

Mistras Group, Inc.
Form 10-Q
November 06, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2018

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

For the transition period to

Commission file number 001- 34481

Mistras Group, Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	22-3341267 (I.R.S. Employer Identification No.)
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195 Clarksville Road Princeton Junction, New Jersey (Address of principal executive offices)	08550 (Zip Code)
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(609) 716-4000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

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(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company) Emerging Growth Company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of November 2, 2018, the registrant had 28,543,235 shares of common stock outstanding.

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PART I—FINANCIAL INFORMATION

ITEM 1. Financial Statements

Mistras Group, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(in thousands, except share and per share data)

	(unaudited)	
	September 30,	December 31,
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 17,073	\$ 27,541
Accounts receivable, net	155,615	138,080
Inventories	11,133	10,503
Prepaid expenses and other current assets	15,613	18,884
Total current assets	199,434	195,008
Property, plant and equipment, net	86,410	87,143
Intangible assets, net	56,515	63,739
Goodwill	199,625	203,438
Deferred income taxes	1,534	1,606
Other assets	4,630	3,507
Total assets	\$ 548,148	\$ 554,441
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	\$ 12,937	\$ 10,362
Accrued expenses and other current liabilities	73,425	65,561
Current portion of long-term debt	2,225	2,358
Current portion of capital lease obligations	5,085	5,875
Income taxes payable	1,536	6,069
Total current liabilities	95,208	90,225
Long-term debt, net of current portion	147,926	164,520
Obligations under capital leases, net of current portion	8,426	8,738
Deferred income taxes	11,827	8,803
Other long-term liabilities	6,482	11,363
Total liabilities	269,869	283,649
Commitments and contingencies		
Equity		
Preferred stock, 10,000,000 shares authorized	—	—
Common stock, \$0.01 par value, 200,000,000 shares authorized, 28,496,445 and 28,294,968 shares issued	284	282
Additional paid-in capital	226,054	222,425
Retained earnings	72,614	64,717
Accumulated other comprehensive loss	(20,856	) (16,805
Total Mistras Group, Inc. stockholders' equity	278,096	270,619
Non-controlling interests	183	173
Total equity	278,279	270,792

Total liabilities and equity	\$ 548,148	\$ 554,441
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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Mistras Group, Inc. and Subsidiaries
 Unaudited Condensed Consolidated Statements of Income (Loss)
 (in thousands, except per share data)

	Three months ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
Revenue	\$ 182,169	\$ 179,570	\$ 561,592	\$ 513,326
Cost of revenue	124,260	126,316	389,131	360,144
Depreciation	5,577	5,357	16,902	15,790
Gross profit	52,332	47,897	155,559	137,392
Selling, general and administrative expenses	41,931	38,217	122,232	113,491
Impairment charges	—	15,810	—	15,810
Pension withdrawal expense	5,886	—	5,886	—
Gain on sale of subsidiary	(2,384)	) —	(2,384)) —
Research and engineering	745	555	2,414	1,749
Depreciation and amortization	2,920	2,738	8,834	7,854
Litigation expenses	—	1,200	—	1,200
Acquisition-related expense (benefit), net	217	(248)	) (1,143)	) (589)
Income (loss) from operations	3,017	(10,375)	) 19,720	(2,123)
Interest expense	1,894	1,081	5,581	3,114
Income (loss) before provision (benefit) for income taxes	1,123	(11,456)	) 14,139	(5,237)
Provision (benefit) for income taxes	2,133	(4,503)	) 6,229	(2,199)
Net (loss) income	(1,010)	) (6,953)	) 7,910	(3,038)
Less: net income attributable to non-controlling interests, net of taxes	1	15	13	21
Net (loss) income attributable to Mistras Group, Inc.	\$(1,011)	) \$(6,968)	) \$7,897	\$ (3,059)
Earnings (loss) per common share:				
Basic	\$(0.04)	) \$ (0.25)	) \$0.28	\$ (0.11)
Diluted	\$(0.04)	) \$ (0.25)	) \$0.27	\$ (0.11)
Weighted average common shares outstanding:				
Basic	28,429	28,274	28,360	28,465
Diluted	28,429	28,274	29,447	28,465

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

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Mistras Group, Inc. and Subsidiaries

Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss)

(in thousands)

	Three months ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
Net (loss) income	\$(1,010)	\$ (6,953)	\$7,910	\$ (3,038)
Other comprehensive income:				
Foreign currency translation adjustments	14	4,443	(4,051)	11,935
Comprehensive (loss) income	(996)	(2,510)	3,859	8,897
Less: comprehensive income attributable to non-controlling interest	—	16	10	25
Comprehensive (loss) income attributable to Mistras Group, Inc.	\$(996)	\$ (2,526)	\$3,849	\$ 8,872

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

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Mistras Group, Inc. and Subsidiaries
 Unaudited Condensed Consolidated Statements of Cash Flows
 (in thousands)

	Nine months ended	
	September 30, 2018	September 30, 2017
Cash flows from operating activities		
Net income (loss)	\$7,910	\$ (3,038)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	25,736	23,644
Impairment charges	—	15,810
Deferred income taxes	3,188	(4,755)
Share-based compensation expense	4,760	5,179
Bad debt provision for unexpected customer bankruptcy	—	1,200
Fair value adjustments to contingent consideration	(808)	(880)
Gain on sale of subsidiary	(2,384)	—
Other	825	226
Changes in operating assets and liabilities, net of effect of acquisitions and dispositions		
Accounts receivable	(20,258)	(4,017)
Inventories	(1,746)	(838)
Prepaid expenses and other assets	918	995
Accounts payable	3,019	1,466
Accrued expenses and other liabilities	7,456	668
Income taxes payable	(4,432)	(434)
Net cash provided by operating activities	24,184	35,226
Cash flows from investing activities		
Purchase of property, plant and equipment	(15,386)	(14,413)
Purchase of intangible assets	(385)	(941)
Acquisition of businesses, net of cash acquired	—	(8,356)
Disposition of businesses, net of cash sold	4,800	—
Proceeds from sale of equipment	1,140	1,194
Net cash used in investing activities	(9,831)	(22,516)