

STANDEX INTERNATIONAL CORP/DE/
Form 10-Q
April 30, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2019

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

Commission File Number 1-7233

STANDEX INTERNATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

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 (§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

DELAWARE
(State of incorporation)

31-0596149
(IRS Employer Identification No.)

11 KEEWAYDIN DRIVE, SALEM, NEW HAMPSHIRE
(Address of principal executive offices)

03079
(Zip Code)

(603) 893-9701

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller Reporting Company

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

The number of shares of Registrant's Common Stock outstanding on April 27, 2019 was 12,651,101.

STANDEX INTERNATIONAL CORPORATION

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PART I. FINANCIAL INFORMATION

ITEM 1

STANDEX INTERNATIONAL CORPORATION
Condensed Consolidated Balance Sheets

	March 31, 2019	June 30,
	(unaudited)	2018
(In thousands, except per share data)		
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 96,041	\$ 109,602
Accounts receivable, net of reserve for doubtful accounts of	115,782	119,783

\$1,777 and \$2,184 at March 31, 2019 and June 30, 2018

Inventories		103,383		104,300
Prepaid expenses and other current assets		27,115		10,255
Income taxes receivable		3,320		2,348
Current assets- Discontinued Operations		106,863		37,671
Total current assets		452,504		383,959
Property, plant, and equipment, net		139,432		136,934
Intangible assets, net		111,505		84,938
Goodwill		260,443		211,751
Deferred tax asset		9,645		7,447
Other non-current assets		29,812		29,749
Long-term assets-Discontinued Operations		-		62,159
Total non-current assets		550,837		532,978
Total assets	\$	1,003,341	\$	916,937

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:

Accounts payable	\$	61,358	\$	78,947
Accrued liabilities		61,147		57,679
Income taxes payable		4,762		6,050
Current liabilities-Discontinued Operations		2,561		18,665
Total current liabilities		129,828		161,341
Long-term debt		291,725		193,772
Accrued pension and other non-current liabilities		102,171		110,979
Non-current liabilities-Discontinued Operations		-		50
Total non-current liabilities		393,896		304,801
Stockholders' equity:				
Common stock, par value \$1.50 per share, 60,000,000 shares authorized, 27,984,278 issued, 12,531,735 and 12,705,562 outstanding at March 31, 2019 and June 30, 2018		41,976		41,976
Additional paid-in capital		63,774		61,328
Retained earnings		808,417		761,430
Accumulated other comprehensive loss		(124,417)		(121,859)
Treasury shares: 15,452,543 shares at March 31, 2019 and 15,278,716 shares at June 30, 2018		(310,133)		(292,080)
Total stockholders' equity		479,617		450,795
Total liabilities and stockholders' equity	\$	1,003,341	\$	916,937

See notes to unaudited condensed consolidated financial statements

STANDEX INTERNATIONAL CORPORATION
Unaudited Condensed Consolidated Statements of Operations

(In thousands, except per share data)	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2019	2018	2019	2018
Net sales	\$ 193,771	\$ 192,147	\$ 582,380	\$ 566,982
Cost of sales	131,981	126,035	384,402	371,882
Gross profit	61,790	66,112	197,978	195,100
Selling, general, and administrative expenses	45,390	44,979	136,555	131,830
Acquisition related costs	805	1,254	2,352	2,962
Restructuring costs	549	1,060	1,173	5,792
Total operating expenses	46,744	47,293	140,080	140,584
Income from operations	15,046	18,819	57,898	54,516
Interest expense	(3,230)	(2,286)	(8,598)	(5,800)
Other non-operating expense, net	(679)	(1,014)	(1,694)	(1,350)
Income from continuing operations before income taxes	11,137	15,519	47,606	47,366
Provision for income taxes	3,833	3,696	13,535	27,312
Net income from continuing operations	7,304	11,823	34,071	20,054
Income (loss) from discontinued operations, net of				
income taxes	18,965	977	21,450	3,940
Net income	\$ 26,269	\$ 12,800	\$ 55,521	\$ 23,994
Basic earnings per share:				
Continuing operations	\$ 0.58	\$ 0.93	\$ 2.70	\$ 1.58
Discontinued operations	1.51	0.08	1.70	0.31
Total	\$ 2.09	\$ 1.01	\$ 4.40	\$ 1.89
Diluted earnings per share:				
Continuing operations	\$ 0.58	\$ 0.92	\$ 2.69	\$ 1.57
Discontinued operations	1.51	0.08	1.69	0.31
Total	\$ 2.09	\$ 1.00	\$ 4.38	\$ 1.88
Cash dividends per share	\$ 0.20	\$ 0.18	\$ 0.58	\$ 0.52

