

Edgar Filing: Altra Industrial Motion Corp. - Form 10-K

Altra Industrial Motion Corp.
Form 10-K
March 01, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 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)

300 Granite Street, Suite 201 Braintree, MA
(Address of principal executive offices)

Registrant's telephone number, including area code:

61-1478870
(I.R.S. Employer

Identification No.)

02184
(Zip Code)

Edgar Filing: Altra Industrial Motion Corp. - Form 10-K

(781) 917-0600

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$0.001 par value	NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a 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

Edgar Filing: Altra Industrial Motion Corp. - Form 10-K

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant based on the closing price (as reported by the NASDAQ Global Market) of such common stock on the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2018) was approximately \$1.24 billion.

As of February 21, 2019, there were 64,558,880 shares of Common Stock, \$0.001 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the following document are incorporated herein by reference into the Part of the Form 10-K indicated.

	Part of Form 10-K into
Document	which Incorporated
Altra Industrial Motion Corp. Proxy Statement	Part III
for the 2018 Annual Meeting of Stockholders	

TABLE OF CONTENTS

	Page
PART I	
Item 1. <u>Business</u>	3
Item 1A. <u>Risk Factors</u>	13
Item 1B. <u>Unresolved Staff Comments</u>	29
Item 2. <u>Properties</u>	29
Item 3. <u>Legal Proceedings</u>	30
Item 4. <u>Mine Safety Disclosures</u>	30
PART II	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	31
Item 6. <u>Selected Financial Data</u>	33
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	35
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	50
Item 8. <u>Financial Statements and Supplementary Data</u>	51
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	86
Item 9A. <u>Controls and Procedures</u>	86
Item 9B. <u>Other Information</u>	89
PART III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	89
Item 11. <u>Executive Compensation</u>	89
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	89
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	89
Item 14. <u>Principal Accounting Fees and Services</u>	89
PART IV	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	89
Item 16. <u>Form 10-K Summary</u>	94

Item 1. Business

Our Company

We are a leading global designer, producer and marketer of a wide range of electromechanical power transmission motion control (“PTMC”) products. Our technologies are used in various motion related applications and across a wide variety of high-volume manufacturing and non-manufacturing processes in which reliability and precision are critical to avoid costly down time and enhance the overall efficiency of operations.

We market our products under well recognized and established brands, which have been in existence for an average of over 85 years. We serve a diversified group of customers comprised of over 1,000 direct original equipment manufacturers (“OEMs”) including GE, Honeywell and Siemens, and also benefit from established, long-term relationships with leading industrial distributors, including Applied Industrial Technologies, Grainger, Kaman Corporation and Motion Industries. Many of our customers operate globally across a large number of industries, ranging from transportation, turf and agriculture, energy and mining to factory automation, medical and robotics. Our relationships with these customers often span multiple decades, which we believe reflects the high level of performance, quality and service we deliver, supplemented by the breadth of our offering, vast geographic footprint and our ability to rapidly develop custom solutions for complex customer requirements.

Our product lines involve a large number of unique parts, are generally delivered in small order quantities with short lead times and require varying levels of technical support and responsive customer service. Many of our OEM customers incorporate our products into their designs of their equipment, helping to generate high switching costs and foster brand preference. As a result of these characteristics, the essential nature of our products and the wear to which many are subjected, we generate a significant amount of recurring revenue with repeat customers. Our large installed base generates significant aftermarket replacement demand, which we estimate accounted for approximately 32% of revenues in 2018 on a pro forma basis giving effect to the Fortive Transaction.

We seek to offer products and services guided by what we call the Voice of the Customer (“VOC”). We employ an integrated sales and marketing strategy that is focused on both key industries and individual product lines. We believe this dual “vertical” market and “horizontal” product-oriented approach distinguishes us in the marketplace by allowing us to quickly identify trends and customer growth opportunities and deploy resources accordingly.

We believe our geographic footprint and portfolio of strong brands provides a platform from which to extend our leading market positions. Our expansive global footprint comprised of 52 manufacturing facilities, 20 service sales/engineering centers and approximately 9,300 employees enables us to serve global customers on a local basis. In 2018, approximately 49% of our revenues on a pro forma basis giving effect to the Fortive Transaction were generated from customers in North America, 32% were generated in Europe and 17% in Asia Pacific and the rest of the world. The diversification of our revenues on a geographical, end-market, business mix and customer basis are outlined below for the 2018 fiscal year.

In this Annual Report on Form 10-K, the terms “Altra”, “Altra Industrial Motion,” “the Company,” “we,” “us” and “our” refer Altra Industrial Motion Corp. and its subsidiaries, except where the context otherwise requires or indicates.

Our internet address is www.altramotion.com. By following the link “Investor Relations” and then “Financials” and then “SEC Filings” on our internet website, we make available, free of charge, our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K, and amendments to those reports filed or

furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) as soon as reasonably practicable after such forms are filed with or furnished to the Securities and Exchange Commission. We are not including information contained on or available through our website as a part of, or incorporating such information by reference into, this Annual Report on Form 10-K.

History and Acquisitions

Formation of Altra

Although Altra was incorporated in Delaware in 2004, much of our current business has its roots with the prior acquisition by Colfax Corporation, or Colfax, of the MPT (mechanical power transmission) group of Zurn Technologies, Inc. in December 1996. Colfax subsequently acquired Industrial Clutch Corp. in May 1997, Nuttall Gear Corp. in July 1997 and the Boston Gear and Delroyd Worm Gear brands in August 1997 as part of Colfax’s acquisition of Imo Industries, Inc. In February 2000, Colfax acquired Warner Electric, Inc., which sold products under the Warner Electric, Formsprag Clutch, Stieber, and Wichita Clutch brands. Colfax formed Power Transmission Holding, LLC or “PTH” in June 2004 to serve as a holding company for all of these power transmission businesses. Boston Gear was established in 1877, Warner Electric, Inc. in 1927, and Wichita Clutch in 1949.

On November 30, 2004, we acquired our original core business through the acquisition of PTH from Colfax. We refer to this transaction as the PTH Acquisition.

On October 22, 2004, The Kilian Company, or Kilian, a company formed at the direction of Genstar Capital, then the largest stockholder of Altra, acquired Kilian Manufacturing Corporation from Timken U.S. Corporation. At the completion of the PTH Acquisition, (i) all of the outstanding shares of Kilian capital stock were exchanged for shares of our capital stock and (ii) Kilian and its subsidiaries were transferred to our former wholly owned subsidiary Altra Power Transmission, Inc.

Recent Acquisitions and Transactions

On November 22, 2013, we changed our legal corporate name from Altra Holdings, Inc. to Altra Industrial Motion Corp.

On December 17, 2013, we acquired all of the issued and outstanding shares of Svendborg Brakes A/S and S.B. Patent Holding ApS (together “Svendborg”). Svendborg is a leading global manufacturer of premium quality caliper brakes.

On July 1, 2014, we acquired all of the issued and outstanding shares of Guardian Ind., Inc., now known as Guardian Couplings LLC or Guardian Couplings. Guardian Couplings is a manufacturer and supplier of flywheel, motion control and general industrial couplings.

On December 31, 2014, Altra Power Transmission, Inc., our former wholly owned subsidiary, was merged into Altra Industrial Motion Corp.

On December 30, 2016, we acquired the shares and certain assets and liabilities of the Stromag business from GKN plc. Stromag is a leading global manufacturer of highly engineered clutches and brakes, couplings, and limit switches for use in a variety of end markets including energy, metals and material handling. We refer to this transaction as the Stromag Acquisition.

On October 1, 2018 (the “A&S Closing Date”), Altra and Fortive Corporation (“Fortive”) consummated the combination of Altra with four operating companies from Fortive’s Automation & Specialty platform (excluding Fortive’s Hengstler and Dynapar businesses) (the “A&S Business”). The A&S Business, consisting of four key brands, Kollmorgen, Portescap, Thomson and Jacobs Vehicle Systems, designs, manufactures, markets and sells electromechanical and electronic motion control products, including standard and custom motors, drives and controls; linear motion systems, ball screws, linear bearings, clutches/brakes, linear actuators and mechanical components; and through Jacobs Vehicle Systems, supplemental braking systems for commercial vehicles.

In accordance with the terms and conditions of an Agreement and Plan of Merger and Reorganization (the “Merger Agreement”), dated March 7, 2018, among Altra, Fortive, McHale Acquisition Corp. (“Merger Sub”) and Stevens Holding Company, Inc. (“Stevens Holding”), and a Separation and Distribution Agreement, dated March 7, 2018, among Altra, Fortive and Stevens Holding (the “Distribution Agreement”), (1) Fortive transferred certain assets, liabilities and entities constituting a portion of the A&S Business to Stevens Holding, (2) Fortive distributed to its stockholders all of the issued and outstanding shares of Stevens Holding common stock held by Fortive by way of an exchange offer (the “Distribution”) and (3) Merger Sub merged with and into Stevens Holding and Stevens Holding became a wholly-owned subsidiary of Altra, and the issued and outstanding shares of Stevens Holding common stock

converted into shares of Altra common stock (the “Merger”). In addition, pursuant to the Merger Agreement, prior to the effective time of the Merger, Fortive transferred certain non-U.S. assets, liabilities and entities constituting the remaining portion of the A&S Business to certain subsidiaries of Altra, and the Altra subsidiaries assumed substantially all of the liabilities associated with the transferred assets (the “Direct Sales”) (all of the foregoing, collectively, the “Fortive Transaction”). Upon consummation of the Fortive Transaction, the shares of Stevens Holding common stock then outstanding were automatically converted into the right to receive 35.0 million shares of Altra common stock, which were issued by Altra on the Closing Date, and represented approximately 54% of the outstanding shares of Altra common stock, together with cash in lieu of fractional shares. Altra’s pre-Merger shareholders continued to hold the remaining approximately 46% of the outstanding shares of Altra common stock.

The aggregate purchase price for the A&S Business of approximately \$2,855.7 million, subject to certain post-closing adjustments, consisted of \$1,400 million of cash and debt instruments transferred to Fortive and shares of Altra common stock received by Fortive shareholders valued at approximately \$1,455.7 million. The value of the common stock was based on the closing stock price on the last trade date prior to the A&S Closing Date of \$41.59. The initial accounting for the Fortive Transaction (including the allocation of the purchase price to acquired assets and liabilities) is not complete. The Fortive Transaction was consummated on October 1, 2018 and, accordingly, the results of operations of the A&S Business are included in our operating results from October 1, 2018 onward.

In connection with the Fortive Transaction, certain additional agreements were entered into, including, among others, an Employee Matters Agreement, dated March 7, 2018, among Altra, Fortive and Stevens Holding (the “Employee Matters Agreement”), a Tax Matters Agreement (the “Tax Matters Agreement”), a Transition Services Agreement (the “Transition Services Agreement”), in each case, dated October 1, 2018, among Altra, Fortive, and Stevens Holding, and an Intellectual Property Cross-License Agreement, dated October 1, 2018, between Altra and Fortive. In addition, effective October 1, 2018, we filed a Certificate of Amendment to our Articles of Incorporation to increase the number of authorized shares of Altra common stock from 90.0 million shares to 120.0 million shares.

Our Industry

Based on industry data provided by the Power Transmission Distributors Association in collaboration with MDM Analytics and Channel Marketing Group, we estimate that global industrial power transmission motion control products generated revenues of approximately \$200 billion in 2018. These products are collectively used to generate, transmit, control and transform mechanical energy. Altra participates in portions of the motor, control, linear, gearing, clutch, brake, coupling, belted drive, and non-industrial bearing segments.

The global power transmission motion control industry in which we compete is highly fragmented, with over 1,000 small manufacturers and relatively few players of scale. While smaller companies tend to focus on regional niche markets with narrow product lines, larger players that generate annual revenue of over \$100 million generally offer a broader range of products and provide global sales and service capabilities.

Buyers of power transmission motion control products tend to be broadly diversified and are often either OEMs, end users, or systems integrators operating across many end markets, including manufacturing, factory automation, aerospace and defense, food and beverage, metals and mining, energy, medical, robotics and other markets. These customers typically place a premium on factors such as quality and reliability, performance, pricing, distribution channel access, technology and innovation, application engineering and customer support, breadth of offering and brand name recognition. We believe the most successful industry participants are those that leverage their engineering expertise and specific industry knowledge, reputation for quality and reliability and technical support capabilities to maintain attractive margins and gain market share.

The global power transmission motion control market is driven by general macro-economic growth and secular trends such as the increasing concern for industrial safety and rising demand for motion control in the medical, food and beverage, electrical, automotive and machinery industries. The rapid pace of globalization and developments in the automation sector have also supported growth. Asia Pacific is the fastest-growing region for motion control products due to increasing demand for automation in manufacturing facilities and rapid industrial expansion in countries like China and India. Motion control products tend to be higher-margin than power transmission products due to a greater use of technology and leverage in end markets with more attractive secular trends.

Our Business Strategy

Establish and Capitalize on the Altra Business System to Drive Margin Expansion and Organic Growth. We believe we can continue to improve profitability through cost control, overhead rationalization, global process optimization, expanded implementation of lean manufacturing techniques and strategic pricing initiatives. Our operating plan, executed through our manufacturing centers of excellence, provides additional opportunities to consolidate purchasing processes and reduce costs by sharing best practices across geographies and business lines. We are in the process of establishing a new optimized Altra Business System (ABS) by merging and applying Fortive's signature Fortive Business System (FBS) and the Altra Operational Excellence program across our combined business to generate cost savings and efficiency opportunities. The ABS will incorporate a management philosophy with integrated practices that focus on employing best-in-class tools, knowledge and expertise to drive continuous improvement in lean manufacturing, leadership and growth objectives, further enhancing our ability to achieve our aggressive strategic objectives. We are applying the concepts of both the FBS and Altra Operational Excellence programs to all areas of our combined business, including how we grow, how we create new products and how we develop new people to ultimately drive strong results.

Collaborate with Customers to Create New Opportunities. We focus on developing new products across our business in direct response to customer requirements. Our extensive application-engineering know-how drives both new and repeat revenue opportunities, supported by a substantiated history of innovation, with over 800 patents granted and pending worldwide. We intend to continue to drive organic growth by investing in new technologies and manufacturing techniques to attain and sustain competitive leadership in the industries we serve. For example, we intend to capitalize on the emerging trend of combining mechanical components, electrical components, software and communications capabilities into "smart products" to address customer needs related to "Industry 4.0" and the "Internet of Things".

Leverage Global Business Presence and Shared Services. We seek to foster the sharing of best practices throughout our organization, challenging our business leaders to work together to identify new markets, potential cross-selling opportunities and increase penetration with existing customers. The Acquisition of the Fortive A&S Business enhanced our ability to reach customers globally, which we expect will help facilitate our entry into new markets, harness existing sales channels and build familiarity with customer needs. By leveraging our global presence, our businesses can work together to identify cost-saving opportunities and improve our overall supply chain management. We believe that our business will ultimately receive the benefits of expanded customer service operations, cohesive marketing efforts and consolidated corporate support functions, increasing efficiency and reducing costs.

Focus on Key Niche End Markets to Increase Organic Growth. We emphasize strategic marketing to focus on new growth opportunities in key end-user and OEM markets. Through a systematic process that leverages our core brands and products, we seek to identify attractive markets and product niches, collect customer and industry data, identify market drivers, tailor product and service solutions to specific customer requirements and deploy resources to gain market share and drive future revenue growth.

Attract and Retain Talented Associates. We believe that our team of talented employees, united by a common culture in pursuit of continuous improvement, provides a significant competitive advantage. We will seek to continue to attract, develop and retain world-class leaders and associates globally and to drive their engagement with our customer-centric approach.

Realize Synergies by Leveraging Core Competencies. Through the Fortive Transaction, we estimate there to be up to approximately \$52 million in run rate synergies able to be realized over the next four years. We expect to realize approximately \$23 million of these synergies within two years of closing the Fortive Transaction, and that in order to achieve these synergies, we expect to incur approximately \$24 million of non-recurring costs during the first three years following the consummation of the Fortive Transaction. We believe that our supply chain expertise, value engineering capabilities, facility consolidation experience and internalization of the Fortive Business System will help us optimize our business processes and realize these synergies.

Our Strengths

Superior financial profile with high margins and strong cash flow generation. We have an attractive financial profile highlighted by our diversified revenue stream across products and end markets, high margin profile and substantial cash flow. Our strong cash flow generation is attributable to attractive gross margins, a high degree of operational leverage across our selling, general and administrative expenses and minimal capital expenditures. For example, as a result of the acquisition of the A&S Business, our revenues for the three-month period ending December 31, 2018 grew by 105% from \$228.5 million to \$469.2 million.

Our flexible cost structure and diversified end market and geographic exposure have allowed us to perform well throughout economic cycles. From 2008 through 2010, our business was able to generate higher cash flow through the strict management of working capital, enabling us to reduce our indebtedness and maintain a net debt to adjusted EBITDA leverage ratio within our targeted range of 2.0x to 3.0x. We believe that after the acquisition of the A&S Business, our business has the capability to support growth while also taking advantage of operating leverage and the benefits of our cost rationalization initiatives, all of which we believe will allow us to continue delivering sustainably strong cash flow. As a result, over time we intend to manage our leverage level to below 3.0x.

Scale and breadth combined with leading brands, technology and market position. We are a global player with significant scale, technological leadership and a broad product offering supported by leading brands, factors which we expect will contribute to a market share advantage over our competitors. The Acquisition of the A&S Business moved our business up the power transmission, motion control and automation technology spectrum, increasing our presence in highly engineered products. These engineered products, although higher margin and exposed to high growth applications, are simultaneously complementary to our portfolio. Our engineered servo, stepper and specialty miniature motors, drives and controls, and linear automation systems capabilities will enable us to drive innovation across our offering and expand solutions for existing customers. Similarly, the combination of the JVS suite of engine braking products with our already strong clutch brake offering expands our addressable market and provides our customers with a unique portfolio of braking solutions.

Broad geographic footprint and global reach. The capabilities and scale of our Company, especially after the acquisition of the A&S Business, provide a broader, more global platform from which to drive growth. We are able to leverage our expansive global footprint comprised of 52 manufacturing facilities, 20 service sales/engineering centers and approximately 9,300 employees worldwide to serve our global customers with local resources. While we expect to build on our leading market positions and strong brands in North America, our broadened global platform also positions us to capitalize on key growth opportunities in Europe and especially in emerging markets.

Diversified end-markets provide stability. With no end market comprising more than approximately 16% of our total revenue for the fiscal year ended December 31, 2018 on a pro forma basis giving effect to the Fortive Transaction, our end-market exposure is diversified, which we expect will provide stability to our revenue streams and help to mitigate potential volatility in any particular industry. We believe that the acquisition of the A&S Business significantly expands our total addressable market, particularly in higher growth, higher margin end-markets like medical, advanced material handling, factory automation, food and beverage and robotics. The exposure to these attractive new end markets helps to diversify our relative potential exposure to more cyclical end markets like mining, renewable energy and oil & gas.

Our business is also geographically diversified, with approximately 49% of pro forma revenue giving effect to the Fortive Transaction generated outside of North America in the year ended December 31, 2018. Finally, our products often facilitate movement which subjects them to wear and requires their periodic replacement. Our large installed base of products generates significant aftermarket replacement demand, which we estimate accounted for approximately 32% of revenue for the year ended December 31, 2018 on a pro forma basis giving effect to the Fortive Transaction. Given the critical nature of many of our products and often high switching costs for our customers, we believe that this base of recurring revenue is stable.

Customer diversification with long-standing customer and distributor relationships. We have a strong, diversified customer base of over 1,000 OEMs and leading electro mechanical power transmission motion control distributors which market our products via a diversified network of over 3,000 outlets globally. For the fiscal year ended December 31, 2018, there was no meaningful customer concentration among either our OEMs or distributor customers, the largest of which accounts for less than 5% of total revenue for the fiscal year ended December 31, 2018 on a pro forma basis giving effect to the Fortive Transaction. Some of our largest OEM customers include Cummins, Daimler AG, General Electric, John Deere, Komatsu, and Siemens, all of whom we have had relationships with for decades. We believe that these deep relationships exhibit our commitment to high levels of product quality and service, resulting in customer satisfaction and ultimately, retention.

Our scale, expansive product offering and end-user preference for our products make our product portfolio attractive to both large, multi-branch distributors and regional, independent distributors. We often participate in lengthy design and qualification processes with key customers for crucial components which ultimately become “spec’d-in” to our customers’ own designs. Further, many of our products involve a large number of unique parts, are delivered in small order quantities with short lead times and require varying levels of technical support, all of which help to drive high switching costs and generate significant recurring opportunities with repeat customers.

Aftermarket sales supported by large installed base. On average, our brands have been in operation for over 85 years and we believe we benefit from one of the largest installed customer bases in the industry. The moving, wearing nature of our products necessitates regular replacement and our large installed base of products generates significant aftermarket replacement demand. This has created a recurring revenue stream from a diversified group of end-user customers. For the fiscal year ended December 31, 2018, we estimate that approximately 32% of our revenues on a pro forma basis giving effect to the Fortive Transaction were derived from aftermarket sales.

Experienced management team. We are led by a senior management team with significant industry, manufacturing and acquisition integration experience which has implemented various initiatives that have contributed and will continue to contribute, to our operational and financial performance. The management team combines talent from both Altra and the A&S Business, with significant experience in power transmission, motion control and automation. The combined management team has a clearly defined, executable plan to integrate and rationalize operations to realize the benefits of the Fortive Transaction, while leveraging the experience from the three integrations Altra has successfully completed in the last five years, including the integration of new product offerings to the portfolio and driving operational improvements.

Business Segments

Our company consists of two business segments: Power Transmission Technologies (“PTT”) and Automation & Specialty (“A&S”).

• **Power Transmission Technologies - PTT.** This segment includes the following key product offerings:

o **Couplings, Clutches & Brakes.** Couplings are the interfaces which enable power to be transmitted from one shaft to another. Our various coupling products include gear couplings, high performance diaphragm and disc couplings, elastomeric couplings, miniature and precision couplings, as well as universal joints, mill spindles

and shaft locking devices. These products are used in conveyor, energy, marine, medical, metals, mining, and other industrial machinery applications. Our key brands which provide couplings include Ameridrives, Bibby, Guardian, Huco, Lamiflex, Stromag and TB Wood's. Clutches are devices which use mechanical, hydraulic, pneumatic, or friction connections to facilitate the engagement or disengagement of at least two rotating parts. These products are used in aerospace and defense, conveyor, energy, mining and other industrial machinery applications. Brakes are a combination of interacting parts that work to slow or stop moving machine parts. These products are used in heavy-duty industrial, mining, metals and energy applications. Our key brands which provide clutches and brakes include Industrial Clutch, Formsprag, Stieber, Stromag, Svendborg, Twiflex and Wichita.

- oElectromagnetic Clutches & Brakes. Electromagnetic clutches and brakes use electromagnetic friction connections to slow, stop, engage, or disengage equipment. These products are used in baggage handling, elevator, forklift, material handling, medical, lawn mower, mobile off-highway and other niche applications. Our key brands which provide electromagnetic clutches and brakes include Inertia Dynamics, Matrix, Stromag and Warner Electric.

- oGearing. Gears reduce the output speed and increase the torque of an electric motor or engine to the level required to drive a particular piece of equipment. These products are used in various industrial, material handling, mixing, transportation, food processing and other specialty niche applications. Our key brands which provide gears include Bauer Gear Motor, Boston Gear, Delroyd, and Nuttall.

•Automation and Specialty – A&S. Our Automation and Specialty segment consists of four key brands:

- oKollmorgen: Provides rotary precision motion solutions, including servo motors, stepper motors, high performance electronic drives and motion controllers and related software, and precision linear actuators. These products are used in advanced material handling, aerospace and defense, factory automation, medical, packaging, printing, semiconductor, robotic and other applications.

- oPortescap: Provides high-efficiency miniature motors and motion control products, including brush and brushless DC motors, can stack motors and disc magnet motors. These products are used in medical, industrial power tool and general industrial equipment applications.

- o Thomson: Provides systems that enable and support the transition of rotary motion to linear motion. Products include linear bearings, guides, glides, lead and ball screws, industrial linear actuators, resolvers and inductors. These products are used in factory automation, medical, mobile off-highway, material handling, food processing and other niche applications.

- o

Jacobs Vehicle Systems (JVS): Provides heavy-duty diesel engine brake systems and valve actuation mechanisms for the commercial vehicle market, including compression release, bleeder and exhaust brakes, including the “Jake Brake” engine braking system. These products are primarily used in heavy duty Class 8 truck applications.

See Note 16 to the consolidated financial statements for financial information about our segments.

Research and Development and Product Engineering

We closely integrate new product development with marketing, manufacturing and product engineering in meeting the needs of our customers and addressing emerging trends. We have global product engineering teams that work to enhance our existing products and develop new product applications for our growing base of customers that require custom solutions. We believe these capabilities provide a significant competitive advantage in the development of high quality power transmission, motion control and automation products. Our product engineering teams focus on:

- developing new products;
- redesigning existing product lines to enhance functionality, effectiveness, ease of use and reliability; and
- lowering the cost of manufacturing of our existing products..

Our continued investment in new product development is intended to help drive customer growth as we address key customer needs.

Sales and Marketing

We sell our products in over 70 countries to over 1,000 direct OEM customers and over 3,000 distributor outlets. We offer our products through our direct sales force comprised of approximately 350 company-employed sales engineers as well as a relatively small number of independent sales representatives. Our worldwide sales and distribution presence enables us to provide timely and responsive technical support and service to our customers, many of which operate globally, and to capitalize on growth opportunities in both developed and emerging markets around the world.

Our operating companies employ an integrated sales and marketing strategy concentrated on specific battlegrounds – the intersection of key industries, product lines and geographic regions where we believe we can offer differentiated solutions to our customers. We believe this focus on battlegrounds distinguishes us in the marketplace allowing us to quickly identify trends and customer growth opportunities and deploy resources accordingly. Within our battlegrounds, we market to OEMs, encouraging them to incorporate our products into their equipment designs, to distributors and to end-users, helping to foster brand preference. With this strategy, we are able to leverage our market experience, product technology and global reach to sell power transmission, motion control and automation solutions for a host of focused applications.

