

John Bean Technologies CORP
Form 10-Q
November 02, 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 September 30, 2018

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 1-34036

John Bean Technologies Corporation
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

91-1650317
(I.R.S. Employer
Identification No.)

70 West Madison Street, Suite 4400
Chicago, Illinois
(Address of principal executive offices)

60602
(Zip code)

(312) 861-5900
(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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T 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," "non-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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 26, 2018
Common Stock, par value \$0.01 per share	31,607,896

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

JOHN BEAN TECHNOLOGIES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(In millions, except per share data)	2018	2017	2018	2017
Revenue	\$481.9	\$420.8	\$1,382.4	\$1,151.4
Operating expenses:				
Cost of sales	346.8	299.3	1,003.4	817.5
Selling, general and administrative expense	79.0	74.0	237.4	222.1
Research and development expense	5.7	6.9	20.7	19.6
Restructuring expense	11.6	0.3	32.8	1.3
Other expense (income), net	2.2	(1.6)	3.4	(0.6)
Operating income	36.6	41.9	84.7	91.5
Other income (expense), net	—	0.3	(0.6)	0.9
Interest expense, net	(3.4)	(3.6)	(10.5)	(10.3)
Income from continuing operations before income taxes	33.2	38.6	73.6	82.1
Provision for income taxes	6.8	12.2	12.1	19.8
Income from continuing operations	26.4	26.4	61.5	62.3
Loss from discontinued operations, net of taxes	—	(0.6)	(0.3)	(1.2)
Net income	\$26.4	\$25.8	\$61.2	\$61.1
Basic earnings per share:				
Income from continuing operations	\$0.83	\$0.83	\$1.93	\$1.99
Loss from discontinued operations	—	(0.02)	(0.01)	(0.04)
Net income	\$0.83	\$0.81	\$1.92	\$1.95
Diluted earnings per share:				
Income from continuing operations	\$0.82	\$0.82	\$1.91	\$1.97
Loss from discontinued operations	—	(0.02)	(0.01)	(0.04)
Net income	\$0.82	\$0.80	\$1.90	\$1.93
Cash dividends declared per share	\$0.10	\$0.10	\$0.30	\$0.30

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

JOHN BEAN TECHNOLOGIES CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2018	2017	2018	2017
Net income	\$26.4	\$25.8	\$61.2	\$61.1
Other comprehensive (loss) income, net of income taxes				
Foreign currency translation adjustments	(3.2)	7.3	(21.0)	20.3
Pension and other postretirement benefits adjustments, net of tax of (\$0.5) and (\$1.3) for 2018, and (\$0.5) and (\$1.4) for 2017, respectively	1.2	0.8	4.0	2.4
Derivatives designated as hedges, net of tax of \$0 and (\$0.5) for 2018, and (\$0.1) and (\$0.3) for 2017, respectively	—	0.2	1.5	0.5
Other comprehensive (loss) income	(2.0)	8.3	(15.5)	23.2
Comprehensive income	\$24.4	\$34.1	\$45.7	\$84.3

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

JOHN BEAN TECHNOLOGIES CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2018	December 31, 2017
(In millions, except per share data and number of shares)		(Unaudited)
Assets:		
Current Assets:		
Cash and cash equivalents	\$ 38.5	\$ 34.0
Trade receivables, net of allowances of \$3.5 and \$3.2, respectively	334.0	316.4
Inventories	256.6	190.2
Other current assets	57.6	48.0
Total current assets	686.7	588.6
Property, plant and equipment, net of accumulated depreciation of \$281.3 and \$273.3, respectively	238.9	233.0
Goodwill	321.6	301.8
Intangible assets, net	221.4	216.8
Deferred income taxes	14.4	13.1
Other assets	38.2	38.1
Total Assets	\$ 1,521.2	\$ 1,391.4
Liabilities and Stockholders' Equity:		
Current Liabilities:		
Short-term debt and current portion of long-term debt	\$ 0.1	\$ 10.5
Accounts payable, trade and other	174.1	157.1
Advance and progress payments	173.3	127.6
Other current liabilities	148.9	146.2
Total current liabilities	496.4	441.4
Long-term debt, less current portion	486.1	372.7
Accrued pension and other postretirement benefits, less current portion	62.5	85.9
Other liabilities	43.8	49.5
Commitments and contingencies (Note 12)		
Stockholders' Equity:		
Preferred stock, \$0.01 par value; 20,000,000 shares authorized; no shares issued	—	—
Common stock, \$0.01 par value; 120,000,000 shares authorized; September 30, 2018: 31,741,607 issued and 31,605,218 outstanding and December 31, 2017: 31,623,079 issued and 31,577,182 outstanding	0.3	0.3
Common stock held in treasury, at cost; September 30, 2018: 136,389 shares and December 31, 2017: 45,897 shares	(12.0	) (4.0
Additional paid-in capital	245.2	252.2
Retained earnings	354.7	333.7
Accumulated other comprehensive loss	(155.8	) (140.3
Total stockholders' equity	432.4	441.9
Total Liabilities and Stockholders' Equity	\$ 1,521.2	\$ 1,391.4

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

JOHN BEAN TECHNOLOGIES CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)

	Nine Months Ended September 30,	
(In millions)	2018	2017
Cash flows provided by operating activities:		
Net income	\$61.2	\$61.1
Loss from discontinued operations, net	0.3	1.2
Income from continuing operations	61.5	62.3
Adjustments to reconcile income from continuing operations to cash provided by continuing operating activities:		
Depreciation and amortization	43.1	37.9
Stock-based compensation	7.6	6.2
Other	(23.6)	1.0
Changes in operating assets and liabilities:		
Trade receivables - billed, net	(18.5)	(20.6)
Inventories	(49.2)	(53.8)
Accounts payable, trade and other	16.4	11.7
Advance and progress payments	17.3	37.0
Accrued pension and other postretirement benefits, net	(18.3)	(8.4)
Other assets and liabilities, net	(9.7)	(4.1)
Cash provided by continuing operating activities	26.6	69.2
Cash required by discontinued operating activities	(0.6)	(1.2)
Cash provided by operating activities	26.0	68.0
Cash flows required by investing activities:		
Acquisitions, net of cash acquired	(57.6)	(103.1)
Capital expenditures	(28.5)	(27.5)
Proceeds from disposal of assets	1.8	1.4
Cash required by investing activities	(84.3)	(129.2)
Cash flows provided by financing activities:		
Payments in connection with modification of credit facilities	(468.6)	—
Net proceeds (payments) from domestic credit facilities	576.0	(93.1)
Repayment of long-term debt	—	(1.4)
Proceeds from stock issuance, net of stock issuance costs	—	184.1
Settlement of taxes withheld on equity compensation awards	(10.6)	(9.5)
Purchase of treasury stock	(12.0)	(5.0)
Dividends	(9.8)	(9.6)
Other	(9.8)	(0.5)
Cash provided by financing activities	65.2	65.0
Effect of foreign exchange rate changes on cash and cash equivalents	(2.4)	1.4
Increase in cash and cash equivalents	4.5	5.2
Cash and cash equivalents, beginning of period	34.0	33.2
Cash and cash equivalents, end of period	\$38.5	\$38.4

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

5

JOHN BEAN TECHNOLOGIES CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of Business

John Bean Technologies Corporation and its majority-owned consolidated subsidiaries (the “Company,” “JBT,” “our,” “us,” or “we”) provide global technology solutions to high-value segments of the food and beverage and air transportation industries. We design, produce and service sophisticated products and systems for multi-national and regional customers through our JBT FoodTech and JBT AeroTech segments. We have manufacturing operations worldwide and are strategically located to facilitate delivery of our products and services to our customers.

Basis of Presentation

In accordance with Securities and Exchange Commission (“SEC”) rules for interim periods, the accompanying unaudited condensed consolidated financial statements (the “interim financial statements”) do not include all of the information and notes for complete financial statements as required by accounting principles generally accepted in the United States of America (“U.S. GAAP”). As such, the accompanying interim financial statements should be read in conjunction with the JBT Annual Report on Form 10-K for the year ended December 31, 2017, which provides a more complete understanding of the Company’s accounting policies, financial position, operating results, business, properties, and other matters. The year-end condensed consolidated balance sheet (the “Balance Sheet”) was derived from audited financial statements.

In the opinion of management, the interim financial statements reflect all normal recurring adjustments necessary for a fair presentation of our financial condition and operating results as of and for the periods presented. Revenue, expenses, assets and liabilities can vary during each quarter of the year. Therefore, the interim results and trends in the interim financial statements may not be representative of those for the full year or any future period.

Use of estimates

Preparation of financial statements that follow U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Recently adopted accounting standards

Beginning in 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (“ASC 606”), plus a number of related ASU’s designed to clarify and interpret ASC 606. The new standard replaced most existing revenue recognition guidance in U.S. GAAP. The core principle of the ASU requires revenue recognition based upon newly defined criteria, either at a point in time or over time as control of goods or services is transferred. The ASU requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and estimates, and changes in those estimates. The new standard became effective for us as of January 1, 2018 and was adopted on a modified-retrospective basis.

Upon adoption of the new standard we have availed ourselves of certain practical expedients and elected certain accounting policies as allowed per ASC 606:

▲Acquisition costs are expensed and not capitalized as contract assets for contracts with duration of less than one year.

• We do not disclose information about remaining performance obligations that have original expected durations of one year or less.

• We do not adjust the transaction price for significant financing component for contracts with duration of less than one year.

• Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in cost of sales.

• Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from revenue.

The cumulative effect of the changes made to our consolidated January 1, 2018 balance sheet for the adoption of ASC 606 is below (in millions). The application of IRS guidance issued during the second and third quarters resulted in the conclusion regarding the tax year the revenue recognition impacts of the adoption of ASC 606 would be included for tax purposes. This resulted in a \$2.2 million increase to the income tax impact of adoption reflected within opening retained earnings as well as a \$6.6 million reduction in taxes receivable and a \$4.4 million increase in deferred tax assets recorded upon the adoption of ASC 606.

