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Altra Industrial Motion Corp.  
Form 10-Q  
May 03, 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

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-33209

ALTRA INDUSTRIAL MOTION CORP.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	61-1478870 (I.R.S. Employer Identification No.)
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300 Granite Street, Suite 201, Braintree, MA (Address of principal executive offices)	02184 (Zip Code)
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(781) 917-0600

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value	AIMC	NASDAQ Global Market

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 (§232.405 of this chapter) 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

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

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

As of April 29, 2019, there were 64,494,632 million outstanding shares of the registrant’s common stock, \$0.001 par value per share.

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## ALTRA INDUSTRIAL MOTION CORP.

## Condensed Consolidated Balance Sheets

Amounts in millions, except share amounts

	March 31, 2019 (Unaudited)	December 31, 2018
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 152.4	\$ 169.0
Trade receivables, less allowance for doubtful accounts of \$5.2 and \$5.6 million at March 31, 2019 and December 31, 2018, respectively	281.8	259.8
Inventories	241.0	231.2
Income tax receivable	8.5	10.2
Prepaid expenses and other current assets	32.8	33.1
Assets held for sale	—	0.7
Total current assets	716.5	704.0
Property, plant and equipment, net	360.5	364.4
Intangible assets, net	1,559.9	1,585.7
Goodwill	1,683.5	1,662.3
Deferred income taxes	3.3	4.9
Other non-current assets	13.3	15.9
Operating lease right of use assets	43.3	—
Total assets	\$ 4,380.3	\$ 4,337.2
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 172.3	\$ 175.8
Accrued payroll	53.6	57.0
Accruals and other current liabilities	78.7	79.6
Income tax payable	9.3	7.5
Current portion of long-term debt	18.2	17.2
Operating lease liabilities	14.9	—
Total current liabilities	347.0	337.1
Long-term debt - less current portion	1,676.6	1,690.9
Deferred income taxes	399.1	393.2
Pension liabilities	32.1	32.0
Long-term taxes payable	4.5	5.4
Other long-term liabilities	18.5	30.4
Operating lease liabilities, net of current portion	30.1	—
Commitments and Contingencies (Note 18)		
Stockholders' equity:		
Common stock (\$0.001 par value per share, 120.0 million shares authorized,	0.1	0.1

64.3 and 64.2 million shares issued and outstanding at March 31, 2019

and December 31, 2018, respectively)

Additional paid-in capital	1,688.5	1,687.1
Retained earnings	256.7	232.6
Accumulated other comprehensive loss	(72.9 )	(71.6 )
Total stockholders' equity	1,872.4	1,848.2
Total liabilities, and stockholders' equity	\$ 4,380.3	\$ 4,337.2

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

## ALTRA INDUSTRIAL MOTION CORP.

## Condensed Consolidated Statements of Operations

Amounts in millions, except per share data

	Quarter Ended	
	March 31,	March 31,
	2019	2018
	(Unaudited)	(Unaudited)
Net sales	\$482.8	\$ 240.4
Cost of sales	307.9	166.2
Gross profit	174.9	74.2
Operating expenses:		
Selling, general and administrative expenses	90.9	47.1
Research and development expenses	15.3	6.5
Restructuring costs	2.3	0.9
	108.5	54.5
Income from operations	66.4	19.7
Other non-operating income and expense:		
Loss on settlement of pension plan	—	5.1
Interest expense, net	19.8	1.8
Other non-operating expense/(income), net	1.1	(0.1 )
	20.9	6.8
Income before income taxes	45.5	12.9
Provision for income taxes	10.3	3.9
Net income	\$35.2	\$ 9.0
Weighted average shares, basic	64.2	29.1
Weighted average shares, diluted	64.4	29.2
Net income per share:		
Basic	0.55	0.31
Diluted	0.55	0.31
Cash dividend declared per share	0.17	0.17

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

## ALTRA INDUSTRIAL MOTION CORP.

## Condensed Consolidated Statements of Comprehensive Income

(Amounts in millions)

	Quarter Ended	
	March 31, 2019	March 31, 2018
	(Unaudited)	(Unaudited)
Net Income	\$35.2	\$ 9.0
Other Comprehensive income:		
Foreign currency translation adjustment, net of tax	(12.5)	7.8
Reclassification adjustment from loss on partial settlement of pension plan, net of tax	—	3.8
Change in pension liability adjustment, net of tax	(0.3 )	0.6
Change in fair value of derivative financial instruments, net of tax	11.5	0.3
Total other comprehensive (loss) income:	(1.3 )	12.5
Comprehensive income	\$33.9	\$ 21.5