Distribution

Our products are either incorporated into end products sold by OEMs or sold through industrial distributors as aftermarket products to end users and smaller OEMs. We operate a geographically diversified business. For the year ended December 31, 2018 on a pro forma basis giving effect to the Fortive Transaction, we derived approximately 51% of our net sales from customers in North America, 32% from customers in Europe and 17% from customers in Asia and the rest of the world. Our global customer base is served by an extensive global sales network comprised of our sales engineers as well as our network of over 3,000 distributor outlets.

Rather than serving as passive conduits for delivery of product, our industrial and high-tech distributors can be active participants in influencing product purchasing decisions. In addition, distributors play a critical role through stocking inventory of our products, which amplifies the accessibility of our products to aftermarket buyers. It is for this reason that distributor partner relationships are an important component of our route-to-market strategy. We enjoy strong established relationships with the leading distributors as well as a broad, diversified base of specialty and regional

distributors.

Competition

While we believe that many of our businesses are leaders in many of our served markets, we operate in highly fragmented and very competitive industries within the power transmission motion control market. Some of our competitors have achieved substantially more market penetration in certain of the markets in which we operate, such as helical gear drives or standard servo motors, and some of our competitors are larger than us and have greater financial and other resources. In addition, with respect to certain of our products, we compete with divisions of our OEM customers. Competition in our business lines is based on a number of considerations including quality, reliability, performance, pricing, delivery speed, technology and innovation, design and application engineering support and brand name recognition. Our customers increasingly demand a broad product range and we must continue to develop our expertise in order to manufacture and market these products successfully. To remain competitive, regular investment in manufacturing, customer service and support, marketing, sales, research and development and intellectual property protection is required. We may have to adjust the prices of some of our products to stay competitive. In addition, some of our larger, more sophisticated customers are attempting to reduce the number of vendors from which they purchase in order to increase their efficiency. There is substantial and continuing pressure on major OEMs and larger distributors to reduce costs, including the cost of products purchased from outside suppliers such as us. As a result of cost pressures from our customers, our ability to compete depends in part on our ability to generate production cost savings and, in turn, find reliable, cost-effective outside component suppliers or manufacturers for our products. See “Risk Factors — Risks Related to our Business — We operate in the highly competitive mechanical power transmission motion control industry and if we are not able to compete successfully our business may be significantly harmed.”

Intellectual Property

We rely on a combination of patents, trademarks, copyright, and trade secret laws in the United States and other jurisdictions, as well as employee and third-party non-disclosure agreements, license arrangements, and domain name registrations to protect our intellectual property. We sell our products under a number of registered and unregistered trademarks, which we believe are widely recognized in the PTMC industry. Although in aggregate our intellectual property is important to our operations, we do not believe any single patent, trademark or trade name is material to our business as a whole with the exception of certain trademarks associated with our Bauer, Boston Gear, Jacobs Vehicle Systems, Kollmorgen, Portescap, Stromag, Svendborg, TB Wood's, Thomson and Warner Electric brands. Any issued patents that cover our proprietary technology and any of our other intellectual property rights may not provide us with adequate protection or be commercially beneficial to us and, patents applied for, may not be issued. The issuance of a patent is not conclusive as to its validity or its enforceability. Competitors may also be able to design around our patents. If we are unable to protect our patented technologies, our competitors could commercialize technologies or products which are substantially similar to ours.

With respect to proprietary know-how, we rely on trade secret laws in the United States and other jurisdictions and on confidentiality agreements. Monitoring the unauthorized use of our technology is difficult and the steps we have taken may not prevent unauthorized use of our technology. The disclosure or misappropriation of our intellectual property could harm our ability to protect our rights and our competitive position.

Some of our registered and unregistered trademarks include: Warner Electric, Boston Gear, TB Wood's, Kilian, Nuttall Gear, Ameridrives, Wichita Clutch, Formsprag, Bibby Transmissions, Stieber, Matrix, Inertia Dynamics, Twiflex, Industrial Clutch, Huco Dynatork, Marland, Delroyd, Warner Linear, Bauer Gear Motor, PowerFlex, Svendborg Brakes, Guardian Couplings, Kollmorgen, Thomson, Portescap, Jacobs Vehicle Systems, Jake Brake, Deltran, Delevan and Stromag. From time to time, Altra engages in litigation to protect its intellectual property rights.

Employees

As of December 31, 2018, we employed approximately 9,300 people on a full-time basis, of whom approximately 3,700 were employed in the United States and approximately 5,600 were employed outside of the United States. Of our United States employees, approximately 665 were hourly-rated, unionized employees. Outside the United States, we have government-mandated collective bargaining arrangements and union contracts in certain countries, particularly in Europe where certain of our employees are represented by unions and/or works councils. The Company believes that its relationship with employees is good. See “Risk Factors — Risks Related to Our Business and Industry — We may be subject to work stoppages at our facilities, or our customers may be subjected to work stoppages, which could seriously impact our operations and the profitability of our business.”

Suppliers and Raw Materials

We obtain raw materials, component parts and supplies from a variety of sources, generally from more than one supplier. Our suppliers and sources of raw materials are based in both the United States and other countries and we believe that our sources of raw materials are adequate for our needs for the foreseeable future. We do not believe the loss of any one supplier would have a material

adverse effect on our business or results of operations. Our manufacturing operations employ a wide variety of raw materials, including aluminum, copper, electronic components, plastics, rare-earth magnets, and steel. We generally purchase our materials on the open market, where certain commodities such as steel and copper have fluctuated in price significantly in recent years. We have not experienced any significant shortage of our key materials and have not historically engaged in hedging transactions for commodity suppliers.

Our ability, including manufacturing or distribution capabilities, and that of our suppliers, business partners and contract manufacturers, to make, move and sell products is critical to our success. Damage or disruption to our or their manufacturing or distribution capabilities due to weather, natural disaster, fire or explosion, terrorism, pandemics, strikes, repairs or enhancements at facilities, excessive demand, raw material shortages, or other reasons, could impair our ability, and that of our suppliers, to manufacture or sell our products. Failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, could adversely affect our business, financial condition and results of operations, as well as require additional resources to restore our supply chain.

Seasonality

General economic conditions impact our business and financial results, and certain of our businesses experience seasonal and other trends related to the industries and end markets that they serve. For example, sales to OEMs are often stronger immediately preceding and following the launch of new products. In addition, we experience seasonality in our turf and garden business. As our large OEM customers prepare for the spring season, our shipments generally start increasing in December, peak in February and March, and begin to decline in April and May. This allows our customers to have inventory in place for the peak consumer purchasing periods for turf and garden products. The June-through-November period is typically the low season for us and our customers in the turf and garden market. Seasonality is also affected by weather and the level of housing starts. However, as a whole, we are not subject to material seasonality.

Regulatory Matters

We face extensive government regulation both within and outside the United States relating to the development, manufacture, marketing, sale and distribution of our products. The following sections describe certain significant regulations to which our businesses are subject. There may be additional regulations that apply to our businesses.

Environmental Laws and Regulations

Our operations and properties are subject to laws and regulations relating to environmental protection, including those governing air emissions, water discharges and waste management, and workplace health and safety. See “Risk Factors — Risks Related to Our Business and Industry — We are subject to environmental laws that could impose significant costs on us and the failure to comply with such laws could subject us to sanctions and material fines and expenses.”

Export/Import Compliance

We are required to comply with various U.S. export/import control and economic sanctions laws, including:

- the International Traffic in Arms Regulations administered by the U.S. Department of State, Directorate of Defense Trade Controls, which, among other things, impose license requirements on the export from the United States of defense articles and defense services (which are items specifically designed or adapted for a military application and/or listed on the United States Munitions List);

- the Export Administration Regulations administered by the U.S. Department of Commerce, Bureau of Industry and Security, which, among other things, impose licensing requirements on the export or reexport of certain dual-use goods, technology and software (which are items that potentially have both commercial and military applications);

- the regulations administered by the U.S. Department of Treasury, Office of Foreign Assets Control, which implement economic sanctions imposed against designated countries, governments and persons based on United States foreign policy and national security considerations; and

- the import regulatory activities of the U.S. Customs and Border Protection.

Other nations' governments have implemented similar export and import control regulations, which may affect our operations or transactions subject to their jurisdictions. See "Risk Factors – Risks Related to Our Business and Industry – Changes to U.S. trade policy, tariff and import/export regulations could adversely affect our business, operating results and financial condition."

Working Capital

We maintain an adequate level of working capital to support the needs of our businesses. There are no unusual industry practices or requirements relating to working capital items. In addition, we believe our sales and payment terms are generally similar to those of our competitors.

Backlog

Our unfilled product orders were approximately \$485 million and \$215 million as of December 31, 2018 and 2017, respectively. We expect that a large majority of the unfilled orders as of December 31, 2018 will have been delivered to customers within three to four months of such date. Given the relatively short delivery periods and rapid inventory turnover that are characteristic of most of the our products and the shortening of product life cycles, we believe that backlog is indicative of short-term revenue performance, but is not necessarily a reliable indicator of medium-term or long-term revenue performance.

Government Contracts

Although the substantial majority of our revenues in 2018 on a pro forma basis giving effect to the Fortive Transaction were from customers other than governmental entities, we do have agreements relating to the sale of products to government entities. As a result, we are subject to various statutes and regulations that apply to companies doing business with governments and government-owned entities.

International Operations

Altra's products are available worldwide, and our principal markets outside the United States are in Europe and Asia. We also have operations around the world, and this geographic diversity allows us to draw on the skills of a worldwide workforce, provide greater stability to our operations, drive economies of scale, provide revenue streams that may help offset economic trends that are specific to individual economies and offer an opportunity to access new markets for products. In addition, we believe that our future growth depends in part on our ability to continue developing products and sales models that successfully target high growth markets.

Annual revenue derived from customers outside the United States (based on geographic destination) as a percentage of total annual revenue on a pro forma basis giving effect to the Fortive Transaction was 49% in 2018 and 48% in 2017.

The manner in which our products are sold outside the United States differs by business and by region. Most of our sales in non-U.S. markets are made by its subsidiaries located outside the United States, though we also sell directly from the United States into non-U.S. markets through various representatives and distributors and, in some cases, directly. In countries with low sales volumes, we generally sell through representatives and distributors.

Executive Officers of Registrant

The following sets forth certain information with regard to our executive officers as of March 1, 2019 (ages are as of December 31, 2018):

Carl R. Christenson (age 59) has been our Chief Executive Officer since January 2009, a director since July 2007 and Chairman of the Board since 2014. Prior to his current position, Mr. Christenson served as our President and Chief Operating Officer from January 2005 to December 2008. From 2001 to 2005, Mr. Christenson was the President of Kaydon Bearings, a manufacturer of custom-engineered bearings and a division of Kaydon Corporation. Prior to joining Kaydon, Mr. Christenson held a number of management positions at TB Wood's Incorporated and several positions at the Torrington Company. Mr. Christenson holds a M.S. and B.S. degree in Mechanical Engineering from the University of Massachusetts and an M.B.A. from Rensselaer Polytechnic.

Christian Storch (age 59) has been our Chief Financial Officer since December 2007. From 2001 to 2007, Mr. Storch was the Vice President and Chief Financial Officer at Standex International Corporation. Mr. Storch also served on the Board of Directors of Standex International from October 2004 to December 2007. Mr. Storch also served as Standex International's Treasurer from 2003 to April 2006 and Manager of Corporate Audit and Assurance Services from July 1999 to 2001. Prior to Standex International,

Mr. Storch was a Divisional Financial Director and Corporate Controller at Vossloh AG, a publicly held German transport technology company. Mr. Storch has also previously served as an Audit Manager with Deloitte & Touche, LLP. Mr. Storch holds a degree in business administration from the University of Passau, Germany.

Glenn Deegan (age 52) has been our Vice President, Legal and Human Resources, General Counsel and Secretary since June 2009. Prior to his current position, Mr. Deegan served as our General Counsel and Secretary since September 2008. From March 2007 to August 2008, Mr. Deegan served as Vice President, General Counsel and Secretary of Averion International Corp., a publicly held global provider of clinical research services. Prior to Averion, from June 2001 to March 2007, Mr. Deegan served as Director of Legal Affairs and then as Vice President, General Counsel and Secretary of MacroChem Corporation, a publicly held specialty pharmaceutical company. From 1999 to 2001, Mr. Deegan served as Assistant General Counsel of Summit Technology, Inc., a publicly held manufacturer of ophthalmic laser systems. Mr. Deegan previously spent over six years engaged in the private practice of law and also served as law clerk to the Honorable Francis J. Boyle in the United States District Court for the District of Rhode Island. Mr. Deegan holds a B.S. from Providence College and a J.D. from Boston College.

Gerald Ferris (age 69) has been our Vice President of Global Sales since May 2007 and held the same position with Power Transmission Holdings, LLC, our predecessor, since March 2002. He is responsible for the worldwide sales of our broad product platform. Mr. Ferris joined our predecessor in 1978 and since joining has held various positions. He became the Vice President of Sales for Boston Gear in 1991. Mr. Ferris holds a B.A. degree in Political Science from Stonehill College.

Todd B. Patriacca (age 49) has been our Vice President of Finance, Corporate Controller and Treasurer since February 2010. Prior to his current position, Mr. Patriacca served as our Vice President of Finance, Corporate Controller and Assistant Treasurer since October 2008 and previous to that, as Vice President of Finance and Corporate Controller since May 2007 and as Corporate Controller since May 2005. Prior to joining us, Mr. Patriacca was Corporate Finance Manager at MKS Instrument Inc., a publicly held semi-conductor equipment manufacturer since March 2002. Prior to MKS, Mr. Patriacca spent over ten years at Arthur Andersen LLP in the Assurance Advisory practice. Mr. Patriacca is a Certified Public Accountant and holds a B.A. in History from Colby College and an M.B.A. and an M.S. in Accounting from Northeastern University.

Craig Schuele (age 55) has been our Vice President of Marketing and Business Development since May 2007 and held the same position with our predecessor since July 2004. He is responsible for global marketing as well as coordinating Altra's merger and acquisition activity. Prior to his current position, Mr. Schuele has been Vice President of Marketing since March 2002, and previous to that he was a Director of Marketing. Mr. Schuele joined our predecessor in 1986 and holds a B.S. degree in Management from Rhode Island College.

Item 1A. Risk Factors

Risks Related to our Business and Industry

We operate in the highly competitive power transmission and motion control industries and if we are not able to compete successfully our business may be significantly harmed.

We operate in highly fragmented and very competitive markets in the power transmission and motion control industries. Some of our competitors have achieved substantially more market penetration in certain of the markets in which we operate, and some of our competitors are larger than us and have greater financial and other resources. With respect to certain of our products, we compete with divisions of our original equipment manufacturer customers. Competition in our business lines is based on a number of considerations, including quality, reliability, pricing, availability, and design and application engineering support. Our customers increasingly demand a broad product range and we must continue to develop our expertise in order to manufacture and market these products successfully. To remain competitive, regular investment in manufacturing, customer service and support, marketing, sales, research and development and intellectual property protection is required. In the future, we may not have sufficient resources to continue to make such investments and may not be able to maintain a competitive position within each of the markets we serve. We may have to adjust the prices of some of our products to stay competitive.

Additionally, some of our larger, more sophisticated customers are attempting to reduce the number of vendors from which they purchase in order to increase their efficiency. If we are not selected to become one of these preferred providers, we may lose market share in some of the markets in which we compete.

There is substantial and continuing pressure on major original equipment manufacturers and larger distributors to reduce costs, including the cost of products purchased from outside suppliers. As a result of cost pressures from customers, our ability to compete depends in part on their ability to generate production cost savings and, in turn, to find reliable, cost effective outside

suppliers to source components or manufacture their products. If we are unable to generate sufficient cost savings in the future to offset price reductions, then our gross margin could be materially adversely affected.

Global economic changes or continued volatility and disruption in global financial markets could significantly impact our customers and suppliers, weaken the markets we serve and harm our operations and financial performance.

Global economic and financial market conditions have been weak and/or volatile in recent years, and those conditions have adversely affected our business operations and are expected to continue to adversely affect our business. A weakening of current conditions or a future downturn may adversely affect our future results of operations and financial condition. Weak, challenging or volatile economic conditions in the end markets, businesses or geographic areas in which we sell our products could reduce demand for products and result in a decrease in sales volume for a prolonged period of time, which would have a negative impact on our future results of operations.

For example, with reports of slowing growth in China, questions about the health of the economy in the European Union, and continued debate around the potential impact of Brexit, our increased exposure to these markets with the Fortive Transaction, the Bauer Acquisition, the Svendborg Acquisition and the Stromag Acquisition, could have a significant negative impact on our future results and operations. Given the significance and widespread nature of these circumstances, the U.S., European, Chinese, and global economies could continue to face significant challenges for an indeterminate period of time.

Our acquisition of businesses, joint ventures and strategic relationships, or our failure to successfully integrate such transactions into our business, could adversely affect our future results and the market price of our common stock.

As part of our growth strategy, we have made and expect to continue to make, acquisitions. Our continued growth may depend on our ability to identify and acquire companies that complement or enhance our business on acceptable terms. We may not be able to identify or complete future acquisitions. We may not be able to integrate successfully our recent acquisitions, or any future acquisitions, operate any acquired companies profitably or realize the potential benefits from these acquisitions.

These acquisitions and strategic relationships involve a number of financial, accounting, managerial, operational, legal, compliance and other risks and challenges, including the following, any of which could adversely affect our future results and the market price of our common stock:

- any acquired business, technology, service or product could under-perform relative to our expectations and the price that we paid for it, or not perform in accordance with our anticipated timetable;

• we may incur or assume significant debt in connection with our acquisitions or strategic relationships;

• acquisitions or strategic relationships could cause our financial results to differ from our own or the investment community's expectations in any given period, or over the long-term;

• pre-closing and post-closing earnings charges could adversely impact operating results in any given period, and the impact may be substantially different from period to period;

• acquisitions or strategic relationships could create demands on our management, operational resources and financial and internal control systems that we are unable to effectively address;

• we could experience difficulty in integrating personnel, operations and financial and other controls and systems and retaining key employees and customers;

• we may be unable to achieve cost savings or other synergies anticipated in connection with an acquisition or strategic relationship;

• we may assume by acquisition or strategic relationship unknown liabilities, known contingent liabilities that become realized, known liabilities that prove greater than anticipated, internal control deficiencies or exposure to regulatory sanctions resulting from the acquired company's activities. The realization of any of these liabilities or deficiencies may increase our expenses, adversely affect our financial position or cause us to fail to meet our public financial reporting obligations;

• in connection with acquisitions, we may enter into post-closing financial arrangements such as purchase price adjustments, earn-out obligations and indemnification obligations, which may have unpredictable financial results;

in connection with acquisitions, we have recorded significant goodwill and other intangible assets on our balance sheet. If we are not able to realize the value of these assets, we may be required to incur charges relating to the impairment of these assets; and

we may have interests that diverge from those of strategic partners and we may not be able to direct the management and operations of the strategic relationship in the manner we believe is most appropriate, exposing us to additional risk.

Our growth could suffer if the markets in which we sell our products and services experience cyclicalities.

Our growth will depend in part on the growth of the markets which we serve and on the U.S. and global economies in general. Some of the markets Altra serves are highly cyclical, such as the metals, mining and energy markets, including oil, gas and renewable energy. The A&S Business serves certain industries that have historically been cyclical and have experienced periodic downturns that have had a material adverse impact on demand for the products that the A&S Business offers. In such an environment, expected cyclical activity or sales may not occur or may be delayed and may result in significant quarter-to-quarter variability in our performance. Any of these factors could adversely affect our business, financial condition and results of operations in any given period.

Changes to U.S. trade policy, tariff and import/export regulations could adversely affect our business, operating results and financial condition.

Changes in U.S. or international social, political, regulatory and economic conditions or in laws and policies governing foreign trade, manufacturing, development and investment in the territories or countries where we currently sell our products or conduct our business, as well as any negative sentiment toward the U.S. as a result of such changes, could adversely affect our business. The U.S. presidential administration has instituted or proposed changes in trade policies that include the negotiation or termination of trade agreements, the imposition of higher tariffs on imports into the United States, economic sanctions on individuals, corporations or countries, and other government regulations affecting trade between the United States and other countries where we conduct our business. These measures could trigger retaliatory actions by affected countries, and certain foreign governments have instituted or are considering imposing trade sanctions on certain U.S. goods. It may be time-consuming and expensive for us to alter our business operations in order to adapt to or comply with any such changes. For example, any resulting increase to the costs of goods imported to the United States could require us to increase our prices to customers, which may reduce demand, or, if we are unable to increase prices, could result in lower margin on our products sold. The new tariffs and other changes in U.S. trade policy have the potential to adversely impact the U.S. economy or certain sectors thereof, our industry and the global demand for our products, and as a result, could have a material adverse effect on our business, operating results and financial condition.

Risks associated with foreign government regulations and U.S. trade policy may affect our foreign operations and sourcing.

Our businesses are subject to risks generally associated with doing business abroad, including foreign governmental regulation in the countries in which several of our manufacturing sources and facilities are located, such as Brazil, Canada, China, Czech Republic, Denmark, France, Germany, India, Mexico, Slovakia, St. Kitts, Sweden, Turkey and the United Kingdom (the "U.K."). We believe that the issue of foreign governmental regulations that would impact our arrangements with our foreign manufacturing sources, is of particular concern with regard to countries such as China due to the less mature nature of the Chinese market economy and the historical involvement of the Chinese government in industry. If regulations were to render the conduct of business in a particular country undesirable or impracticable, if our current foreign manufacturing sources were for any other reason to cease doing business with us, or if we were in a position where we needed to relocate our manufacturing facilities due to regulations or other similar circumstances, such a development could have a material adverse effect on our product sales and on our supply, manufacturing, and distribution channels.

Our business is also subject to risks associated with U.S. and foreign legislation and regulations relating to imports, including quotas, duties, tariffs or taxes, and other charges or restrictions on imports, which could adversely affect our operations and our ability to import products at current or increased levels. We cannot predict whether additional U.S. and foreign customs quotas, duties (including antidumping or countervailing duties), tariffs, taxes or other charges or restrictions, requirements as to where raw materials must be purchased, additional workplace regulations, or other restrictions on our imports will be imposed upon the importation of our products in the future or adversely modified, or what effect such actions would have on our costs of operations. For example, our products that are imported to the United States are subject to U.S. customs duties and, in the ordinary course of our business, we may from time to time be subject to claims by the U.S. Customs Service for duties and other charges. Factors that may influence the modification or imposition of these restrictions include the determination by the U.S. Trade Representative that a country has denied adequate intellectual property rights or fair and equitable market access to U.S. firms that rely on intellectual property, trade disputes between the United States and a country that leads to withdrawal of "most favored nation" status for that country, and economic and

political changes within a country that are viewed unfavorably by the U.S. government. Future quotas, duties, or tariffs may have a material adverse effect on our business, financial condition, and results of operations. Future trade agreements could also provide our competitors with an advantage over us, or increase our costs, either of which could have a material adverse effect on our business, financial condition, and results of operations. Substantially all of our import operations are subject to customs duties imposed by the governments where our production facilities are located on imported products, including raw materials.

Adverse conditions in the credit and capital markets may limit or prevent our and our customers' and suppliers' ability to borrow or raise capital, which could harm our operations and financial performance.

Adverse conditions in the credit and financial markets could prevent us from obtaining financing, if the need arises. Our ability to invest in our global business and refinance or repay maturing debt obligations could require access to the credit and capital markets and sufficient bank credit lines to support cash requirements. If we are unable to access the credit and capital markets on commercially reasonable terms, we could experience a material adverse effect on our business, financial position or results of operations.

Moreover, while currently these conditions have not impaired our ability to access credit markets and finance our operations, there can be no assurance that there will not be a further deterioration in financial markets and confidence in major economies. In addition, a tight credit market may adversely affect the ability of our customers to obtain financing for significant purchases and operations and could result in a decrease in or cancellation of orders for our products and services as well as impact the ability of our customers to make payments. Similarly, a tight credit market may adversely affect our supplier base and increase the potential for one or more of our suppliers to experience financial distress or bankruptcy. These conditions would harm our business by adversely affecting our sales, results of operations, profitability, cash flows, financial condition and long-term anticipated growth rate, which could result in potential impairment of certain long-term assets including goodwill.

We must continue to invest in new technologies and manufacturing techniques; however, our ability to develop or adapt to changing technology and manufacturing techniques is uncertain and our failure to do so could place us at a competitive disadvantage.

The successful implementation of our business strategy requires us to invest continuously in new technologies and manufacturing techniques to evolve our existing products and introduce new products to meet our customers' needs in the industries we serve and want to serve.

Our products are characterized by performance and specification requirements that mandate a high degree of manufacturing and engineering expertise. We believe that our customers rigorously evaluate their suppliers on the basis of a number of factors, including:

- product quality and availability;
- price competitiveness;
- technical expertise and development capability;
- reliability and timeliness of delivery;
- product design capability;
- manufacturing expertise; and
- sales support and customer service.

Our success depends on our ability to invest in new technologies and manufacturing techniques to continue to meet our customers' changing demands with respect to the above factors. We may not be able to make required capital expenditures and, even if we do so, we may be unsuccessful in addressing technological advances or introducing new products necessary to remain competitive within our markets. Furthermore, our own technological developments may not be able to produce a sustainable competitive advantage. If we fail to invest successfully in improvements to our technology and manufacturing techniques, our business may be materially adversely affected.

Our operations are subject to international risks that could affect our operating results.

Our net sales to customers outside North America represented approximately 49% of our total net sales for the year ended December 31, 2018. In addition, we sell products to domestic customers for use in their products sold overseas. We also source a significant portion of our products and materials from overseas. Our financial performance has been, and is expected to continue to be,

adversely impacted by foreign currency exchange rates. Our business is subject to risks associated with doing business internationally, and our future results could be materially adversely affected by a variety of factors, including:

- fluctuations in currency exchange rates;
- exchange rate controls;
- tariffs or other trade protection measures and import or export licensing requirements;
- potentially negative consequences from changes in tax laws;
- interest rates;
- unexpected changes in regulatory requirements;
- changes in foreign intellectual property law;
- differing labor regulations;
- requirements relating to withholding taxes on remittances and other payments by subsidiaries;
- restrictions on our ability to own or operate subsidiaries, make investments or acquire new businesses in various jurisdictions;
- potential political instability and the actions of foreign governments; and
- restrictions on our ability to repatriate dividends from our subsidiaries.