	As Reported	Adjustments due to ASC 606	As Restated
	December 31, 2017		January 1, 2018
Trade receivables, net of allowance	\$ 316.4	\$ (31.3)	\$ 285.1
Inventories	190.2	103.6	293.8
Other current assets	48.0	0.4	48.4
Deferred income taxes	\$ 13.1	6.7	\$ 19.8
Total Assets	\$ 1,391.4	\$ 79.4	\$ 1,470.8
Advance and progress payments	127.6	113.1	240.7
Other current liabilities	96.4	(2.3)	94.1
Other long-term liabilities	49.5	(1.2)	48.3
Retained earnings	333.7	(30.2)	303.5
Total Liabilities and Stockholders' Equity	\$ 1,391.4	\$ 79.4	\$ 1,470.8

In October 2016, the FASB issued ASU 2016-16, Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory. The new guidance is intended to simplify the accounting for intercompany asset transfers. The core principle requires an entity to immediately recognize the tax consequences of intercompany asset transfers. The ASU is effective for annual reporting periods, including interim periods within those annual periods, beginning after December 15, 2017. The Company adopted the new ASU as of January 1, 2018. There was no impact on our consolidated financial statements and related disclosures as a result of adopting the ASU.

In March 2017, the FASB issued ASU No. 2017-07, Compensation - Retirement Benefits ("ASC 715") - Improving the Presentation of Net Periodic Pension Costs and Net Periodic Postretirement Benefit Cost. The core principle of the ASU is to provide more transparency in the presentation of these costs by requiring the service cost component to be reported in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented separately from the service cost component and outside a subtotal of income from operations. The amendments require that the Consolidated Statements of Income impacts be applied retrospectively, while Balance Sheet changes be applied prospectively. The ASU is effective for annual reporting periods, including interim periods within those annual periods, beginning after December 15, 2017. The Company adopted the new ASU as of January 1, 2018. As such, the Company revised operating income for the three and nine months ended September 30, 2017 by \$0.3 million and \$0.9 million, respectively, and reported this income in non operating income. There was no impact to net income or to the Balance Sheet or Statement of Cash Flows.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging ("ASC 815") - Targeted Improvements to Accounting for Hedging Activities. The core principle is to simplify hedge accounting, as well as improve the financial reporting of hedging results, for both financial and commodity risks, in the financial statements and related disclosures. The ASU is effective for annual reporting periods, including interim periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted in any interim period after the issuance of the amendment, however, any adjustments should be made as of the beginning of the fiscal year in which the interim period occurred. The Company adopted ASU 2017-12 in June 2018 under a modified retrospective approach for hedge accounting treatment, and under a prospective approach for the amended disclosure requirements. Adoption of this ASU, which resulted in the following primary changes, did not have a material impact on the Company's financial condition, results of operations, or cash flows.

The ineffective hedging portion of derivatives designated as hedging instruments is no longer required to be separately measured, recognized or reported. The entire change in the fair value of the designated hedging instrument is recorded in accumulated other comprehensive income;

The Company will perform ongoing prospective and retrospective hedge ineffectiveness assessments qualitatively after performing the initial test of hedge effectiveness on a quantitative basis, and only to the extent that an expectation of high effectiveness can be supported on a qualitative basis in subsequent periods;

For derivatives with components excluded from the assessment of hedge effectiveness, the accumulated gains or losses recorded in accumulated other comprehensive income on such excluded components in a qualifying cash flow or net investment hedging relationship are reclassified to earnings on a systematic and rational basis over the hedge term.

In December 2017, the SEC issued SAB 118 which provides guidance on how companies should account for the tax effects related to The Tax Cuts and Jobs Act (the "Tax Act"). According to SAB 118, companies should make a good faith effort to compute the impact of the Tax Act in a timely manner once the company has obtained, prepared, and analyzed the information needed in order to complete the accounting requirements under ASC 740, Income Taxes, which should not extend beyond one year from the enactment date. However, in situations when the company's accounting is incomplete, SAB 118 authorizes companies to record a reasonable provisional estimate of the tax impact resulting from the Tax Act. Refer to Note 15. Income Taxes, for further discussion.

Recently issued accounting standards not yet adopted

Beginning in February 2016, the FASB issued ASU No. 2016-02, Leases ("ASC 842"), plus a number of related statements designed to clarify and interpret ASC 842. The new standard will replace most existing lease guidance in U.S. GAAP. The core principle of the ASU is the requirement for lessees to report a right to use asset and a lease payment obligation on the balance sheet but recognize expenses on their income statements in a manner similar to today's accounting, and for lessors the guidance remains substantially similar to current U.S. GAAP. The ASU is effective for annual reporting periods, including interim periods within those annual periods, beginning after December 15, 2018. However, early adoption is permitted. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements.

During the nine months ended September 30, 2018 we developed an adoption plan to guide our implementation of ASC 842. We have completed elements of this plan in the third quarter, including surveying our businesses and compiling a central repository of active leases. We are substantially complete with the implementation of our selected lease accounting software, and have made significant progress on extracting and loading lease data elements required for lease accounting into the software solution. We are in the process of developing new lease accounting policies and procedures, changing our internal controls over accounting for leases, developing pro forma disclosures, and concluding on key estimates including the consolidated lessee discount rate used to evaluate lease classification and

calculate the lease liability and right of use assets. During the fourth quarter, we will continue to gather and review contracts for embedded leases to ensure we have identified all leases in scope for this standard. Although we are still finalizing our evaluation of the impact of the new lease accounting guidance, we expect to recognize right of use assets and liabilities for our operating leases in the Balance Sheet upon adoption.

In February 2018, the FASB issued ASU No. 2018-02, Income Statement—Reporting Comprehensive Income ("ASC 220"): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The core principle is to reclassify the tax effects of items within accumulated other comprehensive income to retained earnings in order to reflect the adjustment of deferred taxes due to the Tax Cuts and Jobs Act enacted in December 2017. The ASU is effective for annual reporting periods, including interim periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted in any interim period for reporting periods for which financial statements have not yet been issued. The Company is currently evaluating the effect, if any, that the ASU will have on our consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-13, Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement, which amends Topic 820, Fair Value Measurement. ASU 2018-13 modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. The ASU is effective for annual reporting periods, including interim periods within those annual periods, beginning after December 15, 2019, with early adoption permitted. The removed and modified disclosures will be adopted on a retrospective basis and the new disclosures will be adopted on a prospective basis. The Company is currently evaluating the impact of adopting ASU 2018-13 on its disclosures.

In August 2018, the FASB issued ASU 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The core principle is to clarify the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract, regardless of whether they convey a license to the hosted software. The ASU is effective for annual reporting periods, including interim periods within those annual periods, beginning after December 15, 2019. Early adoption is permitted in any interim period for reporting periods for which financial statements have not yet been issued. The Company is currently evaluating the effect, if any, that the ASU will have on our consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-14, Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans. ASU 2018-14 modifies disclosure requirements for defined benefit plans by removing, modifying, or adding certain disclosures. The amendments in ASU 2018-14 would need to be applied on a retrospective basis. The ASU is effective for annual reporting periods, including interim periods within those annual periods, beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the impact of adopting ASU 2018-14 on its disclosures.

NOTE 2. ACQUISITIONS

During 2018 and 2017 the Company acquired five businesses for an aggregate consideration of \$166.2 million, net of cash acquired. A summary of the acquisitions made during the period is as follows:

Acquisition Date	Type	Company/Product Line	Location (Near)	Segment
July 12, 2018	Stock	FTNON.	Almelo, Netherlands	FoodTech
A manufacturer of equipment and solutions for the fresh produce, ready meals, and pet food industries.				
January 26, 2018	Stock	Schröder.	Breidenbach, Germany	FoodTech
Manufacturer of engineered processing solutions to the food industry.				
July 31, 2017	Stock	PLF International Ltd.	Harwich (Sussex), England	FoodTech
Manufacturer and leading provider of powder filling systems for global food and beverage, and nutraceutical markets.				
July 3, 2017	Stock	Aircraft Maintenance Support Services, Ltd. ("AMSS")	Mid Glamorgan, Wales	AeroTech
Manufacturer of military and commercial aviation equipment.				
February 24, 2017	Stock	Avure Technologies, Inc.	Middletown, OH	FoodTech

Manufacturer of high pressure processing (HPP) systems. HPP is a cold pasteurization technology that ensures food safety without heat or preservatives, maintaining fresh food characteristics such as flavor and nutritional value, while extending shelf life.

Each acquisition has been accounted for as a business combination. Tangible and identifiable intangible assets acquired and liabilities assumed were recorded at their respective estimated fair values. The excess of the consideration transferred over the estimated fair value of the net assets received has been recorded as goodwill. The factors that contributed to the recognition of goodwill primarily relate to acquisition-driven anticipated cost savings and revenue enhancement synergies coupled with the assembled workforce acquired.

The following presents the allocation of acquisition consideration to the assets acquired and the liabilities assumed, based on their estimated values:

(In millions)	PLF ⁽²⁾	Avure ⁽²⁾	FTNON ⁽¹⁾	Other ⁽³⁾	Total
Financial assets	\$20.8	\$ 4.3	\$ 19.3	\$ 11.2	\$55.6
Inventories	1.0	14.4	2.8	10.2	28.4
Property, plant and equipment	2.2	4.5	4.4	9.9	21.0
Other intangible assets ⁽⁴⁾	17.9	20.8	19.4	8.9	67.0
Deferred taxes	(3.5)	(3.6)	(4.6)	(0.9)	(12.6)
Financial liabilities	(5.5)	(10.5)	(20.0)	(9.1)	(45.1)
Total identifiable net assets	\$32.9	\$ 29.9	\$ 21.3	\$ 30.2	\$114.3
Cash consideration paid	\$49.8	\$ 58.9	\$ 43.6	\$ 32.6	\$184.9
Holdback payments due to seller	1.8	—	—	1.9	3.7
Total purchase price	51.6	58.9	43.6	34.5	188.6
Cash acquired	\$15.5	\$ —	\$ 4.7	\$ 2.2	\$22.4
Net consideration	36.1	58.9	38.9	32.3	166.2
Goodwill	\$18.7	\$ 29.0	\$ 22.3	\$ 4.3	\$74.3

(1) The purchase accounting for FTNON is provisional. The valuation of certain working capital balances, property, plant and equipment, intangibles, income tax balances and residual goodwill related to each is not complete. These amounts are subject to adjustment as additional information is obtained within the measurement period (not to exceed 12 months from the acquisition date).

(2) The purchase accounting for these acquisitions was final as of June 30, 2018.