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

## ALTRA INDUSTRIAL MOTION CORP.

## Condensed Consolidated Statements of Cash Flows

(Amounts in millions)

	Quarter Ended	
	March 31,	March 31,
	2019	2018
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Net income	\$35.2	\$ 9.0
Adjustments to reconcile net income to net operating cash flows:		
Depreciation	14.3	6.9
Amortization of intangible assets	17.8	2.5
Amortization of deferred financing costs	1.1	0.2
Loss(gain) on foreign currency, net	1.0	(0.1 )
Loss on partial settlement of pension plan	—	5.1
Loss on disposal, impairment and other	0.3	0.1
Stock based compensation	3.5	1.3
Changes in assets and liabilities, net of assets acquired:		
Trade receivables	(22.5 )	(12.9 )
Inventories	(10.6 )	(0.5 )
Accounts payable and accrued liabilities	(4.9 )	(5.9 )
Other current assets and liabilities	18.5	0.0
Other operating assets and liabilities	(14.4 )	(2.0 )
Net cash provided by operating activities	39.3	3.7
Cash flows from investing activities		
Purchase of property, plant and equipment	(14.0 )	(7.0 )
A&S acquisition purchase price adjustment	(13.5 )	—
Proceeds from sale of building	0.3	—
Net cash used in investing activities	(27.2 )	(7.0 )
Cash flows from financing activities		
Payments on 2015 Revolving Credit Facility	—	(4.9 )
Payments on Term Loan Facility	(15.0 )	—
Dividend payments	(11.1 )	(5.0 )
Borrowing under 2015 Revolving Credit Facility	—	8.0
Payments of equipment, working capital notes, mortgages and other debts	(0.2 )	(0.3 )
Proceeds from issuance of China debt	1.2	—
Shares surrendered for tax withholding	(2.1 )	(1.5 )
Net cash used in financing activities	(27.2 )	(3.7 )
Effect of exchange rate changes on cash and cash equivalents	(1.5 )	1.4
Net change in cash and cash equivalents	(16.6 )	(5.6 )
Cash and cash equivalents at beginning of period	169.0	52.0
Cash and cash equivalents at end of period	\$152.4	\$ 46.4
Cash paid during the period for:		
Interest paid on borrowings	\$11.4	\$ 1.8
Income taxes paid	\$7.9	\$ 2.6



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

ALTRA INDUSTRIAL MOTION CORP.

Condensed Consolidated Statements of Stockholders' Equity

Amounts in millions

(Unaudited)

	Common		Additional	Retained	Accumulated	Total
	Stock	Shares	Paid	Earnings	Other	
	\$		in Capital	(Loss)	Comprehensive	
					Income	
Balance at January 1, 2018	\$ 0.0	29.1	\$ 223.3	\$ 223.2	\$ (49.8 )	\$ 396.7
Stock-based compensation and vesting						
of restricted stock, net of withholdings	—	0.0	(0.2 )	—	—	(0.2 )
Net income	—	—	—	9.0	—	9.0
Dividends declared, \$0.17 per share	—	—	—	(5.0 )	—	(5.0 )
Change in fair value of derivative financial						
instruments, net of tax	—	—	—	—	0.3	0.3
Minimum pension adjustment, net of tax	—	—	—	—	4.4	4.4
Cumulative foreign currency translation						
adjustment	—	—	—	—	7.8	7.8
Balance at March 31, 2018	\$ 0.0	29.1	\$ 223.1	\$ 227.2	\$ (37.3 )	\$ 413.0

Balance at January 1, 2019	\$0.1	64.2	\$1,687.1	\$232.6	\$(71.6)	\$1,848.2
Stock-based compensation and vesting						
of restricted stock, net of withholdings	—	0.1	1.4	—	—	1.4
Net income	—	—	—	35.2	—	35.2
Dividends declared, \$0.17 per share	—	—	—	(11.1 )	—	(11.1 )
Change in fair value of derivative						
financial instruments, net of tax	—	—	—	—	11.5	11.5

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Minimum pension adjustment, net of tax	—	—	—	—	(0.3 )	(0.3 )
Cumulative foreign currency translation						
adjustment	—	—	—	—	(12.5)	(12.5 )
Balance at March 31, 2019	\$0.1	64.3	\$1,688.5	\$256.7	\$(72.9)	\$1,872.4

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

ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in millions, unless otherwise noted

1. Organization and Nature of Operations

Headquartered in Braintree, Massachusetts, Altra Industrial Motion Corp. (the “Company,” “Altra,” “We,” or “Our”) is a leading global designer, producer and marketer of a wide range of electro-mechanical power transmission and 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, Portescap, Stieber Clutch, Stromag, Svendborg Brakes, TB Wood’s, Thomson, Twiflex, Warner Electric, Warner Linear, and Wichita Clutch.