In addition, our international operations are governed by various U.S. laws and regulations, including the Foreign Corrupt Practices Act and other similar laws that prohibit us and our business partners from making improper payments or offers of payment to foreign governments and their officials and political parties for the purpose of obtaining or retaining business. Any alleged or actual violations of these regulations may subject us to government scrutiny, severe criminal or civil sanctions and other liabilities.

As we continue to expand our business globally, our success will depend, in large part, on our ability to anticipate and effectively manage these and other risks associated with our international operations. However, any of these factors could materially adversely affect our international operations and, consequently, our operating results.

Our operations depend on commercial activities and production facilities throughout the world, many of which may be located in jurisdictions that are subject to increased risks of disrupted production or commercial activities causing delays in shipments and loss of customers and revenue.

We operate businesses with manufacturing facilities worldwide, many of which are located outside the United States including in Brazil, Canada, China, Czech Republic, Denmark, France, Germany, India, Mexico, Russia, Slovakia, St. Kitts, Sweden, Turkey and the United Kingdom. Serving a global customer base requires that we place production in emerging markets to capitalize on market opportunities and cost efficiencies. Our international production facilities and operations and commercial activities could be disrupted by currency fluctuations and devaluation, capital and currency exchange controls, low or negative economic growth rates, natural disaster, labor strike, military activity or war, political unrest, terrorist activity, or public health concerns, particularly in emerging countries that are not well-equipped to handle such occurrences. Any such disruptions could materially adversely affect our business.

We rely on distributors and the loss of these distributors could adversely affect our business.

In addition to our direct sales force and manufacturer sales representatives, we depend on the services of distributors to sell our products and provide service and aftermarket support to our customers. We support an extensive distribution network, with over 3,000 distributor locations worldwide. During the year ended December 31, 2018, approximately 25% of our net sales from continuing operations were generated through distributors, on a pro forma basis giving effect to the Fortive Transaction. Almost all of the distributors with whom we transact business offer competitive products and services to our customers. In addition, the distribution agreements we have are typically non-exclusive and cancelable by the distributor after a short notice period. The loss of any major distributor or a substantial number of smaller distributors or an increase in the distributors' sales of our competitors' products to our customers could materially reduce our sales and profits.

We rely on estimated forecasts of our OEM customers' needs, and inaccuracies in such forecasts could materially adversely affect our business.

We generally sell our products pursuant to individual purchase orders instead of under long-term purchase commitments. Therefore, we rely on estimated demand forecasts, based upon input from our customers, to determine how much material to purchase and product to manufacture. Because our sales are based on purchase orders, our customers may cancel, delay or otherwise modify their purchase commitments with little or no consequence to them and with little or no notice to us. For these reasons, we generally have limited visibility regarding our customers' actual product needs. The quantities or timing required by our customers for our products could vary significantly. Whether in response to changes affecting the industry or a customer's specific business pressures, any cancellation, delay or other modification in our customers' orders could significantly reduce our revenue, impact our working capital, cause our operating results to fluctuate from period to period and make it more difficult for us to predict our revenue. In the event of a cancellation or reduction of an order, we may not have enough time to reduce operating expenses to minimize the effect of the lost revenue on our business and we may purchase too much inventory and spend more capital than expected, which may materially adversely affect our business.

From time to time, our customers may experience deterioration of their businesses. In addition, during periods of economic difficulty, our customers may not be able to accurately estimate demand forecasts and may scale back orders in an abundance of caution. As a result, existing or potential customers may delay or cancel plans to purchase our products and may not be able to fulfill their obligations to us in a timely fashion. Such cancellations, reductions or inability to fulfill obligations could significantly reduce our revenue, impact our working capital, cause our operating results to fluctuate adversely from period to period and make it more difficult for us to predict our revenue.

Our inability to efficiently utilize or re-negotiate minimum purchase requirements in certain supply agreements could decrease our profitability.

Our ability to maintain and expand our business depends, in part, on our ability to continue to obtain raw materials and component parts on favorable terms from various suppliers. Agreements with some of our suppliers contain minimum purchase requirements. We can give no assurance that we will be able to utilize the minimum amount of raw materials or component parts that we are required to purchase under certain supply agreements which contain minimum purchase requirements. If we are required to purchase more raw materials or component parts than we are able to utilize in the operation of our business, the costs of providing our products would likely increase, which could decrease our profitability and have a material adverse effect on our business, financial condition and results of operations.

Disruption of our supply chain could have an adverse effect on our business, financial condition and results of operations.

Our ability, including manufacturing or distribution capabilities, and that of our suppliers, business partners and contract manufacturers, to make, move and sell products is critical to our success. Damage or disruption to our or their manufacturing or distribution capabilities due to weather, natural disaster, fire or explosion, terrorism, pandemics, strikes, repairs or enhancements at our facilities, excessive demand, raw material shortages, or other reasons, could impair our ability, and that of our suppliers, to manufacture or sell our products. Failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, could adversely affect our business, financial condition and results of operations, as well as require additional resources to restore our supply chain.

The materials used to produce our products are subject to price fluctuations that could increase costs of production and adversely affect our profitability.

The materials used to produce our products, especially aluminum, copper and steel, are sourced on a global or regional basis and the prices of those materials are susceptible to price fluctuations due to supply and demand trends, transportation costs, government regulations and tariffs, changes in currency exchange rates, price controls, the economic climate and other unforeseen circumstances. If we are unable to continue to pass a substantial portion of such price increases on to our customers on a timely basis, our future profitability may be materially adversely affected. In addition, passing through these costs to our customers may also limit our ability to increase our prices in the future.

Defects, quality issues, inadequate disclosure or misuse with respect to our products and capabilities could adversely affect our business, reputation and financial statements.

Defects in, quality issues with respect to, or inadequate disclosure of risks relating to our products or the misuse of our products, could lead to lost profits and other economic damage, property damage, personal injury or other liability resulting in third-party claims, criminal liability, significant costs, damage to our reputation and loss of business. Any of these factors could adversely affect our business, financial condition and results of operations.

We face potential product liability claims relating to products we manufacture or distribute, which could result in our having to expend significant time and expense to defend these claims and to pay material damages or settlement amounts.

We face a business risk of exposure to product liability claims in the event that the use of our products is alleged to have resulted in injury or other adverse effects. We currently have several product liability claims against us with respect to our products. We may not be able to obtain product liability insurance on acceptable terms in the future, if at all, or obtain insurance that will provide adequate coverage against potential claims. Product liability claims can be expensive to defend and can divert the attention of management and other personnel for long periods of time, regardless of the ultimate outcome. An unsuccessful product liability defense could exceed any insurance that we maintain and could have a material adverse effect on our business, financial condition, results of operations or our ability to make payments under our debt obligations when due. In addition, we believe our business depends on the strong brand reputation we have developed. In the event that our reputation is damaged, we may face difficulty in maintaining our pricing positions with respect to some of our products, which would reduce our sales and profitability.

We also risk exposure to product liability claims in connection with products sold by businesses that we acquire. We cannot assure you that third parties that have retained responsibility for product liabilities relating to products manufactured or sold prior to our acquisition of the relevant business or persons from whom we have acquired a business that are required to indemnify us for certain product liability claims subject to certain caps or limitations on indemnification will in fact satisfy their obligations to us with respect to liabilities retained by them or their indemnification obligations. If those third parties become unable to or otherwise do not comply with their respective obligations including indemnity obligations, or if certain product liability claims for which we are obligated were not retained by third parties or are not subject to these indemnities, we could become subject to significant liabilities or other adverse consequences. Moreover, even in cases where third parties retain responsibility for product liabilities or are required to indemnify us, significant claims arising from products that we have acquired could have a material adverse effect on our ability to realize the benefits from an acquisition, could result in our reducing the value of goodwill that we have recorded in connection with an acquisition, or could otherwise have a material adverse effect on our business, financial condition, or results of operations.

We may be subject to litigation for a variety of claims, which could adversely affect our business, financial condition or results of operations.

In addition to product liability claims and securities class action litigation, which has often been brought against a company following a decline in the market price of its securities, we and our directors and officers may be subject to claims arising from our normal business activities. These may include claims, suits, and proceedings involving stockholder and fiduciary matters, intellectual property, labor and employment, wage and hour, commercial and other matters. The outcome of any litigation, regardless of its merits, is inherently uncertain. Any claims and lawsuits, and the disposition of such claims and lawsuits, could be time-consuming and expensive to resolve, divert management attention and resources, and lead to attempts on the part of other parties to pursue similar claims. Any adverse determination related to litigation or settlement or other resolution of a legal matter could adversely affect our business, financial condition or results of operations, harm our reputation or otherwise negatively impact our business.

We may be subject to work stoppages at our facilities, or our customers may be subjected to work stoppages, which could seriously impact our operations and the profitability of our business.

As of December 31, 2018, we employed approximately 9,300 people on a full-time basis, of whom approximately 3,700 were employed in the United States and approximately 5,600 were employed outside of the United States. Of our United States employees, approximately 665 were hourly-rated, unionized employees. Outside

the United States, we have government-mandated collective bargaining arrangements and union contracts in certain countries, particularly in Europe where certain of our employees are represented by unions and/or works councils.

The Company believes that its relationship with employees is good. However, we are party to several U.S. and international collective bargaining arrangements and union contracts, and we may be unable to renew these agreements on terms that are satisfactory to us, if at all.

If our unionized workers or those represented by a works council were to engage in a strike, work stoppage or other slowdown in the future, we could experience a significant disruption of our operations. Such disruption could interfere with our ability to deliver products on a timely basis and could have other negative effects, including decreased productivity and increased labor costs. In addition, if a greater percentage of our work force becomes unionized, our business and financial results could be materially adversely affected.

Moreover, many of our direct and indirect customers have unionized work forces. Strikes, work stoppages or slowdowns experienced by these customers or their suppliers could result in slowdowns or closures of assembly plants where our products are used and could cause cancellation of purchase orders with us or otherwise result in reduced revenues from these customers.

Changes in labor or employment laws could increase our costs and may adversely affect our business.

Various federal, state and international labor and employment laws govern our relationship with employees and affect operating costs. These laws include minimum wage requirements, overtime, unemployment tax rates, workers' compensation rates paid, leaves of absence, mandated health and other benefits, and citizenship requirements. Significant additional government-imposed increases or new requirements in these areas could materially affect our business, financial condition, operating results or cash flow.

In the event our employee-related costs rise significantly, we may have to curtail the number of our employees or shut down certain manufacturing facilities. Any such actions would not only be costly but could also materially adversely affect our business.

We depend on the services of key executives, the loss of whom could materially harm our business.

Our senior executives are important to our success because they are instrumental in setting our strategic direction, operating our business, maintaining and expanding relationships with distributors, identifying, recruiting and training key personnel, identifying expansion opportunities and arranging necessary financing. Losing the services of any of these individuals could adversely affect our business until a suitable replacement could be found. We believe that our senior executives could not easily be replaced with executives of equal experience and capabilities but we cannot prevent our key executives from terminating their employment with us. We do not maintain key person life insurance policies on any of our executives.

If we lose certain of our key sales, marketing or engineering personnel, our business may be adversely affected.

Our success depends on our ability to recruit, retain and motivate highly skilled sales, marketing and engineering personnel. Competition for these persons in our industry is intense and we may not be able to successfully recruit, train or retain qualified personnel. If we fail to recruit and retain the necessary personnel, our business and our ability to obtain new customers, develop new products and provide acceptable levels of customer service could suffer. If certain of these key personnel were to terminate their employment with us, we may experience difficulty replacing them, and our business could be harmed.

We are subject to environmental laws that could impose significant costs on us and the failure to comply with such laws could subject us to sanctions and material fines and expenses.

We are subject to a variety of federal, state, local, foreign and provincial environmental laws and regulations, including those governing the discharge of pollutants into the air or water, the management and disposal of hazardous substances and wastes and the responsibility to investigate and clean up contaminated sites that are or were owned, leased, operated or used by us or our predecessors. Some of these laws and regulations require us to obtain permits, which contain terms and conditions that impose limitations on our ability to emit and discharge hazardous materials into the environment and periodically may be subject to modification, renewal and revocation by issuing authorities. Fines and penalties may be imposed for non-compliance with applicable environmental laws and regulations and the failure to have or to comply with the terms and conditions of required permits. From time to time, our operations may not be in full compliance with the terms and conditions of our permits. The operation of manufacturing plants entails risks related to compliance with environmental laws, requirements and permits, and a failure by us to comply with applicable environmental laws, regulations, or permits could result in civil or criminal fines, penalties, enforcement actions, third party claims for property damage and personal injury, requirements to clean up property or to pay for the costs of cleanup, or regulatory or judicial orders enjoining or curtailing operations or requiring corrective measures, including the installation of pollution control equipment or remedial actions. Moreover, if applicable environmental laws and regulations, or the interpretation or enforcement thereof, become more stringent in the future, we could incur capital or operating costs beyond those currently anticipated.

Certain environmental laws in the United States, such as the federal Superfund law and similar state laws, impose liability for the cost of investigation or remediation of contaminated sites upon the current or, in some cases, the former site owners or operators and upon parties who arranged for the disposal of wastes or transported or sent those wastes to an off-site facility for treatment or disposal, regardless of when the release of hazardous substances occurred or the lawfulness of the activities giving rise to the release. Such liability can be imposed without regard to fault and, under certain circumstances, can be joint and several, resulting in one party being held responsible for the entire obligation. As a practical matter, however, the costs of investigation and remediation generally are allocated among the viable responsible parties on some form of equitable basis. Liability also may include damages to natural resources. In addition, from time to time, we are notified that we are a potentially responsible party and may have liability in connection with off-site disposal facilities. There can be no assurance that we will be able to resolve pending and future matters relating to off-site disposal facilities at all or for nominal sums.

There is contamination at some of our current facilities, primarily related to historical operations at those sites, for which we could be liable for the investigation and remediation under certain environmental laws. The potential for contamination also exists at other of our current or former sites, based on historical uses of those sites. Our costs or liability in connection with potential contamination conditions at our facilities cannot be predicted at this time because the potential existence of contamination has not been investigated or not enough is known about the environmental conditions or likely remedial requirements. Currently, with respect to certain of our facilities, other parties with contractual liability are addressing or have plans or obligations to address those

contamination conditions that may pose a material risk to human health, safety or the environment. In addition, there may be environmental conditions currently unknown to us relating to our prior, existing or future sites or operations or those of predecessor companies whose liabilities we may have assumed or acquired which could have a material adverse effect on our business.

We are being indemnified, or expect to be indemnified by third parties subject to certain caps or limitations on the indemnification, for certain environmental costs and liabilities associated with certain owned or operated sites. We cannot assure you that third parties who indemnify or who are expected to indemnify us for certain environmental costs and liabilities associated with certain owned or operated sites will in fact satisfy their indemnification obligations. If those third parties become unable to, or otherwise do not, comply with their respective indemnity obligations, or if certain contamination or other liability for which we are obligated is not subject to these indemnities, we could become subject to significant liabilities.

We may not be able to protect our intellectual property rights, brands or technology effectively, which could allow competitors to duplicate or replicate the our technology and could adversely affect our ability to compete.

We rely on a combination of patent, trademark, copyright and trade secret laws in the United States and other jurisdictions, as well as on license, non-disclosure, employee and consultant assignment and other agreements and domain names registrations in order to protect our proprietary technology and rights. Applications for protection of our intellectual property rights may not be allowed, and the rights, if granted, may not be maintained. In addition, third parties may infringe or challenge our intellectual property rights. In some cases, we rely on unpatented proprietary technology. It is possible that others will independently develop the same or similar technology or otherwise obtain access to our unpatented technology. In addition, in the ordinary course of our operations, we pursue potential claims from time to time relating to the protection of certain products and intellectual property rights, including with respect to some of our more profitable products. Such claims could be time-consuming, expensive and divert resources. If we are unable to maintain the proprietary nature of our technologies or proprietary protection of our brands, our ability to market or be competitive with respect to some or all of our products may be affected, which could reduce our sales and profitability.

We or our products could infringe on the intellectual property of others, which may cause us to engage in costly litigation and, if we are not successful, could cause us to pay substantial damages and prohibit us from selling our products.

Third parties may assert infringement or other intellectual property claims against us based on their patents or other intellectual property claims, and we may have to pay substantial damages, possibly including treble damages, if it is ultimately determined that our products infringe. We may have to obtain a license to sell our products if it is determined that our products infringe upon another party's intellectual property. We might be prohibited from selling our products before we obtain a license, which, if available at all, may require us to pay substantial royalties. Even if infringement claims against us are without merit, defending these types of lawsuits takes significant time, may be expensive and may divert management attention from other business concerns.

Goodwill and indefinite-lived intangibles comprises a significant portion of our total assets, and if we determine that goodwill or indefinite-lived intangibles become impaired in the future, net income in such years may be materially and adversely affected.

Goodwill represents the excess of cost over the fair market value of net assets acquired in business combinations. Due to the acquisitions we have completed historically, goodwill comprises a significant portion of our total assets. In addition, indefinite lived intangibles, primarily tradenames and trademarks, comprise a significant portion of our total assets. We review goodwill and indefinite-lived intangibles annually for impairment and any excess in carrying value over the estimated fair value is charged to the results of operations. Future reviews of goodwill and indefinite lived intangibles could result in future reductions. Any reduction in net income resulting from the write down or impairment of goodwill and indefinite-lived intangibles could adversely affect our financial results. If economic conditions deteriorate we may be required to impair goodwill and indefinite-lived intangibles in future periods.

Unplanned repairs or equipment outages could interrupt production and reduce income or cash flow.

Unplanned repairs or equipment outages, including those due to natural disasters, could result in the disruption of our manufacturing processes. Any interruption in our manufacturing processes would interrupt our production of products, reduce our income and cash flow and could result in a material adverse effect on our business and financial condition.

Our operations are highly dependent on information technology infrastructure and failures in such infrastructure and failure to comply with data privacy laws or regulations could significantly affect our business.

We depend heavily on our information technology, or IT, infrastructure in order to achieve our business objectives both in our everyday business operations and perhaps even more so during our integration efforts related to acquisitions. If we experience a problem that impairs this infrastructure, such as a computer virus, natural disaster, act of terrorism, cyber-attack, electrical/telecommunications outage or failure or other problem with the functioning of an important IT application, or malware,

phishing, or other intentional disruption, tampering or manipulation of our IT systems by an employee or unauthorized third party, the resulting disruptions could impede our ability to record or process orders, manufacture and ship in a timely manner, or otherwise carry on our business in the ordinary course. Any such events could cause us to lose revenue, could harm our relationships with or cause us to lose customers or suppliers and could require us to incur significant expense to eliminate these problems and address related security concerns. Information security risks also exist with respect to the use of portable electronic devices, such as smartphones and laptops, which are particularly vulnerable to loss and theft.

Cyber-attacks from computer hackers and cyber criminals and other malicious Internet-based activity continue to increase generally, and perpetrators of cyber-attacks may be able to develop and deploy viruses, worms, ransomware, malware, DNS attacks, wireless network attacks, phishing attempts, distributed denial of service attacks and other malicious software programs that attack our IT infrastructure and our networks. These cyber-attacks expose us to a variety of risks, including a risk of theft of substantial assets including cash. In addition, a cyber-attack may cause additional costs, such as investigative and remediation costs, and the costs of providing our suppliers, customers, or other potentially affected parties with notice of the breach, legal fees and the costs of any additional fraud detection activities required by law, a court or a third-party.

Techniques used to obtain unauthorized access or to sabotage systems, to impersonate, or to otherwise seek to perpetrate fraudulent acts against commercial parties change frequently, are increasingly sophisticated and generally are not recognized until launched against a target. As a result, we may be unable to anticipate these techniques or to implement adequate preventative measures. We cannot be certain that advances in cyber-capabilities or other developments will not compromise or breach the technology protecting our IT infrastructure and networks or our industrial machinery, software or hardware, and we can make no assurance that we will be able to detect, prevent, timely and adequately address or mitigate the negative effects of cyber-attacks or other security breaches. If such events affect our systems or products, our reputation and brand names could be materially damaged and use of our products may decrease.

If any one of these risks materializes, our business, financial condition, cash flows or results of operations could be materially and adversely affected.

We are also subject to an increasing number of evolving data privacy and security laws and regulations that impose requirements on us and our technology prior to certain use or transfer, storing, use, processing, disclosure and protection of data and prior to sale or use of certain technologies. Failure to comply with such laws and regulations could result in the imposition of fines, penalties and other costs. For example, the European Union's implementation of the General Data Protection Regulation in 2018, the European Union's pending ePrivacy Regulation and California's implementation of its Consumer Privacy Act of 2018 and Connected Device Privacy Act of 2018 all could disrupt our ability to sell products and solutions or use and transfer data because such activities may not be in compliance with applicable law in certain jurisdictions.

System failures, ineffective system implementation or disruptions, failure to comply with data privacy and security laws or regulations, or the compromise of security with respect to internal or external systems or portable electronic devices could damage our systems or infrastructure, subject us to liability claims or regulatory fines, penalties, or intervention, harm our reputation, interrupt our operations, disrupt customer operations and adversely affect our

internal control over financial reporting, business, financial condition, results of operations, or cash flows.

If we are unable to successfully implement enhancements to our Enterprise Resource Planning systems across our business operations or such implementation is delayed, our operations may be disrupted or become less efficient.

We are in the process of implementing enhancements to our Enterprise Resource Planning systems, with the aim of enabling management to achieve better control across our business operations through: improved quality, reliability and timeliness of information; improved integration and visibility of information stemming from different management functions and countries; and optimization and global management of corporate processes. The enhancements of these ERP systems pose several challenges relating to, among other things, training of personnel, communication of new rules and procedures, changes in corporate culture, migration of data, and the potential instability of the following implementation. If the remaining implementation of the enhancements is delayed, in whole or in part, our current ERP systems may not be sufficient to support our planned operations. In addition, we rely on third-party vendors to provide long-term software maintenance support and hosting services for our information systems. Software vendors may decide to discontinue further development, integration or long-term software maintenance support for our information systems, which may increase our operational expenses as well as disrupt the management of our business operations. In addition, we do not control the operation of any third party hosting facilities. These facilities are vulnerable to damage or interruption from natural disasters, fires, power loss, telecommunications failures and similar events. They are also subject to break-ins, computer viruses, sabotage, intentional acts of vandalism and other misconduct. The occurrence of any of these disasters or other unanticipated problems with our third party hosting vendors could disrupt the management of, and have a material adverse effect on, our business operations. There can be no

assurance that the enhancements to our ERP systems will be successfully implemented and failure to do so could have a material adverse effect on our operations.

Our leverage could adversely affect our financial health and make us vulnerable to adverse economic and industry conditions.

As of December 31, 2018, we had approximately \$1,320.0 million outstanding and \$295.8 million available under our Altra Revolving Credit Facility (as defined herein). In addition, as of December 31, 2018, we had approximately \$400 million outstanding under the Notes (as defined herein). Our indebtedness has important consequences; for example, it could:

- make it more challenging for us to obtain additional financing to fund our business strategy and acquisitions, debt service requirements, capital expenditures and working capital;
- increase our vulnerability to interest rate changes and general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to service our indebtedness, thereby reducing the availability of our cash flow to finance acquisitions and to fund working capital, capital expenditures, research and development efforts and other general corporate activities;
- make it difficult for us to fulfill our obligations under our credit and other debt agreements;
- limit our flexibility in planning for, or reacting to, changes in our business and our markets; and
- place us at a competitive disadvantage relative to our competitors that have less debt.

Substantially all of the domestic personal property of Altra and our domestic subsidiaries and certain shares of certain non-domestic subsidiaries have been pledged as collateral against any outstanding borrowings under the Credit Agreement dated October 1, 2018 (as amended from time to time, the “Altra Credit Agreement”) governing the Altra Revolving Credit Facility. In addition, the Altra Credit Agreement requires us to maintain specified financial ratios and satisfy certain financial condition tests, which may require that we take action to reduce our debt or to act in a manner contrary to our business objectives.

In the future, the then current economic and credit market conditions may limit our access to additional capital, to the extent that the Altra Credit Agreement would otherwise permit additional financing, or may preclude our ability to refinance our existing indebtedness. There can be no assurance that there will not be a deterioration in the credit markets, a deterioration in the financial condition of our lenders or their ability to fund their commitments or, if necessary, that we will be able to find replacement financing, if need be, on similar or acceptable terms. An inability to access sufficient financing or capital could have an adverse impact on our operations and thus on our operating results and financial position.

The Altra Credit Agreement imposes significant operating and financial restrictions, which may prevent us from pursuing our business strategies or favorable business opportunities.

Subject to a number of important exceptions, under the Altra Credit Agreement we are subject to customary affirmative and negative covenants, such as limitations on:

- debt and preferred stock;
- liens;
- mergers, consolidations, liquidations, dissolutions and asset sales;
- investments, loans, advances, guarantees and acquisitions;
- speculative swaps and hedging arrangements;
- dividends or other distributions on capital stock, redemptions and repurchases of capital stock and prepayments, redemptions and repurchases of junior lien secured and subordinated debt;
- transactions with affiliates;
- restrictions on liens and other restrictive agreements;
- amendments of the operative documents related to junior debt agreements and organizational documents; and
- changes in fiscal year

The restrictions contained in the Altra Credit Agreement may prevent us from taking actions that we believe would be in the best interest of our business and may make it difficult for us to successfully execute our business strategy or effectively compete with companies that are not similarly restricted. A breach of any of these covenants or the inability to comply with the required financial ratios could result in a default under the Altra Credit Agreement. If any such default occurs, the lenders under the Altra Credit Agreement may elect to declare all of the outstanding debt under the Altra Credit Agreement, together with accrued interest and other amounts payable thereunder, to be immediately due and payable. The lenders under the Altra Credit Agreement also have the right in those circumstances to terminate any commitments they have to provide further borrowings. In addition, following an event of default under the Altra Credit Agreement, the lenders under the Altra Credit Agreement will have the right to proceed against the collateral that secures the debt. If the debt under the Altra Credit Agreement were to be accelerated, we may not have the ability to refinance that debt, and if we can, the terms of such refinancing may be less favorable than the current financing terms under the Altra Credit Agreement. In the event that the indebtedness is accelerated, our assets may not be sufficient to repay in full all of our debt.