Other balances include AMSS and Schröder. The purchase accounting for AMSS was final with tax adjustments recorded as a measurement period adjustment during the three months ended June 30, 2018.

(3) The purchase accounting for Schröder is provisional as valuation of certain working capital balances and residual goodwill is not complete. These amounts are subject to adjustment as additional information is obtained within the measurement period (not to exceed 12 months from the acquisition date). All measurement period adjustments in the quarter and nine months ended September 30, 2018 were not material.

The acquired definite-lived intangibles are being amortized on a straight-line basis over their estimated useful lives, (4) which range from five to twenty years. The tradename intangible assets for Avure and PLF have been identified as indefinite-lived intangible assets and will be reviewed annually for impairment.

NOTE 3. GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill by business segment were as follows:

(In millions)	JBT FoodTech	JBT AeroTech	Total
Balance as of December 31, 2017	\$ 290.8	\$ 11.0	\$301.8
Acquisitions	23.5	0.3	23.8
Currency translation	(3.7)	(0.3)	(4.0)
Balance as of September 30, 2018	\$ 310.6	\$ 11.0	\$321.6

Intangible assets consisted of the following:

(In millions)	September 30, 2018		December 31, 2017	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Customer relationships	\$ 166.7	\$ 42.3	\$ 158.8	\$ 33.5
Patents and acquired technology	100.5	28.6	92.1	32.1
Tradenames	23.1	17.8	20.0	9.5
Indefinite lived intangible assets	15.7	—	15.9	—
Other	14.5	10.4	14.5	9.4
Total intangible assets	\$ 320.5	\$ 99.1	\$ 301.3	\$ 84.5

NOTE 4. INVENTORIES

Inventories consisted of the following:

(In millions)	September 30, 2018	December 31, 2017
Raw materials	\$ 89.6	\$ 72.6
Work in process	110.1	73.7
Finished goods	122.4	109.2
Gross inventories before LIFO reserves and valuation adjustments	322.1	255.5
LIFO reserves and valuation adjustments	(65.5)	(65.3)
Inventories, net	\$ 256.6	\$ 190.2

NOTE 5. PENSION

Components of net periodic benefit cost (income) were as follows:

(In millions)	Pension Benefits			
	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Service cost	\$0.4	\$0.5	\$1.4	\$1.3
Interest cost	2.7	2.7	8.1	8.1
Expected return on plan assets	(4.4)	(4.3)	(12.9)	(12.9)
Settlement charge	—	—	0.4	—
Amortization of net actuarial losses	1.7	1.3	5.0	3.9
Net periodic cost	\$0.4	\$0.2	\$2.0	\$0.4

We expect to contribute \$20.1 million to our pension and other postretirement benefit plans in 2018, \$15.5 million of which would be contributed to our U.S. qualified pension plan. We contributed \$15.5 million to our U.S. qualified pension plan during the nine months ended September 30, 2018. The components of net periodic cost other than service cost are included in other income (expense), net below operating income in our consolidated statements of

income.

NOTE 6. DEBT

On June 19, 2018, the Company and its wholly owned subsidiary John Bean Technologies Europe B.V. (the “Dutch Borrower” and together with the Company, the “Borrowers”) entered into a Credit Agreement (the “Credit Agreement”) with Wells Fargo Bank, National Association, as administrative agent, and the other lenders party thereto. The Credit Agreement provides for a \$1 billion revolving credit facility that matures in June 2023. The borrowings under the Credit Agreement were used to repay in

12

full all outstanding indebtedness under an existing credit agreement. Revolving loans under the credit facility bear interest, at our option, at LIBOR (subject to a floor rate of zero) or an alternative base rate (which is the greater of Wells Fargo's Prime Rate, the Federal Funds Rate plus 50 basis points, and LIBOR plus 1%) plus, in each case, a margin dependent on our leverage ratio. We must also pay an annual commitment fee of 15.0 to 35.0 basis points dependent on our leverage ratio. The Credit Agreement contains customary representations, warranties, and covenants, including a minimum interest coverage ratio and maximum leverage ratio, as well as certain events of default. As of September 30, 2018 we had \$489.8 million drawn under the revolving credit facility.

The Borrowers' obligations under the Credit Agreement are guaranteed by six of the Company's domestic subsidiaries and subsequently formed or acquired domestic subsidiaries (the "Domestic Subsidiary Guarantors"), and the Dutch Borrower's obligations under the Credit Agreement are guaranteed by two of the Company's Dutch subsidiaries and subsequently formed or acquired Dutch subsidiaries (collectively, the "Foreign Subsidiary Guarantors"). The Borrowers' obligations under the Credit Agreement are secured by a first-priority security interest in substantially all of the tangible and intangible personal property of the Borrowers and the Domestic Subsidiary Guarantors and a pledge of the capital stock of each existing or subsequently acquired or organized domestic Subsidiary or first-tier foreign subsidiary (in each case, limited to 65% of the voting stock and 100% of the non-voting stock of any such foreign subsidiary). The Dutch Borrower's obligations under the Credit Agreement are secured by a pledge of the existing or subsequently acquired equity interests held directly by the Dutch Borrower and each Foreign Subsidiary Guarantor.

NOTE 7. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income or loss ("AOCI") represents the cumulative balance of other comprehensive income, net of tax, as of the balance sheet date. For JBT, AOCI is primarily composed of adjustments related to pension and other postretirement benefit plans, derivatives designated as hedges, and foreign currency translation adjustments. Changes in the AOCI balances for the three months ended September 30, 2018 and 2017 by component are shown in the following tables:

	Pension and Other Postretirement Benefits ⁽¹⁾	Derivatives Designated as Hedges (1)	Foreign Currency Translation (1)	Total ⁽¹⁾
(In millions)				
Beginning balance, June 30, 2018	\$ (111.1)	\$ 2.9	\$ (45.6)	\$(153.8)
Other comprehensive income (loss) before reclassification	—	0.3	(3.2)	(2.9)
Amounts reclassified from accumulated other comprehensive income	1.2	(0.3)	—	0.9
Ending balance, September 30, 2018	\$ (109.9)	\$ 2.9	\$ (48.8)	\$(155.8)

(1) All amounts are net of income taxes.

Reclassification adjustments from AOCI into earnings for pension and other postretirement benefit plans for the three months ended September 30, 2018 were \$1.7 million of charges to non-operating other income (expense) net of \$0.5 million in provision for income taxes. Reclassification adjustments for derivatives designated as hedges for the same period were \$(0.4) million of charges in interest expense, net of \$0.1 million in provision for income taxes.

	Pension and Other Postretirement Benefits ⁽¹⁾	Derivatives Designated as Hedges (1)	Foreign Currency Translation (1)	Total ⁽¹⁾
(In millions)				
Beginning balance, June 30, 2017	\$ (107.0)	\$ 0.2	\$ (35.3)	\$(142.1)

Edgar Filing: John Bean Technologies CORP - Form 10-Q

Other comprehensive income (loss) before reclassification	—	—	7.3	7.3
Amounts reclassified from accumulated other comprehensive income	0.8	0.2	—	1.0
Ending balance, September 30, 2017	\$ (106.2)	\$ 0.4	\$ (28.0)	\$ (133.8)

(1) All amounts are net of income taxes.

Reclassification adjustments from AOCI into earnings for pension and other postretirement benefit plans for the three months ended September 30, 2017 were \$1.3 million of charges to non-operating other income (expense) net of \$0.5 million in provision for income taxes. Reclassification adjustments for derivatives designated as hedges for the same period were \$0.3 million of charges in interest expense, net of \$0.1 million in provision for income taxes.

Changes in the AOCI balances for the nine months ended September 30, 2018 and 2017 by component are shown in the following tables:

	Pension and Other Postretirement Benefits ⁽¹⁾	Derivatives Designated as Hedges (1)	Foreign Currency Translation (1)	Total ⁽¹⁾
(In millions)				
Beginning balance, December 31, 2017	\$ (113.9)	\$ 1.4	\$ (27.8)	\$(140.3)
Other comprehensive income (loss) before reclassification	—	1.9	(21.0)	(19.1)
Amounts reclassified from accumulated other comprehensive income	4.0	(0.4)	—	3.6
Ending balance, September 30, 2018	\$ (109.9)	\$ 2.9	\$ (48.8)	\$(155.8)

(1) All amounts are net of income taxes.

Reclassification adjustments from AOCI into earnings for pension and other postretirement benefit plans for the nine months ended September 30, 2018 were \$5.3 million of charges to non-operating other income (expense) net of \$1.3 million in provision for income taxes. Reclassification adjustments for derivatives designated as hedges for the same period were \$(0.6) million of charges in interest expense, net of \$0.2 million in provision for income taxes.

	Pension and Other Postretirement Benefits ⁽¹⁾	Derivatives Designated as Hedges (1)	Foreign Currency Translation (1)	Total ⁽¹⁾
(In millions)				
Beginning balance, December 31, 2016	\$ (108.6)	\$ (0.1)	\$ (48.3)	\$(157.0)
Other comprehensive income (loss) before reclassification	—	(0.1)	20.3	20.2
Amounts reclassified from accumulated other comprehensive income	2.4	0.6	—	3.0
Ending balance, September 30, 2017	\$ (106.2)	\$ 0.4	\$ (28.0)	\$(133.8)

(1) All amounts are net of income taxes.

Reclassification adjustments from AOCI into earnings for pension and other postretirement benefit plans for the nine months ended September 30, 2017 were \$3.9 million of charges to non-operating other income (expense) net of \$1.5 million in provision for income taxes. Reclassification adjustments for derivatives designated as hedges for the same period were \$1.0 million of charges in interest expense, net of \$0.4 million in provision for income taxes.

NOTE 8. REVENUE RECOGNITION

We adopted ASC 606 Revenue from Contracts with Customers on January 1, 2018. As a result, we have changed our accounting policy for revenue recognition as detailed below.

Revenue is measured based on consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties when JBT is acting in an agent capacity. We recognize revenue when we satisfy a performance obligation by transferring control of a product or service to a customer.

Performance Obligations & Contract Estimates

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. A contract's transaction price is allocated to each distinct performance obligation based on its respective stand-alone selling price and recognized as revenue when, or as, the performance obligation is satisfied. A large portion of our revenue across JBT is derived from manufactured equipment, which may be customized to meet customer specifications, or is standard or turnkey.

