

MKS INSTRUMENTS INC
Form 10-Q
November 03, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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, 2017

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 0-23621

MKS INSTRUMENTS, INC.

(Exact name of registrant as specified in its charter)

Massachusetts
(State or other jurisdiction of
incorporation or organization)

04-2277512
(I.R.S. Employer
Identification No.)

2 Tech Drive, Suite 201, Andover, Massachusetts
(Address of principal executive offices)

01810
(Zip Code)

Registrant's telephone number, including area code (978) 645-5500

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Emerging growth company

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

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

As of October 27, 2017, the registrant had 54,294,566 shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

MKS INSTRUMENTS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

(Unaudited)

	September 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 305,977	\$ 228,623
Restricted cash	117	5,287
Short-term investments	228,631	189,463
Trade accounts receivable, net	280,302	248,757
Inventories, net	319,460	275,869
Other current assets	60,716	50,770
Total current assets	1,195,203	998,769
Property, plant and equipment, net	166,928	174,559
Goodwill	589,099	588,585
Intangible assets, net	376,334	408,004
Long-term investments	10,593	9,858
Other assets	32,188	32,467
Total assets	\$ 2,370,345	\$ 2,212,242
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Short-term borrowings and current portion of long-term debt	\$ 4,020	\$ 10,993
Accounts payable	77,842	69,337
Accrued compensation	75,725	67,728
Income taxes payable	38,609	22,794
Deferred revenue	17,812	14,463
Other current liabilities	68,604	51,985
Total current liabilities	282,612	237,300
Long-term debt	435,731	601,229
Non-current deferred taxes	71,110	66,446
Non-current accrued compensation	50,080	44,714
Other liabilities	23,107	20,761

Total liabilities	862,640	970,450
Commitments and contingencies (Note 18)		
Stockholders' equity:		
Preferred Stock, \$0.01 par value per share, 2,000,000 shares authorized; none issued and outstanding		
Common Stock, no par value, 200,000,000 shares authorized; 54,291,361 and 53,672,861 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	113	113
Additional paid-in capital	782,597	777,482
Retained earnings	727,835	494,744
Accumulated other comprehensive loss	(2,840)	(30,547)
Total stockholders' equity	1,507,705	1,241,792
Total liabilities and stockholders' equity	\$ 2,370,345	\$ 2,212,242

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

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MKS INSTRUMENTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE INCOME

(in thousands, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net revenues:				
Products	\$ 434,710	\$ 335,156	\$ 1,259,582	\$ 774,248
Services	51,557	45,504	144,595	115,954
Total net revenues	486,267	380,660	1,404,177	890,202
Cost of revenues:				
Cost of products	225,174	183,789	659,538	433,134
Cost of services	33,098	28,486	91,514	74,857
Total cost of revenues (exclusive of amortization shown separately below)	258,272	212,275	751,052	507,991
Gross profit	227,995	168,385	653,125	382,211
Research and development	32,548	32,268	99,510	77,709
Selling, general and administrative	71,839	68,016	218,038	161,545
Acquisition and integration costs	2,466	2,641	4,698	25,190
Restructuring	10		2,596	24
Asset impairment			6,719	
Amortization of intangible assets	10,977	12,452	34,946	22,990
Income from operations	110,155	53,008	286,618	94,753
Interest income	873	404	1,896	1,858
Interest expense	7,172	12,007	23,001	20,526
Gain on sale of business			74,856	
Other (expense) income, net	(2,485)	843	(3,741)	2,336
Income before income taxes	101,371	42,248	336,628	78,421
Provision for income taxes	25,377	9,699	75,134	19,099
Net income	\$ 75,994	\$ 32,549	\$ 261,494	\$ 59,322
Other comprehensive income:				
	\$ (908)	\$ (229)	\$ (3,578)	\$ (2,104)

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Changes in value of financial instruments designated as cash flow hedges, net of tax benefit ⁽¹⁾				
Foreign currency translation adjustments, net of tax of \$0	8,088	5,698	30,352	(536)
Unrecognized pension loss, net of tax expense ⁽²⁾	(565)		(204)	
Unrealized gain (loss) on investments, net of tax expense (benefit) ⁽³⁾	1,301	(31)	1,137	424
Total comprehensive income	\$ 83,910	\$ 37,987	\$ 289,201	\$ 57,106
Net income per share:				
Basic	\$ 1.40	\$ 0.61	\$ 4.84	\$ 1.11
Diluted	\$ 1.38	\$ 0.60	\$ 4.75	\$ 1.10
Cash dividends per common share	\$ 0.175	\$ 0.17	\$ 0.525	\$ 0.51
Weighted average common shares outstanding:				
Basic	54,282	53,574	54,076	53,423
Diluted	55,101	54,315	55,020	53,895

- (1) Tax expense (benefit) was \$688 and \$(117) for the three months ended September 30, 2017 and 2016, respectively. Tax benefit was \$884 and \$1,357 for the nine months ended September 30, 2017 and 2016, respectively.
- (2) Tax benefit was \$312 and \$315 for the three and nine months ended September 30, 2017, respectively.
- (3) Tax benefit was \$467 and \$15 for the three months ended September 30, 2017 and 2016, respectively. Tax (benefit) expense was \$(737) and \$274 for the nine months ended September 30, 2017 and 2016, respectively. The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

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MKS INSTRUMENTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2017	2016
Cash flows provided by operating activities:		
Net income	\$ 261,494	\$ 59,322
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	62,550	43,757
Amortization of debt issuance costs, original issue discount and soft call premium	6,385	6,453
Amortization of inventory step-up adjustment to fair value		15,090
Asset impairment	6,719	
Gain on sale of business	(74,856)	
Stock-based compensation	19,834	19,826
Provision for excess and obsolete inventory	15,349	11,045
Provision for bad debt	650	167
Deferred income taxes	6,641	(9,567)
Excess tax benefits from stock-based compensation		(678)
Other	832	125
Changes in operating assets and liabilities:		
Trade accounts receivable	(26,489)	(44,508)
Inventories	(51,251)	(5,077)
Income taxes	15,646	20,418
Other current and non-current assets	(9,714)	(12,134)
Accrued compensation	11,058	4,460
Other current and non-current liabilities	22,517	4,568
Accounts payable	7,071	14,110
Net cash provided by operating activities	274,436	127,377
Cash flows provided by investing activities:		
Acquisition of businesses, net of cash acquired		(939,591)
Net proceeds from sale of business	72,509	
Proceeds from sale of property, plant and equipment		40
Purchases of investments	(199,012)	(116,075)
Maturities of investments	116,779	148,606
Sales of investments	43,571	337,592
Purchases of property, plant and equipment	(17,857)	(11,959)
Net cash provided by (used in) investing activities	15,990	(581,387)

Cash flows used in financing activities:		
Restricted cash	5,012	(6,176)
Proceeds from short-term borrowings	12,968	15,434
Proceeds from long-term borrowings	190	743,746
Payments on short-term borrowings	(13,277)	(8,289)
Payments on long-term borrowings	(178,141)	(111,825)