We face risks associated with our exposure to variable interest rates and foreign currency exchange rates.

We are exposed to various types of market risk in the normal course of business, including the impact of interest rate changes and foreign currency exchange rate fluctuations. Some of our indebtedness bears interest at variable rates, generally linked to market benchmarks such as LIBOR. Any increase in interest rates would increase our finance expenses relating to our variable rate indebtedness and increase the costs of refinancing our existing indebtedness and issuing new debt. In addition, in July 2017, the U.K.'s Financial Conduct Authority, which regulates LIBOR, announced its intent to phase out LIBOR by the end of 2021. It is not possible to predict the effect of this announcement, including whether LIBOR will continue in place, and if so what changes will be made to it, what alternative reference rates may replace LIBOR in use going forward and how LIBOR will be determined for purposes of loans, securities and derivative instruments currently referencing it if it ceases to exist. If the method for calculation of LIBOR changes, if LIBOR is no longer available or if lenders have increased costs due to changes in LIBOR, we may suffer from potential increases in interest rates on our floating debt rate. Further, we may need to renegotiate our indebtedness documents to replace LIBOR with the new standard that is established. These uncertainties or their resolution also could negatively impact our funding costs, loan and other asset values, asset-liability management strategies and other aspects of our business and financial results. In addition, we conduct our business and incur costs in the local currency of the countries in which we operate. As we continue expanding our business into markets such as Europe, China, Australia, India and Brazil, we expect that an increasing percentage of our revenue and cost of sales will be denominated in currencies other than the U.S. Dollar, our reporting currency. As a result, we are subject to currency translation risk, whereby changes in exchange rates between the dollar and the other currencies in which we borrow and do business could result in foreign exchange losses and have a material adverse effect on our results of operations.

We are exposed to swap counterparty credit risk that could materially and adversely affect our business, operating results, and financial condition.

From time to time, we rely on interest rate swap contracts and cross-currency swap contracts and hedging arrangements to effectively manage our interest rate and currency risk. Failure to perform under derivatives contracts by one or more of our counterparties could disrupt our hedging operations, particularly if we were entitled to a termination payment under the terms of the contract that we did not receive, if we had to make a termination payment upon default of the counterparty, or if we were unable to reposition the swap with a new counterparty.

We are subject to tax laws and regulations in many jurisdictions and the inability to successfully defend claims from taxing authorities related to our current or acquired businesses could adversely affect our operating results and financial position.

We conduct business in many countries, which requires us to interpret the income tax laws and rulings in each of those taxing jurisdictions. Due to the subjectivity of tax laws between those jurisdictions as well as the subjectivity of factual interpretations, our estimates of income tax liabilities may differ from actual payments or assessments. Claims from taxing authorities related to these differences could have an adverse impact on our operating results and financial position. Moreover, changes to tax laws and regulations in the U.S. or other countries where we do business could have an adverse effect on our operating results and financial position.

Changes in our tax rates or exposure to additional income tax liabilities or assessments could significantly affect our profitability. In addition, audits by tax authorities could result in additional tax payments for prior periods.

We are subject to income taxes in the U.S. and in numerous non-U.S. jurisdictions. On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act ("TCJA") that significantly reformed the Internal Revenue Code of 1986, as amended (the "Code"). The TCJA, among other things, includes changes to U.S. federal tax rates, including reduction of the corporate tax rate from a top marginal rate of 35% to a flat rate of 21%, limitations of the tax deduction for interest expense to 30% of adjusted earnings (except for certain small businesses), limitations of the deduction for net operating losses to 80% of current year taxable income and

elimination of net operating loss carrybacks, one time taxation of offshore earnings at reduced rates regardless of whether they are repatriated, elimination of U.S. tax on foreign earnings (subject to certain important exceptions), immediate deductions for certain new investments instead of deductions for depreciation expense over time, modifying or repealing many business deductions and credits and putting into effect the migration from a “worldwide” system of taxation to a territorial system. The U.S. Treasury Department and IRS continue to issue regulations with respect to implementing the TCJA and further regulations are expected to be issued. Notwithstanding the reduction in the corporate income tax rate, the overall impact of the recent federal tax law is uncertain and our business and financial condition could be adversely affected. In addition, it is uncertain if and to what extent various states will adjust their policies in response to the recently enacted federal tax law. The impact of this tax reform as well as other tax laws and regulations in the U.S. or other countries where we do business on holders of our common stock and our operating results and financial position is uncertain and could be adverse.

Due to the potential for changes to tax laws and regulations or changes to the interpretation thereof (including regulations and interpretations pertaining to the TCJA), the ambiguity of tax laws and regulations, the subjectivity of factual interpretations, the complexity of our intercompany arrangements, uncertainties regarding the geographic mix of earnings in any particular period, and other factors, our estimates of effective tax rate and income tax assets and liabilities may be incorrect and our financial statements could be adversely affected. The impact of these factors referenced in the first sentence of this paragraph may be substantially different from period-to-period.

In addition, the amount of income taxes we pay is subject to ongoing audits by U.S. federal, state and local tax authorities and by non-U.S. tax authorities. If audits result in payments or assessments different from our reserves, our future results may include unfavorable adjustments to our tax liabilities and our financial statements could be adversely affected. Any further significant changes to the tax system in the United States or in other jurisdictions (including changes in the taxation of international income as further described below) could adversely affect our financial statements.

Certain of our businesses are exposed to renewable energy markets which depend significantly on the availability and size of government subsidies and economic incentives.

Certain of our businesses sell product to customers within the renewable energy market, which among other energy sources includes wind energy and solar energy. This market is inherently cyclical and can be impacted by governmental policy, the comparative cost differential between various forms of energy, and the general macroeconomic climate.

At present, the cost of many forms of renewable energy may exceed the cost of conventional power generation in locations around the world. Various governments have used different policy initiatives to encourage or accelerate the development and adoption of renewable energy sources such as wind energy and solar energy. Renewable energy policies are in place in the European Union, certain countries in Asia, including China, Japan and South Korea, and many of the states in Australia and the United States. Examples of government sponsored financial incentives include capital cost rebates, feed-in tariffs, tax credits, net metering and other incentives to end-users, distributors, system integrators and manufacturers of renewable energy products to promote the use of renewable energy and to reduce dependency on other forms of energy. Governments may decide to reduce or eliminate these economic incentives for political, financial or other reasons. Reductions in, or eliminations of, government subsidies and economic incentives

could reduce demand for our products and, as our customers attempt to compete on a levelized playing field with other forms of nonrenewable energy, also increase pressure to reduce cost throughout the supply chain. Lower demand or increased pricing pressure could adversely affect our business prospects and results of operations.

Regulations related to conflict minerals could adversely impact our business

The Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions to improve transparency and accountability concerning the supply of certain minerals, known as conflict minerals, originating from the Democratic Republic of Congo (DRC) and adjoining countries. As a result, in August 2012 the SEC adopted annual disclosure and reporting requirements for those companies who use conflict minerals mined from the DRC and adjoining countries in their products. These new requirements required country of origin inquiries and potentially due diligence, with initial disclosure requirements beginning in May 2014 relating to activities in 2013. There have been and will continue to be costs associated with complying with these disclosure requirements, including for country of origin inquiries and due diligence to determine the sources of conflict minerals used in our products and other potential changes to products, processes or sources of supply as a consequence of such verification activities. These rules could adversely affect the sourcing, supply and pricing of materials used in our products. As there may be only a limited number of suppliers offering “conflict free” conflict minerals, we cannot be sure that we will be able to obtain necessary conflict minerals from such suppliers in sufficient quantities or at competitive prices. Also, we may face reputational challenges if we determine that certain of our products contain minerals not determined to be conflict free or if we are unable to verify sufficiently the origins for all conflict minerals used in our products through the procedures we have implemented.

We face risks associated with the Stromag Acquisition and the Fortive Transaction.

In connection with the Stromag Acquisition and the Fortive Transaction, we are subject to substantially all of the liabilities of Stromag and the A&S Business, respectively, that were not satisfied on or prior to the corresponding closing date. There may be liabilities that we underestimated or did not discover in the course of performing our due diligence investigation of Stromag and the A&S Business. Under the related purchase agreements, the sellers agreed to provide us with a limited set of representations and warranties, including with respect to outstanding and potential liabilities. Damages resulting from a breach of a representation or warranty could have a material and adverse effect on our financial condition and results of operations, and there is no guarantee we would actually be able to recover all or any portion of the sums payable in connection with such breach.

We may not be able to achieve the efficiencies, savings and other benefits anticipated from our cost reduction, margin improvement and other business optimization initiatives.

We have in the past undertaken and expect to continue to undertake various restructuring activities and cost reduction initiatives in an effort to better align our organizational structure and costs with our strategy. We cannot assure you that we will be able to achieve all of the cost savings that we expect to realize from current or future activities and initiatives. Furthermore, in connection with these activities, we may experience a disruption in our ability to perform functions important to our strategy. Unexpected delays, increased costs, challenges with adapting our internal control environment to a new organizational structure, inability to retain and motivate employees or other challenges arising from these initiatives could adversely affect our ability to realize the anticipated savings or other intended benefits of these activities and could have a material adverse impact on our financial condition and operating results.

The uncertainty surrounding the implementation and effect of Brexit and related negative developments in the European Union could adversely affect our business and financial results. The vote by the U.K. to leave the European Union could adversely affect us.

In a Referendum of the U.K. held on June 23, 2016, the UK voted to leave the European Union (E.U.) (referred to as Brexit), which could cause disruptions to and create uncertainty surrounding our business, including affecting our relationships with our existing and future customers, suppliers and employees, which could have an adverse effect on our business, financial results and operations. The formal process for U.K. leaving the E.U. began in March 2017, when the U.K. served notice to the European Council under Article 50 of the Treaty of Lisbon. The U.K. is currently due to exit the E.U. on March 29, 2019. The long-term nature of the U.K.'s relationship with the E.U. is unclear and there is considerable uncertainty when any withdrawal agreement or long-term relationship strategy, including trade deals, will be agreed to and implemented. The political and economic instability created by Brexit has caused and may continue to cause significant volatility in global financial markets and uncertainty regarding the regulation of data protection in the U.K. Brexit could also have the effect of disrupting the free movement of goods, services, and people between the U.K., the E.U. and elsewhere. The effects of Brexit will depend on any agreements the U.K. makes to retain access to E.U. markets either during a transitional period or more permanently. Discussions between the U.K. and the E.U. focused on finalizing withdrawal issues and transition agreements are ongoing. However, limited progress to date in these negotiations and ongoing uncertainty within the U.K. Government and Parliament sustains the possibility of the U.K. leaving the E.U. on March 29, 2019 without a withdrawal agreement and associated transition period in place, which is likely to cause significant market and economic disruption. If the U.K. leaves the E.U. with no agreement, it will likely have an adverse impact on labor and trade in addition to creating further short-term uncertainty and currency volatility. In the absence of a future trade deal, the U.K.'s trade with the United

States, the E.U. and the rest of the world would be subject to tariffs and duties set by the World Trade Organization. The measures could potentially disrupt the markets we serve and the tax jurisdictions in which we operate and adversely change tax benefits or liabilities in these or other jurisdictions, and may cause us to lose customers, suppliers, and employees. Brexit may also have unfavorable impacts on foreign currency exchange rates that increase our costs or reduce our reported results in dollar terms. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which E.U. laws to replace or replicate. Further, in the Brexit Referendum, Scotland voted to remain in the E.U., while England and Wales voted to exit. The disparity has renewed the Scottish independence movement. Scottish leaders have publicly stated that a second independence referendum will not be held until after the terms of the Brexit are clear; however, plans may change. Political issues and a potential breakup of the U.K. could create legal and economic uncertainty in the region and have a material adverse effect on the Company and other economies in which we operate. There can be no assurance that any or all of these events, or others that we cannot anticipate at this time, will not have a material adverse effect on our business operations, results of operations and financial condition.

The market price of our common stock may fluctuate with market volatility.

The market price of our common stock has been volatile and may continue to fluctuate in response to a number of factors, some of which are beyond our control. The stock market in general, and the market prices of stocks of industrial companies in particular, have experienced significant price volatility that has adversely affected, and may continue to adversely affect, the market price of our common stock for reasons unrelated to our business or operating results. Broad market fluctuations could adversely affect the market price of our common stock, which in turn could cause impairment of goodwill that could materially and adversely impact our financial condition and results of operations.

It is not uncommon when the market price of a stock has been volatile for holders of that stock to institute securities class action litigation against the company that issues that stock. If any of our stockholders brought such a lawsuit against us, even if the lawsuit is without merit, we could incur substantial costs defending the lawsuit beyond any insurance coverage which we may have for such risks. Such a lawsuit could also divert the time and attention of our management. Any of these events, as well as other circumstances discussed in these Risk Factors, may cause the market price of our common stock to fall.

Risks Related to the Fortive Transaction

The Fortive Transaction may not achieve its anticipated benefits.

We may not be able to successfully realize anticipated growth opportunities or integrate our business and operations with the A&S Business's business and operations. Following completion of the Fortive Transaction, we have significantly more revenue, expenses, assets and employees than we did prior to the Fortive Transaction. In the Fortive Transaction, we assumed certain liabilities of the A&S Business and other obligations (including collective bargaining agreements and certain non-U.S. pension obligations with respect to transferred employees). We may not successfully or cost-effectively integrate the A&S Business's business and operations into our existing business and operations. Even if we are able to integrate the combined businesses and operations successfully, this integration may not result in the realization of the full benefits of the growth and other opportunities that we currently expect within the anticipated time frame, or at all.

The failure to successfully integrate the A&S Business into our business within the expected timetable could adversely affect our future results and the market price of our common stock.

The success of the Fortive Transaction depends, in large part, on our ability to realize the anticipated benefits of the Fortive Transaction to our sales and profitability. To realize these anticipated benefits, we must successfully integrate the A&S Business into our businesses. This integration will be complex and time-consuming. The failure to successfully integrate and manage the challenges presented by the integration process may result in the failure to achieve some or all of the anticipated benefits of the Fortive Transaction.

Potential difficulties that may be encountered in the integration process include, among others:

- the failure to implement our business plan;

- lost sales and customers as a result of customers of Altra or the A&S Business deciding not to do business with us;
- risks associated with managing a larger and more complex business;
- integrating personnel of Altra and the A&S Business while maintaining focus on providing consistent, high-quality products and service to customers;
- the loss of key employees;
- unanticipated issues in integrating manufacturing, logistics, information, communications and other systems;
- possible inconsistencies in standards, controls, procedures, policies and compensation structures;
- the impact on our internal controls and compliance with the regulatory requirements under the Sarbanes-Oxley Act of 2002; and
- potential unknown liabilities and unforeseen expenses associated with the Fortive Transaction.

If any of these events were to occur, our ability to maintain relationships with customers, suppliers and employees or our ability to achieve the anticipated benefits of the Fortive Transaction could be adversely affected, or could reduce our sales or earnings or otherwise adversely affect our business and financial results and, as a result, adversely affect the market price of our common stock.

The significant costs related to the Fortive Transaction could have a material adverse effect on our liquidity, cash flows and operating results.

During 2018, we incurred one-time costs in connection with the Fortive Transaction, including approximately \$69 million in transaction-related costs (of which \$33 million will be capitalized), and we expect to incur approximately \$24 in non-recurring implementation costs during the first three years from the A&S Closing Date that Altra management believes are necessary to realize the anticipated synergies from the Fortive Transaction. For the three months ended and the year ended December 31, 2018, acquisition-related costs included approximately \$24 million and approximately \$36 million, respectively, associated with advisory, legal, accounting, integration and other professional fees. The incurrence of these costs may have a material adverse effect on our liquidity, cash flows and operating results in the periods in which they are incurred.

The substantial amount of indebtedness that we incurred to consummate the Fortive Transaction could materially adversely affect our financial conditions.

Our level of indebtedness increased in connection with the Fortive Transaction, as discussed in Note 10, Long Term Debt. Our increased level of indebtedness could have important consequences, including but not limited to:

- limiting our ability to fund working capital, capital expenditures and other general corporate purposes;
- limiting our ability to accommodate growth by reducing funds otherwise available for other corporate purposes and to compete, which in turn could prevent us from fulfilling our obligations under our indebtedness;
- limiting our operational flexibility due to the covenants contained in our debt agreements;
- requiring us to dispose of significant assets in order to satisfy our debt service and other obligations if we are not able to satisfy these obligations from cash from operations or other sources;
- to the extent that our debt is subject to floating interest rates, increasing our vulnerability to fluctuations in market interest rates;
- limiting our ability to buy back our common stock or pay cash dividends;
- limiting our flexibility in planning for, or reacting to, changes in our business or industry or economic conditions, thereby limiting our ability to compete with companies that are not as highly leveraged; and
- increasing our vulnerability to economic downturns.

Our ability to generate sufficient cash flow from operations to make scheduled payments on our debt will depend on a range of economic, competitive and business factors, many of which are outside our control. There can be no assurance that our business will generate sufficient cash flow from operations to make these payments. If we are unable to meet our expenses and debt obligations, we may need to refinance all or a portion of our indebtedness before maturity, sell assets or issue additional equity. We may not be able to refinance any of our indebtedness, sell assets or issue additional equity on commercially reasonable terms or at all, which could cause us to default on our obligations and impair our liquidity. Our inability to generate sufficient cash flow to satisfy our debt obligations, or to refinance our debt obligations on commercially reasonable terms, would have a material adverse effect on our business, financial condition and results of operations, as well as on our ability to satisfy our debt obligations.

Our ability to comply with the financial maintenance covenants in the Altra Revolving Credit Facility cannot be assured.

The Altra Revolving Credit Facility contains certain financial maintenance covenants requiring Altra to not exceed a maximum consolidated senior secured net leverage ratio and to maintain a minimum consolidated cash interest coverage ratio. There can be no assurance that we will be able to remain in compliance with these ratios. If we fail to comply with either of these covenants in a future period and are not able to obtain waivers from the lenders thereunder, we would need to refinance the Altra Revolving Credit Facility. However, there can be no assurance that such refinancing would be available on terms that would be acceptable to us or at all.

We are required to abide by potentially significant restrictions under the Tax Matters Agreement which could limit our ability to undertake certain corporate actions (such as the issuance of Altra common stock or the undertaking of a merger or consolidation) that otherwise could be advantageous.

To preserve the tax-free treatment to Fortive and/or its stockholders of the Distribution and certain related transactions, under the Tax Matters Agreement, we are restricted from taking certain actions that could prevent such transactions from being tax-free. These restrictions may limit our ability to pursue certain strategic transactions or engage in other transactions, including using Altra

common stock to make acquisitions and in connection with equity capital market transactions that might increase the value of our business.

Our estimates and judgements related to the acquisition accounting models used to record the purchase price allocation may be inaccurate.

We made significant accounting judgments and estimates for the application of acquisition accounting under GAAP, and the underlying valuation models. Our business, operating results and financial condition could be materially and adversely impacted in future periods if our accounting judgments and estimates related to these models prove to be inaccurate.

We may be required to recognize impairment charges for goodwill and other intangible assets.

The Fortive Transaction added approximately \$2.9 billion of goodwill and other intangible assets to our consolidated balance sheet. In accordance with GAAP, management periodically assesses these assets to determine if they are impaired. Significant negative industry or economic trends, disruptions to our business, inability to effectively integrate acquired businesses, unexpected significant changes or planned changes in use of the assets, divestitures and market capitalization declines may impair goodwill and other intangible assets. Any charges relating to such impairments would adversely affect results of operations in the periods recognized.

Our business, financial condition and results of operations may be adversely affected if we cannot negotiate terms that are as favorable as those that Fortive had received prior to the closing of the Fortive Transaction.

Prior to consummation of the Fortive Transaction, certain functions (such as treasury, cash management, tax compliance, benefits, corporate development, internal audit, purchasing and information systems) for the A&S Business were generally performed or supported under centralized systems that were not transferred to us and, in some cases, under contracts that are also used for Fortive's other businesses and which were not assigned to us with the A&S Business. In addition, some other contracts that Fortive or its subsidiaries are a party to on behalf of the A&S Business require consents of their parties to assign them. While Fortive, under the Transition Services Agreement, has agreed to provide us with certain limited services, there can be no assurance that we will be able to obtain those consents or negotiate terms that are as favorable as those Fortive had received when and if we replace these services with our own agreements for similar services. Although we believe that we will be able to obtain any such consents or enter into new agreements for similar services, it is possible that the failure to obtain consents for or replace a significant number of these agreements for any of these services or to replace them on terms that are as favorable as those Fortive had received could have a material adverse impact on our business, financial condition and results of operations.

Our success also depends on relationships with third parties and pre-existing customers of Altra and the A&S Business, which relationships may be affected by customer or third-party preferences or public attitudes about the Fortive Transaction. Any adverse changes in these relationships could adversely affect our business, financial condition or results of operation.

Our success will depend in part on our ability to maintain and renew relationships with pre-existing customers, suppliers and other third parties of both Altra and the A&S Business, and our ability to establish new relationships. There can be no assurance that we will be able to maintain and renew pre-existing contracts and other business relationships, or enter into or maintain new contracts and other business relationships, on acceptable terms, if at all. The failure to maintain important business relationships could have a material adverse effect on our business, financial condition or results of operations.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The number, type, location and size of the materially important physical properties used by our operations as of December 31, 2018 are shown in the following charts, by segment.

	Number and Nature of Facilities			Square footage	
	Manufacturing	Supporting	Total	Owned	Leased
Power Transmission Technologies	31	11	42	1,742,767	1,439,653
Automation & Specialty	21	7	28	—	719,488
Corporate ⁽¹⁾	—	2	2	104,288	21,853

						Expiration dates of	
						Leased Facilities (in	
	Locations					years)	
	North America	Europe	Asia	Other	Total	Minimum	Maximum
Power Transmission Technologies	16	17	6	3	42	—	11
Automation & Specialty	16	8	4	1	28	—	32
Corporate ⁽¹⁾	2	—	—	—	2	—	5

⁽¹⁾ Shared services center, selective engineering functions, Corporate headquarters and selective customer service functions.

We believe our owned and leased facilities are well-maintained and suitable for our operations.

Item 3. Legal Proceedings.

We are, from time to time, subject to a variety of litigation and other legal and regulatory claims incidental to our business. We cannot predict the outcome of these lawsuits, legal proceedings and claims with certainty. Based on our experience, current information and applicable law, we do not believe that these proceedings and claims will have a material adverse effect on our business, financial condition and results of operations.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock trades on the NASDAQ Global Market under the symbol "AIMC". As of February 26, 2019, the number of holders on record of our common stock was approximately 138.

Dividends

The Company declared and paid dividends of \$0.68 per share of common stock for the year ended December 31, 2018. The Company declared and paid dividends of \$0.66 per share for the year ended December 31, 2017.

On February 12, 2019, the Company declared a dividend of \$0.17 per share for the quarter ended March 31, 2019, payable on April 2, 2019 to stockholders of record as of March 18, 2018. See Note 18 to the consolidated financial statements.

Future declarations of quarterly cash dividends are subject to approval by the Board of Directors and to the Board's continuing determination that the declaration of dividends are in the best interest of the Company's stockholders and are in compliance with all laws and agreements of the Company applicable to the declaration and payment of cash dividends.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table presents information concerning our equity compensation plans:

Plan category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)	
			Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)	
Equity compensation plans approved by security holders ⁽¹⁾	—	\$	—	2,405,781
Equity compensation plans not approved	n/a	n/a	n/a	n/a

by security holders

Total	—	\$	—	2,405,781
-------	---	----	---	-----------

⁽¹⁾The 2014 Omnibus Incentive Plan was approved by the Company's stockholders at its 2014 annual meeting. Issuer Repurchases of Equity Securities

The following table summarizes our share repurchase activity by month for the quarter ended December 31, 2018.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Part of Publicly Announced Plans or Programs ⁽¹⁾	Approximate Dollar Value of Shares That May Yet be Purchased Under The Plans or Programs
October 1, 2018 to October 31, 2018	—	\$ —	—	\$ 30,000,000
November 1, 2018 to November 30, 2018	—	\$ —	—	\$ —
December 1, 2018 to December 31, 2018	—	\$ —	—	\$ —

⁽¹⁾On October 19, 2016, our board of directors approved a share repurchase program authorizing the buyback of up to \$30.0 million of the Company's common stock through December 31, 2019. This plan, which was announced on October 21, 2016, replaced the previous share repurchase program which was terminated. The Company expects to purchase shares on the open market, through block trades, in privately negotiated transactions, in compliance with SEC Rule 10b-18 (including through Rule 10b5-1 plans), or in any other appropriate manner. The timing of the shares repurchased will be at the discretion of management and will depend on a number of factors, including price, market conditions and regulatory requirements. Shares acquired

through the repurchase program will be retired. The Company retains the right to limit, terminate or extend the share repurchase program at any time without prior notice. The Company expects to fund any further repurchases of its common stock through a combination of cash on hand and cash generated by operations.

Performance Graph

The following graph compares the cumulative total stockholder return on our common stock for the 5-year period from December 31, 2013, through December 31, 2018, with the cumulative total return on shares of companies comprising the S&P Small Cap 600 Index and the S&P Small Cap 600 Capped Industrials Index in each case assuming an initial investment of \$100, assuming dividend reinvestment.

Item 6. Selected Financial Data.

The following table contains our selected historical financial data for the years ended December 31, 2018, 2017, 2016, 2015, and 2014. The following should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and notes included elsewhere in this Form 10-K.