JBT FoodTech designs, manufactures and services technologically sophisticated food processing systems and customized solutions for the preparation of meat, seafood and poultry products, ready-to-eat meals, shelf stable packaged foods, bakery products, juice and dairy products, and fruit and vegetable products.

JBT AeroTech supplies customized solutions and services used for applications in the air transportation industry, including airport authorities, airlines, airfreight, ground handling companies, the military and defense contractors. We customize our equipment and services utilizing differentiated technology to meet the specific needs of our customers.

Our contracts with customers in both segments often include multiple promised goods and/or services. For instance, a contract may include equipment, installation, optional warranties, periodic service calls, etc. We frequently have contracts for which the equipment and installation are considered a single performance obligation as in these instances the installation services are not separately identifiable. However, due to the varying nature of contracts across JBT, we also have contracts where the installation services are deemed to be separately identifiable and are therefore deemed to be a separate performance obligation.

When an obligation is distinct, as defined in ASC 606, we allocate a portion of the contract price to the obligation and recognize it separately from the other performance obligations. Contract price allocation among multiple obligations is based on standalone selling price of each distinct good or service in the contract. When not sold separately, an estimate of the standalone selling price is determined using cost plus a reasonable margin.

The timing of revenue recognition for each performance obligation is either over time as control transfers or at a point in time. We recognize revenue over time for contracts that provide: service over a period of time, for refurbishments of customer-owned equipment, and for highly customized equipment for which we have a contractual, enforceable right to collect payment upon customer cancellation for performance completed to date. Revenue generated from standard equipment, highly customized equipment contracts without an enforceable right to payment for performance completed to-date, as well as aftermarket parts and services sales, are recognized at a point in time.

We utilize the input method of "cost-to-cost" to recognize revenue over time. We measure progress based on costs incurred to date relative to total estimated cost at completion. Incurred cost represents work performed, which corresponds with, and thereby best depicts, the transfer of control to the customer. Contract costs include labor, material, and certain allocated overhead expenses. Cost estimates are based on various assumptions to project the outcome of future events; including labor productivity and availability, the complexity of the work to be performed, the cost of materials, and the performance of subcontractors.

Revenue attributable to equipment which qualifies as point in time is recognized when our customers take control of the asset. We define this as the point in time in which we are able to objectively verify that the customer has the capability of full beneficial use of the asset as intended per the contract. Service revenue is recognized over time either proportionately over the period of the underlying contract or as invoiced, depending on the terms of the arrangement.

Within our AeroTech segment we also provide maintenance and repair expertise for baggage handling systems, facilities, gate systems, and ground support equipment. The timing of these contract billings is concurrent with the

completion of the services, and therefore we have availed ourselves of the practical expedient that allows us to recognize revenue commensurate with the amount to which we have a right to invoice, which corresponds directly to the value to the customer of our performance completed to date.

Transaction price allocated to the remaining performance obligations

The majority of our contracts are completed within twelve months. For performance obligations that extend beyond one year, we had \$302 million of remaining performance obligations as of September 30, 2018, 40% of which we expect to recognize as revenue in 2018 and the remainder in 2019 and beyond.

Disaggregation of revenue

In the following table, revenue is disaggregated by type of good or service and primary geographical market. The table also includes a reconciliation of the disaggregated revenue with the reportable segments.

in millions	Three Months		Nine Months	
	Ended		Ended	
	September		September	
	30, 2018		30, 2018	
Type of Good or Service	FoodTech	AeroTech	FoodTech	AeroTech
Recurring ⁽¹⁾	\$ 129.4	\$ 45.7	\$ 387.6	\$ 135.1
Non-recurring ⁽¹⁾	203.1	103.8	610.1	249.5
Total	\$ 332.5	\$ 149.5	\$ 997.7	\$ 384.6
Geographical Region ⁽²⁾	FoodTech	AeroTech	FoodTech	AeroTech
North America	\$ 174.7	\$ 105.2	\$ 501.5	\$ 298.2
Europe, Middle East and Africa	101.7	32.8	308.1	58.4
Asia Pacific	27.7	9.2	126.9	25.2
Latin America	28.4	2.3	61.2	2.8
Total	\$ 332.5	\$ 149.5	\$ 997.7	\$ 384.6

(1) Aftermarket parts and services and revenue from leasing contracts are considered recurring revenue. Non-recurring revenue includes new equipment and installation.

(2) Geographical region represents the region in which the end customer resides.

Contract balances

The timing of revenue recognition, billings and cash collections results in Trade receivables, Contract assets, and Advance and progress payments (contract liabilities). Progress billings generally are issued upon the completion of certain phases of the work as stipulated in the contract. Contract assets exist when revenue recognition occurs prior to billings. Contract assets are transferred to trade receivables when the right to payment becomes unconditional (i.e., when receipt of the amount is dependent only on the passage of time). Conversely, we often receive payments from our customers before revenue is recognized, resulting in contract liabilities. These assets and liabilities are reported on the Balance Sheet within Trade receivables and Advance and progress payments, respectively, on a contract-by-contract net basis at the end of each reporting period.

Our contract asset and liability balances for the period were as follows:

in millions	Balances as of	
	January 1, 2018	September 30, 2018
Contract Assets	\$ 18.2	\$ 87.7
Contract Liabilities	\$ 222.8	\$ 149.1

In the nine months ended September 30, 2018, we recognized approximately 75% of the amount included in Contract Liabilities at January 1, 2018 into revenue.

Impacts on financial statements

Under the new standard, revenue recognition for many areas of JBT's business remains substantially unchanged; including revenue earned from airport services, maintenance and other service agreements, lease agreements and most of our standard equipment and parts. The costs of our revenue do not change as a result of the new standard. This standard does not change our customer billing or cash flows. However, in certain contracts, we qualify for over time recognition for our manufactured equipment that is highly engineered to unique customer specifications. In addition, due to the nature of our equipment and installation services we will combine these into one performance obligation. Under ASC 606, revenue recognized for contracts that meet certain criteria result in revenue being recognized as the equipment is being manufactured which is an acceleration of revenue as compared to our legacy revenue recognition methodology of recognizing revenue, when shipped to the customer. This conclusion, specific to equipment contracts for which the equipment is highly engineered to unique customer specifications, is dependent on whether our contract with the customer provides us, upon customer cancellation, with an enforceable right to payment for performance completed to date. Where the contract does not provide us with an enforceable right to payment for performance completed to-date, revenue will be recognized at a point in time, usually upon completion of the installation of the equipment. Therefore, some revenue will be recognized at a later date than compared to our legacy revenue recognition methodology. This impacts both equipment contracts with installation that qualify as one performance obligation, and that were previously recognized upon shipment, as well as certain equipment contracts for which revenue was recognized under percentage of completion accounting under legacy GAAP. The following tables summarize the impacts of adopting ASC 606 on the Company's financial statements. These tables provide visibility into our financial statement presentation had we not adopted ASC 606. They do not necessarily reflect values of future earnings or expected balances.

Consolidated Statements of Income:

	As reported	Adjustments	Nine Months Ended
	Nine Months Ended	due to	September 30, 2018
in millions	September 30, 2018	ASC 606	Without Adoption
Revenue	\$ 1,382.4	\$ (99.9)	\$ 1,282.5
Cost of sales	1,003.4	(75.4)	928.0
Gross profit	379.0	(24.5)	354.5
Income from continuing operations before income taxes	73.6	(24.5)	49.1
Income tax provision (benefit)	12.1	(6.3)	5.8
Net income	61.2	(18.2)	43.0

	As reported	Adjustments	Three Months Ended
	Three Months Ended	due to	September 30, 2018
in millions	September 30, 2018	ASC 606	Without Adoption
Revenue	\$ 481.9	\$ (17.8)	\$ 464.1
Cost of sales	346.8	(13.7)	333.1

Edgar Filing: John Bean Technologies CORP - Form 10-Q

Gross profit	135.1	(4.1	)	131.0
Income from continuing operations before income taxes	33.2	(4.1	)	29.1
Income tax provision (benefit)	6.8	(1.1	)	5.7
Net income	26.4	(3.0	)	23.4

17

Consolidated Balance Sheets:

in millions	As reported September 30, 2018	Adjustments	
		due to ASC 606	Balances without Adoption
Trade receivables, net of allowance	\$ 334.0	\$ 13.6	\$ 347.6
Inventories	256.6	(23.7)	232.9
Other current assets	57.6	(1.0)	56.6
Total current assets	686.7	(11.1)	675.6
Deferred income taxes	14.4	(1.5)	12.9
Total Assets	1,521.2	(12.6)	1,508.6
Accounts payable, trade and other	174.1	0.7	174.8
Advance and progress payments	173.3	(27.4)	145.9
Other current liabilities	148.9	0.8	149.7
Total current liabilities	496.4	(25.9)	470.5
Other liabilities	43.8	1.4	45.2
Retained earnings	354.7	11.9	366.6
Total Liabilities and stockholders' equity	1,521.2	(12.6)	1,508.6

NOTE 9. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share from continuing operations for the respective periods and our basic and diluted shares outstanding:

(In millions, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Basic earnings per share:				
Income from continuing operations	\$26.4	\$26.4	\$61.5	\$62.3
Weighted average number of shares outstanding	31.9	31.9	31.9	31.3
Basic earnings per share from continuing operations	\$0.83	\$0.83	\$1.93	\$1.99
Diluted earnings per share:				
Income from continuing operations	\$26.4	\$26.4	\$61.5	\$62.3
Weighted average number of shares outstanding	31.9	31.9	31.9	31.3
Effect of dilutive securities:				
Restricted stock	0.2	0.4	0.3	0.4
Total shares and dilutive securities	32.1	32.3	32.2	31.7
Diluted earnings per share from continuing operations	\$0.82	\$0.82	\$1.91	\$1.97

On August 10, 2018, the Board authorized new share repurchase program of up to \$30 million of the Company's common stock, effective January 1, 2019 through December 31, 2021, which replaced the prior share repurchase program. Shares may be purchased from time to time in open market transactions, subject to market conditions. Repurchased shares become treasury shares, which are accounted for using the cost method and are intended to be used for future awards under the Incentive Compensation Plan.

NOTE 10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value framework requires the categorization of assets and liabilities into three levels based upon the assumptions (inputs) used to price the assets or liabilities. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment. The three levels are defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities that the Company can assess at the measurement date.