See notes to unaudited condensed consolidated financial statements

STANDEX INTERNATIONAL CORPORATION
Unaudited Condensed Consolidated Statements of Comprehensive Income

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
(In thousands)	2019	2018	2019	2018
Net income	\$ 26,269	\$ 12,800	\$ 55,521	\$ 23,994
Other comprehensive income (loss):				
Defined benefit pension plans:				
Actuarial gains (losses) and other \$ changes in				
unrecognized costs	(30)	\$ (285)	\$ 250	\$ (623)
Amortization of unrecognized costs	1,116	1,378	3,347	4,114
Derivative instruments:				
Change in unrealized gains (losses)	1,449	(316)	(2,226)	(1,893)
Amortization of unrealized gains and into				
interest expense	(506)	2,363	1,767	3,427
Foreign currency translation gains (losses)	410	11,694	(5,252)	14,148
Other comprehensive income (loss) before tax	\$ 2,439	\$ 14,834	\$(2,114)	\$ 19,173
Income tax provision (benefit):				
Defined benefit pension plans:				
Actuarial gains (losses) and other \$ changes in				
unrecognized costs	1	\$ (348)	\$ (25)	\$ 129
Amortization of unrecognized costs	(273)	(329)	(818)	(1,134)

Derivative instruments:				
Change in unrealized gains and (losses)	172	(127)	338	(231)
Amortization of unrealized (losses) into				
interest expense	21	(7)	61	(51)
Income tax provision (benefit) to other comprehensive				
income (loss)	(79)	\$ (811)	\$ (444)	\$ (1,287)
Other comprehensive gain (loss), net of tax	2,360	14,023	(2,558)	17,886
Comprehensive income	\$ 28,629	\$ 26,823	\$ 52,963	\$ 41,880

See notes to unaudited condensed consolidated financial statements

Consolidated Statements of Stockholders' Equity

Standex International Corporation and Subsidiaries

For the <u>Nine month</u> <u>period ended March 31,</u> <u>2019</u>	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated	Treasury Stock	Total Stockholders' Equity	
				Comprehensive Income (Loss)	Shares Amount		
(in thousands, except as specified)							
Balance, June 30, 2018	\$ 41,976	\$ 61,328	\$ 761,430	\$ (121,855)	5,279	\$ (292,080)	\$450,795
Stock issued for employee stock option and purchase		(234)			(62)	1,186	952

plans, including related income tax benefit and other							
Stock-based compensation		2,680					2,680
Treasury stock acquired				236	(19,239)		(19,239)
Adoption of ASC 606			(1,106)				(1,106)
Comprehensive income:							
Net Income			55,521				55,521
Foreign currency translation adjustment				(5,252)			(5,252)
Pension and OPEB adjustments, net of tax of \$0.8 million				2,754			2,754
Change in fair value of derivatives, net of tax of \$0.4 million				(60)			(60)
Dividends declared (\$0.58 per share)			(7,428)				(7,428)
Balance, March 31, 2019	\$ 41,976	\$ 63,774	\$ 808,417	\$ (124,417)	\$ 17,453	\$ (310,133)	\$ 179,617

For the Nine month period ended March 31, 2018

(in thousands, except as specified)

Balance, June 30, 2017	\$ 41,976	\$ 56,783	\$ 716,605	\$ (115,938)	\$ 15,322	\$ (290,762)	\$ 408,664
Stock issued for employee stock option and purchase plans, including related income tax benefit and other		(533)		(69)		1,301	768
Stock-based compensation		3,781					3,781
Treasury stock acquired					21	(2,008)	(2,008)
Adoption of ASU 2018-02			17,215	(17,215)			-
Comprehensive income:							