	Amounts in thousands, except per share data Year Ended December 31,				
	2018	2017	2016	2015	2014
Net sales	\$1,175,342	\$876,737	\$708,906	\$746,652	\$819,817
Cost of sales	799,231	600,961	486,774	518,189	570,948
Gross profit	376,111	275,776	222,132	228,463	248,869
Operating expenses:					
Selling, general and administrative expenses	251,909	164,492	140,492	139,217	156,471
Research and development expenses	33,076	24,434	17,677	17,818	15,522
Impairment of intangible assets	—	—	6,568	—	—
Restructuring and consolidation costs	4,449	4,143	9,849	7,214	1,767
Total	289,434	193,069	174,586	164,249	173,760
Income from operations	86,677	82,707	47,546	64,214	75,109
Other non-operating income and expense:					
Loss on partial settlement of pension plan	5,086	1,720	—	—	—
Interest expense, net	28,601	7,710	11,679	12,164	11,994
Loss on extinguishment of convertible debt	1,247	1,797	1,989	—	—
Other non-operating expense (income), net	(5)	353	(7)	963	(3)
Total	34,929	11,580	13,661	13,127	11,991
Income before income taxes	51,748	71,127	33,885	51,087	63,118
Provision for income taxes	16,407	19,700	8,745	15,744	22,936
Net income	35,341	51,427	25,140	35,343	40,182
Net loss (income) attributable to non-controlling interest	—	—	—	63	(15)
Net income attributable to Altra Industrial Motion Corp.	\$35,341	\$51,427	\$25,140	\$35,406	\$40,167
Other Financial Data:					
Depreciation and amortization, excludes amortization of deferred financing	\$60,026	\$36,025	\$29,898	\$30,121	\$32,137
Purchases of fixed assets	(37,531)	(32,826)	(18,941)	(22,906)	(28,050)
Cash flow provided by (used in):					
Operating activities	116,283	80,581	76,641	86,816	84,499
Investing activities	(989,379)	(26,722)	(206,908)	(21,705)	(42,294)
Financing activities	986,246	(74,048)	149,772	(55,783)	(53,965)
Weighted average shares, basic	37,868	28,949	25,719	26,064	26,713
Weighted average shares, diluted	38,380	29,064	25,872	26,109	27,403
Basic Earnings per share:					
Net income attributable to Altra Industrial Motion Corp.	\$0.93	\$1.78	\$0.97	\$1.36	\$1.50
Diluted earnings per share:					
Net income attributable to Altra Industrial Motion Corp.	\$0.92	\$1.77	\$0.97	\$1.36	\$1.47

Cash dividend declared	\$0.68	\$0.66	\$0.60	\$0.57	\$0.46
------------------------	--------	--------	--------	--------	--------

	2018	2017	2016	2015	2014
Balance Sheet Data:					
Cash and cash equivalents	\$168,957	\$51,994	\$69,118	\$50,320	\$47,503
Total assets	4,337,243	920,657	869,824	632,332	676,402
Total debt, net of unaccreted discount	1,708,086	275,971	369,659	234,755	255,752
Long-term liabilities, excluding long-term debt	461,039	105,873	88,884	53,848	56,676

Comparability of the information included in the selected financial data has been impacted by the acquisitions of Guardian in 2014, Stromag in December 2016, and the Fortive A&S Business in October 2018.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Cautionary Statement Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which reflect the Company's current estimates, expectations and projections about the Company's future results, performance, prospects and opportunities. Forward-looking statements include, among other things, the information concerning the Company's possible future results of operations including revenue, costs of goods sold, gross margin, future profitability, future economic improvement, business and growth strategies, financing plans, expected leverage levels, the Company's competitive position and the effects of competition, the projected growth of the industries in which we operate, and the Company's ability to consummate strategic acquisitions and other transactions. Forward-looking statements include statements that are not historical facts and can be identified by forward-looking words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "plan," "may," "should," "will," "would," "project," "forecast," and similar expressions or variations. These forward-looking statements are based upon information currently available to the Company and are subject to a number of risks, uncertainties, and other factors that could cause the Company's actual results, performance, prospects, or opportunities to differ materially from those expressed in, or implied by, these forward-looking statements. Important factors that could cause the Company's actual results to differ materially from the results referred to in the forward-looking statements the Company makes in this report include:

- the effects of intense competition in the markets in which we operate;
- the cyclical nature of the markets in which we operate;
- the loss of independent distributors on which we rely;
- changes in market conditions in which we operate that would influence the value of the Company's stock;
- the Company's ability to achieve its business plans, including with respect to an uncertain economic environment;
- the risks associated with international operations, including currency risks;
- the risks associated with and potential impacts of new trade policies, legislation, treaties, and tariffs both in and outside of the United States;
- the Company's ability to retain existing customers and our ability to attract new customers for growth of our business;
- the effects of the loss or bankruptcy of or default by any significant customer, suppliers, or other entity relevant to the Company's operations;
- political and economic conditions globally, nationally, regionally, and in the markets in which we operate;
- natural disasters, war, civil unrest, terrorism, fire, floods, tornadoes, earthquakes, hurricanes, or other matters beyond the Company's control;
- the Company's risk of loss not covered by insurance;
- the accuracy of estimated forecasts of OEM customers and the impact of the current global and European economic environment on our customers;
- the risks associated with certain minimum purchase agreements we have with suppliers;
- disruption of our supply chain;
- fluctuations in the costs of raw materials used in our products;
- the outcome of litigation to which the Company is a party from time to time, including product liability claims;
- work stoppages and other labor issues;
- changes in employment, environmental, tax and other laws, including enactment of the Tax Cuts and Jobs Act, and changes in the enforcement of laws;
- the Company's ability to attract and retain key executives and other personnel;
- the Company's ability to successfully pursue the Company's development activities and successfully integrate new operations and systems, including the realization of revenues, economies of scale, cost savings, and productivity gains associated with such operations;

the Company's ability to obtain or protect intellectual property rights and avoid infringing on the intellectual property rights of others;
 the risks associated with the portion of the Company's total assets comprised of goodwill and indefinite lived intangibles;
 changes in market conditions that would result in the impairment of goodwill or other assets of the Company;
 changes in accounting rules and standards, audits, compliance with the Sarbanes-Oxley Act, and regulatory investigations;
 the effects of changes to critical accounting estimates;
 changes in volatility of the Company's stock price and the risk of litigation following a decline in the price of the Company's stock;
 failure of the Company's operating equipment or information technology infrastructure;
 the Company's ability to implement and maintain its Enterprise Resource Planning (ERP) system;
 the Company's access to capital, credit ratings, indebtedness, and ability to raise additional capital and operate under the terms of the Company's debt obligations;
 the risks associated with our debt;
 the risks associated with the Company's exposure to variable interest rates and foreign currency exchange rates;
 the risks associated with interest rate swap contracts;
 the risks associated with transitioning from LIBOR to a replacement alternative reference rate;
 the risks associated with the Company's being subject to tax laws and regulations in various jurisdictions;
 the risks associated with the Company's exposure to renewable energy markets;
 the risks related to regulations regarding conflict minerals;
 the risks associated with the volatility and disruption in the global financial markets;
 the Company's ability to successfully execute, manage and integrate key acquisitions and mergers, including the Stromag Acquisition and the Fortive Transaction;
 other risks associated with the Fortive Transaction, including:
 lost sales and customers as a result of customers of Altra or the A&S Business deciding not to do business with us;
 risks associated with managing a larger and more complex business;
 integrating personnel of Altra and the A&S Business while maintaining focus on providing consistent, high-quality products and service to customers;
 the loss of key employees;
 unanticipated issues in integrating manufacturing, logistics, information, communications and other systems;
 possible inconsistencies in standards, controls, procedures, policies and compensation structures;
 the impact on our internal controls and compliance with the regulatory requirements under the Sarbanes-Oxley Act of 2002; and
 potential unknown liabilities and unforeseen expenses associated with the Fortive Transaction;
 the Company's ability to achieve the efficiencies, savings and other benefits anticipated from our cost reduction, margin improvement, restructuring, plant consolidation and other business optimization initiatives;
 the risk associated with the UK vote to leave the European Union; and
 other factors, risks, and uncertainties referenced in the Company's filings with the Securities and Exchange Commission, including the "Risk Factors" set forth in this document.

ALL FORWARD-LOOKING STATEMENTS SPEAK ONLY AS OF THE DATE OF THIS REPORT. EXCEPT AS REQUIRED BY LAW, WE UNDERTAKE NO OBLIGATION TO PUBLICLY UPDATE OR RELEASE ANY REVISIONS TO THESE FORWARD-LOOKING STATEMENTS TO REFLECT ANY EVENTS OR CIRCUMSTANCES AFTER THE

DATE OF THIS REPORT OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS. ALL SUBSEQUENT WRITTEN AND ORAL FORWARD-LOOKING STATEMENTS ATTRIBUTABLE TO US OR ANY PERSON ACTING ON THE COMPANY'S BEHALF ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS CONTAINED OR REFERRED TO IN THIS SECTION AND IN OUR RISK FACTORS SET FORTH IN PART I, ITEM 1A OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K AND IN OTHER REPORTS FILED WITH THE SEC BY THE COMPANY.

The following discussion of the financial condition and results of operations of Altra Industrial Motion Corp. and its subsidiaries should be read together with the Selected Historical Financial Data, and the consolidated financial statements of Altra Industrial Motion Corp. and its subsidiaries and related notes included elsewhere in the Company's Annual Report on Form 10-K. The following discussion includes forward-looking statements. For a discussion of important factors that could cause actual results to differ materially from the results referred to in the forward-looking statements, see "Forward-Looking Statements" and "Risk Factors". Unless the context requires otherwise, the terms "Altra," "Altra Industrial Motion Corp.," "the Company," "we," "us" and "our" refer to Altra Industrial Motion Corp. and its subsidiaries.

General

We are a leading global designer, producer and marketer of a wide range of electromechanical power transmission motion control ("PTMC") products. Our technologies are used in various motion related applications and across a wide variety of high-volume manufacturing and non-manufacturing processes in which reliability and precision are critical to avoid costly down time and enhance the overall efficiency of operations.

We market our products under well recognized and established brands, which have been in existence for an average of over 85 years. We serve a diversified group of customers comprised of over 1,000 direct original equipment manufacturers ("OEMs") including GE, Honeywell and Siemens, and also benefit from established, long-term relationships with leading industrial distributors, including Applied Industrial Technologies, Grainger, Kaman Corporation and Motion Industries. Many of our customers operate globally across a large number of industries, ranging from transportation, turf and agriculture, energy and mining to factory automation, medical and robotics. Our relationships with these customers often span multiple decades, which we believe reflects the high level of performance, quality and service we deliver, supplemented by the breadth of our offering, vast geographic footprint and our ability to rapidly develop custom solutions for complex customer requirements.

On October 1, 2018, Altra consummated the Fortive Transaction and acquired the A&S Business for an aggregate purchase price of approximately \$2,855.7 million, subject to certain post-closing adjustments, which consisted of \$1,400.0 million of cash and debt instruments transferred to Fortive and shares of Altra common stock received by Fortive shareholders valued at approximately \$1,455.7 million. As of December 31, 2018, the initial accounting for the Fortive Transaction (including the allocation of the purchase price to acquired assets and liabilities) is not complete.

Business Outlook

Our future financial performance depends, in large part, on conditions in the markets that we serve and on the U.S., European, and global economies in general. Since completing the Fortive Transaction on October 1, 2018, our focus has been on the integration of the A&S Business and we have substantially completed the tactical components of that integration. In the quarter ended December 31, 2018, the addition of the A&S Business began to have a favorable

impact on our financial performance. Looking forward, our strategic priorities are to continue to capitalize on our strong cash generation to de-lever our balance sheet while also implementing best practices from the Altra Business System to optimize sales growth and accelerate profitability, primarily through supply chain management, leveraging technology to drive innovation, and executing on organic growth and cross-selling opportunities.

Critical Accounting Policies

The methods, estimates and judgments we use in applying our critical accounting policies have a significant impact on the results we report in our financial statements. We evaluate our estimates and judgments on an on-going basis. Our estimates are based upon historical experience and assumptions that we believe are reasonable under the circumstances. Our experience and assumptions form the basis for our judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may vary from what our management anticipates and different assumptions or estimates about the future could change our reported results.

We believe the following accounting policies are the most critical in that they are important to the financial statements and they require the most difficult, subjective or complex judgments in the preparation of the financial statements.

Inventory. Inventories are generally stated at the lower of cost or market using the first-in, first-out (FIFO) method. The cost of inventory includes direct materials, direct labor, and production overhead. Market is defined as net realizable value. We state inventories acquired through acquisitions at their fair value at the date of acquisition based on the replacement cost of raw materials, the sales price of the finished goods less an appropriate amount representing the expected profitability from selling efforts, and, for work-in-process, the sales price of the finished goods less an appropriate amount representing the expected profitability from selling efforts and costs to complete.

We periodically review our quantities of inventories on hand and compare these amounts to the historical and expected usage of each particular product or product line. We record as a charge to cost of sales any amounts required to reduce the carrying value of inventories to net realizable value.

Business Combinations. Business combinations are accounted for at fair value. Acquisition costs are generally expensed as incurred and recorded in selling, general and administrative expenses. The accounting for business combinations requires estimates and judgment as to expectations for future cash flows of the acquired business, and the allocation of those cash flows to identifiable intangible assets, in determining the estimated fair value for assets and liabilities acquired. The fair value assigned to tangible and intangible assets acquired and liabilities assumed are based on management's estimates and assumptions, as well as other information compiled by management, including valuations that utilize customary valuation procedures and techniques. If the actual results differ from the estimates and judgments used in these estimates, the amounts recorded in the financial statements could result in a possible impairment of the intangible assets and goodwill, or require acceleration of the amortization expense of finite-lived intangible assets.

Goodwill, Intangibles and other long-lived assets. In connection with our acquisitions, goodwill and intangible assets were identified and recorded at fair value. We recorded intangible assets for customer relationships, trade names and trademarks, product technology, patents, in-process research and development ("IPR&D") and goodwill. In valuing the customer relationships, trade names and trademarks and product technology, we utilized variations of the income approach. The income approach was considered the most appropriate valuation technique because the inherent value of these assets is their ability to generate current and future income. The income approach relies on historical financial and qualitative information, as well as assumptions and estimates for projected financial information. Projected financial information is subject to risk if our estimates are incorrect. The most significant estimate relates to our projected revenues and profitability. If we do not meet the projected revenues and profitability used in the valuation calculations then the intangible assets could be impaired. In determining the value of customer relationships, we reviewed historical customer attrition rates which were determined to be approximately 1% to 12% per year. Most of our customers tend to be long-term customers with very little turnover. While we do not typically have long-term contracts with customers, we have established long-term relationships with customers which make it difficult for competitors to displace us. Additionally, we assessed historical revenue growth within our industry and customers' industries in determining the value of customer relationships. The value of our customer relationships intangible asset could become impaired if future results differ significantly from any of the underlying assumptions. This could include a higher customer attrition rate or a change in industry trends such as the use of long-term contracts which we may not be able to obtain successfully. Customer relationships and product technology and patents are considered finite-lived assets, with estimated lives ranging from 7 years to 29 years. The estimated lives were determined by calculating the number of years necessary to obtain 95% of the value of the discounted cash flows of the respective intangible asset.

Goodwill, trade names and trademarks and IPR&D are considered indefinite lived assets. Our trade names and trademarks identify us and differentiate us from competitors, and therefore competition does not limit the useful life of these assets. Additionally, we believe that our trade names and trademarks will continue to generate product sales for an indefinite period.

Accounting standards require that an annual goodwill impairment assessment be conducted at the reporting unit level using either a quantitative or qualitative approach. The Company has determined that its Power Transmission Technologies (“PTT”) reporting segment is comprised of five reporting units. The Company has also determined that its A&S Business reporting segment is comprised of four reporting units.

As part of the annual goodwill impairment assessment we performed a quantitative assessment and estimated the fair value of each of our five reporting units in the PTT segment using an income approach. We forecasted future cash flows by reporting unit for each of the next five years and applied a long-term growth rate to the final year of forecasted cash flows. The cash flows were then discounted using our estimated discount rate. The forecasts of revenue and profitability growth for use in the long-range plan and the discount rate were the key assumptions in our goodwill fair value analysis. Our annual goodwill impairment analysis in 2018 indicated that in all instances, the fair values of our operating units exceeded their carrying values and consequently did not result in an impairment charge. Given the excess fair value, we believe that a significant change in key valuation assumptions, including a decrease in revenues or profitability, or an increase in the discount rate, would not result in an indication of impairment.

Because of the timing of the A&S acquisition and due to the fact that purchase accounting is not complete, we have performed a qualitative assessment to determine whether the fair value of the A&S reporting units are more likely than not less than the carrying value ("Step 0"). Based on the assessment, the Company concluded that it was more likely than not that the fair values of the A&S reporting units were greater than the respective carrying amount, and as a result, did not proceed to further impairment testing.

Management believes the preparation of revenue and profitability growth rates for use in the long-range plan and the discount rate requires significant use of judgment. If any of our reporting units do not meet our forecasted revenue and/or profitability estimates, we could be required to perform an interim goodwill impairment analysis in future periods. In addition, if our discount rate increases, we could be required to perform an interim goodwill impairment analysis.

For our indefinite lived intangible assets, mainly trademarks, we estimate the fair value by first estimating the total revenue attributable to the trademarks. Second, we estimate an appropriate royalty rate using the return on assets method by estimating the required financial return on our assets, excluding trademarks, less the overall return generated by our total asset base. The return as a percentage of revenue provides an indication of our royalty rate. We compared the estimated fair value of the trademarks with the carrying value of the trademarks and did not identify any impairment as of December 31, 2018.

Long-lived assets, including definite-lived intangible assets are reviewed for impairment when events or circumstances indicate that the carrying amount of a long lived asset may not be recovered. Long-lived assets are considered to be impaired if the carrying amount of the asset exceeds the undiscounted future cash flows expected to be generated by the asset over its remaining useful life. If an asset is considered to be impaired, the impairment is measured by the amount by which the carrying amount of the asset exceeds its fair value, and is charged to results of operations at that time.

Recent Accounting Standards

See the discussion of critical accounting policies in Note 1 of the consolidated financial statements for the year ended December 31, 2018.

Results of Operations.

Amounts in thousands, except percentage data

	Years Ended December 31,		
	2018	2017	2016
Net sales	\$1,175,342	\$876,737	\$708,906
Cost of sales	799,231	600,961	486,774

Edgar Filing: Altra Industrial Motion Corp. - Form 10-K

Gross profit	376,111	275,776	222,132
Gross profit percentage	32.0 %	31.5 %	31.3 %
Selling, general and administrative expenses	251,909	164,492	140,492
Research and development expenses	33,076	24,434	17,677
Impairment of intangible assets	—	—	6,568
Restructuring costs	4,449	4,143	9,849
Income from operations	86,677	82,707	47,546
Loss on partial settlement of pension plan	5,086	1,720	—
Interest expense, net	28,601	7,710	11,679
Loss on extinguishment of debt	1,247	1,797	1,989
Other non-operating (income) expense, net	(5)	353	(7)
Income before income taxes	51,748	71,127	33,885
Provision for income taxes	16,407	19,700	8,745
Net income	\$35,341	\$51,427	\$25,140

Segment Performance.

Amounts in thousands, except percentage data

	Years Ended December 31,		
	2018	2017	2016
Net Sales:			
Power Transmission Technologies	\$935,019	\$876,737	\$708,906
Automation & Specialty	241,710	—	—
Intra-segment eliminations	(1,387)	—	—
Net sales	\$1,175,342	\$876,737	\$708,906
Income from operations:			
Segment earnings:			
Power Transmission Technologies	\$118,181	\$97,227	\$70,065
Automation & Specialty	27,905	—	—
Corporate	(54,960)	(10,377)	(12,670)
Restructuring and consolidation costs	(4,449)	(4,143)	(9,849)
Income from operations	\$86,677	\$82,707	\$47,546

Year Ended December 31, 2018 Compared with Year Ended December 31, 2017

Amounts in thousands, except percentage data	Years Ended December 31,			
	2018	2017	Change	%
Net sales	\$1,175,342	\$876,737	\$298,605	34.1 %

Net Sales. The increase in net sales during the year ended December 31, 2018 is primarily due to increased sales resulting from the acquisition of the A&S Business in the amount of \$241.7 million. Excluding the impact of A&S sales, net sales increased \$56.9 million compared to the prior year. Changes in foreign exchange had a favorable impact on net sales of \$14.6 million compared to the prior year, primarily driven by the Euro. Price also had a favorable impact during the year of \$10.9 million. The remainder of the increase is due to higher sales as a result of increased volumes arising from the improvement in certain end-markets.

Amounts in thousands, except percentage data	Years Ended December 31,			
	2018	2017	Change	%
Gross Profit	376,111	275,776	100,335	36.4 %
Gross Profit as a percent of Net sales	32.0 %	31.5 %		

Gross profit. Gross profit as a percentage of net sales increased slightly during the year ended December 31, 2018 primarily due to the acquisition of the A&S Business. This increase was partially offset by the impact of amortization of acquired inventory related to the A&S acquisition in the amount of \$14.2 million recorded at fair value rather than

cost. Absent this fair value adjustment, the gross profit as a percent of net sales for the year ended December 31, 2018 would have been 33.2%.

Amounts in thousands, except percentage data	Years Ended December 31,			
	2018	2017	Change	%
Selling, general and administrative expense ("SG&A")	\$251,909	\$164,492	\$87,417	53.1%
SG&A as a percent of Net sales	21.4	% 18.8	%	

Selling, general and administrative expenses. For the year ended December 31, 2018, SG&A as a percentage of net sales increased primarily due to costs associated with the acquisition of the A&S Business. The increase was partially driven by the inclusion of \$47.2 million of SG&A related to the A&S Business including \$15.6 million of amortization expense. In addition, the Company incurred approximately \$36.2 million in acquisition related expenses and also recorded additional stock compensation expense of \$2.8 million.

Amounts in thousands, except percentage data	Years Ended December 31,			
	2018	2017	Change	%
Research and development expenses ("R&D")	\$33,076	\$24,434	\$8,642	35.4%

Research and development expenses. Research and development expenses increased due to the inclusion of R&D expenses for the A&S Business for the year ended December 31, 2018 in the amount of approximately \$9.1 million. We expect research and development costs to approximate 2.0% - 3.0% of sales in future periods.

Amounts in thousands, except percentage data	Years Ended December 31,			
	2018	2017	Change	%
Restructuring Costs	\$4,449	\$4,143	\$ 306	7.4%

Restructuring costs. During 2015 the we adopted the 2015 Altra Plan in response to weak demand in Europe and to make certain adjustments to improve business effectiveness, reduce the number of facilities and streamline our cost structure. The actions taken pursuant to the 2015 Altra Plan included reducing headcount, facility consolidations and related asset impairments and limiting discretionary spending to improve profitability. We do not expect to incur any additional material costs as a result of the 2015 Altra Plan. We took restructuring actions under the 2015 Altra Plan that realized approximate annual savings of \$0.7 million and \$3.0 million in 2018 and 2017, respectively. We estimate future annual savings for 2019 to be approximately \$0.1 million. The cost savings through 2018 were recognized as improvements in SG&A and Cost of Sales of approximately \$2.0 million and \$5.4 million, respectively. The estimated future savings through 2019 are expected to improve SG&A and Cost of Sales by \$0.2 million and \$0.5 million, respectively. The total 2015 Plan savings are in line with our expectations.

During the quarter ended September 30, 2017, the we commenced a new restructuring plan (“2017 Altra Plan”) as a result of the Stromag acquisition and to rationalize its global renewable energy business. The actions taken pursuant to the 2017 Altra Plan include reducing headcount, facility consolidations and the elimination of certain costs. We expect to incur approximately \$1.0 to \$3.0 million in additional expense through 2019 related to the 2017 Altra Plan. We have achieved annual savings of \$1.4 million during the fiscal year ended December 31, 2018 under the 2017 Altra Plan and estimates additional future savings during 2019 to be approximately \$2.3 million. The cost savings for the year ended December 31, 2018 were recognized as improvements in SG&A and Cost of Sales of approximately \$0.4 million and \$0.7 million, respectively. The estimated future savings through 2019 are expected to improve SG&A and Cost of Sales by \$0.6 million and \$1.7 million, respectively. The total 2017 Altra Plan savings are in line with our expectations.

During 2019, the we commenced a restructuring plan (“2019 Plan”) to drive efficiencies, reduce the number of facilities and optimize our operating margin. We expect expenses related to workforce reductions, lease termination costs and other facility rationalization costs. We expect to incur \$15 - \$25 million in restructuring expenses under the 2019 Altra Plan over the next 4 years, primarily related to plant consolidation and headcount reductions.

Amounts in thousands, except percentage data	Years Ended December 31,			
	2018	2017	Change	%
Interest Expense, net	\$28,601	\$7,710	\$20,891	271.0%

Interest expense. Interest expense increased for the year ended December 31, 2018 primarily due to the new debt instruments that the Company used to finance the acquisition of the A&S Business. We expect our interest expense in 2019 to increase as a result of additional borrowings to finance a portion of the purchase price for the acquisition of the A&S Business.

Amounts in thousands, except percentage data	Years Ended December 31,			
	2018	2017	Change	%
Provision for income taxes	16,407	19,700	\$(3,293)	(16.7)%
Provision for income taxes as a % of income before				
income taxes	31.7	%	27.7	%

Provision for income taxes. The provision for income tax as a percentage of income before income taxes during the year ended December 31, 2018 was higher than that of 2017 due to non-deductible acquisition related costs coupled with GILTI tax as a result of the 2017 Tax Cut and Jobs Act in the United States. The provision for income taxes for 2017 reflected an increase in the tax provision of \$7.4 million based on the recognition of a provisional U.S. tax charge for the deemed repatriation of foreign earnings as a result of the Tax Cut and Jobs Act which was offset by a benefit of \$7.8 million derived from the revaluation of net deferred tax liabilities. Going forward the Company expects its consolidated tax rate to be approximately 25% to 27%.

Segment Performance

Power Transmission Technologies

Net sales in the Power Transmission Technologies segment were \$935.0 million in the year ended December 31, 2018, an increase of approximately \$58.3 million or 6.6%, from the year ended December 31, 2017. The increase was due to the recovery of certain end markets and the favorable impact of foreign exchange, primarily by the euro of approximately \$14.7 million. Segment operating income increased by approximately \$21.0 million compared to the prior year.

Automation & Specialty

Net sales in the Automation & Specialty business segment were \$241.7 million from the acquisition date of October 1, 2018 through December 31, 2018. Our gross profit margin for the same period increased by 170 basis points from 30.7% to 32.3%. This increase of gross profit margin was partially offset by the impact of amortization of acquired inventory related to the A&S acquisition of \$14.2 million recorded at fair value rather than cost. Absent this fair value adjustment, the gross profit margin for the three-month period ended December 31, 2018 would have been 35.4%, an increase of 470 basis points.