Level 2: Observable inputs other than those included in Level 1 that are observable for the asset or liability, either directly or indirectly. For example, quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.

Level 3: Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability.

Financial assets and financial liabilities measured at fair value on a recurring basis are as follows:

(In millions)	As of September 30, 2018			As of December 31, 2017				
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Assets:								
Investments	\$ 14.0	\$ 14.0	\$ —	\$ —	-\$ 13.1	\$ 13.1	\$ —	\$ —
Derivatives	7.6	—	7.6	—	5.2	—	5.2	—
Total assets	\$ 21.6	\$ 14.0	\$ 7.6	\$ —	-\$ 18.3	\$ 13.1	\$ 5.2	\$ —
Liabilities:								
Derivatives	\$ 5.2	\$ —	\$ 5.2	\$ —	-\$ 5.5	\$ —	\$ 5.5	\$ —
Total liabilities	\$ 5.2	\$ —	\$ 5.2	\$ —	-\$ 5.5	\$ —	\$ 5.5	\$ —

Investments represent securities held in a trust for the non-qualified deferred compensation plan. Investments are classified as trading securities and are valued based on quoted prices in active markets for identical assets that we have the ability to access. Investments are reported separately in Other assets on the Balance Sheets. Investments include an unrealized gain of \$0.3 million as of September 30, 2018 and unrealized gain of \$0.5 million as of December 31, 2017.

We use the income approach to measure the fair value of derivative instruments on a recurring basis. This approach calculates the present value of the future cash flow by measuring the change between the derivative contract rate and the published market indicative currency rate, multiplied by the contract notional values, and applying an appropriate discount rate as well as a factor of credit risk.

The carrying amounts of cash and cash equivalents, trade receivables and payables, as well as financial instruments included in other current assets and other current liabilities, approximate fair values because of their short-term maturities.

The carrying values of our borrowings approximate their fair values due to their variable interest rates.

NOTE 11. DERIVATIVE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Derivative Financial Instruments

All derivatives are recorded as other assets or liabilities in the Balance Sheets at their respective fair values. For derivatives designated as cash flow hedges, the effective portion of the unrealized gain or loss related to the derivatives are recorded in Other comprehensive income (loss) until the transaction affects earnings. We assess both at inception of the hedge and on an ongoing basis, whether the derivative in the hedging transaction has been, and will continue to be, highly effective in offsetting changes in cash flows of the hedged item. The impact of any ineffectiveness is recognized in the Condensed Consolidated Statements of Income (the "Income Statement"). Changes in the fair value of derivatives that do not meet the criteria for designation as a hedge are recognized in earnings.

Foreign Exchange: We manufacture and sell products in a number of countries throughout the world and, as a result, we are exposed to movements in foreign currency exchange rates. Our major foreign currency exposures involve the markets in Western Europe, South America and Asia. Some of our sales and purchase contracts contain embedded derivatives due to the

nature of doing business in certain jurisdictions, which we take into consideration as part of our risk management policy. The purpose of our foreign currency hedging activities is to manage the economic impact of exchange rate volatility associated with anticipated foreign currency purchases and sales made in the normal course of business. We primarily utilize forward foreign exchange contracts with maturities of less than 2 years in managing this foreign exchange rate risk. We have not designated these forward foreign exchange contracts, which had a notional value at September 30, 2018 of \$436.8 million, as hedges and therefore do not apply hedge accounting.

The following table presents the fair value of foreign currency derivatives and embedded derivatives included within the Balance Sheets:

(In millions)	As of September 30, 2018		As of December 31, 2017	
	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Other current assets / liabilities	\$ 4.0	\$ 3.8	\$ 3.3	\$ 5.7
Total	\$ 4.0	\$ 3.8	\$ 3.3	\$ 5.7

A master netting arrangement allows counterparties to net settle amounts owed to each other as a result of separate offsetting derivative transactions. We enter into master netting arrangements with our counterparties when possible to mitigate credit risk in derivative transactions by permitting us to net settle for transactions with the same counterparty. However, we do not net settle with such counterparties. As a result, we present derivatives at their gross fair values in the Balance Sheets.

As of September 30, 2018 and December 31, 2017, information related to these offsetting arrangements was as follows:

(In millions)	As of September 30, 2018				
Offsetting of Assets	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Presented in the Consolidated Balance Sheets	Amount Subject to Master Netting Agreement	Net Amount
Derivatives	\$7.6	\$ —	\$ 7.6	\$ (2.7)	\$ 4.9

(In millions)	As of September 30, 2018				
Offsetting of Liabilities	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Presented in the Consolidated Balance Sheets	Amount Subject to Master Netting Agreement	Net Amount
Derivatives	\$5.2	\$ —	\$ 5.2	\$ (2.6)	\$ 2.6

(In millions)	As of December 31, 2017				
Offsetting of Assets	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Presented in the Consolidated Balance Sheets	Amount Subject to Master Netting Agreement	Net Amount
Derivatives	\$3.3	\$ —	\$ 3.3	\$ (5.7)	\$ (2.4)

Edgar Filing: John Bean Technologies CORP - Form 10-Q

	Assets	Balance	Sheets	Agreement	
Derivatives	\$5.2	\$	—\$ 5.2	\$ (1.3)	\$ 3.9
(In millions)	As of December 31, 2017				
Offsetting of Liabilities of	Gross Amounts	Gross Amounts	Net Presented in the Consolidated Balance Sheets	Amount Subject to Master Netting Agreement	Net Amount
Derivatives	\$5.5	\$	—\$ 5.5	\$ (1.3)	\$ 4.2

The following table presents the location and amount of the gain (loss) on foreign currency derivatives and on the remeasurement of assets and liabilities denominated in foreign currencies, as well as the net impact recognized in the Income Statement:

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of (Loss) Gain Recognized in Income on Derivatives			
		Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)		2018	2017	2018	2017
Foreign exchange contracts	Revenue	\$(0.8)	\$1.3	\$(4.3)	\$1.2
Foreign exchange contracts	Cost of sales	(0.1)	—	0.1	0.7
Foreign exchange contracts	Other expense (income), net	0.1	0.7	0.4	0.9
Total		(0.8)	2.0	(3.8)	2.8
Remeasurement of assets and liabilities in foreign currencies		0.7	(1.0)	2.2	(1.9)
Net (loss) Gain on foreign currency transactions		\$(0.1)	\$1.0	\$(1.6)	\$0.9

Interest Rates: We have entered into three interest rate swaps to fix the interest rate applicable to certain of our variable-rate debt. The agreements swap one-month LIBOR for fixed rates. We have re-designated these swaps as cash flow hedges of variable-rate interest expense on the new borrowings from the new credit agreement. Refer to Note 6 - Debt for further information regarding the new credit agreement. All changes in fair value of the swaps are recognized in accumulated other comprehensive income.

At September 30, 2018, the fair value of these derivatives designated as cash flow hedges were recorded in the Balance Sheet as other assets of \$4.0 million and as other comprehensive income, net of tax, of \$2.8 million.

Ineffectiveness from cash flow hedges, all of which are interest rate swaps, was immaterial as of September 30, 2017.

Net Investment hedges: We have entered into a cross currency swap agreement that synthetically swaps \$116.4 million of fixed rate debt to Euro denominated fixed rate debt. The agreement is designated as a net investment hedge for accounting purposes. Accordingly, the gain or loss on this derivative instrument is included in the foreign currency translation component of other comprehensive income until the net investment is sold, diluted, or liquidated. Coupons received for the cross currency swap are excluded from the net investment hedge effectiveness assessment and are recorded in interest expense, net on the condensed consolidated statements of income. For the three months and the nine months ended September 30, 2018, gains recorded in interest expense, net under the cross currency swap agreement were \$0.6 million.

At September 30, 2018, the fair value of these derivatives designated as net investment hedges were recorded in the Balance Sheet as other liabilities and as other comprehensive income (loss) of \$1.5 million.

Refer to Note 10. Fair Value Of Financial Instruments for a description of how the values of the above financial instruments are determined.

Credit Risk

By their nature, financial instruments involve risk including credit risk for non-performance by counterparties. Financial instruments that potentially subject us to credit risk primarily consist of trade receivables and derivative

contracts. We manage the credit risk on financial instruments by transacting only with financially secure counterparties, requiring credit approvals and establishing credit limits, and monitoring counterparties' financial condition. Our maximum exposure to credit loss in the event of non-performance by the counterparty, for all receivables and derivative contracts as of September 30, 2018, is limited to the amount drawn and outstanding on the financial instrument. Allowances for losses are established based on collectability assessments.

NOTE 12. COMMITMENTS AND CONTINGENCIES

In the normal course of our business, we are at times subject to pending and threatened legal actions, some for which the relief or damages sought may be substantial. Although we are not able to predict the outcome of such actions, after reviewing all pending and threatened actions with counsel and based on information currently available, management believes that the outcome of such actions, individually or in the aggregate, will not have a material adverse effect on our results of operations or

financial position. However, it is possible that the ultimate resolution of such matters, if unfavorable, may be material to our results of operations in a particular future period as the time and amount of any resolution of such actions and its relationship to the future results of operations are not currently known.

Liabilities are established for pending legal claims only when losses associated with the claims are judged to be probable, and the loss can be reasonably estimated. In many lawsuits and arbitrations, it is not considered probable that a liability has been incurred or not possible to estimate the ultimate or minimum amount of that liability until the case is close to resolution, in which case no liability would be recognized until that time.

In 2013, we received a notice of examination from the Delaware Department of Finance commencing an examination of our books and records to determine compliance with Delaware unclaimed property law. The examination was not complete when, in 2017, Delaware promulgated a law which permitted companies an election to convert an examination to a review under the Secretary of State's voluntary disclosure agreement program. In December 2017, we elected this alternative and are in the process of meeting the requirements under the voluntary disclosure agreement program. The requirements include reviewing our books and records and filing any previously unfiled reports for all unclaimed property presumed unclaimed, under the law, from 2003. We are required to work with the Secretary of State to complete this exercise by December 2019. We are not able to estimate whether we have significant unclaimed property obligations at this time.

