

PREFORMED LINE PRODUCTS CO
Form 10-Q
August 03, 2018

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 June 30, 2018

Commission file number: 0-31164

Preformed Line Products Company

(Exact Name of Registrant as Specified in Its Charter)

| | |
|---------------------------------|---------------------|
| Ohio | 34-0676895 |
| (State or Other Jurisdiction of | (I.R.S. Employer |
| Incorporation or Organization) | Identification No.) |

660 Beta Drive

| | |
|---|------------|
| Mayfield Village, Ohio | 44143 |
| (Address of Principal Executive Office) | (Zip Code) |

(440) 461-5200

(Registrant's telephone number, including area code)

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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, a smaller reporting company or an emerging growth company. See 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

The number of common shares outstanding as of August 1, 2018: 5,036,748.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PREFORMED LINE PRODUCTS COMPANY

CONSOLIDATED BALANCE SHEETS

| | June 30, 2018 | December 31, 2017 |
|--|-------------------|----------------------|
| (Thousands of dollars, except share and per share data) | | |
| | (Unaudited) | |
| ASSETS | | |
| Cash and cash equivalents | \$ 41,395 | \$ 44,358 |
| Accounts receivable, less allowances of \$3,144 (\$3,325 in 2017) | 78,107 | 73,972 |
| Inventories - net | 83,212 | 77,886 |
| Prepays | 5,369 | 3,434 |
| Prepaid taxes | 2,223 | 5,266 |
| Other current assets | 4,113 | 2,214 |
| TOTAL CURRENT ASSETS | 214,419 | 207,130 |
| Property, plant and equipment - net | 105,172 | 108,598 |
| Intangibles - net | 9,093 | 10,020 |
| Goodwill | 15,867 | 16,544 |
| Deferred income taxes | 8,023 | 7,774 |
| Other assets | 11,506 | 9,719 |
| TOTAL ASSETS | \$ 364,080 | \$ 359,785 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Trade accounts payable | \$ 28,240 | \$ 25,141 |
| Notes payable to banks | 2,722 | 864 |
| Current portion of long-term debt | 1,448 | 1,448 |
| Accrued compensation and amounts withheld from employees | 13,431 | 11,461 |
| Accrued expenses and other liabilities | 12,532 | 14,686 |
| Accrued profit-sharing and other benefits | 4,195 | 6,284 |
| Dividends payable | 1,055 | 1,046 |
| Income taxes payable | 1,199 | 1,903 |
| TOTAL CURRENT LIABILITIES | 64,822 | 62,833 |
| Long-term debt, less current portion | 37,308 | 34,598 |
| Unfunded pension obligation | 10,006 | 10,664 |
| Deferred income taxes | 1,833 | 2,090 |
| Other noncurrent liabilities | 10,582 | 11,063 |
| SHAREHOLDERS' EQUITY | | |
| Shareholders' equity: | | |
| Common shares - \$2 par value per share, 15,000,000 shares authorized, 5,036,978 and | | |
| 5,038,207 issued and outstanding, at June 30, 2018 and December 31, 2017, | | |
| respectively | 12,639 | 12,593 |
| Common shares issued to rabbi trust, 269,358 and 289,026 shares at June 30, 2018 | (10,988) | (11,834) |

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| | | |
|---|------------|------------|
| and December 31, 2017, respectively | | |
| Deferred compensation liability | 10,988 | 11,834 |
| Paid-in capital | 31,657 | 29,734 |
| Retained earnings | 321,954 | 311,765 |
| Treasury shares, at cost, 1,282,476 and 1,258,069 shares at June 30, 2018 and | | |
| December 31, 2017, respectively | (69,929) | (68,115) |
| Accumulated other comprehensive loss | (56,792) | (47,440) |
| TOTAL SHAREHOLDERS' EQUITY | 239,529 | 238,537 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 364,080 | \$ 359,785 |

See notes to consolidated financial statements (unaudited).