Year Ended December 31, 2017 Compared with Year Ended December 31, 2016

Amounts in thousands, except percentage data	Years Ended December 31,			
	2017	2016	Change	%
Net sales	\$876,737	\$708,906	\$167,831	23.7%

Net Sales. The increase in sales during the year ended December 31, 2017 was primarily due to the acquisition of Stromag, price increases and higher sales levels in several end markets. Changes in foreign exchange rates also had a favorable impact on net sales of \$2.0 million. Of the increase in sales, approximately \$137.9 million related to the inclusion of additional sales as a result of the acquisition of Stromag. In addition, price increases contributed \$6.2 million. The remainder of the increase related to a recovery in sales levels in various end markets in the Couplings, Clutches, and Brakes business segment.

Amounts in thousands, except percentage data	Years Ended December 31,			
	2017	2016	Change	%
Gross Profit	\$275,776	\$222,132	\$53,644	24.1%
Gross Profit as a percent of Net sales	31.5	% 31.3	%	

Gross profit. Gross profit as a percentage of sales improved slightly during the year ended December 31, 2017. The increase was due to improvements realized from our facility consolidations, price increases and improving end markets. The increase in gross profit was partially offset by the impact of acquired inventory related to the Stromag acquisition in the amount of \$2.3 million which was recorded at fair value rather than cost. Absent this fair value adjustment the gross profit as a percent of sales for 2017 would have been 31.7%.

Amounts in thousands, except percentage data	Years Ended December 31,			
	2017	2016	Change	%
Selling, general and administrative expense ("SG&A")	\$ 164,492	\$ 140,492	\$ 24,000	17.1 %
SG&A as a percent of Net sales	18.8	% 19.8	%	

Selling, general and administrative expenses. The vast majority of the increase in SG&A was due to the inclusion of SG&A related to the Stromag business. The decline of SG&A as a percentage of sales is primarily due to facility consolidation and restructuring activities.

Amounts in thousands, except percentage data	Years Ended December 31,			
	2017	2016	Change	%
Research and development expenses ("R&D")	\$ 24,434	\$ 17,677	\$ 6,757	38.2 %

Research and development expenses. Research and development expenses increased due to the inclusion of Stromag for the year ended December 31, 2017. Research and development expenses remained consistent as a percentage of sales compared to the prior year.

Amounts in thousands, except percentage data	Years Ended December 31,			
	2017	2016	Change	%
Restructuring Costs	\$4,143	\$9,849	\$(5,706)	(57.9)%

Restructuring costs. During 2015 the Company adopted a restructuring plan (“2015 Altra Plan”) in response to weak demand in Europe and to make certain adjustments to improve business effectiveness, reduce the number of facilities and streamline the Company’s cost structure. The actions taken pursuant to the 2015 Altra Plan included reducing headcount, facility consolidations and related asset impairments and limiting discretionary spending to improve profitability.

During the quarter ended September 30, 2017, the Company commenced a new restructuring plan (“2017 Altra Plan”) as a result of the Stromag acquisition and to rationalize its global renewable energy business. The actions taken pursuant to the 2017 Altra Plan include reducing headcount, facility consolidations and the elimination of certain costs.

Amounts in thousands, except percentage data	Years Ended December 31,			
	2017	2016	Change	%
Interest Expense, net	\$7,710	\$11,679	\$(3,969)	(34.0)%

Interest expense. Interest expense decreased significantly during the period as a result of the conversion and redemption of our Convertible Notes, in December 2016 and January 2017, and the favorable impact of the cross-currency interest rate swaps despite the higher borrowing under our 2015 Revolving Credit Facility from the Stromag Acquisition.

Amounts in thousands, except percentage data	Years Ended December 31,			
	2017	2016	Change	%
Other non-operating expense/(income), net	\$353	\$ (7)	\$ 360	(5142.9)%

Other non-operating expense (income). Other non-operating expense (income) in each period in the chart above relates primarily to changes in foreign currency, primarily the Euro, British Pound, and Chinese Renminbi.

Amounts in thousands, except percentage data	Years Ended December 31,			
	2017	2016	Change	%

Provision for income taxes	\$19,700	\$8,745	\$10,955	125.3 %
Provision for income taxes as a % of income before income taxes	27.7	%	25.8	%

Provision for income taxes. The provision for income tax during the year ended December 31, 2017 was higher than that of 2016 due to increased income in 2017 in higher tax rate jurisdictions. During 2016 there was an impairment of intangibles in the United States and a loss on the extinguishment of debt which resulted in lower taxable income in the Company's highest tax rate jurisdiction which impacted the effective tax rate. The provision for income taxes for 2017 reflected an increase in the tax provision of \$7.4 million based on the recognition of a provisional U.S. tax charge for the deemed repatriation of foreign earnings as a result of the Tax Cut and Jobs Act which was offset by the benefit of \$7.8 million derived from the revaluation of net deferred tax liabilities.

Segment Performance

Power Transmission Technologies.

Net sales in the Power Transmission Technologies segment were \$876.7 million in the year ended December 31, 2017, an increase of approximately \$167.8 million or 23.7%, from the year ended December 31, 2016. Approximately \$137.9 million of the increase was due to the inclusion of sales from the newly acquired Stromag business for the year. Segment operating income increased by approximately \$35.2 million compared to the prior year, primarily as a result of the addition of Stromag. The remainder of the increase was due to a modest recovery in certain end markets.

Liquidity and Capital Resources

Overview

We finance our capital and working capital requirements through a combination of cash flows from operating activities and borrowings under the Altra Revolving Credit Facility. At December 31, 2018, we have the ability under the Altra Revolving Credit Facility to borrow an additional \$295.8 million subject to satisfying customary conditions. We expect that our primary ongoing requirements for cash will be for working capital, debt service, capital expenditures, acquisitions, pensions, dividends and share repurchases.

On October 1, 2018, we consummated the Fortive Transaction. The aggregate purchase price for the A&S Business was approximately \$2,855.7 million, subject to certain post-closing adjustments, and consisted of (i) \$1,400.0 million of cash transferred to Fortive and (ii) shares of Altra common stock received by Fortive shareholders valued at approximately \$1,455.7 million. The value of the common stock was based on the closing stock price on the A&S Closing Date of \$41.59. We financed the cash portion of the Fortive Transaction with the Altra Credit Facilities (as defined herein).

We believe, based on current and projected levels of cash flows from operating activities, together with our ability to borrow under the Altra Revolving Credit Facility (as defined herein), we have sufficient liquidity to meet our short-term and long-term needs to make required payments of interest on our debt, make amortization payments under the Altra Credit Facilities (as defined herein), fund our operating needs, fund working capital and capital expenditure requirements and comply with the financial ratios in our debt agreements. In the event additional funds are needed for operations, we could attempt to obtain new debt and/or refinance existing debt, or attempt to raise capital in the equity markets. There can be no assurance however that additional debt or equity financing will be available on commercially acceptable terms, if at all.

Notes

On September 26, 2018, Stevens Holding Company, Inc., a wholly owned subsidiary of the Company (“Stevens Holding”), announced the pricing of \$400 million aggregate principal amount of Stevens Holding’s 6.125% senior notes due 2026 (the “Notes”) in a private debt offering pursuant to Rule 144A and Regulation S under the Securities Act of 1933 (the “Private Placement”). On October 1, 2018, the Private Placement closed, and Stevens Holding sold \$150 million aggregate principal amount of the Notes (the “Primary Notes”) and an unaffiliated selling securityholder sold \$250 million aggregate principal amount of the Notes (the “Selling Securityholder Notes”). The Notes will mature on October 1, 2026. Interest on the Notes accrues from October 1, 2018, and the first interest payment date on the Notes will be April 1, 2019. The Notes may be redeemed at the option of Stevens Holding on or after October 1, 2023, in the manner and at the redemption prices specified in the indenture governing the Notes, plus accrued and unpaid interest thereon, if any, to, but excluding, the date of redemption. The Notes are guaranteed on a senior unsecured basis by Altra and certain of its domestic subsidiaries.

The unaffiliated selling securityholder received the Selling Securityholder Notes from Fortive prior to the closing of the Private Placement in exchange for certain outstanding Fortive debt held or acquired by the unaffiliated selling securityholder. Stevens Holding used the net proceeds of the Primary Notes to fund a dividend payment to Fortive prior to the consummation of the Merger, and Stevens Holding did not receive any proceeds from the sale of the Selling Securityholder Notes.

Altra Credit Agreement

On the A&S Closing Date, Altra entered into a new Credit Agreement (the “Altra Credit Agreement”) with certain subsidiaries of Altra, JPMorgan Chase Bank, N.A., as administrative agent and collateral agent, and a syndicate of lenders. The Altra Credit Agreement provides for a seven-year senior secured term loan to Altra in an aggregate principal amount of \$1,340.0 million (the “Altra Term Loan Facility”) and a five-year senior secured revolving credit facility provided to Altra and certain of its subsidiaries in an aggregate committed principal amount of \$300.0 million (the “Altra Revolving Credit Facility” and together with the Altra Term Loan Facility, the “Altra Credit Facilities”). The proceeds of the Altra Term Loan Facility were used to (i) consummate the Direct Sales, (ii) repay in full and extinguish all outstanding indebtedness for borrowed money under the 2015 Credit Agreement and (iii) pay certain fees, costs, and expenses in connection with the consummation of the Fortive Transaction. Any proceeds of the Altra Term Loan Facility not so used may be used for general corporate purposes. The proceeds of the Altra Revolving Credit Facility will be used for working capital and general corporate purposes.

The Altra Credit Facilities are guaranteed on a senior secured basis by Altra and by each direct or indirect wholly owned domestic subsidiary of Altra, subject to certain customary exceptions.

Borrowings under the Altra Term Loan Facility will bear interest at a per annum rate equal to a “Eurocurrency Rate” plus 2.00%, in the case of Eurocurrency Rate borrowings, or equal to a “Base Rate” plus 1.00%, in the case of Base Rate borrowings. Borrowings under the Altra Revolving Credit Facility will initially bear interest at a per annum rate equal to a Eurocurrency Rate plus 2.00%, in the case of Eurocurrency Rate borrowings, or equal to a Base Rate plus 1.00%, in the case of Base Rate borrowings, and thereafter will bear interest at a per annum rate equal to a Eurocurrency Rate or Base Rate, as applicable, plus an interest rate spread determined by reference to a pricing grid based on Altra’s senior secured net leverage ratio. In addition, Altra will be required to pay fees that will fluctuate between 0.250% per annum to 0.375% per annum on the unused amount of the Altra Revolving Credit Facility, based upon Altra’s senior secured net leverage ratio. The interest rate on the Term Loan Facility and the Revolving Credit Facility was 4.52% at December 31, 2018.

Revolving borrowings and issuances of letters of credit under the Altra Revolving Credit Facility are subject to the satisfaction of customary conditions, including the accuracy of representations and warranties and the absence of defaults.

The Altra Credit Agreement contains usual and customary representations and warranties, and usual and customary affirmative and negative covenants, including limitations on liens, investments, restricted payments, additional indebtedness and asset sales and mergers. In addition, the Altra Credit Agreement requires that Altra maintain a specified maximum senior secured leverage ratio and a specified minimum interest coverage ratio. The obligations of the borrowers of the Altra Credit Facilities under the Altra Credit Agreement may be accelerated upon customary events of default, including non-payment of principal, interest, fees and other amounts, inaccuracy of representation and warranties, violation of covenants, cross default and cross acceleration, voluntary and involuntary bankruptcy or insolvency proceedings, inability to pay debts as they become due, material judgements, ERISA events, actual or asserted invalidity of security documents or guarantees and change in control.

2015 Credit Agreement

On October 22, 2015, the Company entered into a Second Amended and Restated Credit Agreement by and among the Company, Altra Industrial Motion Netherlands, B.V., one of the Company’s foreign subsidiaries (collectively with the Company, the “Borrowers”), the lenders party to the Second Amended and Restated Credit Agreement from time to time (collectively, the “Lenders”), J.P. Morgan Securities LLC, Wells Fargo Securities, LLC, and KeyBanc Capital Markets, Inc., as joint lead arrangers and joint bookrunners, and JPMorgan Chase Bank, N.A., as administrative agent (the “Administrative Agent”), to be guaranteed and secured by certain domestic subsidiaries of the Company, and which may be amended from time to time (the “2015 Credit Agreement”).

Under the 2015 Credit Agreement, the amount of the Company’s revolving credit facility was \$350 million (the “2015 Revolving Credit Facility”). Prior to October 2018, the amounts available under the 2015 Revolving Credit Facility were used for general corporate purposes, including acquisitions, and to repay existing indebtedness.

Prior to October 2018, the amounts available under the 2015 Revolving Credit Facility could be drawn upon in accordance with the terms of the 2015 Credit Agreement. All amounts outstanding under the 2015 Revolving Credit Facility were due on the stated maturity or such earlier time, if any, required under the 2015 Credit Agreement. The amounts owed under the 2015 Revolving Credit Facility could be prepaid at any time, subject to usual notification and breakage payment provisions. Interest on the amounts outstanding under the 2015 Revolving Credit Facility was calculated using either an ABR Rate or Eurodollar Rate, plus the applicable margin. A portion of the 2015 Revolving Credit Facility could also be used for the issuance of letters of credit, and a portion of the amount of the 2015 Revolving Credit Facility was available for borrowings in certain agreed upon foreign currencies.

The 2015 Credit Agreement contained various affirmative and negative covenants and restrictions, which among other things, required the Borrowers to provide certain financial reports to the Lenders, required the Company to maintain certain financial covenants relating to consolidated leverage and interest coverage, limited maximum annual capital expenditures, and limited the ability of the Company and its subsidiaries to incur or guarantee additional indebtedness, pay dividends or make other equity distributions, purchase or redeem capital stock or debt, make certain investments, sell assets, engage in certain transactions, and effect a consolidation or merger. The 2015 Credit Agreement also contained customary events of default.

On October 21, 2016, the Company entered into an agreement to amend the 2015 Credit Agreement (the “October 2016 Amendment”). The October 2016 Amendment, which became effective upon the December 30, 2016 closing of Altra’s purchase of Stromag (the “Stromag Acquisition”), increased the 2015 Revolving Credit Facility by \$75 million to \$425 million. The Company borrowed additional funds under the increased 2015 Revolving Credit Facility to finance the Stromag Acquisition. The October 2016 Amendment also reset the possible expansion of up to \$150 million of additional future loan commitments. In addition, the October 2016 Amendment increased the multicurrency sublimit to \$250 million and adjusted certain financial covenants.

On October 1, 2018, in connection with the Fortive Transaction and the entering into the Altra Credit Agreement, the 2015 Credit Agreement was terminated and all outstanding indebtedness for borrowed money thereunder was repaid in full.

Convertible Senior Notes

In March 2011, the Company issued convertible senior notes (the “Convertible Notes”) due March 1, 2031. The Convertible Notes were guaranteed by the Company’s U.S. domestic subsidiaries. Interest on the Convertible Notes was payable semi-annually in arrears, on March 1 and September 1 of each year, commencing on September 1, 2011 at an annual rate of 2.75%. Proceeds from the Convertible Notes offering were \$81.3 million, net of fees and expenses that were capitalized.

On December 12, 2016, the Company gave notice to The Bank of New York Mellon Trust Company, N.A., the Trustee under the Indenture governing the Convertible Notes (the “Indenture”) of its intention to redeem all of the Convertible Notes outstanding on January 12, 2017 (the “Redemption Date”), pursuant to the optional redemption provisions in the Indenture. The redemption price for the Convertible Notes was 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but not including, the Redemption Date plus a Make-Whole Premium equal to the present values of the remaining scheduled payments of interest on any Convertible Notes through March 1, 2018 (excluding interest accrued to, but excluding, the Redemption Date). In lieu of receiving the redemption price, holders of the Notes could surrender their Convertible Notes for conversion at any time before January 9, 2017. The conversion rate of the Convertible Notes was 39.0809 shares of the Company’s common stock for each \$1,000 of outstanding principal of the Convertible Notes. As of December 31, 2016, Convertible Notes with an outstanding principal amount of approximately \$39.3 million were converted, resulting in the issuance of approximately 1.5 million shares of the Company’s common stock. As a result of the conversion, the Company incurred a loss on extinguishment of debt of approximately \$1.9 million and the carrying value of the remaining Convertible Notes was \$42.9 million net of unamortized discount as of December 31, 2016. In January 2017, additional Convertible Notes with an outstanding principal amount of approximately \$44.7 million were converted resulting in the issuance of 1.7 million shares of the Company’s common stock, and \$0.9 million of Convertible Notes were redeemed for cash. The Company incurred an additional loss on extinguishment of debt of approximately \$1.8 million during the quarter ended March 31, 2017. All Convertible Notes were converted or redeemed as of January 12, 2017.

Borrowings

Below is a summary of borrowings as of and for the years ended December 31, 2018 and 2017, respectively:

	Amounts in millions	
	Years Ended	
	December 31,	
	2018	2017
Debt:		
Term loan	\$1,320.0	\$—
Revolving credit facility	—	262.9
Notes	400.0	—

Mortgages and other	13.5	12.8
Capital leases	0.5	0.2
Total debt	\$1,734.0	\$275.9

Below is a reconciliation of net debt for the year ended December 31, 2018:

	Amounts in millions	
	Years Ended	
	December 31,	
	2018	2017
Debt	\$1,734.0	\$275.9
Cash	(169.0)	(51.9)
Net debt	\$1,565	\$224

Cash and Cash Equivalents

The following is a summary of our cash balances and cash flows (in thousands) as of and for the years ended December 31, 2018 and 2017, respectively.

	2018	2017	Change
Cash and cash equivalents at the beginning of the year	\$51,994	\$69,118	\$(17,124)
Cash flows provided by (used in) operating activities	116,283	80,581	35,702
Cash flows provided by (used in) in investing activities	(989,379)	(26,722)	(962,657)
Cash flows provided by (used in) financing activities	986,246	(74,048)	1,060,294
Effect of exchange rate changes on cash and cash equivalents	3,813	3,065	748
Cash and cash equivalents at the end of the period	\$168,957	\$51,994	\$116,963

Cash Flows for 2018

Funds provided by operating activities totaled approximately \$116.3 million for fiscal 2018, a significant portion of which resulted from cash provided by net income of \$35.3 million. In addition, the net impact of the add-back of certain non-cash items including depreciation, amortization, stock-based compensation, loss on disposal of fixed assets, loss on settlement of partial pension plan, deferred financing costs, accretion of debt discount, benefit for deferred taxes, amortization of inventory fair value adjustment, and non-cash gain on foreign currency was approximately \$79.2 million. Also, a net increase in current assets and liabilities provided cash of approximately \$1.8 million.

Net cash used in investing activities for the year ended December 31, 2018 increased approximately \$962.7 million due to the acquisition of the A&S Business on October 1, 2018 for \$949.2 million, net of cash received.

Net cash used in financing activities in the year ended December 31, 2018 as compared to the year to date period ended December 31, 2017 increased by \$1,060.3 million. In 2018, cash from financing activities was driven by the borrowing of \$1,340.0 million under the Altra Term Loan Facility, offset by payments of \$281.6 million for the termination of the 2015 Credit Facility. In 2017, we used our cash to pay down approximately \$51.6 million of debt.

We intend to use our remaining cash and cash equivalents and cash flow from operations to provide for our working capital needs, to fund potential future acquisitions, to service our debt, including principal payments, for capital expenditures, for pension funding, for share repurchases and to pay dividends to our stockholders. As of December 31, 2018, we have approximately \$87.2 million of cash and cash equivalents held by foreign subsidiaries. We believe our future operating cash flows will be sufficient to meet our future operating and investing cash needs. Furthermore, the existing cash balances and the availability of additional borrowings under our Altra Credit Facilities provide additional potential sources of liquidity should they be required.

Cash Flows for 2017

Amounts in thousands, except percentage data

Edgar Filing: Altra Industrial Motion Corp. - Form 10-K

	2017	2016	Change
Cash and cash equivalents at the beginning of the period	\$69,118	\$50,320	\$18,798
Cash flows from operating activities	80,581	76,641	3,940
Cash flows from investing activities	(26,722)	(206,908)	180,186
Cash flows from financing activities	(74,048)	149,772	(223,820)
Effect of exchange rate changes on cash and cash equivalents	3,065	(707)	3,772
Cash and cash equivalents at the end of the period	\$51,994	\$69,118	\$(17,124)

Funds provided by operating activities totaled approximately \$80.6 million for fiscal 2017, a significant portion of which resulted from cash provided by net income of \$51.4 million. In addition, the net impact of the add-back of certain non-cash items including depreciation, amortization, stock-based compensation, loss on disposal of fixed assets, loss on impairment of intangibles, loss on extinguishment of debt, loss on settlement of partial pension plan, deferred financing costs, provision for deferred taxes, amortization of inventory fair value adjustment, and non-cash gain on foreign currency was approximately \$40.7 million. This was partially offset by a net increase in current assets and liabilities of approximately \$11.5 million.

Net cash used in investing activities for the year ended December 31, 2017 decreased approximately \$180.2 million due to the acquisition of Stromag in December 2016 for \$188.0 million, net of cash received.

Net cash used in financing activities in the year ended December 31, 2017 as compared to the year to date period ended December 31, 2016 decreased \$223.8 million. In December 2016 we borrowed approximately \$200 million under our 2015 Revolving Credit Facility for the Stromag Acquisition. In 2017, we used our cash to pay down approximately \$51.6 million of debt.

As of December 31, 2017, we had approximately \$44.9 million of cash and cash equivalents held by foreign subsidiaries that were subject to the Transition Toll Tax under the 2017 Tax Act, see Note 8 to the consolidated financial statements.

Capital Expenditures

We made capital expenditures of approximately \$37.5 million and \$32.8 million in the years ended December 31, 2018 and 2017, respectively. The increase in capital expenditures during 2018 was due to the addition of the A&S Business. These capital expenditures will support on-going business needs. In 2019, we forecast capital expenditures to be in the range of \$60.0 million to \$65.0 million.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that provide liquidity, capital resources, market or credit risk support that expose us to any liability that is not reflected in our consolidated financial statements.

Contractual Obligations

The following table is a summary of our contractual cash obligations as of December 31, 2018 (in thousands):

	Payments Due by Period						Total
	2019	2020	2021	2022	2023	Thereafter	
Operating leases	\$ 15,257	\$ 11,178	\$ 7,774	\$ 6,126	\$ 4,433	\$ 5,147	\$ 49,915
Capital leases	134	142	150	131	—	—	557
Heidelberg Germany mortgage ⁽¹⁾	194	194	194	194	194	60	1,030
Esslingen Germany mortgage ⁽²⁾	—	—	—	—	—	6,868	6,868
Zlate Moravce, Slovakia ⁽³⁾	486	486	486	—	—	—	1,458
Angers France mortgage ⁽⁴⁾	223	223	223	223	223	538	1,653
Term Loan ⁽⁵⁾	13,400	13,400	13,400	13,400	13,400	1,253,000	1,320,000
Altra Revolving Credit Facility ⁽⁵⁾	—	—	—	—	—	—	—
Notes ⁽⁶⁾	—	—	—	—	—	400,000	400,000
Working Capital Line of Credit ⁽⁷⁾	2,461	—	—	—	—	—	2,461
Total contractual cash obligations	\$ 32,155	\$ 25,623	\$ 22,227	\$ 20,074	\$ 18,250	\$ 1,665,613	\$ 1,783,942

⁽¹⁾ A foreign subsidiary of the Company entered into a mortgage with a bank for €1.5 million, or \$1.7 million, secured by its facility in Heidelberg, Germany to replace its previously existing mortgage during the quarter ended

September 30, 2015. The mortgage has an interest rate of 1.79% which is payable in monthly installments through August 2023. The mortgage has a remaining principal balance of €0.9, or \$1.0, at December 31, 2018.

- (2) A foreign subsidiary of the Company entered into a mortgage with a bank to borrow €6.0 million, or \$6.7 million, for the expansion of its facility in Esslingen, Germany during August 2014. The mortgage has an interest rate of 2.5% per year which is payable in annual interest payments of €0.1 million or \$0.1 million to be paid in monthly installments which are not included in the table above. The mortgage has a remaining principal balance of €6.0, or \$6.9, at December 31, 2018. The principal portion of the mortgage will be due in a lump-sum payment in July 2028.
- (3) During 2016, a foreign subsidiary of the Company entered into a loan with a bank to equip its facility in Zlate Moravce, Slovakia. As of December 31, 2018, the total principal outstanding was €1.3 million, or \$1.5 million, and is guaranteed by land security at its parent company facility in Esslingen, Germany. The loan is due in installments through 2020, with an interest rate of 1.95%.
- (4) A foreign subsidiary of the Company entered into a mortgage with a bank for €2.0 million, or \$2.3 million, for the expansion of its facility in Angers, France. The mortgage has an interest rate of 1.85% per year which is payable in monthly installments from June 2016 until May 2025. The mortgage has a balance of €1.5 million, or \$1.7 million, at December 31, 2018.

- (5) We have up to \$300.0 million of total borrowing capacity, through October 1, 2025, under the Altra Revolving Credit Facility of which \$295.8 million is currently available. As of December 31, 2018 and 2017, there were \$4.2 million and \$3.5 million of outstanding letters of credit under the Altra Revolving Credit Facility and the 2015 Revolving Credit Facility. We have variable monthly and/or quarterly cash interest requirements due on the Altra Revolving Credit Facility through October 2025, which are not included in the above table.
- (6) We assumed \$400 million aggregate principal amount of 6.125% Senior Notes due 2026, upon the closing of the Fortive Transaction. The Notes will mature on October 1, 2026. The Notes are guaranteed on a senior unsecured basis by the Company and certain of its domestic subsidiaries.
- (7) A foreign subsidiary of the Company has a line of credit used for operating purposes. As of December 31, 2018, the Company had \$13 million Turkish Lira or \$3.0 million USD outstanding.

From time to time, we may have cash funding requirements associated with our pension plans. As of December 31, 2018, there were no funding requirements for 2019 to 2023. These amounts are based on actuarial assumptions and actual amounts could be materially different.