Net Income			23,994			23,994
Foreign currency translation adjustment				14,148		14,148
Pension and OPEB adjustments, net of tax of \$0.9 million				2,486		2,486
Change in fair value of derivatives, net of tax of \$0.3 million				1,252		1,252
Dividends declared (\$0.52 per share)			(6,678)			(6,678)
Balance, March 31, 2018	\$ 41,976	\$ 60,031	\$ 751,136	\$ (115,267)	\$ 15,274	\$ (291,469)
						\$446,407

Consolidated Statements of Stockholders' Equity

Standex International Corporation and Subsidiaries

For the <u>Three month period ended March 31, 2019</u>	Accumulated						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Other Comprehensive Income (Loss)	Treasury Stock Shares	Treasury Stock Amount	Total Stockholders' Equity
(in thousands, except as specified)							
Balance, December 31, 2018	\$ 41,976	\$ 63,024	\$784,687	\$ (126,777)	15,454	\$ (310,084)	\$ 452,826
Stock issued for employee stock option and purchase plans, including related income tax benefit and other		99			(2)	55	154
Stock-based compensation		651					651

Treasury stock acquired					1	(104)	(104)
Adoption of ASC 606							
Comprehensive income:							
Net Income			26,269				26,269
Foreign currency translation adjustment					410		410
Pension and OPEB adjustments, net of tax of \$0.3 million					813		813
Change in fair value of derivatives, net of tax of \$0.2 million					1,137		1,137
Dividends declared (\$0.20 per share)			(2,539)				(2,539)
Balance, March 31, 2019	\$ 41,976	\$ 63,774	\$808,417	\$(124,417)	15,453	\$(310,133)	\$ 479,617
Balance, December 31, 2017	\$ 41,976	\$ 59,016	\$723,435	\$(112,075)	15,275	\$(291,420)	\$ 420,932
Stock issued for employee stock option and purchase plans, including related income tax benefit and other		116			(2)	34	150
Stock-based compensation		899					899
Treasury stock acquired					1	(83)	(83)
Adoption of ASU 2018-02			17,215	(17,215)			-
Comprehensive income:							
Net Income			12,800				12,800
Foreign currency translation adjustment					11,694		11,694
Pension and OPEB adjustments, net of tax of \$0.3 million					416		416
Change in fair value of derivatives, net of tax of \$0.2 million					1,913		1,913
Dividends declared (\$0.18 per share)			(2,314)				(2,314)

Balance, March 31, 2018 \$ 41,976 \$ 60,031 \$751,136 \$(115,267) 15,274 \$(291,469) \$ 446,407

STANDEX INTERNATIONAL CORPORATION
Unaudited Condensed Consolidated Statements of Cash Flows

(In thousands)	Nine Months Ended March 31,	
	2019	2018
Cash flows from operating activities		
Net income	\$ 55,521	\$ 23,994
Income from discontinued operations	21,450	3,940
Income from continuing operations	34,071	20,054
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	22,794	19,632
Stock-based compensation	2,680	3,775
Non-cash portion of restructuring charge	(81)	(1,187)
Deferred repatriation tax	-	11,465
Disposal of real estate and equipment	-	(433)
Contributions to defined benefit plans	(751)	(808)
Net changes in operating assets and liabilities	(33,753)	(25,608)
Net cash provided by operating activities - continuing operations	24,960	26,890
Net cash (used in) operating activities - discontinued operations	617	1,829
Net cash provided by operating activities	25,577	28,719
Cash flows from investing activities		
Expenditures for property, plant, and equipment	(17,844)	(20,207)
Expenditures for acquisitions, net of cash acquired	(96,768)	(10,397)
Proceeds from life insurance policies	-	2,217
Proceeds from sales of real estate and equipment	2,898	1,949
Other investing activity	(377)	(397)
Net cash provided by (used in) investing activities- continuing operations	(112,091)	(26,835)
Net cash provided by (used in) investing activities- discontinued operations	2,925	(1,184)
Net cash provided by (used in) investing activities	(109,166)	(28,019)
Cash flows from financing activities		