PREFORMED LINE PRODUCTS COMPANY

STATEMENTS OF CONSOLIDATED INCOME

(UNAUDITED)

| | Three Months | | Six Months Ended | |
|---|----------------|----------------|------------------|----------------|
| | Ended June 30 | | June 30 | |
| | 2018 | 2017 | 2018 | 2017 |
| (Thousands of dollars, except per share data) | | | | |
| Net sales | \$108,915 | \$97,512 | \$207,054 | \$182,081 |
| Cost of products sold | 73,712 | 67,839 | 140,333 | 127,743 |
| GROSS PROFIT | 35,203 | 29,673 | 66,721 | 54,338 |
| Costs and expenses | | | | |
| Selling | 9,471 | 8,626 | 18,332 | 16,910 |
| General and administrative | 11,288 | 10,772 | 22,203 | 21,101 |
| Research and engineering | 3,646 | 3,612 | 7,307 | 7,301 |
| Other operating expense - net | 1,465 | 369 | 1,800 | 474 |
| | 25,870 | 23,379 | 49,642 | 45,786 |
| OPERATING INCOME | 9,333 | 6,294 | 17,079 | 8,552 |
| Other income (expense) | | | | |
| Interest income | 134 | 160 | 229 | 264 |
| Interest expense | (348) | (277) | (628) | (577) |
| Other income - net | 105 | 81 | 173 | 137 |
| | (109) | (36) | (226) | (176) |
| INCOME BEFORE INCOME TAXES | 9,224 | 6,258 | 16,853 | 8,376 |
| Income taxes | 2,489 | 2,102 | 4,590 | 2,702 |
| NET INCOME | \$6,735 | \$4,156 | \$12,263 | \$5,674 |
| BASIC EARNINGS PER SHARE | | | | |
| Net income | \$1.34 | \$0.81 | \$2.43 | \$1.11 |
| DILUTED EARNINGS PER SHARE | | | | |
| Net income | \$1.33 | \$0.81 | \$2.42 | \$1.11 |
| Cash dividends declared per share | \$0.20 | \$0.20 | \$0.40 | \$0.40 |
| Weighted-average number of shares outstanding - basic | 5,044 | 5,116 | 5,045 | 5,117 |
| Weighted-average number of shares outstanding - diluted | 5,064 | 5,127 | 5,064 | 5,132 |

See notes to consolidated financial statements (unaudited).

PREFORMED LINE PRODUCTS COMPANY

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|-------------------------------|---------|-----------------------------|----------|
| | 2018 | 2017 | 2018 | 2017 |
| (Thousands of dollars) | | | | |
| Net income | \$6,735 | \$4,156 | \$12,263 | \$5,674 |
| Other comprehensive income, net of tax | | | | |
| Foreign currency translation adjustment | (13,367) | 2,810 | (9,535) | 8,282 |
| Recognized net actuarial gain (net of tax provision of \$29 and \$49 for the three months ended June 30, 2018 and 2017, respectively, and net of tax provision of \$59 and \$93 for the six months ended June 30, 2018 and 2017, respectively.) | 92 | 83 | 183 | 155 |
| Other comprehensive income (loss), net of tax | (13,275) | 2,893 | (9,352) | 8,437 |
| Comprehensive income (loss) | \$(6,540) | \$7,049 | \$2,911 | \$14,111 |

See notes to consolidated financial statements (unaudited).

PREFORMED LINE PRODUCTS COMPANY

STATEMENTS OF CONSOLIDATED CASH FLOWS

(UNAUDITED)

| | Six Months Ended June 30 | |
|---|-----------------------------|-----------------|
| | 2018 | 2017 |
| (Thousands of dollars) | | |
| OPERATING ACTIVITIES | | |
| Net income | \$ 12,263 | \$ 5,674 |
| Adjustments to reconcile net income to net cash provided by (used in) operations: | | |
| Depreciation and amortization | 6,524 | 5,873 |
| Provision for accounts receivable allowances | 575 | 777 |
| Provision for inventory reserves | 1,455 | 722 |
| Deferred income taxes | (462) | (790) |
| Share-based compensation expense | 1,717 | 1,140 |
| Gain on sale of property and equipment | (99) | (13) |
| Other - net | 54 | 276 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (7,595) | (15,284) |
| Inventories | (10,280) | 539 |
| Trade accounts payable and accrued liabilities | 3,732 | 2,035 |
| Income taxes - net | 2,305 | 2,714 |
| Other - net | (2,510) | (1,644) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 7,679 | 2,019 |
| INVESTING ACTIVITIES | | |
| Capital expenditures | (5,573) | (4,554) |
| Proceeds from the sale of property and equipment | 3 | 1 |
| Purchase of marketable securities | (4,690) | 0 |
| Proceeds from marketable securities | 2,953 | 0 |
| Purchase of company owned life insurance policy | (2,953) | 0 |
| Fixed-term deposits | 0 | 6,923 |
| NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES | (10,260) | 2,370 |
| FINANCING ACTIVITIES | | |
| Increase in notes payable to banks | 2,055 | 2 |
| Proceeds from the issuance of long-term debt | 35,272 | 25,038 |
| Payments of long-term debt | (32,430) | (31,471) |
| Dividends paid | (2,065) | (2,092) |
| Proceeds from issuance of common shares | 252 | 0 |
| Purchase of common shares for treasury | (110) | (238) |
| Purchase of common shares for treasury from related parties | (1,705) | (2) |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | 1,269 | (8,763) |
| Effects of exchange rate changes on cash and cash equivalents | (2,570) | 1,642 |
| Net decrease in cash, cash equivalents and restricted cash | (3,882) | (2,732) |
| Cash, cash equivalents and restricted cash at beginning of year | 45,579 | 32,540 |

CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF

PERIOD⁽¹⁾

\$41,697 \$29,808

(1) Includes restricted cash of \$.3 million at June 30, 2018 and \$1.2 million at December 31, 2017. For further information regarding restricted cash, refer to Note O, "Debt Arrangements."

See notes to consolidated financial statements (unaudited).

PREFORMED LINE PRODUCTS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(In thousands, except share and per share data, unless specifically noted)

NOTE A – BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Preformed Line Products Company and subsidiaries (the “Company” or “PLPC”) have been prepared in accordance with United States of America (U.S.) generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X.

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. Actual results could differ from these estimates. In the opinion of management, these consolidated financial statements contain all estimates and adjustments, consisting of normal recurring accruals, required to fairly present the financial position, results of operations, and cash flows for the interim periods. Operating results for the three and six months ended June 30, 2018 are not necessarily indicative of the results to be expected for the full-year ending December 31, 2018.

The Consolidated Balance Sheet at December 31, 2017 has been derived from the audited consolidated financial statements but does not include all of the information and notes required by U.S. GAAP for complete financial statements. For further information, refer to the consolidated financial statements and notes to consolidated financial statements included in the Company’s 2017 Annual Report on Form 10-K filed on March 9, 2018 with the Securities and Exchange Commission.

NOTE B – REVENUE

Revenue recognition

Net sales include products and shipping and handling charges, net of estimates for product returns. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring products. All revenue is recognized when the Company satisfies the performance obligations under the contract and control of the product is transferred to the customer, primarily based on shipping terms. Revenue for shipping and handling charges are recognized at the time the products are shipped to, delivered to or picked up by the customer. The Company estimates product returns based on historical return rates.

Disaggregated revenue

The Company’s revenues by segment and product type are as follows:

Three Months Ended June 30, 2018

| Product Type | The | | | | | | | | |
|--------------------|---------|----------|-------|--------------|--------------|--|--|--|--|
| | PLP-USA | Americas | EMEA | Asia-Pacific | Consolidated | | | | |
| Energy | 57 | % 77 | % 75 | % 70 | % 68 | | | | |
| Communications | 36 | 19 | 6 | 4 | 19 | | | | |
| Special Industries | 7 | 4 | 19 | 26 | 13 | | | | |
| Total | 100% | 100 | % 100 | % 100 | % 100 | | | | |

Six Months Ended June 30, 2018

| Product Type | The | | | | | | | | |
|--------------------|---------|----------|-------|--------------|--------------|--|--|--|--|
| | PLP-USA | Americas | EMEA | Asia-Pacific | Consolidated | | | | |
| Energy | 58 | % 77 | % 78 | % 74 | % 69 | | | | |
| Communications | 36 | 19 | 6 | 5 | 20 | | | | |
| Special Industries | 6 | 4 | 16 | 21 | 11 | | | | |
| Total | 100% | 100 | % 100 | % 100 | % 100 | | | | |

NOTE C – OTHER FINANCIAL STATEMENT INFORMATION

Inventories – net

| | June 30, | |
|---------------------------------------|----------|-------------------|
| | 2018 | December 31, 2017 |
| Raw materials | \$42,830 | \$ 42,712 |
| Work-in-process | 10,469 | 9,609 |
| Finished Goods | 38,060 | 33,780 |
| | 91,359 | 86,101 |
| Excess of current cost over LIFO cost | (3,399) | (2,991) |
| Noncurrent portion of inventory | (4,748) | (5,224) |
| | \$83,212 | \$ 77,886 |