Guarantees and Product Warranties

In the ordinary course of business with customers, vendors and others, we issue standby letters of credit, performance bonds, surety bonds and other guarantees. These financial instruments, which totaled \$232.4 million at September 30, 2018, represent guarantees of our future performance. We also have provided \$6.6 million of bank guarantees and letters of credit to secure a portion of our existing financial obligations. The majority of these financial instruments expire within two years; we expect to replace them through the issuance of new or the extension of existing letters of credit and surety bonds.

In some instances, we guarantee our customers' financing arrangements. We are responsible for payment of any unpaid amounts, but will receive indemnification from third parties for between seventy-five and ninety-five percent of the contract values. In addition, we generally retain recourse to the equipment sold. As of September 30, 2018, the gross value of such arrangements was \$6.9 million, of which our net exposure under such guarantees was \$0.3 million.

We provide warranties of various lengths and terms to certain of our customers based on standard terms and conditions and negotiated agreements. We provide for the estimated cost of warranties at the time revenue is recognized for products where reliable, historical experience of warranty claims and costs exists. We also provide a warranty liability when additional specific obligations are identified. The warranty obligation reflected in other current liabilities in the consolidated balance sheets is based on historical experience by product and considers failure rates and the related costs in correcting a product failure. Warranty cost and accrual information were as follows:

	Three Months		Nine Months	
	Ended	Ended	Ended	Ended
(In millions)	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
Balance at beginning of period	\$13.2	\$14.7	\$14.5	\$14.5
Expense for new warranties	4.0	2.9	9.2	8.9
Adjustments to existing accruals	(0.3)	—	(1.3)	(0.4)
Claims paid	(4.0)	(3.4)	(9.4)	(10.8)
Added through acquisition	0.3	0.6	0.5	2.3
Translation	—	0.2	(0.3)	0.5
Balance at end of period	\$13.2	\$15.0	\$13.2	\$15.0

NOTE 13. BUSINESS SEGMENT INFORMATION

Operating segments for the Company are determined based on information used by the chief operating decision maker (CODM) in deciding how to evaluate performance and allocate resources to each of the segments. JBT's CODM is the Chief Executive Officer (CEO). While there are many measures the CEO reviews in this capacity, the key segment measures reviewed include operating profit, operating profit margin, and EBITDA.

Segment operating profit is defined as total segment revenue less segment operating expenses. Business segment information was as follows:

(In millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Revenue:				
JBT FoodTech	\$332.5	\$296.1	\$997.7	\$816.6
JBT AeroTech	149.5	124.8	384.6	334.8
Other revenue and intercompany eliminations	(0.1)	(0.1)	0.1	—
Total revenue	\$481.9	\$420.8	\$1,382.4	\$1,151.4
Income before income taxes				
Segment operating profit:				
JBT FoodTech	\$41.9	\$37.8	\$110.8	\$89.4
JBT AeroTech	17.6	15.4	40.2	35.8
Total segment operating profit	59.5	53.2	151.0	125.2
Corporate items:				
Corporate expense ⁽¹⁾	(11.3)	(11.0)	(33.5)	(32.4)
Restructuring expense ⁽²⁾	(11.6)	(0.3)	(32.8)	(1.3)
Operating income	36.6	41.9	84.7	91.5
Other income (expense), net ⁽³⁾	—	0.3	(0.6)	0.9
Net interest expense	(3.4)	(3.6)	(10.5)	(10.3)
Income from continuing operations before income taxes	\$33.2	\$38.6	\$73.6	\$82.1

Corporate expense generally includes corporate staff-related expense, stock-based compensation, LIFO (1) adjustments, certain foreign currency-related gains and losses, and the impact of unusual or strategic events not representative of segment operations.

(2) Refer to Note 14. Restructuring for further information on restructuring expense.

(3) Other income (expense), net represents components of net benefit costs other than service costs required to be presented outside of income from operations.

NOTE 14. RESTRUCTURING

Restructuring costs primarily consist of employee separation benefits under our existing severance programs, foreign statutory termination benefits, certain one-time termination benefits, contract termination costs, asset impairment charges and other costs that are associated with restructuring actions. Certain restructuring charges are accrued prior to payments made in accordance with applicable guidance. For such charges, the amounts are determined based on estimates prepared at the time the restructuring actions were approved by management.

In the first quarter of 2016, we implemented our optimization program ("2016 restructuring plan") to realign FoodTech's Protein business in North America and Liquid Foods business in Europe, accelerate JBT's strategic sourcing initiatives, and consolidate smaller facilities. The total cost in connection with this plan was approximately \$12.0 million. We completed this plan in the first quarter 2018, and in doing so released \$1.7 million in remaining liability during the quarter. Approximately half of this release was related to amounts we no longer expect to pay in connection with this plan due to actual severance payments differing from original estimates and natural attrition of

employees. The remainder was included in the restructuring liability balance recorded in the first quarter attributable to the 2018 restructuring plan.

During the fourth quarter of 2016 we implemented and acquired a restructuring plan to consolidate certain facilities and optimize our general and administrative infrastructure subsequent to a FoodTech acquisition. The total estimated cost in

23

connection with this plan is approximately \$4.0 million. We incurred no additional expense in the quarter, and have incurred \$3.0 million to date. We expect to complete this plan by first quarter of 2019.

In the first quarter of 2018, we implemented a restructuring program ("2018 restructuring plan") to address JBT's global processes to flatten the organization, improve efficiency and better leverage general and administrative resources. During the nine months ended September 30, 2018, we incurred \$36.3 million in expense primarily associated with the FoodTech segment, of which \$22.4 million is related to consulting fees and \$13.9 million is related to severance amounts incurred as a direct result of the 2018 restructuring plan. The total estimated cost in connection with this plan is approximately \$50 million, of which we have recognized \$36.3 million during the nine months ended September 30, 2018, and the remainder we expect to recognize by mid 2019.

The following table details the amounts reported in Restructuring expense on the consolidated statement of income since the implementation of these plans:

(In millions)	Cumulative Amount As of December 31, 2017	For the Three Months Ended			Cumulative Amount As of September 30, 2018
		March 2018	June 30, 2018	September 30, 2018	
2016 restructuring plan					
Severance and related expense	\$ 6.1	\$ —	\$ —	\$ —	\$ 6.1
Other	6.2	—	—	—	6.2
2018 and other restructuring plans					
Severance and related expense	—	11.0	2.5	0.4	13.9
Other	—	3.4	7.8	11.2	22.4
Total Restructuring charges	\$ 12.3	\$ 14.4	\$ 10.3	\$ 11.6	\$ 48.6

The restructuring expense is primarily associated with the FoodTech segment, and is excluded from our calculation of segment operating profit. Expenses incurred during the nine months ended September 30, 2018 primarily relate to costs to streamline operations and consolidate facilities as a direct result of our plan.

Liability balances for restructuring activities are included in other current liabilities in the accompanying balance sheets. The table below details the activities in 2018:

(In millions)	Balance as of December 31, 2017	Impact to Earnings			Balance as of September 30, 2018
		Charged to Earnings Liability	Release of Liability	Payments Made	
Severance and related expense	\$ 3.2	\$ 13.9	\$ (3.5)	\$ (4.4)	9.2
Other	—	22.4	—	(16.6)	5.8
Total	\$ 3.2	\$ 36.3	\$ (3.5)	\$ (21.0)	15.0

We released \$3.5 million of the liability during the nine months ended September 30, 2018 which we no longer expect to pay in connection with the 2016 and 2018 restructuring plans due to actual severance payments differing from the original estimates and natural attrition of employees.

NOTE 15. INCOME TAXES

On December 22, 2017, Congress passed, and the President signed, "An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018" (the "Tax Act"). The Tax Act makes broad

and complex changes to the U.S. Tax Code, including, but not limited to, (1) reducing the U.S. federal corporate income tax rate from 35.0 percent to 21.0 percent; (2) requiring companies to pay a one-time transitional tax on certain un-repatriated earnings of foreign subsidiaries; (3) generally eliminating U.S. federal income tax on dividends from foreign subsidiaries of U.S. corporations; (4) repealing the domestic production activity deduction; (5) providing for the full expensing of qualified property; (6) adding a new provision designed to tax global intangible low-taxed income (“GILTI”); (7) revising the limitation imposed on deductions for executive compensation paid by publicly-traded companies; (8) eliminating the corporate alternative minimum

tax (“AMT”) and changing how existing AMT credits can be utilized; (9) creating a base erosion-anti-abuse tax (“BEAT”), a new minimum tax on payments made by certain U.S. corporations to related foreign parties; (10) imposing a new limitation on the deductibility of interest expense; (11) allowing for a deduction related to foreign-derived intangible income (“FDII”); and (12) changing the rules related to the uses and limitations of net operating loss carryforwards generated in tax years beginning after December 31, 2017.

The SEC issued SAB 118 which provides guidance on how companies should account for the tax effects related to the Tax Act. According to SAB 118, companies should make a good faith effort to compute the impact of the Tax Act in a timely manner once the company has obtained, prepared, and analyzed the information needed in order to complete the accounting requirements under ASC 740, which should not extend beyond one year from the enactment date.

However, in situations when the company’s accounting is incomplete, SAB 118 authorizes companies to record a reasonable provisional estimate of the tax impact resulting from the Tax Act.

For the period ended December 31, 2017, JBT reported a provisional estimate of the one-time deemed repatriation transition tax on previously untaxed and un-repatriated current and accumulated post-1986 foreign earnings of certain foreign subsidiaries, an adjustment to deferred tax assets related to future stock compensation deductions for amounts that it does not expect it will be able to deduct in the future, and an adjustment to re-measure deferred tax assets and deferred tax liabilities at the 21.0 percent US corporate tax rate. These provisional estimates were computed in accordance with SAB 118.

The Company recorded the tax effects of filing its federal tax return for the 2017 tax year in the period ending September 30, 2018. Consequently, the provisional estimate for the transition tax and the remeasurement of deferred taxes due to the change in the federal tax rate were adjusted. The Company reported a discrete tax expense of \$0.6 million for the change in transition tax with the filed tax return and a discrete tax benefit of \$1.5 million for the change in remeasurement of deferred taxes due to the change in the federal tax rate. These updated provisional estimates were computed in accordance with the most recent technical guidance, and updated and disclosed in accordance with SAB 118.