Borrowings on revolving credit facility	206,650		134,500
Payments of revolving credit facility	(107,650)		(124,788)
Contingent consideration payment	(910)		-
Activity under share-based payment plans	952		774
Purchases of treasury stock	(19,239)		(2,007)
Cash dividends paid	(7,331)		(6,600)
Net cash provided by financing activities	72,472		1,879
Effect of exchange rate changes on cash and cash equivalents	(2,444)		5,179
Net change in cash and cash equivalents	(13,561)		7,758
Cash and cash equivalents at beginning of year	109,602		88,566
Cash and cash equivalents at end of period	\$ 96,041	\$	96,324

Supplemental Disclosure of Cash Flow Information:

Cash paid during the year for:

Interest	\$ 7,574	\$	4,518
Income taxes, net of refunds	\$ 8,027	\$	17,720

See notes to unaudited condensed consolidated financial statements

STANDEX INTERNATIONAL CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1)

Management Statement

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly the results of operations and changes in stockholder's equity for the three and nine months ended March 31, 2019 and 2018, the cash flows for the nine months ended March 31, 2019 and 2018 and the financial position of Standex International Corporation ("Standex", the "Company", "we", "us", or "our"), at March 31, 2019.

The interim results are not necessarily indicative of results for a full year. The following unaudited condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the company believes that the disclosures made are adequate to make the information not misleading. The unaudited condensed consolidated financial statements and notes do not contain information which would substantially duplicate the disclosures contained in the audited annual consolidated financial statements and notes for the year ended June 30, 2018. The condensed consolidated balance sheet at June 30, 2018 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The financial statements contained herein should be read in conjunction with the Annual Report on Form 10-K and in particular the audited consolidated financial statements for the year ended June 30, 2018. Certain prior period amounts have been reclassified to conform to the current period presentation. Unless otherwise noted, references to years are to the Company's fiscal years.

The Company considers events or transactions that occur after the balance sheet date but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. We evaluated subsequent events through the date and time our unaudited condensed consolidated financial statements were issued.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires lessees to recognize lease assets and lease liabilities on the balance sheet and requires expanded disclosures about leasing arrangements. In July 2018, the FASB issued ASU 2018-11, "Leases (Topic 842) Targeted Improvements". The updated guidance provides an optional transition method, which allows for the application of the standard as of the adoption date with no restatement of prior period amounts. We plan to adopt the standard on July 1, 2019 under the optional transition method described above. We have selected a lease accounting software package and are completing the accumulation of existing lease data as well as assessing the impact that the new standard will have on our Consolidated Financial Statements, which will consist primarily of a balance sheet gross up of our operating leases to show equal and offsetting lease assets and lease liabilities. Due to the materiality of the underlying leases subject to the new guidance, we anticipate the adoption will have a material impact on the Company's consolidated financial statements, however

we are unable to quantify that effect until our analysis is complete.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*, which simplifies the accounting for goodwill impairments by eliminating step two from the goodwill impairment test. Instead, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. ASU 2017-04 also clarifies the requirements for excluding and allocating foreign currency translation adjustments to reporting units related to an entity's testing of reporting units for goodwill impairment. It further clarifies that an entity should consider income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. ASU 2017-04 is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company is currently assessing the potential impact of the adoption of ASU 2017-04 on our goodwill impairment testing procedures and our consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815), Targeting Improvements to Accounting for Hedging Activities*, which improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements and to make certain targeted improvements to simplify the application of hedge accounting guidance. The new guidance requires additional disclosures including cumulative basis adjustments for fair value hedges and the effect of hedging on individual income statement line items along with providing new alternatives for applying hedge accounting to additional hedging strategies and measuring the hedged item in fair value hedges of interest rate risk. This guidance is effective for fiscal years beginning after December 15, 2018 (fiscal 2020 for the Company), and interim periods within those fiscal years. The amendment is to be applied prospectively. Given the improvements made to the application of hedge accounting under the guidance, the Company decided to early adopt the ASU during the second quarter of fiscal year 2019.