Cost of inventories for certain material is determined using the last-in-first-out (LIFO) method and totaled approximately \$26.7 million at June 30, 2018 and \$25.1 million at December 31, 2017. An actual valuation of inventories under the LIFO method can be made only at the end of the year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end inventory levels and costs. Because these estimates are subject to change and may be different than the actual inventory levels and costs at the end of the year, interim results are subject to the final year-end LIFO inventory valuation. During the three month and six-month periods ended June 30, 2018, the net change in LIFO inventories resulted in \$.2 million and \$.4 million of expense, respectively, to Income before income taxes. During the three month and six-month periods ended June 30, 2017, the net change in LIFO inventories resulted in a less than \$.1 million benefit and a less than \$.1 million of expense, respectively, to Income before income taxes.

Noncurrent inventory is included in Other assets on the Consolidated Balance Sheets.

Property, plant and equipment—net

Major classes of Property, plant and equipment are stated at cost and were as follows:

| | June 30, | |
|-----------------------------------|-----------|-------------------|
| | 2018 | December 31, 2017 |
| Land and improvements | \$12,582 | \$ 13,141 |
| Buildings and improvements | 74,917 | 75,941 |
| Machinery, equipment and aircraft | 168,522 | 166,999 |
| Construction in progress | 3,781 | 5,124 |
| | 259,802 | 261,205 |
| Less accumulated depreciation | (154,630) | (152,607) |
| | \$105,172 | \$ 108,598 |

Legal proceedings

In the course of business, the Company is subject to a variety of claims and lawsuits, including, but not limited to, litigation relating to employment, workers' compensation, products liability, environmental and intellectual property. The ultimate outcomes of these matters are not predictable with certainty. The Company has liability insurance to cover many of these claims.

The Company and its subsidiaries Helix Uniformed Ltd. ("Helix") and Preformed Line Products (Canada) Limited ("PLPC Canada"), were each named, jointly and severally, with each of SNC-Lavalin ATP, Inc. ("SNC ATP"), HD Supply Canada Inc., by its trade names HD Supply Power Solutions and HD Supply Utilities ("HD Supply"), and Anixter Power Solutions Canada Inc. (the corporate successor to HD Supply, "Anixter" and, together with the Company, PLPC Canada, Helix, SNC ATP and HD Supply, the "Defendants") in a complaint filed by Altalink, L.P. (the "Plaintiff") in the Court of Queen's Bench of Alberta in Alberta, Canada in November 2016 (the "Complaint").

The Complaint states that Plaintiff engaged SNC ATP to design, engineer, procure and construct numerous power distribution and transmission facilities in Alberta (the “Projects”) and that through SNC ATP and HD Supply (now Anixter), spacer dampers manufactured by Helix were procured and installed in the Projects. The Complaint alleges that the spacer dampers have and may continue to become loose, open and detach from the conductors, resulting in damage and potential injury and a failure to perform the intended function of providing spacing and damping to the Project. The Plaintiffs were initially seeking an estimated \$56.0 million in damages jointly and severally from the Defendants, representing the costs of monitoring and replacing the spacer dampers and remediating property damage, due to alleged defects in the design and construction of, and supply of materials for, the Projects by SNC ATP and HD Supply/Anixter and in the design of the spacer dampers by Helix. The Plaintiffs reduced their demand for damages to \$29.4 million on June 1, 2018.

The Company believes the claims against it are without merit and intends to vigorously defend against such claims. However, the Company is unable to predict the outcome of this case and, if determined adversely to the Company, it could have a material effect on the Company’s financial results.

The Company is not a party to any other pending legal proceedings that the Company believes would, individually or in the aggregate, have a material adverse effect on its financial condition, results of operations or cash flows.

NOTE D – PENSION PLANS

The Company uses a December 31 measurement date for the Preformed Line Products Company Employees’ Retirement Plan (the “Plan”). Net periodic pension cost for this plan included the following components:

| | Three Months Ended June 30 2018 | | Six Months Ended June 30 2018 | |
|--------------------------------|--|-------|--|-------|
| | 2018 | 2017 | 2018 | 2017 |
| Service cost | \$84 | \$72 | \$166 | \$127 |
| Interest cost | 333 | 363 | 666 | 729 |
| Expected return on plan assets | (496) | (476) | (991) | (951) |
| Recognized net actuarial loss | 121 | 131 | 242 | 248 |
| Net periodic pension cost | \$42 | \$ | | |