconcile net income to net operating cash flows:		
Depreciation	6,923	6,461
Amortization of intangible assets	2,480	2,345
Amortization of deferred financing costs	150	149
Loss on foreign currency, net	(113)	(144)
Loss on settlement of pension plan	5,086	—
(Gain)/Loss on disposal / impairment of fixed assets	125	(58)
Loss on extinguishment of debt	—	1,797
Stock based compensation	1,303	1,751
Amortization of inventory fair value adjustment	—	2,347
Changes in assets and liabilities:		
Trade receivables	(12,906)	(11,348)
Inventories	(515)	(1,365)
Accounts payable and accrued liabilities	(5,919)	(6,997)
Other current assets and liabilities	47	(4,052)
Other operating assets and liabilities	(1,998)	1,810
Net cash provided by operating activities	3,664	3,022
Cash flows from investing activities		
Purchase of property, plant and equipment	(6,975)	(7,333)
Net cash used in investing activities	(6,975)	(7,333)
Cash flows from financing activities		
Payments on Revolving Credit Facility	(4,903)	(13,459)
Dividend payments	(4,977)	(3,904)
Borrowing under Revolving Credit Facility	8,000	5,000
Payments of equipment, working capital notes, mortgages, and other debts	(288)	(267)
Cash paid to redeem Convertible Notes	—	(954)
Shares surrendered for tax withholding	(1,490)	(163)
Net cash used in financing activities	(3,658)	(13,747)
Effect of exchange rate changes on cash and cash equivalents	1,371	1,877
Net change in cash and cash equivalents	(5,598)	(16,181)
Cash and cash equivalents at beginning of year	51,994	69,118
Cash and cash equivalents at end of period	\$46,396	\$ 52,937
Cash paid during the period for:		
Interest	\$1,755	\$ 1,797
Income taxes	2,642	2,937
Non-cash Financing and Investing		
Conversion of Convertible Notes to common stock	\$—	\$ 51,851

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

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ALTRA INDUSTRIAL MOTION CORP.

Consolidated Statements of Stockholders' Equity

Amounts in thousands

(Unaudited)

	Common		Additional	Retained	Accumulated Other Comprehensive Income	Total
	Stock	Shares	in Capital	Earnings	(Loss)	
Balance at January 1, 2017	\$ 27	\$27,206	\$ 168,299	\$ 191,108	\$ (76,086)	\$283,348
Stock-based compensation and vesting						
of restricted stock	—	31	1,588	—	—	1,588
Net income	—	—	—	10,326	—	10,326
Conversion of convertible debt	2	1,748	51,849			51,851
Dividends declared	—	—	—	(4,396)	—	(4,396)
Change in fair value of interest rate						
swap, net of tax	—	—	—	—	818	818
Cumulative foreign currency translation						
adjustment	—	—	—	—	3,912	3,912
Balance at March 31, 2017	\$ 29	\$28,985	\$ 221,736	\$ 197,038	\$ (71,356)	\$347,447
Balance at January 1, 2018	\$ 29	\$29,058	\$ 223,336	\$ 223,204	\$ (49,864)	\$396,705
Stock-based compensation and						
vesting of restricted stock	—	45	(187)	—	—	(187)
Net income	—	—	—	9,001	—	9,001
Dividends declared, \$0.17 per share	—	—	—	(5,007)	—	(5,007)
Change in fair value of interest rate						
swap, net of tax	—	—	—	—	330	330
Minimum Pension adjustment, net of tax	—	—	—	—	4,392	4,392
Cumulative foreign currency translation						
adjustment	—	—	—	—	7,730	7,730
Balance at March 31, 2018	\$ 29	\$29,103	\$ 223,149	\$ 227,198	\$ (37,412)	\$412,964

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

1. Organization and Nature of Operations

Headquartered in Braintree, Massachusetts, Altra Industrial Motion Corp. (the “Company”, “we”, or “our”) is a leading multi-national designer, producer and marketer of a wide range of electro-mechanical power transmission products. The Company brings together strong brands covering over 42 product lines with production facilities in twelve countries. Altra’s leading brands include Ameridrives Couplings, Bauer Gear Motor, Bibby Turboflex, Boston Gear, Delroyd Worm Gear, Formsprag Clutch, Guardian Couplings, Huco, Industrial Clutch, Inertia Dynamics, Kilian Manufacturing, Lamiflex Couplings, Marland Clutch, Matrix, Nuttall Gear, Stieber Clutch, Stromag, Svendborg Brakes, TB Wood’s, Twiflex, Warner Electric, Warner Linear, and Wichita Clutch.

2. Basis of Presentation

The Company’s unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and note disclosures required by accounting principles generally accepted in the United States of America. These statements should be read in conjunction with the financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary to present fairly the Company’s financial position for the interim periods presented, and cash flows for the interim periods presented. The results are not necessarily indicative of future results. The Company considers events or transactions that occur after the balance sheet date but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure.

3. Recent Accounting Standards

On December 22, 2017, Staff Accounting Bulletin No. 118 (“SAB 118”) was issued to address the application of generally accepted accounting principles in the United States, or GAAP, in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the U.S. Tax Act. The ultimate impact of the U.S. Tax Act may differ from this estimate, possibly materially, due to changes in interpretations and assumptions, and guidance that may be issued and actions we may take in response to the U.S. Tax Act. The U.S. Tax Act is highly complex and we will continue to assess the impact that various provisions will have on our business. Any subsequent adjustment to these amounts will be recorded to current tax expense in the period when the analysis is complete.

As of March 31, 2018, the Company has not completed the accounting for the tax effects of enactment of this legislation; however, the Company has made a reasonable estimate of the effects