The Tax Act requires the Company to analyze other impacted areas including the limitation on deducting executive compensation, net interest expense deductibility, GILTI, BEAT, FDII, and accelerated cost recovery of fixed assets. The annualized effective tax rate reflects the relevant provisions of the Tax Act. The Company will continue to analyze the tax effects of the new legislation during 2018 as more information is available and more technical guidance is issued at the federal and state level.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, our Annual Report on Form 10-K and other materials filed or to be filed by us with the Securities and Exchange Commission, as well as information in oral statements or other written statements made or to be made by us, contain statements that are, or may be considered to be, forward-looking statements. All statements that are not historical facts, including statements about our beliefs or expectations, are forward-looking statements. You can identify these forward-looking statements by the use of forward-looking words such as “outlook,” “believes,” “expects,” “potential,” “continues,” “may,” “will,” “should,” “seeks,” “approximately,” “predicts,” “intends,” “plans,” “anticipates,” “foresees” or the negative version of those words or other comparable words and phrases. Any forward-looking statements contained in this Form 10-Q are based upon our historical performance and on current plans, estimates and expectations. The inclusion of this forward-looking information should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved. These forward-looking statements include, among others, statements relating to our strategic plans, restructuring and optimization plans and expected cost savings from those plans, our cash flows, our acquisitions, and our covenant compliance.

We believe that the factors that could cause our actual results to differ materially from expectations include but are not limited to the factors we described in our Form 10-K under “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” If one or more of those or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we projected. Consequently, actual events and results may vary significantly from those included in or contemplated or implied by our forward-looking statements. The forward-looking statements included in this Form 10-Q are made only as of the date hereof, and we undertake no obligation to publicly update or revise any forward-looking statement made by us or on our behalf, whether as a result of new information, future developments, subsequent events or changes in circumstances or otherwise.

Executive Overview

We are a leading global technology solutions provider to high-value segments of the food and beverage industry with focus on proteins, liquid foods and automated system solutions. JBT designs, produces and services sophisticated products and systems for multi-national and regional customers through its FoodTech segment. JBT also sells critical equipment and services to domestic and international air transportation customers through its AeroTech segment.

In 2017 we began implementation of our Elevate plan that was developed in 2016 to capitalize on the leadership position of our businesses and favorable macroeconomic trends. The Elevate plan is based on a four-pronged approach to deliver continued growth and margin expansion.

Accelerate New Product & Service Development. JBT is accelerating the development of innovative products and services to provide customers with solutions that enhance yield and productivity and reduce lifetime cost of ownership.

Grow Recurring Revenue. JBT is capitalizing on its extensive installed base to expand recurring revenue from aftermarket parts and services, equipment leases, consumables and airport services.

Execute Impact Initiatives. JBT is enhancing organic growth through initiatives that enable us to sell the entire FoodTech portfolio globally, including enhancing our international sales and support infrastructure, localizing targeted products for emerging markets, and strategic cross selling of products. Additionally, our impact initiatives are designed to support the reduction in operating cost including strategic sourcing, relentless continuous improvement (lean) efforts, and the optimization of organization structure. In AeroTech, we plan to continue to develop advanced military product offering and customer support capability to service global military customers.

Maintain Disciplined Acquisition Program. We are also continuing our strategic acquisition program focused on companies that add complementary products, which enable us to offer more comprehensive solutions to customers, and meet our strict economic criteria for returns and synergies.

As we evaluate our operating results, we consider our key performance indicators of segment operating profit, segment operating profit margin, and segment EBITDA.

We continue to enhance our comprehensive approach to Corporate Social Responsibility (CSR), building on our culture and long tradition of concern for our employees' health, safety, and well-being; partnering with our customers to improve their operations; and giving back to the communities where we live and work. Our equipment and technology continue to deliver quality performance while striving to minimize waste and maximize efficiency in order to create shared value for both our food processing and beverage and air transportation customers. A key CSR objective is to further align our business with our customers in order to support their ambitious quality, financial, and CSR goals.

Non-GAAP Financial Measures

The results for the three and nine months ended September 30, 2018 and 2017 include items that affect the comparability of our results. These include significant expenses that are not indicative of our ongoing operations as detailed in the table below:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
(In millions, except per share data)				
Income from continuing operations as reported	\$26.4	\$26.4	\$61.5	\$62.3
Non-GAAP adjustments:				
Restructuring expense	11.6	0.3	32.8	1.3
Impact on tax provision from Non-GAAP adjustments ⁽¹⁾	(3.0)	(0.1)	(8.4)	(0.4)
Impact on tax provision from mandatory repatriation	0.6	—	0.6	—
Impact on tax provision from rate change on deferred taxes	(1.5)	—	(1.5)	\$—
Adjusted income from continuing operations	\$34.1	\$26.6	\$85.0	\$63.2
Income from continuing operations as reported	\$26.4	\$26.4	\$61.5	\$62.3
Total shares and dilutive securities	32.1	32.3	32.2	31.7
Diluted earnings per share from continuing operations	\$0.82	\$0.82	\$1.91	\$1.97
Adjusted income from continuing operations	\$34.1	\$26.6	\$85.0	\$63.2
Total shares and dilutive securities	32.1	32.3	32.2	31.7
Adjusted diluted earnings per share from continuing operations	\$1.06	\$0.82	\$2.64	\$1.99

(1) Impact on tax provision was calculated using the Company's annual effective tax rate of 25.71% and 31.00% for September 30, 2018 and 2017, respectively.

The above table contains adjusted income from continuing operations and adjusted diluted earnings per share from continuing operations, which are non-GAAP financial measures, and are intended to provide an indication of our underlying ongoing operating results and to enhance investors' overall understanding of our financial performance by eliminating the effects of certain items that are not comparable from one period to the next. In addition, this information is used as a basis for evaluating our performance and for the planning and forecasting of future periods.

The table below provides a reconciliation of net income to Adjusted EBITDA:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2018	2017	2018	2017
Net income	\$26.4	\$25.8	\$61.2	\$61.1
Gain (loss) from discontinued operations, net of taxes	—	(0.6)	(0.3)	(1.2)
Income from continuing operations as reported	26.4	26.4	61.5	62.3
Provision for income taxes	6.8	12.2	12.1	19.8
Net interest expense	3.4	3.6	10.5	10.3
Depreciation and amortization	15.3	12.8	43.1	37.9

Edgar Filing: John Bean Technologies CORP - Form 10-Q

EBITDA	51.9	55.0	127.2	130.3
Restructuring expense	11.6	0.3	32.8	1.3
Adjusted EBITDA	\$63.5	\$55.3	\$160.0	\$131.6

27

The above table provides net income as adjusted by income taxes, net interest expense and depreciation and amortization expense recorded during the period to arrive at EBITDA. Further, we add back to EBITDA significant expenses that are not indicative of our ongoing operations to calculate an Adjusted EBITDA for the periods reported. Given the Company's focus on growth through strategic acquisitions, management considers Adjusted EBITDA to be an important non-GAAP financial measure. This measure allows us to monitor business performance while excluding the impact of amortization due to the step up in value of intangible assets, and the depreciation of fixed assets. We use Adjusted EBITDA internally to make operating decisions and believe this information is helpful to investors because it allows more meaningful period-to-period comparisons of our ongoing operating results.

We evaluate our results of operations on both an as reported and a constant currency basis. The constant currency presentation is a non-GAAP financial measure, which excludes the impact of fluctuations in foreign currency exchange rates. We believe providing constant currency information provides valuable supplemental information regarding our results of operations, consistent with how we evaluate our performance. We calculate constant currency percentages by converting our financial results in local currency for a period using the average exchange rate for the prior period to which we are comparing. This calculation may differ from similarly-titled measures used by other companies.

The non-GAAP financial measures disclosed in this Quarterly Report on Form 10-Q are not intended to nor should they be considered in isolation or as a substitute for financial measures prepared in accordance with U.S. GAAP.

Impact of Revenue Recognition Rules

Under the new standard, revenue recognition for many areas of JBT's business remains substantially unchanged; including revenue earned from airport services, maintenance and other service agreements, lease agreements and most of our standard equipment and parts. The costs of our revenue do not change as a result of the new standard. This standard does not change our customer billing or cash flows. However, in certain contracts, we qualify for over time recognition for our manufactured equipment that is highly engineered to unique customer specifications. In addition, due to the nature of certain of our equipment and installation services we combine these into one performance obligation, where under legacy GAAP the equipment and installation revenue were recognized independently. Under ASC 606, revenue recognized for contracts that meet certain criteria result in revenue being recognized as the equipment is being manufactured which is an acceleration of revenue as compared to legacy GAAP of recognizing revenue when shipped to the customer. This conclusion, specific to equipment contracts for which the equipment is highly engineered to unique customer specifications, is dependent on whether our contract with the customer provides us, upon customer cancellation, with an enforceable right to payment for performance completed to date. Where the contract does not provide us with an enforceable right to payment for performance completed to-date, revenue will be recognized at a point in time, usually upon completion of the installation of the equipment. Therefore, some revenue will be recognized at a later date than compared to legacy GAAP. This impacts both equipment contracts with installation that qualify as one performance obligation, and that were previously recognized upon shipment, as well as certain equipment contracts for which revenue was recognized under percentage of completion accounting under legacy GAAP.

During the three and nine months ended September 30, 2018, reported revenues were boosted by the adoption of ASC 606 by approximately \$17.8 million and \$99.9 million, respectively. The following table shows the components of this change.

in millions	Q1	Q2	Q3	YTD
Previously Recognized ⁽¹⁾	\$43.3	\$57.7	\$13.0	\$114.0
Accelerated/Deferred ⁽²⁾	7.2	(26.1)	4.8	(14.1)
Total ASC 606 Impact	\$50.5	\$31.6	\$17.8	\$99.9

(1) Previously Recognized amounts represent revenue reported in the period for contracts where installation was completed in the quarter, but that were previously recognized under legacy GAAP during 2017 when the equipment was shipped for contracts previously recognized upon shipment, or progress was made for former percentage of completion contracts.

(2) Accelerated amounts represent revenue accelerated into the period as we are recognizing revenue over time on projects that did not ship by the end of the quarter. This reflects a positive impact on our results, solely due to adoption. Deferred amounts represent revenue not recognized in the period, but would have been under legacy GAAP. This reflects a negative impact on our results, solely due to adoption.