We may be required to make cash outlays related to our unrecognized tax benefits. However, due to the uncertainty of the timing of future cash flows associated with our unrecognized tax benefits, we are unable to make reasonably reliable estimates of the period of cash settlement, if any, with the respective taxing authorities.

Stock-based Compensation

The 2014 Omnibus Incentive Plan (the “2014 Plan”) was approved by the Company's stockholders at its 2014 annual meeting. The 2014 Plan provides for various forms of stock based compensation to our directors, executive personnel and other key employees and consultants. Under the 2014 Plan, the total number of shares of common stock available for delivery pursuant to the grant of awards (“Awards”) was originally 750,000. Shares of our common stock subject to Awards or grants awarded under our prior 2004 Equity Incentive Plan and outstanding as of the effective date of the 2014 Plan (except for substitute awards) that terminate without being exercised, expire, are forfeited or canceled, are exchanged for Awards that did not involve shares of common stock, are not issued on the stock settlement of a stock appreciation right, are withheld by the Company or tendered by a participant (either actually or by attestation) to pay an option exercise price or to pay the withholding tax on any Award, or are settled in cash in lieu of shares will again be available for Awards under the 2014 Plan. An amendment to the 2014 Plan to, among other things, make an additional 2,200,000 shares of common stock available for grant under the 2014 Plan was approved by the Company's stockholders at the special meeting of stockholders on September 4, 2018.

As of December 31, 2018, there were 823,573 shares of unvested restricted stock outstanding under the 2014 Plan. The remaining compensation cost to be recognized through 2021 is \$21.4 million. Based on the stock price at December 31, 2018, of \$25.15 per share, the intrinsic value of these awards as of December 31, 2018, was \$20.7 million.

Income Taxes

We are subject to taxation in multiple jurisdictions throughout the world. Our effective tax rate and tax liability will be affected by a number of factors, such as the amount of taxable income in particular jurisdictions, the tax rates in such jurisdictions, tax treaties between jurisdictions, the extent to which we transfer funds between jurisdictions and repatriate income, and changes in law. Generally, the tax liability for each legal entity is determined either (a) on a non-consolidated and non-combined basis or (b) on a consolidated and combined basis only with other eligible entities subject to tax in the same jurisdiction, in either case without regard to the taxable losses of non-consolidated and non-combined affiliated entities. As a result, we may pay income taxes to some jurisdictions even though on an overall basis we incur a net loss for the period.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the “U.S. Tax Act”) was signed into law, making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a U.S. federal corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017. We have calculated the impact of the U.S. Tax Act in our year end income tax provision in accordance with guidance available as of the date of this filing. The one-time transition tax on the mandatory deemed repatriation of foreign earnings was \$7.4 million. In addition, we recognized a benefit totaling \$7.8 million upon the remeasurement of our net deferred tax liabilities from 35% to 21%.

Seasonality

General economic conditions impact our business and financial results, and certain of our businesses experience seasonal and other trends related to the industries and end markets that they serve. For example, sales to OEMs are often stronger immediately preceding and following the launch of new products. In addition, we experience seasonality in our turf and garden business. As our large OEM customers prepare for the spring season, our shipments generally start increasing in December, peak in February and March, and begin to decline in April and May. This allows our customers to have inventory in place for the peak consumer purchasing periods for turf and garden products. The June-through-November period is typically the low season for us and our customers in the turf and garden market. Seasonality is also affected by weather and the level of housing starts. However, as a whole, we are not subject to material seasonality.

Inflation

Inflation can affect the costs of goods and services we use. The majority of the countries that are of significance to us, from either a manufacturing or sales viewpoint, have in recent years enjoyed relatively low inflation although there can be no assurance that inflation will not increase in future periods. The competitive environment in which we operate inevitably creates pressure on us to provide our customers with cost-effective products and services.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to various market risk factors such as fluctuating interest rates, changes in foreign currency rates and changes in commodity prices. At present, with the exception of the interest rate and cross currency swaps described below, we do not utilize any other derivative instruments to manage these risks.

Currency translation. We are exposed to market risk from changes in foreign currency exchange rates primarily in connection with our foreign subsidiaries. The results of operations of our foreign subsidiaries are translated into U.S. Dollars at the average exchange rates for each period concerned. The balance sheets of foreign subsidiaries are translated into U.S. Dollars at the exchange rates in effect at the end of each period. Any adjustments resulting from the translation are recorded as other comprehensive income. For the year ended December 31, 2018, approximately 46% of our revenues and approximately 52% of our total operating income were denominated in foreign currencies. To hedge a portion of this risk, the Company entered in to a cross-currency swap agreement to hedge its net investment in Euro-denominated assets against future volatility in the exchange rate between the U.S. dollar and the Euro.

We have performed a sensitivity analysis assuming a hypothetical 10% adverse movement in foreign currency exchange rates from the quoted foreign currency exchange rates at December 31, 2018. As of December 31, 2018, the analysis indicated that such an adverse movement would cause our revenues and operating income to fluctuate by approximately 4.4% and 4.7%, respectively.

Currency transaction exposure. Currency transaction exposure arises where actual sales, purchases and financing transactions are made by a business or company in a currency other than its own functional currency. Any transactional differences at an international location are recorded in net income on a monthly basis. The Company enters into contractual derivative arrangements to manage changes in market conditions, related foreign currency exposure and occasionally on commodity prices.

Interest rate risk. We are subject to market exposure to changes in interest rates on some of our financing activities. This exposure relates to borrowings under our Altra Credit Facilities that are subject to variable interest rates. Interest on the amounts outstanding under the credit facilities is calculated using the Eurodollar rate, plus the applicable margin. As of December 31, 2018, we had \$1,320.0 million in borrowings under our Altra Credit Facilities. A hypothetical change in interest rates of 1% on our outstanding variable rate debt would increase our annual interest expense by approximately \$13.2 million. We have entered into interest rate swap agreements with respect to

approximately \$650 million of our variable interest rate borrowings and as a result those borrowings would not be impacted by such a hypothetical change in interest rates.

We rely on interest rate swap contracts and hedging arrangements to effectively manage our interest rate risk. We entered into cross-currency interest rate swaps in 2018 to manage the cash flow risk caused by interest rate and foreign exchange changes on outstanding borrowings under the Altra Credit Agreement of \$600 million related to the Company's foreign financing of the acquisition of the A&S Business. We are exposed to credit loss in the event of non-performance by the swap counterparty. With other variables held constant, a hypothetical 50 basis point increase in the Euro swap curve would have resulted in a decrease of approximately \$11.1 million in the fair value of these swaps, while a 10% increase in the foreign exchange rate between the Euro and US Dollar would have resulted in a decrease of approximately \$65 million in the fair value of these swaps.

Commodity price exposure. We have exposure to changes in commodity prices principally related to metals including steel, copper and aluminum. We primarily manage our risk associated with such increases through the use of surcharges or general pricing increases for the related products. We do not engage in the use of financial instruments to hedge our commodities price exposure.

Item 8. Financial Statements and Supplementary Data
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of

Altra Industrial Motion Corp.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Altra Industrial Motion Corp. and subsidiaries (the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows, for each of the three years in the period ended December 31, 2018, and the related notes and the financial statement schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 1, 2019 expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Boston, Massachusetts

March 1, 2019

We have served as the Company's auditor since 2009.

51

ALTRA INDUSTRIAL MOTION CORP.

Consolidated Balance Sheets

Amounts in thousands, except share and per share amounts

	Years Ended December 31,	
	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 168,957	\$ 51,994
Trade receivables, less allowance for doubtful accounts of \$5,628 and \$4,542 at December 31, 2018 and 2017, respectively	259,815	135,499
Inventories	231,172	145,611
Income tax receivable	10,172	6,634
Prepaid expenses and other current assets	33,095	17,344
Assets held for sale	696	1,081
Total current assets	703,907	358,163
Property, plant and equipment, net	364,433	191,918
Intangible assets, net	1,585,728	159,613
Goodwill	1,662,341	206,040
Deferred income taxes	4,931	2,608
Other non-current assets, net	15,903	2,315
Total assets	\$ 4,337,243	\$ 920,657
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 175,790	\$ 68,014
Accrued payroll	56,979	32,091
Accruals and other current liabilities	79,611	32,921
Income tax payable	7,542	9,082
Current portion of long-term debt	17,188	384
Total current liabilities	337,110	142,492
Long-term debt - less current portion	1,690,898	275,587
Deferred income taxes	393,217	52,250
Pension liabilities	31,976	25,038
Long-term taxes payable	5,418	6,322
Other long-term liabilities	30,428	22,263
Commitments and Contingencies (See Note 15)		
Stockholders' equity:		
Common stock (\$0.001 par value, 120,000,000 shares authorized, 64,186,308 and 29,058,117 issued and outstanding at December 31, 2018 and 2017, respectively)	64	29
Additional paid-in capital	1,687,121	223,336
Retained earnings	232,604	223,204
Accumulated other comprehensive loss	(71,593)	(49,864)

Total stockholders' equity	1,848,196	396,705
Total liabilities and stockholders' equity	\$4,337,243	\$920,657

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

ALTRA INDUSTRIAL MOTION CORP.

Consolidated Statements of Income

Amounts in thousands, except per share data

	Years Ended December 31,		
	2018	2017	2016
Net sales	\$1,175,342	\$876,737	\$708,906
Cost of sales	799,231	600,961	486,774
Gross profit	376,111	275,776	222,132
Operating expenses:			
Selling, general and administrative expenses	251,909	164,492	140,492
Research and development expenses	33,076	24,434	17,677
Impairment of intangible assets	—	—	6,568
Restructuring costs	4,449	4,143	9,849
	289,434	193,069	174,586
Income from operations	86,677	82,707	47,546
Other non-operating income and expense:			
Loss on partial settlement of pension plan	5,086	1,720	—
Interest expense, net	28,601	7,710	11,679
Loss on write-off of deferred financing and extinguishment of convertible debt	1,247	1,797	1,989
Other non-operating (income) expense, net	(5)	353	(7)
	34,929	11,580	13,661
Income before income taxes	51,748	71,127	33,885
Provision for income taxes	16,407	19,700	8,745
Net income	\$35,341	\$51,427	\$25,140
Weighted average shares, basic	37,868	28,949	25,719
Weighted average shares, diluted	38,380	29,064	25,872
Net income per share:			
Basic	\$0.93	\$1.78	\$0.97
Diluted	0.92	1.77	0.97
Cash dividend declared per share	0.68	0.66	0.60

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

ALTRA INDUSTRIAL MOTION CORP.

Consolidated Statements of Comprehensive Income

Amounts in thousands, except per share data

	Years Ended December 31,		
	2018	2017	2016
Net income	\$35,341	\$51,427	\$25,140
Reclassification adjustment from loss on partial settlement of pension plan, net of tax	4,291	1,066	—
Pension liability adjustment, net of tax	(810)	924	139
Change in fair value of derivative financial instrument, net of tax	(12,490)	194	(506)
Foreign currency translation adjustment, net of tax	(12,720)	24,038	(11,887)
Total other comprehensive (loss) income:	(21,729)	26,222	(12,254)
Total comprehensive income	\$13,612	\$77,649	\$12,886

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

ALTRA INDUSTRIAL MOTION CORP.

Consolidated Statements of Stockholders' Equity

Amounts in thousands, except per share data

	Common		Additional	Retained	Accumulated Other Comprehensive Income (Loss)	Total
	Stock	Shares	Paid in Capital	Earnings		
Balance at January 1, 2016	\$ 26	25,773	\$ 124,834	\$ 181,539	\$ (63,832)	\$ 242,567
Stock-based compensation and vesting of restricted stock	—	74	2,893	—	—	2,893
Net income	—	—	—	25,140	—	25,140
Conversion of convertible debt	1	1,536	45,285	—	—	45,286
Dividends declared, \$0.60 per share	—	—	—	(15,571)	—	(15,571)
Change in fair value of interest rate swap, net of \$52 tax	—	—	—	—	(506)	(506)
Minimum pension adjustment, net of \$111 tax	—	—	—	—	139	139
Cumulative foreign currency translation adjustment	—	—	—	—	(11,887)	(11,887)
Repurchases of common stock	—	(177)	(4,713)	—	—	(4,713)
Balance at December 31, 2016	\$ 27	27,206	\$ 168,299	\$ 191,108	\$ (76,086)	\$ 283,348
Stock-based compensation and vesting of restricted stock	—	104	3,186	—	—	3,186
Net income	—	—	—	51,427	—	51,427
Conversion of convertible debt	2	1,748	51,851	—	—	51,853
Dividends declared, \$0.66 per share	—	—	—	(19,331)	—	(19,331)
Change in fair value of interest rate swap, net of \$101 tax	—	—	—	—	194	194
Minimum pension adjustment, net of \$1,118 tax	—	—	—	—	1,990	1,990
Cumulative foreign currency translation adjustment	—	—	—	—	24,038	24,038
Balance at December 31, 2017	\$ 29	29,058	\$ 223,336	\$ 223,204	\$ (49,864)	\$ 396,705
Stock-based compensation and vesting of restricted stock	—	—	5,094	—	—	5,094
Net income	—	—	—	35,341	—	35,341
Common stock and restricted stock issued in A&S acquisition	35	35,128	1,458,691	—	—	1,458,726
Dividends declared, \$0.68 per share	—	—	—	(25,941)	—	(25,941)

Change in fair value of derivative financial instruments, net of \$3.3 million tax	—	—	—	—	(12,490	)	(12,490	)
Minimum pension adjustment, net of \$0.1 million tax	—	—	—	—	3,481		3,481	
Cumulative foreign currency translation adjustment	—	—	—		(12,720	)	(12,720	)
Balance at December 31, 2018	\$ 64	64,186	\$ 1,687,121	\$ 232,604	\$ (71,593	)	\$ 1,848,196	

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

ALTRA INDUSTRIAL MOTION CORP.

Consolidated Statements of Cash Flows

Amounts in thousands

	Years Ended December 31,		
	2018	2017	2016
Cash flows from operating activities			
Net income	\$35,341	\$51,427	\$25,140
Adjustments to reconcile net income to net cash flows:			
Depreciation	34,832	26,511	21,604
Amortization of intangible assets	25,194	9,514	8,294
Amortization of deferred financing costs	1,146	599	802
Amortization of inventory fair value adjustment	14,221	2,347	—
Accretion of debt discount, net	119	—	4,005
Loss on disposals, impairments and other	263	965	8,532
Loss on extinguishment of debt	1,247	1,797	1,989
Loss on partial settlement of pension plans	5,086	1,720	—
Gain on settlement of cross currency swap	(941)	—	—
(Benefit) provision for deferred taxes	(10,105)	(8,012)	(2,850)
Stock based compensation	8,130	5,274	4,230
Changes in assets and liabilities, net of assets acquired:			
Trade receivables	1,527	(8,103)	(4,140)
Inventories	(14,012)	(2,379)	2,324
Accounts payable and accrued liabilities	23,377	(2,994)	4,333
Other current assets and liabilities	(9,436)	(3,178)	529
Other operating assets and liabilities	294	5,093	1,849
Net cash provided by operating activities	116,283	80,581	76,641
Cash flows from investing activities			
Purchase of property, plant and equipment	(37,531)	(32,826)	(18,941)
Proceeds from sale of property	—	3,221	—
Acquisition of Stromag and Guardian businesses, net of cash acquired	—	2,883	(187,967)
Acquisition of Aluminium Die Casting, net of cash acquired	(2,663)	—	—
Acquisition of Automation and Specialty, net of cash acquired	(949,185)	—	—
Net cash used in investing activities	(989,379)	(26,722)	(206,908)
Cash flows from financing activities			
Payments of debt issuance costs	(29,863)	—	(650)
Payments on term loan facility	(20,000)	—	—
Payments on Revolving Credit Facility	(281,613)	(79,536)	(31,861)
Dividend payments	(19,960)	(18,259)	(11,667)
Cash paid for redemption of convertible debt	—	(954)	—
Borrowing under term loan facility	1,336,650	—	—
Borrowing under Revolving Credit Facility	19,000	27,958	200,579
Payments of equipment, working capital notes, mortgages and other debt	(932)	(1,168)	(3,308)
Proceeds from equipment, working capital notes, mortgages and other debt	—	—	2,729
Shares surrendered for tax withholding	(3,036)	(2,089)	(1,337)

Edgar Filing: Altra Industrial Motion Corp. - Form 10-K

Settlement of cross currency swap	(14,000)	—	—
Purchases of common stock under share repurchase program	—	—	(4,713)
Net cash provided by (used in) by financing activities	986,246	(74,048)	149,772
Effect of exchange rate changes on cash and cash equivalents	3,813	3,065	(707)
Net change in cash and cash equivalents	116,963	(17,124)	18,798
Cash and cash equivalents at beginning of year	51,994	69,118	50,320
Cash and cash equivalents at end of period	\$168,957	\$51,994	\$69,118
Cash paid during the period for:			
Interest paid on borrowings	\$21,242	\$6,921	\$7,161
Income taxes paid	\$34,056	\$23,607	\$10,855

56

Non-cash Financing and Investing:

Acquisition of property, plant and equipment included in accounts payable	\$3,358	\$222	\$459
Conversion of convertible senior notes to common stock	\$—	\$51,853	\$45,286
Fair value of common stock and restricted stock issued for acquisition of business	\$1,458,691	\$—	\$—

The accompanying notes are an integral part of these consolidated financial statements

ALTRA INDUSTRIAL MOTION CORP.

Notes to Consolidated Financial Statements

Amounts in thousands (unless otherwise noted)

1. Description of Business and Summary of Significant Accounting Policies

Basis of Preparation and Description of Business

Headquartered in Braintree, Massachusetts, Altra Industrial Motion Corp. (the “Company”) is a leading global designer, producer and marketer of a wide range of electro-mechanical power transmission motion control (“PTMC”) products. The Company brings together strong brands with production facilities in seventeen 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, Jacobs Vehicle Systems, Kilian Manufacturing, Kollmorgen, Lamiflex Couplings, Marland Clutch, Matrix, Nuttall Gear, Stieber Clutch, Stromag, Svendborg Brakes, Portescap, TB Wood’s, Thomson, Twiflex, Warner Electric, Warner Linear, and Wichita Clutch.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Net Income Per Share

Basic earnings per share is based on the weighted average number of shares of common stock outstanding and diluted earnings per share is based on the weighted average number of shares of common stock outstanding and all potentially dilutive common stock equivalents outstanding. Common stock equivalent shares are included in the per share calculations when the effect of their inclusion is dilutive.

The following is a reconciliation of basic to diluted shares outstanding:

	Years Ended December 31,		
	2018	2017	2016
Shares used in net income per common share - basic	37,868	28,949	25,719
Dilutive effect of the equity premium on Convertible Notes			
at the average price of common stock	—	—	132
Incremental shares of unvested restricted common stock	512	115	21
Shares used in net income per common share - diluted	38,380	29,064	25,872

Fair Value of Financial Instruments

Fair value is determined based upon the exit price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, as determined by either the principal market or the most advantageous market. Inputs used in the valuation techniques to derive fair values are classified based on a three-level hierarchy, as follows:

Level 1- Quoted prices in active markets for identical assets or liabilities.

Level 2- Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets with insufficient volume or infrequent transactions (less active markets); or model-derived.

Level 3- Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

The Company considers all highly liquid investments purchased with a remaining maturity of three months or less to be cash equivalents and are classified as Level 1.

The Company determines the fair value of financial instruments using quoted market prices whenever available. When quoted market prices are not available for various types of financial instruments (such as forwards, options and swaps), the Company uses standard models with market-based inputs, which take into account the present value of estimated future cash flows and the ability of the Company or the financial counterparty to perform. For interest rate and cross currency swaps, the significant inputs to these

models are interest rate curves for discounting future cash flows and are adjusted for credit risk. For forward foreign currency contracts, the significant inputs are interest rate curves for discounting future cash flows and exchange rate curves of the foreign currency for translating future cash flows. See additional discussion of the Company's use of financial instruments including cross-currency swaps and interest rate swaps included in Note 14.

The carrying values of financial instruments, including accounts receivable, cash equivalents, accounts payable, and other accrued liabilities are carried at cost, which approximates fair value. Debt under the Altra Credit Agreement of \$1,320.0 million approximates the fair value due to the variable rate and the fact that the agreement was negotiated in October 2018 there have been no significant changes in our credit rating or pricing of similar debt. The carrying amount of the notes was \$400 million and the estimated fair value of the Notes was \$397.0 million, respectively, at December 31, 2018.

During the year ended December 31, 2016, the company recorded an impairment of \$0.9 million with respect to its former facility in Changzhou, China. The Company estimated the fair value of the buildings based on appraisals and sales prices of like properties (level 2).

During the fourth quarter of 2016, the Company recognized an impairment of the TB Woods trademark, part of the Power Transmission Technologies segment, totaling \$6.6 million. The fair value of the trademark was measured using an income approach (Level 3 inputs) that required management to estimate future cash flows underlying the trademark and discounting those projections to arrive at the present value of those projected cash flows. The significant inputs include projected cash flows, an assumed royalty rate and the discount rate.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the financial statements. Actual results could differ from those estimates.

Foreign Currency Translation

Assets and liabilities of subsidiaries operating outside of the United States with a functional currency other than the U.S. Dollar are translated into U.S. Dollars using exchange rates at the end of the respective period. Revenues and expenses are translated at average exchange rates effective during the respective period.

Foreign currency translation adjustments are included in accumulated other comprehensive income (loss) as a separate component of stockholders' equity. Net foreign currency transaction gains and losses are included in the results of operations in the period incurred and included in other non-operating expense (income), net in the accompanying consolidated statements of income.

Trade Receivables

An allowance for doubtful accounts is recorded for estimated collection losses that will be incurred in the collection of receivables. Estimated losses are based on historical collection experience, as well as a review by management of the status of all receivables. Collection losses have been within the Company's expectations.

Inventories

Inventories are generally stated at the lower of cost or net realizable value using the first-in, first-out ("FIFO") method.

The carrying value of inventories acquired by the Company in its acquisitions reflects fair value at the date of acquisition as determined by the Company based on the replacement cost of raw materials, the sales price of the finished goods less an appropriate amount representing the expected profitability from selling efforts, and for work-in-process the sales price of the finished goods less an appropriate amount representing the expected profitability from selling efforts and costs to complete.

The Company periodically reviews its quantities of inventories on hand and compares these amounts to the expected usage of each particular product or product line. The Company records a charge to cost of sales for any amounts required to reduce the carrying value of inventories to its estimated net realizable value.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation.

Depreciation of property, plant and equipment, including capital leases is provided using the straight-line method over the estimated useful life of the asset, as follows:

Buildings and improvements	7 to 45 years
Machinery and equipment	2 to 15 years
Capital lease	Life of lease

Leasehold improvements are depreciated on a straight-line basis over the estimated life of the asset or the life of the lease, if shorter.

Improvements and replacements are capitalized to the extent that they increase the useful economic life or increase the expected economic benefit of the underlying asset. Repairs and maintenance expenditures are charged to expense as incurred.

Intangible Assets

Intangible assets represent product technology, patents, tradenames, trademarks, customer relationships, and in-process research and development (“IPR&D”). Product technology, patents and customer relationships are amortized on a straight-line basis over 7 to 29 years, which approximates the period of economic benefit. The tradenames, trademarks, and IPR&D are considered indefinite-lived assets and are not being amortized. Amortization of the IPR&D asset will commence when the asset is placed into service. Intangibles are stated at fair value on the date of acquisition. Intangibles are stated net of accumulated amortization.

Goodwill

Goodwill represents the excess of the purchase price paid by the Company over the fair value of the net assets acquired in each of the Company’s acquisitions.

Impairment of Goodwill and Indefinite-Lived Intangible Assets

The Company conducts an annual impairment review of goodwill and indefinite-lived intangible assets in December of each year, unless events occur which trigger the need for an interim impairment review.

In connection with the Company’s annual impairment review, goodwill is assessed for impairment by comparing the fair value of the reporting unit to the carrying value. The Company estimates future cash flows based upon historical results and current market projections, discounted at a market comparable rate. An impairment loss would be recognized to the extent that a reporting unit’s carrying amount exceeded its deemed fair value. The Company did not identify any impairment of goodwill during the periods presented.

For our indefinite-lived intangible assets, mainly trademarks, we estimated the fair value first by estimating the total revenue attributable to the trademarks. Second, we estimated an appropriate royalty rate using the return on assets method by estimating the required financial return on our assets, excluding trademarks, less the overall return generated by our total asset base. The return as a percentage of revenue provides an indication of our royalty rate (between 1.0% and 2.0%). We compared the estimated fair value of our trademarks with the carrying value of the

trademarks. For 2018 and 2017 there were no impairments related to any of our trademarks or other intangibles.

Preparation of forecasts of revenue and profitability growth for use in the long-range plan and the discount rate require significant use of judgment. Changes to the discount rate and the forecasted cash flows could affect the estimated fair value of one or more of the Company's reporting units and intangible assets and could result in an impairment charge in a future period.

Impairment of Long-Lived Assets Other Than Goodwill and Indefinite-Lived Intangible Assets

Long-lived assets, including definite-lived intangible assets are reviewed for impairment when events or circumstances indicate that the carrying amount of a long lived asset may not be recovered. Long-lived assets are considered to be impaired if the carrying amount of the asset exceeds the undiscounted future cash flows expected to be generated by the asset over its remaining useful life. If an asset is considered to be impaired, the impairment is measured by the amount by which the carrying amount of the asset exceeds its fair value, and is charged to results of operations at that time.

Determining fair values based on discounted cash flows requires management to make significant estimates and assumptions, including forecasting of revenue and profitability growth for use in the long-range plan and estimating appropriate discount rates.

Changes to the discount rate and the forecasted profitability could affect the estimated fair value of one or more of the Company's indefinite-lived intangible assets and could result in an impairment charge in a future period.

Revenue Recognition

The Company recognizes revenue under the core principle of depicting the transfer of control to the Company's customers in an amount reflecting the consideration to which the Company expects to be entitled. In order to achieve that core principle, the Company applies the following five step approach: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when a performance obligation is satisfied.