2. Basis of Presentation

The Company’s unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and note disclosures required by generally accepted accounting principles in the United States, or GAAP. These statements should be read in conjunction with the financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018, filed with the U.S. Securities and Exchange Commission (the “SEC”) on March 1, 2019. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary to present fairly the Company’s financial position and cash flows for the interim periods presented. The results are not necessarily indicative of future results. 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. Certain prior year numbers have been adjusted to conform to the current year rounding convention of reporting financial data in millions of dollars, except as otherwise noted.

3. Recent Accounting Standards

Recent Accounting Pronouncements

On January 1, 2019 the Company adopted ASU 2016-02, Leases (Topic 842) (“ASU 2016-02”) using the modified retrospective approach for all lease arrangements at the beginning period of adoption. Results for the reporting period beginning January 1, 2019 are presented under ASU 2016-02, which required, among other items, lessees to recognize

a right-of-use asset (“ROU assets”) and lease liability for most leases. As permitted by the new lease standard, the Company elected (i) not to reevaluate land easements if they were not previously accounted for as leases, (ii) not to reassess prior conclusions about lease identification, lease classification and initial direct costs (iii) not to apply the recognition requirements to short-term leases, and (iv) not to separate non-lease components from associated lease components, for all classes of underlying assets. Upon adoption of the new lease standard, the Company recorded right of use assets of approximately \$46.7 million and lease liabilities of approximately \$48.2 million in connection with its operating leases. See Note 5 for additional information regarding our commitments under various lease obligations.

#### Lease Accounting Policy

Arrangements that are determined to be leases at inception are recognized in long-term ROU assets, current lease liabilities, and long-term lease liabilities in the condensed consolidated balance sheet at lease commencement. Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future fixed lease payments over the lease term at commencement date. As most of the Company’s leases do not provide an implicit rate, the Company applies its incremental borrowing rate based on the economic environment at commencement date in determining the present value of future payments. The operating lease ROU asset also includes any lease prepayments made and initial direct costs incurred and is reduced by lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for operating leases or payments are recognized on a straight-line basis over the lease term.

#### 4. Acquisition

On October 1, 2018, the Company and Fortive Corporation (“Fortive”) consummated the previously announced combination (the “Fortive Transaction”) of Altra with four operating companies from Fortive’s Automation & Specialty platform (the “A&S Business”), and as a result, the consolidated financial statements reflect the A&S Business’s results of operations from October 1, 2018 onward.

## ALTRA INDUSTRIAL MOTION CORP.

## Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in millions, unless otherwise noted

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.

As of March 31, 2019, the allocation of the purchase price of the A&S Business is provisional. The fair value of all the acquired identifiable assets and liabilities 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 Company recorded certain measurement period adjustments during the quarter ended March 31, 2019 in the amount of \$26.2 million. The preliminary purchase price allocation below includes such adjustments.

	At Acquisition Date	Measurement Period Adjustments	At Acquisition Date (As Adjusted)
Preliminary purchase price allocation:			
Consideration transferred:			
Total cash consideration	\$ 1,003.4	\$ —	\$ 1,003.4
Total equity consideration	1,458.7	—	1,458.7
A&S acquisition purchase price adjustment	—	13.5	13.5
Fair value of consideration transferred	\$ 2,462.1	\$ 13.5	\$ 2,475.6
Recognized identifiable assets acquired and liabilities assumed:			
Less: cash on A&S balance sheet at 10/1/2018	54.1	(0.5 )	53.6
Receivables	129.7	(0.8 )	128.9
Inventory	89.1	(2.3 )	86.8
Prepays and other current assets	6.9	(0.2 )	6.7
Property, plant and equipment	178.3	(1.0 )	177.3
Intangibles	1,454.0	—	1,454.0
Other non-current assets	7.9	(0.4 )	7.5
Accounts payable	(98.9 )	0.8	(98.1 )
Accrued payroll	(15.2 )	0.5	(14.7 )
Accrued expenses and other current liabilities	(33.7 )	—	(33.7 )
Pension liability and other post employment benefits	(12.0 )	—	(12.0 )

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Deferred tax liability	(355.7 )	(8.5 )	(364.2 )
Other long term liability	(2.6 )	(0.3 )	(2.9 )
Senior unsecured notes assumed	(400.0 )	—	(400.0 )
Total identifiable net assets assumed	1,001.9	(12.7 )	989.2
Goodwill	\$ 1,460.2	\$ 26.2	\$ 1,486.4