2)

Acquisitions

The Company's recent acquisitions are strategically significant to the future growth prospects of the Company. At the time of the acquisition and March 31, 2019, the Company evaluated the significance of each acquisition on a standalone basis and in aggregate, considering both qualitative and quantitative factors.

Agile Magnetics

On the last business day of the first quarter of fiscal year 2019, the Company acquired Regional Mfg. Specialists, Inc. (now named Agile Magnetics). The New Hampshire based, privately held company is a provider of high-reliability magnetics to customers in the semiconductor, military, aerospace, healthcare, and general industrial industries. The Company has included the results of Agile in its Electronics segment in the condensed consolidated financial

statements.

The Company paid \$39.2 million in cash for all of the issued and outstanding equity interests of Agile. The preliminary purchase price was allocated to the net tangible and identifiable intangible assets acquired and liabilities assumed based on a preliminary estimate of their fair values on the closing date. The Company has commenced a formal valuation of the acquired assets and liabilities and has updated the preliminary intangible asset based on the preliminary valuation results. Goodwill recorded from this transaction is attributable to expanded capabilities of the combined organization which will allow for improved responsiveness to customer demands via a larger pool of engineering resources and local manufacturing.

Intangible assets of \$18.2 million are preliminarily recorded, consisting of \$14.3 million of customer relationships, \$3.8 million for trademarks, and \$0.1 million for a non-compete arrangement. The goodwill of \$15.6 million preliminarily recorded in connection with the transaction is deductible for income tax purposes. The Company's assigned fair values are preliminary as of March 31, 2019 until such time as the valuation can be finalized.

The components of the fair value of the Agile acquisition, including the preliminary allocation of the purchase price at March 31, 2019, are as follows (in thousands):

		Preliminary Allocation September 30, 2018	Adjustments	Adjusted Allocation March 31, 2019
Fair value of business combination:				
Cash payments	\$	39,194	-	39,194
Less, cash acquired		(1)	-	(1)
Total	\$	39,193	-	39,193

		Preliminary Allocation September 30, 2018	Adjustments	Adjusted Allocation March 31, 2019
Identifiable assets acquired and liabilities assumed:				
Other acquired assets	\$	1,928	(35)	1,893
Inventories		2,506	268	2,774
Customer Backlog		-	220	220

Property, plant, & equipment	1,318	(348)	970
Identifiable intangible assets	13,718	4,432	18,150
Goodwill	20,142	(4,528)	15,614
Liabilities assumed	(419)	(9)	(428)
Total	\$ 39,193	-	39,193

Tenibac-Graphion Inc.

During August of fiscal year 2019, the Company acquired Tenibac-Graphion Inc. (“Tenibac”). The Michigan based privately held company is a provider of chemical and laser texturing services for the automotive, medical, packaging, and consumer products markets. The Company has included the results of Tenibac in its Engraving segment in the condensed consolidated financial statements.

The Company paid \$57.3 million in cash for all of the issued and outstanding equity interests of Tenibac. The preliminary purchase price was allocated to the net tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values on the closing date. Goodwill recorded from this transaction is attributable to the complimentary services that the combined business can now offer to our customers, through increased responsiveness to customer demands, and providing innovative approaches to solving customer needs by offering a full line of mold and tool services to customers.

Intangible assets of \$16.9 million are preliminarily recorded, consisting of \$11.3 million of customer relationships to be amortized over a period of nine years, \$4.2 million for trademarks, and \$1.4 million of other intangibles assets. The Company’s assigned fair values are preliminary as of March 31, 2019 until reviewed closing financial statements, including U.S. 338(h)10 elections, can be prepared by an independent accountant and agreed to by both parties as required by the stock purchase agreement. The goodwill of \$33.8 million created by the transaction is deductible for income tax purposes.

The components of the fair value of the Tenibac acquisition, including the preliminary allocation of the purchase price at March 31, 2019, are as follows (in thousands):

	Preliminary Allocation September 30, 2018	Adjusted Allocation Adjustments March 31, 2019	
Fair value of business combination:			
Cash payments	\$ 57,284	-	57,284
Less cash acquired	(558)	-	(558)