Our sales revenue for product sales is recognized based on a point in time model, at the point control transfers to our customers, which is generally when products are shipped from our manufacturing facilities or when delivered to the customer's named location. Certain large distribution customers receive annual volume discounts, which are estimated at the time the sale is recorded based on the estimated annual sales, subject to a constraint. When the Company performs shipping and handling activities after the transfer of control to the customer (e.g., when control transfers prior to delivery), they are considered as fulfillment activities and, accordingly, the costs are accrued for when the related revenue is recognized. Taxes collected from customers relating to product sales and remitted to governmental authorities are excluded from revenues. See Note 2 (Revenue Recognition) to the consolidated financial statements for further disclosures and detail regarding revenue.

Prior to the adoption of ASC 606, product revenues were recognized, net of sales tax collected, at the time title and risk of loss pass to the customer, which generally occurred upon shipment to the customer. Product return reserves are accrued at the time of sale based on the historical relationship between shipments and returns, and are recorded as a reduction of net sales.

Shipping and Handling Costs

Shipping and handling costs associated with sales are classified as a component of cost of sales. Amounts collected from our customers for shipping and handling are recognized as revenue.

Warranty Costs

Estimated expenses related to product warranties are accrued at the time products are sold to customers. Estimates are established using historical information as to the nature, frequency, and average costs of warranty claims.

Self-Insurance

Certain exposures are self-insured up to pre-determined amounts, above which third-party insurance applies, including exposures for medical claims, workers' compensation, vehicle insurance, product liability costs and general liability exposure. The accompanying balance sheets include reserves for the estimated costs associated with these self-insured risks, based on historic experience factors and management's estimates for known and anticipated claims. A portion of medical insurance costs are offset by charging employees a premium equivalent to group insurance rates. The costs of retained loss for the self-insurance programs, at each balance sheet date, have not been material in any period.

Research and Development

Research and development costs are expensed as incurred.

Advertising

Advertising costs are charged to selling, general and administrative expenses as incurred and amounted to approximately \$4.3 million, \$3.4 million and \$2.8 million, for the years ended December 31, 2018, 2017 and 2016, respectively.

Income Taxes

The Company records income taxes using the asset and liability method. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases, and operating loss and tax credit carryforwards. The Company evaluates the realizability of its net deferred tax assets and assesses the need for a valuation allowance on a quarterly basis. The future benefit to

be derived from its deferred tax assets is dependent upon the Company's ability to generate sufficient future taxable income to realize the assets. The Company records a valuation allowance to reduce its net deferred tax assets to the amount that may be more likely than not to be realized.

To the extent the Company establishes a valuation allowance on net deferred tax assets generated from operations, an expense will be recorded within the provision for income taxes. In periods subsequent to establishing a valuation allowance on net deferred assets from operations, if the Company were to determine that it would be able to realize its net deferred tax assets in excess of their net recorded amount, an adjustment to the valuation allowance would be recorded as a reduction to income tax expense in the period such determination was made.

We assess our income tax positions and record tax benefits for all years subject to examination, based upon our evaluation of the facts, circumstances and information available at the reporting date. For those tax positions for which it is more likely than not that a tax benefit will be sustained, we record the amount that has a greater than 50% likelihood of being realized upon settlement with the taxing authority that has full knowledge of all relevant information. Interest and penalties are related to unrecognized tax benefits in income tax expense in the consolidated statement of income and included in accruals and other long-term liabilities in the Company's consolidated balance sheet, where applicable. If we do not believe that it is more likely than not that a tax benefit will be sustained, no tax benefit is recognized.

Changes in Accumulated Other Comprehensive Income (Loss) by Component

The following is a reconciliation of changes in Accumulated Other Comprehensive Loss for the periods presented:

	Gains and Losses on Cash Flow Hedges	Defined Benefit Pension Plans	Cumulative Foreign Currency Translation Adjustment	Total
Accumulated other comprehensive loss by component,				
January 1, 2016	\$(140)	\$(5,807)	\$(57,885)	\$(63,832)
Net current-period other comprehensive income loss, net of tax	(506)	139	(11,887)	(12,254)
Accumulated other comprehensive loss by component,				
December 31, 2016	(646)	(5,668)	(69,772)	(76,086)
Net current-period other comprehensive income, net of tax	194	924	24,038	25,156
Reclassification adjustments	—	1,066	—	1,066
Accumulated other comprehensive loss by component,				
December 31, 2017	(452)	(3,678)	(45,734)	(49,864)
Net current-period other comprehensive income (loss), net of tax	(12,490)	(810)	(12,720)	(26,020)
Reclassification adjustments	—	4,291	—	4,291

Accumulated other comprehensive loss by component,

December 31, 2018	\$(12,942)	\$(197)	\$ (58,454)	\$(71,593)
-------------------	------------	----------	--------------	------------

Recent Accounting Pronouncements

In August 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ASU 2017-12, Derivatives and Hedging (Topic 815) ("ASU 2017-12"): Targeted Improvements to Accounting for Hedging Activities. This ASU provides new guidance about income statement classification and eliminates the requirement to separately measure and report hedge ineffectiveness. The entire change in fair value for qualifying hedge instruments included in the effectiveness will be recorded in other comprehensive income (OCI) and amounts deferred in OCI will be reclassified to earnings in the same income statement line item in which the earnings effect of the hedged item is reported. The guidance will be effective for interim and annual periods for the Company on January 1, 2019, with early adoption permitted. The Company early adopted this ASU on October 1, 2018. The adoption of this ASU did not have a material impact on the Consolidated Financial Statements.

In March 2017, the FASB issued ASU 2017-07, Compensation-Retirement Benefits (Topic 715) ("ASU 2017-07"): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This ASU changes the income statement presentation of defined benefit and post-retirement benefit plan expense by requiring separation between operating expense (service cost component of net periodic benefit expense) and non-operating expense (all other components of net periodic benefit expense,

including interest cost, amortization of prior service cost, curtailments and settlements, etc.). The operating expense component is reported with similar compensation costs while the non-operating components are reported outside of operating income. The guidance was adopted on January 1, 2018 and resulted in retrospective reclassification of our financial statements to reflect the new classification. The adoption of this ASU did not have a material impact on the Company's Consolidated Financial Statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"), which will require, among other items, lessees to recognize a right-of-use asset and lease liability for most leases. The standard also requires lessees and lessors to disclose the amount, timing and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for periods beginning after January 1, 2019 (with early adoption permitted), and it also provides for certain practical expedients that we plan to elect. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842), Targeted Improvements, which provides an additional transition method that allows the initial application of the lease standard at the adoption date using a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company will adopt this standard as of January 1, 2019 utilizing the new transition method. The Company expects to elect most of the available practical expedients, including the package of practical expedients, which permits entities not to reassess under the new standard their prior conclusions about lease identification, lease classification and initial direct costs. We are finalizing our assessment of the impact of the standard and designing related internal control procedures. Based on our efforts to date, we expect to recognize a material lease right-of-use asset and obligation upon adoption. See Note 15 for additional information regarding our commitments under various lease obligations.

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards update ASU 2017-04, Goodwill and Other (Topic 350) ("ASU 2017-04"): Simplifying the Test for Goodwill Impairment. The amended guidance simplifies the accounting for goodwill impairment for all entities by eliminating the requirement to perform a hypothetical purchase price allocation. A goodwill impairment charge will now be recognized for the amount by which the carrying value of a reporting unit exceeds its fair value, not to exceed the carrying amount of goodwill. The Company adopted this standard on January 1, 2018 and the adoption of this ASU did not have a material impact on the Consolidated Financial Statements.

On January 1, 2018 The Company adopted ASU 2014-09 Revenue from Contracts with Customers ("Topic 606") ("ASU 2014-09") and all the related amendments using the modified retrospective approach. The comparative information has not been restated and continues to be reported under the accounting standards in affect for those periods.

The Company recognizes revenue under the core principle of depicting the transfer of control to the Company's customers in an amount reflecting the consideration to which the Company expects to be entitled. In order to achieve that core principle, the Company applies the following five step approach: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when a performance obligation is satisfied.

Our sales revenue for product sales is recognized based on a point in time model, at the point control transfers to our customers, which is generally when products are shipped from our manufacturing facilities or when delivered to the customer's named location. When the Company performs shipping and handling activities after the transfer of control to the Customer (e.g., when control transfers prior to delivery), they are considered as fulfillment activities and, accordingly, the costs are accrued for when the related revenue is recognized. Taxes collected from Customers relating to product sales and remitted to governmental authorities are excluded from revenues. See Note 2 (Revenue Recognition) to the consolidated financial statements for further disclosures and detail regarding revenue.

The adoption of Topic 606 was not material to the Company and, as such, there was no cumulative effect upon the January 1, 2018 adoption date. As the impact of the new revenue standard is not material to the Company, there is no impact disclosure presented as of and for the quarter ended December 31, 2018.

2. Revenue Recognition

The Company considers customer accepted purchase orders, which in some cases are governed by master sales agreements, to be the contracts with a customer. The Company's contracts with customers are generally for product only, and do not include other performance obligations such as professional services, extended warranties, or other material rights. In situations where sales are to a distributor, the Company has concluded that its contracts are with the distributor as the Company holds a contract bearing enforceable rights and obligations only with the distributor. As part of its consideration of the contract, the Company evaluates certain factors including the customer's ability to pay (or credit risk). For each contract, the Company considers the promises to transfer products, each of which is distinct, to be the identified performance obligations. In determining the transaction price the Company evaluates whether the price is subject to refund or adjustment to determine the net consideration to which the Company expects to be entitled. As the Company's standard payment terms are less than one year, the Company has elected the practical expedient under ASC 606-10-32-18 to not assess whether a contract has a significant financing component. Revenue is recognized when control of the product is

transferred to the customer (i.e., when the Company's performance obligation is satisfied), which typically occurs at shipment from the Company's manufacturing site or delivery to the customer's named location. In determining whether control has transferred, the Company considers if there is a present right to payment and legal title, along with risks and rewards of ownership having transferred to the customer. In certain circumstances, the Company manufactures customized product without alternative use for its customers, which would generally result in the transfer of control over time. The Company has evaluated the amount of revenue subject to recognition over time and concluded that it is immaterial.

At times, the Company receives orders for products to be delivered over multiple dates that may extend across reporting periods. The Company invoices for each delivery upon shipment and recognizes revenues for each distinct product delivered, assuming transfer of control has occurred. As scheduled delivery dates are within one year, under the optional exemption provided by ASC 606-10-50-14 revenues allocated to future shipments of partially completed contracts are not disclosed.

The Company generally provides an assurance warranty that its products will be free from defects in material and workmanship for a specified period of time, typically twelve months from the date of shipment. The Company's liability typically is limited to either the repair or replacement of the defective part. Returns under warranty have historically been immaterial. The Company does not consider activities related to such warranty, if any, to be a separate performance obligation. For certain of its products, the Company will separately offer extended warranty and service policies to its customers. These policies typically are for periods ranging from one to five years. Payments received are deferred and recognized over the policy period. For all periods presented, the revenue recognized and the revenue deferred under these policies are not material to the consolidated financial statements.

The payment terms and conditions in our customer contracts vary. In some cases, customers will partially prepay for their goods; in other cases, after appropriate credit evaluations, payment will be due in arrears. In addition, there are constraints that cause variability in the ultimate consideration to be recognized. These constraints typically include early payment discounts, volume rebates, rights of return, surcharges, and other customer consolidation. When the timing of the Company's recognition of revenue is different from the timing of payments made by the customer, the Company recognizes either a contract asset (performance precedes contractual due date) or a contract liability (customer payment precedes performance or is in excess of estimates of what the Company expects to be entitled to). Contracts with payment in arrears are recognized as receivables. The opening and closing balances of the Company's contract liability and receivables are as follows:

	Deferred Revenue (Current)	Accounts Receivable
Beginning - January 1, 2018	\$ 2,189	\$ 135,499
Closing - December 31, 2018	7,370	259,815
Increase/(Decrease)	\$ 5,181	\$ 124,316

The following disclosure represents the Company's effort to enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers in accordance with ASU 2014-09. The Company operates through two reportable segments that are aligned with key product types and end markets served:

◆ **Power Transmission Technologies.** This segment includes the following product offerings:

- **Couplings, Clutches & Brakes.** Couplings are the interface between two shafts, which enable power to be transmitted from one shaft to the other. Clutches in this segment are devices that use mechanical, hydraulic, pneumatic, or friction type connections to facilitate engaging or disengaging two rotating members. Brakes are combinations of interacting parts that work to slow or stop machinery. Products in this segment are generally used in heavy industrial applications and energy markets.
- **Electromagnetic Clutches & Brakes.** Products in this segment include brakes and clutches that are used to electronically slow, stop, engage or disengage equipment utilizing electromagnetic friction type connections. Products in this segment are used in industrial and commercial markets including agricultural machinery, material handling, motion control, and turf & garden.
- **Gearing.** Gears are utilized to reduce the speed and increase the torque of an electric motor or engine to the level required to drive a particular piece of equipment. Gears produced by the Company are primarily utilized in industrial applications.

◆ **Automation & Specialty.** This segment includes the following product offerings:

o Kollmorgen: Provides rotary precision motion solutions, including servo motors, stepper motors, high performance electronic drives and motion controllers and related software, and precision linear actuators. These products are used in advanced material handling, aerospace and defense, factory automation, medical, packaging, printing, semiconductor, robotic and other applications.

o Portescap: Provides high-efficiency miniature motors and motion control products, including brush and brushless DC motors, can stack motors and disc magnet motors. These products are used in medical, industrial power tool and general industrial equipment applications.

o Thomson: Provides systems that enable and support the transition of rotary motion to linear motion. Products include linear bearings, guides, glides, lead and ball screws, industrial linear actuators, resolvers and inductors. These products are used in factory automation, medical, mobile off-highway, material handling, food processing and other niche applications.

o Jacobs Vehicle Systems (JVS): Provides heavy-duty diesel engine brake systems and valve actuation mechanisms for the commercial vehicle market, including compression release, bleeder and exhaust brakes, including the “Jake Brake” engine braking system. These products are primarily used in heavy duty Class 8 truck applications.

We sell our products through three primary commercial channels: original equipment manufacturers (OEMs), industrial distributors and direct to end users. Each of these segments sells similar products, which are balanced across end-user industries including, without limitation, energy, food processing, general industrial, material handling, mining, transportation, industrial automation, robotics, medical devices, and turf & garden.

The following table disaggregates our revenue for each reportable segment. The Company believes that disaggregating revenue into these categories achieves the disclosure objective to depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors.

	Years Ended December 31,	
	2018	2017
Net Sales:		
Power Transmission Technologies	\$935,019	\$876,737
Automation & Specialty	241,710	—
Inter-segment eliminations	(1,387)	—

Net sales	\$1,175,342	\$876,737
-----------	-------------	-----------

Net sales by geographic region based on point of shipment origin are as follows:

	Net Sales			Property, Plant and Equipment	
	Years Ended December 31,			Years Ended December 31,	
	2018	2017	2016	2018	2017
North America (primarily U.S.)	\$629,029	\$441,208	\$418,536	\$206,090	\$84,337
Europe excluding Germany	208,834	159,509	124,961	54,757	41,766
Germany	204,001	182,148	92,775	66,405	58,967
Asia and other	133,478	93,872	72,634	37,181	6,848
Total	\$1,175,342	\$876,737	\$708,906	\$364,433	\$191,918

3. Acquisitions

On October 1, 2018 (the “A&S Closing Date”), Altra and Fortive Corporation (“Fortive”) consummated the previously announced combination of Altra with four operating companies from Fortive’s Automation & Specialty platform (the “A&S Business”). The A&S Business, consisting of four key brands, Kollmorgen, Portescap, Thomson and Jacobs Vehicle Systems, designs, manufactures, markets and sells electromechanical and electronic motion control products, including standard and custom motors,

drives and controls; linear motion systems, ball screws, linear bearings, clutches/brakes, linear actuators and mechanical components; and through Jacobs Vehicle Systems, supplemental braking systems for commercial vehicles.

The aggregate purchase price for the A&S Business of approximately \$2,462.1 million, subject to certain post-closing adjustments, consisted of \$949.2 million of cash transferred, net of \$54.2 million of cash acquired, to Fortive and 35,000,000 shares of Altra common stock received by Fortive shareholders valued at approximately \$1,458.7 million, which includes \$3.1 million of employee stock awards issued to certain Fortive employees. The transaction costs related to the acquisition totaled \$35.7 million and is reflected in selling, general and administrative expenses in the statement of operations. In addition, the Company assumed the Notes in the amount of \$400.0 million upon the closing of the Fortive Transaction.

The consolidated financial statements reflect the A&S Business's results of operations from October 1, 2018 through December 31, 2018.

The fair value of all the acquired identifiable assets and liabilities summarized below is provisional pending finalization of the Company's acquisition accounting, including the finalization of the valuation of the intangible assets acquired, identification and measurement of the inventory and property, plant and equipment, the measurement of tax basis in certain jurisdictions and the resulting deferred taxes that might arise from book and tax basis differences, as well as identification and measurement of uncertain tax positions, if any. The Company believes that such preliminary allocations provide a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but the Company is waiting for additional information necessary to finalize fair value. The purchase price allocation as of the acquisition date is as follows:

Preliminary purchase price allocation:	
Total cash consideration	\$ 1,003,354
Total equity consideration	1,458,726
Total purchase price	\$ 2,462,080
Recognized identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	\$ 54,170
Receivables	129,701
Inventory	89,073
Prepays and other current assets	6,886
Property, plant and equipment	178,334
Intangibles	1,454,000
Other non-current assets	7,893
Accounts payable	(98,886)
Accrued payroll	(15,232)
Accrued expenses and other current liabilities	(33,740)
Pension liability and other post employment benefits	(11,999)

Edgar Filing: Altra Industrial Motion Corp. - Form 10-K

Deferred tax liability	(355,705)
Other long term liability	(2,604)
Senior unsecured notes assumed	(400,000)
Net assets acquired	1,001,891
Excess purchase price over fair value of net assets acquired	\$ 1,460,189

The excess of the purchase price over the fair value of the net assets acquired was recorded as goodwill. For the year ended December 31, 2018, goodwill is not deductible for income tax purposes in the United States. The goodwill in this acquisition is attributable to the Company's expectation to develop synergies, such as facility consolidations, global procurement, the ability to cross-sell product, and the ability to penetrate certain geographic areas.

Intangible assets acquired consist of:	
Customer relationships	\$ 1,025,000
Trade names and trademarks	209,000
Technology	204,000
In-process research and development ("IPR&D")	16,000
Total intangible assets	\$ 1,454,000

Customer relationships and technology are subject to amortization, and will be recognized on a straight-line basis over the estimated useful lives of 20 years and 7-10 years, respectively, which represents the anticipated period over which the Company estimates it will benefit from the acquired assets. The tradenames and trademarks are considered to have an indefinite life and will not be amortized.

The major acquired technology IPR&D relates to the next generation of valvetrain technologies, which focus on improving engine brake performance, improving fuel efficiency and meeting future worldwide emissions regulations. The IPR&D projects are not currently amortized and will be reviewed for impairment at least annually and amortization will commence when the assets are placed into service. There was no evidence of impairment to IPR&D as of December 31, 2018.

The Company recorded net sales from the A&S Business of \$241.7 million from October 1, 2018 through December 31, 2018. The Company recorded net income from the A&S Business of \$20.2 million from October 1, 2018 through December 31, 2018, which includes \$15.6 million of amortization of intangible assets.

The following table sets forth the unaudited pro forma results of operations of the Company for the year ended December 31, 2017 as if the Company had acquired the A&S Business on January 1, 2017. The pro forma information contains the actual operating results of the Company and the A&S Business, adjusted to include the pro forma impact of (i) additional depreciation expense as a result of estimated depreciation based on the fair value of fixed assets; (ii) additional expense as a result of the estimated amortization of identifiable intangible assets; (iii) additional interest expense for borrowings associated with the A&S Acquisition and (iv) inventory fair value adjustment. These pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the acquisition occurred at the beginning of the period or that may be obtained in the future.

	Proforma (unaudited)	
	Years	Years
	Ended	Ended
	December	December
	2018	2017
Total revenues	\$1,919,548	\$1,784,086
Net income	108,016	79,733
Basic earnings per share	1.69	1.25
Diluted earnings per share	1.68	1.24

4. Inventories

Inventories consisted of the following:

Years Ended	
December 31,	
2018	2017

Raw materials	\$102,996	\$49,351
Work in process	23,449	22,914
Finished goods	104,727	73,346
	\$231,172	\$145,611

5. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	Years Ended December 31,	
	2018	2017
Land	\$43,366	\$31,228
Buildings and improvements	137,242	79,468
Machinery and equipment	397,124	268,592
	577,732	379,288
Less-Accumulated depreciation	(213,299)	(187,370)
	\$364,433	\$191,918

The Company recorded \$34.8 million, \$26.5 million and \$21.6 million of depreciation expense in the years ended December 31, 2018, 2017, and 2016, respectively.

In 2018, the Power Transmission Technologies segment closed a facility in Milan, Italy. The building is actively being marketed by the Company and the Company expects to complete the sale of the property within twelve months. The building had a

net book value of approximately \$0.7 million for the year ended December 31, 2018 and is classified as an asset held for sale in the consolidated balance sheet. During 2017, the Company completed the sale of a facility in Changzhou, China and obtained proceeds of approximately \$3.2 million at the close of the transaction.

6. Goodwill and Intangible Assets

The changes in the carrying value of goodwill by segment for the years ended December 31, 2018 and 2017 are as follows:

	Power Transmission Technologies	Automation & Specialty	Total
Balance January 1, 2017	\$ 188,841	\$—	\$188,841
Impact of changes in foreign currency and other	15,389	—	15,389
Measurement period adjustment related to acquisition of Stromag, including working capital settlement	1,810	—	1,810
Net goodwill balance December 31, 2017	206,040	—	206,040
Impact of changes in foreign currency and other	(5,730)	1,842	(3,888)
Acquired goodwill related to the acquisition of the A&S Business	209,844	1,250,345	1,460,189
Net goodwill balance December 31, 2018	\$ 410,154	\$1,252,187	\$1,662,341

The following table provides the gross carrying value and accumulated amortization for each major class of intangible asset:

	December 31, 2018 Accumulated			December 31, 2017 Accumulated		
	Cost	Amortization	Net	Cost	Amortization	Net
Other intangible assets						
Intangible assets not subject to amortization:						
Tradenames and trademarks	\$261,957	\$ —	\$261,957	\$54,883	\$ —	\$54,883
In-process research and development	16,000	—	16,000	—	—	—
Intangible assets subject to amortization:						
Customer relationships	1,196,465	91,030	1,105,435	177,207	72,970	\$104,237
Product technology and patents	212,915	10,579	202,336	5,853	5,360	\$493
Total intangible assets	\$1,687,337	\$ 101,609	\$1,585,728	\$237,943	\$ 78,330	\$159,613

The Company recorded \$25.2 million, \$9.5 million, and \$8.3 million of amortization for the years ended December 31, 2018, 2017 and 2016, respectively.

Customer relationships, product technology and patents are amortized over their useful lives ranging from 7 to 29 years. The weighted average estimated useful life of intangible assets subject to amortization is approximately 18 years.

The estimated amortization expense for intangible assets is approximately \$70.7 million in 2019, \$70.1 million in 2020, \$69.7 million in 2021 and 2022, \$68.6 million in 2023, and \$959.0 million thereafter.

7. Warranty Costs

The contractual warranty period of the Company's products generally ranges from three months to two years with certain warranties extending for longer periods. Estimated expenses related to product warranties are accrued at the time products are sold to customers and are recorded in accruals and other current liabilities on the consolidated balance sheet. Estimates are established using historical information as to the nature, frequency and average costs of warranty claims. Changes in the carrying amount of accrued product warranty costs for each of the years ended December 31, 2018, 2017 and 2016 are as follows:

	Years Ended December 31,		
	2018	2017	2016
Balance at beginning of period	\$7,479	\$9,158	\$9,468
Accrued current period warranty expense	2,365	1,057	1,355
Acquired warranty reserve	6,621	—	1,636
Payments and adjustments	(7,042)	(2,736)	(3,301)
Balance at end of period	\$9,423	\$7,479	\$9,158

8. Income Taxes

Income before income taxes by domestic and foreign locations consists of the following:

	Years Ended December 31,		
	2018	2017	2016
Domestic	\$(7,499)	\$29,212	\$4,448
Foreign	59,247	41,915	29,437
Total	\$51,748	\$71,127	\$33,885

The components of the provision for income taxes consist of the following:

	2018	2017	2016
Current:			
Federal	\$7,568	\$14,836	\$3,525
State	1,414	106	287
Non-US	17,530	12,770	7,783
	26,512	27,712	11,595
Deferred:			
Federal	(5,642)	(6,222)	(2,177)
State	(724)	371	(300)
Non-US	(3,739)	(2,161)	(373)

	(10,105)	(8,012)	(2,850)
Provision for income taxes	\$ 16,407	\$ 19,700	\$ 8,745

The 2017 Tax Act, which was signed into law on December 22, 2017, has resulted in significant changes to the U.S. corporate income tax system. These changes include a federal statutory rate reduction from 35% to 21%, the elimination or reduction of certain domestic deductions and credits and limitations on the deductibility of interest expense and executive compensation. The 2017 Tax Act also imposed a mandatory one-time tax on accumulated earnings of foreign subsidiaries as of December 31, 2017. In accordance with the 2017 Tax Act and related guidance, the Company recorded \$7.4 million as a provisional income tax expense in the fourth quarter of 2017, the period in which the legislation was enacted. The total expense included \$7.4 million related to the transition tax and a benefit of \$7.8 million related to the remeasurement of certain deferred tax assets and liabilities. In finalizing its analysis in 2018 the Company recorded an immaterial amount of adjustments to the original provisional amounts. As of December 31, 2018, the Company has completed the analysis based on legislative updates relating to the 2017 Tax Act currently available.

The 2017 Tax Act created a provision known as global intangible low-tax income (“GILTI”) that imposes a U.S. tax on certain earnings of foreign subsidiaries that are subject to foreign tax below a certain threshold. The Company has made an accounting policy election to reflect GILTI taxes, if any, as a current income tax expense in the period incurred.

A reconciliation from tax at the U.S. federal statutory rate to the Company's provision for income taxes is as follows: