

Altra Industrial Motion Corp.  
Form 10-Q  
November 07, 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 September 30, 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 every Interactive Data File required to be submitted every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit 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 the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

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

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

As of October 29, 2018, there were 64,440,696 outstanding shares of the registrant's common stock, \$0.001 par value per share.

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## ALTRA INDUSTRIAL MOTION CORP.

## Condensed Consolidated Balance Sheets

Amounts in thousands, except share amounts

	September 30, 2018	December 31, 2017
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 50,097	\$ 51,994
Trade receivables, less allowance for doubtful accounts of \$4,545 and \$4,542 at September 30, 2018 and December 31, 2017, respectively	139,863	135,499
Inventories	157,049	145,611
Income tax receivable	1,548	6,634
Prepaid expenses and other current assets	21,215	17,344
Assets held for sale	696	1,081
Total current assets	370,468	358,163
Property, plant and equipment, net	187,800	191,918
Intangible assets, net	148,389	159,613
Goodwill	202,114	206,040
Deferred income taxes	1,542	2,608
Other non-current assets, net	2,256	2,315
Total assets	\$ 912,569	\$ 920,657
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 61,466	\$ 68,014
Accrued payroll	31,139	32,091
Accruals and other current liabilities	53,169	32,921
Income tax payable	11,115	9,082
Current portion of long-term debt	1,306	384
Total current liabilities	158,195	142,492
Long-term debt - less current portion	255,161	275,587
Deferred income taxes	49,929	52,250
Pension liabilities	24,520	25,038
Long-term taxes payable	5,418	6,322
Other long-term liabilities	2,186	22,263
Commitments and Contingencies (Note 16)		
Stockholders' equity:		
Common stock (\$0.001 par value per share, 90,000,000 shares authorized, 29,167,951, and 29,058,117 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively)	29	29
Additional paid-in capital	224,316	223,336

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Retained earnings	248,534	223,204
Accumulated other comprehensive loss	(55,719 )	(49,864 )
Total stockholders' equity	417,160	396,705
Total liabilities, and stockholders' equity	\$ 912,569	\$ 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		Year to Date Ended	
	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net sales	\$228,483	\$ 214,623	\$706,191	\$ 653,415
Cost of sales	156,543	145,610	481,770	446,109
Gross profit	71,940	69,013	224,421	207,306
Operating expenses:				
Selling, general and administrative expenses	44,860	41,009	135,372	123,012
Research and development expenses	5,733	6,051	18,464	18,434
Restructuring and consolidation costs	610	680	2,119	3,776
	51,203	47,740	155,955	145,222
Income from operations	20,737	21,273	68,466	62,084
Other non-operating income and expense:				
Loss on settlement of pension plan	—	—	5,086	—
Interest expense, net	1,958	1,811	5,857	5,547
Other non-operating expense/(income), net	644	696	216	30
Loss on extinguishment of convertible debt	—	—	—	1,797
	2,602	2,507	11,159	7,374
Income before income taxes	18,135	18,766	57,307	54,710
Provision for income taxes	5,822	5,489	16,986	15,723
Net income	\$12,313	\$ 13,277	\$40,321	\$ 38,987
Weighted average shares, basic	29,010	29,008	29,101	28,912
Weighted average shares, diluted	29,049	29,074	29,178	29,001
Net income per share:				
Basic net income	\$0.42	\$ 0.46	\$1.39	\$ 1.35
Diluted net income	\$0.42	\$ 0.46	\$1.38	\$ 1.34
Cash dividend declared	\$0.17	\$ 0.17	\$0.51	\$ 0.49

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		Year to Date Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net Income	\$12,313	\$ 13,277	\$40,321	\$ 38,987
Other Comprehensive income:				
Foreign currency translation adjustment	(2,652 )	6,673	(11,170)	21,157
Reclassification adjustment from loss on partial settlement of pension plan, net of tax	—	—	3,815	—
Change in defined benefit pension plans, net of tax	—	65	577	(232 )
Change in fair value of derivative financial instruments	(155 )	(331 )	923	326
Other comprehensive income:	(2,807 )	6,407	(5,855 )	21,251
Comprehensive income	\$9,506	\$ 19,684	\$34,466	\$ 60,238

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	
	September 30,	September 30,
	2018	2017
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Net income	\$40,321	\$ 38,987
Adjustments to reconcile net income to net operating cash flows:		
Depreciation	20,735	19,764
Amortization of intangible assets	7,296	7,139
Amortization of deferred financing costs	449	449
Loss on foreign currency, net	204	241
Loss on settlement of pension plan	5,086	—
(Gain)/Loss on disposal / impairment of fixed assets	293	(36 )
Loss on extinguishment of debt	—	1,797
Stock based compensation	3,830	4,543
Amortization of inventory fair value adjustment	—	2,347
Changes in assets and liabilities:		
Trade receivables	(7,550 )	(9,701 )
Inventories	(13,828)	(9,478 )
Accounts payable and accrued liabilities	7,129	(8,799 )
Other current assets and liabilities	(4,256 )	(2,392 )
Other operating assets and liabilities	(730 )	(1,572 )
Net cash provided by operating activities	58,979	43,289
Cash flows from investing activities		
Purchase of property, plant and equipment	(21,129)	(23,261 )
Working capital settlement from prior year acquisitions	—	2,883
Proceeds from sale of Altra Industrial Motion (Changzhou) Co. Ltd.	—	3,221
Acquisition of Aluminum Die Casting, S.r.L.	(2,663 )	—
Net cash used in investing activities	(23,792)	(17,157 )
Cash flows from financing activities		
Payments on 2015 Revolving Credit Facility	(36,673)	(39,036 )
Dividend payments	(14,964)	(13,256 )
Borrowing under 2015 Revolving Credit Facility	19,000	7,000
Payments of equipment, working capital notes, mortgages, and other debts	(1,132 )	(913 )
Cash paid to redeem Convertible Notes	—	(954 )
Shares surrendered for tax withholding	(2,848 )	(2,089 )
Net cash used in financing activities	(36,617)	(49,248 )
Effect of exchange rate changes on cash and cash equivalents	(467 )	7,149
Net change in cash and cash equivalents	(1,897 )	(15,967 )
Cash and cash equivalents at beginning of year	51,994	69,118
Cash and cash equivalents at end of period	\$50,097	\$ 53,151
Cash paid during the period for:		
Interest	\$6,257	\$ 5,413



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Income taxes	11,388	18,505
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.

## ALTRA INDUSTRIAL MOTION CORP.

## Condensed 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, 2018	\$ 29	29,058	\$ 223,336	\$ 223,204	\$ (49,864)	\$ 396,705	
Stock-based compensation and vesting of restricted stock	—	110	980	—	—	980	
Net income	—	—	—	40,321	—	40,321	
Dividends declared, \$0.51 per share	—	—	—	(14,991)	—	(14,991)	
Change in fair value of Derivative Financial Instruments, net of tax	—	—	—	—	923	923	
Minimum Pension adjustment, net of tax	—	—	—	—	4,392	4,392	
Cumulative foreign currency translation adjustment	—	—	—	—	(11,170)	(11,170)	
Balance at September 30, 2018	\$ 29	29,168	\$ 224,316	\$ 248,534	\$ (55,719)	\$ 417,160	
Balance at June 30, 2018	\$ 29	29,108	\$ 224,526	\$ 241,249	\$ (52,912)	\$ 412,892	
Stock-based compensation and vesting of restricted stock	—	60	(210)	—	—	(210)	
Net income	—	—	—	12,313	—	12,313	
Dividends declared, \$0.17 per share	—	—	—	(5,028)	—	(5,028)	
Change in fair value of Derivative Financial Instruments, net of tax	—	—	—	—	(155)	(155)	
Cumulative foreign currency translation adjustment	—	—	—	—	(2,652)	(2,652)	
Balance at September 30, 2018	\$ 29	29,168	\$ 224,316	\$ 248,534	\$ (55,719)	\$ 417,160	
Balance at January 1, 2017		\$27	27,206	\$ 168,299	\$ 191,108	\$ (76,086)	\$ 283,348
Stock-based compensation and vesting of restricted stock	—	100	2,457	—	—	2,457	
Net income	—	—	—	38,987	—	38,987	