CONSOLIDATED RESULTS OF OPERATIONS
THREE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

(In millions, except %)	Three Months		Favorable/(Unfavorable)
	Ended September 30, 2018	2017		$/bps
Revenue	\$481.9	\$420.8	\$ 61.1
Cost of sales	346.8	299.3	(47.5)
Gross profit	135.1	121.5	13.6
Gross profit %	28.0 %	28.9 %	-90 bps
Selling, general and administrative expense	79.0	74.0	(5.0)
Research and development expense	5.7	6.9	1.2
Restructuring expense	11.6	0.3	(11.3)
Other expense (income), net	2.2	(1.6)	(3.8)
Operating income	36.6	41.9	(5.3)
Operating income %	7.6 %	10.0 %	-240 bps
Other (expense) income, net	—	0.3	(0.3)
Interest expense, net	(3.4)	(3.6)	0.2
Income from continuing operations before income taxes	33.2	38.6	(5.4)
Provision for income taxes	6.8	12.2	5.4
Income from continuing operations	26.4	26.4	—
Loss from discontinued operations	—	(0.6)	0.6
Net income	\$26.4	\$25.8	\$ 0.6

Total revenue for the three months ended September 30, 2018 increased \$61.1 million compared to the same period in 2017. This is a 15% increase, with a 10% growth in organic revenues, a 4% gain from the new revenue recognition standard, a 3% gain from acquisitions, offset by 2% decline due to a negative impact from foreign currency translation.

Operating income margin was 7.6% for the three months ended September 30, 2018 compared to 10.0% in the same period in 2017, a decrease of 240 bps, as a result of the following items:

Gross profit margin decreased 90 bps to 28.0% compared to 28.9% in the same period last year. This decrease was the result of unfavorable margins from equipment revenue, including an increase in equipment revenue as compared to the prior year as a result of the transition to ASC 606. In addition, foreign currency translation resulted in a gross profit margin decrease of 0.3%. The profit margin erosion was partially offset by a greater contribution of aftermarket revenue.

Selling, general and administrative expense increased in dollars but declined as a percentage of revenue from 17.6% in 2017 to 16.4% in 2018 due to the higher revenues and controlled spending, particularly in AeroTech.

Research and development expense has decreased in dollars resulting from controlled spending partially offset by continued investment in Elevate new product development initiatives. As a percent of revenue, these expenses have declined to 1.2% compared to 1.6% in the same period last year as revenue increased at a faster pace.

In the third quarter of 2018 we recorded restructuring expense of \$11.6 million in connection with our 2018 restructuring plan to better leverage the Company's general and administrative resources and improve efficiency globally.

Other (income) expense, net increased by \$3.8 million primarily due to higher acquisition costs and lower foreign currency gains quarter over quarter.

Currency translation reduced operating income by \$2.4 million.

Other (expense) income, net decreased from a benefit of \$0.3 million in 2017 to expense of \$0 million for the three months ended September 30, 2018. This is driven by the reclassification of actuarial losses related to our pension plans from other comprehensive income in the period.

Interest expense, net decreased \$0.2 million as the benefit of \$0.6 from cross currency swaps more than offset higher interest of \$0.4 million resulting from higher average debt levels to fund acquisitions.

Income tax expense for the three months ended September 30, 2018 reflected a lower effective income tax rate of 25.71% compared to 31% in the same period in 2017 reflecting the impacts of the Tax Act. In the three months ended September 30, 2018, we reported a discrete tax expense of \$0.6 million for the deemed repatriation transition tax on previously untaxed and un-repatriated earnings of certain foreign subsidiaries and a discrete tax benefit of \$1.5 million for the change in remeasurement of deferred taxes due to the change in the federal tax rate.

OPERATING RESULTS OF BUSINESS SEGMENTS
THREE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

(In millions, except %)	Three Months Ended		Favorable/(Unfavorable)
	September 30, 2018	September 30, 2017		$/bps
Revenue:			
JBT FoodTech	\$332.5	\$296.1	\$ 36.4
JBT AeroTech	149.5	124.8	24.7
Other revenue and intercompany eliminations	(0.1)	(0.1)	—
Total revenue	\$481.9	\$420.8	\$ 61.1
Operating income before income taxes			
Segment operating profit ⁽¹⁾⁽²⁾ :			
JBT FoodTech	\$41.9	\$37.8	\$ 4.1
JBT FoodTech segment operating profit %	12.6 %	12.8 %	% -20 bps
JBT AeroTech	17.6	15.4	2.2
JBT AeroTech segment operating profit %	11.8 %	12.3 %	% -50 bps
Total segment operating profit	59.5	53.2	6.3
Total segment operating profit %	12.3 %	12.6 %	% -30 bps
Corporate items:			
Corporate expense	(11.3)	(11.0)	(0.3)
Restructuring expense	(11.6)	(0.3)	(11.3)
Operating income	\$36.6	\$41.9	\$ (5.3)
Operating income %	7.6 %	10.0 %	% -240 bps
Inbound orders ⁽³⁾ :			
JBT FoodTech	\$282.3	\$296.4	
JBT AeroTech	165.7	144.0	
Intercompany eliminations/other	0.1	-	
Total inbound orders	\$448.1	\$440.4	

(1) Refer to Note 13. Business Segment Information of the Notes to Condensed Consolidated Financial Statements.

(2) Segment operating profit is defined as total segment revenue less segment operating expenses. Corporate expense, restructuring expense, interest income and expense and income taxes are not allocated to the segments. Corporate expense generally includes corporate staff-related expense, stock-based compensation, LIFO adjustments, certain foreign currency-related gains and losses, and the impact of unusual or strategic events not representative of

segment operations.

(3) Inbound orders are not impacted by the adoption of ASC 606.

31

JBT FoodTech

FoodTech revenue for the three months ended September 30, 2018 increased \$36.4 million, compared to the third quarter of 2017. This is a 12% increase, with a 6% gain from the new revenue recognition standard, 5% growth in organic revenues, 4% contribution from acquisitions, all offset by 3% in unfavorable foreign currency translation. Organic revenue growth resulted from high demand for aftermarket parts and services with growth in almost all product lines. We achieved new equipment growth primarily in Protein solutions, particularly in Europe, which was offset by lower demand for Liquid Foods equipment.

FoodTech operating profit increased \$4.1 million in the third quarter of 2018 compared to the third quarter of 2017. The results reflect 1% decline in gross profit margins, which reflects unfavorable margins from equipment revenue, including equipment revenue resulting from ASC 606. This decline was offset by a greater contribution of aftermarket revenue. Incremental selling, general and administrative costs of \$5.9 million primarily from M&A activities and \$2.4 million in unfavorable currency translation on earnings resulted in lower operating profit margins which declined to 12.6% from 12.8% in the third quarter of 2017.

JBT AeroTech

AeroTech revenue for the three months ended September 30, 2018 increased \$24.7 million, compared to the same period in 2017. This is a 20% increase, all from organic growth, as a result of an increase in mobile equipment revenue, and to a lesser extent, higher fixed equipment revenue and higher service contract revenue from new maintenance contracts.

AeroTech operating profit increased \$2.2 million for the three months ended September 30, 2018 compared to the same period in 2017. Operating profit margins decreased 50 bps to 11.8%. AeroTech gross profit margins were down 80 bps due to a litigation settlement and higher material costs partly offset by leveraging of fixed manufacturing costs. Selling, general and administrative expenses for the three months ended September 30, 2018 were \$1.8 million higher than the same period in 2017 but were down 30 bps as a result of leveraging higher volumes.

Currency translation did not have a significant impact on operating profit comparative results for AeroTech.

Corporate Expense

Corporate expense increased \$0.3 million during the three months ended September 30, 2018, compared to the same period in 2017. This quarter's results were absent of stock compensation forfeiture income of \$0.5 million reported in 2017. Further reductions reflect controlled spending. Corporate expense declined as a percentage of sales from 2.6% in the prior year compared to 2.3% in the third quarter 2018.

CONSOLIDATED RESULTS OF OPERATIONS
NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

(In millions, except %)	Nine Months Ended September 30,		Favorable/(Unfavorable) \$/bps
	2018	2017	
Revenue	\$1,382.4	\$1,151.4	\$ 231.0
Cost of sales	1,003.4	817.5	(185.9)
Gross profit	379.0	333.9	45.1
Gross profit %	27.4	% 29.0	% -160 bps
Selling, general and administrative expense	237.4	222.1	(15.3)
Research and development expense	20.7	19.6	(1.1)
Restructuring expense	32.8	1.3	(31.5)
Other expense (income), net	3.4	(0.6)	(4.0)
Operating income	84.7	91.5	(6.8)
Operating income %	6.1	% 7.9	% -180 bps
Other (expense) income, net	(0.6 )	) 0.9	(1.5)
Interest expense, net	(10.5 )	) (10.3)	(0.2)
Income from continuing operations before income taxes	73.6	82.1	(8.5)
Provision for income taxes	12.1	19.8	7.7
Income from continuing operations	61.5	62.3	(0.8)
Loss from discontinued operations	\$(0.3 )	) \$(1.2 )	) \$ 0.9
Net income	61.2	61.1	0.1

Total revenue for the nine months ended September 30, 2018 increased \$231.0 million compared to same period in 2017. This is a 20% increase, with an 9% gain from the new revenue recognition standard, a 7% growth in organic revenues, a 3% gain from acquisitions, and a 1% foreign currency translation benefit.

Operating income margin was 6.1% for the nine months ended September 30, 2018 compared to 7.9% in the same period in 2017, a decrease of 180 bps, as a result of the following items:

Gross profit margin decreased 160 bps to 27.4% compared to 29.0% in the same period last year. This decrease was partially the result of gross profit percent on revenues required from ASC 606, mark-to-market losses on foreign currency hedging, as well as the result of higher installation costs from execution of projects in the first quarter of the year.

Selling, general and administrative expense increased in dollars but declined as a percentage of revenue due to higher revenues and controlled spending. As a percentage of revenue, these expenses have declined to 17.2% compared to 19.3% in the same period last year as revenue increased at a faster pace.

Research and development expense increased as we continue to invest in Elevate new product development initiatives.

Restructuring expense increased \$31.5 million. In the current year we recorded restructuring expense of \$32.8 million in connection with our 2018 restructuring plan to better leverage the Company's general and administrative resources and improve efficiency globally.

Other (income) expense, net increased by \$4 million primarily due to higher acquisition costs.

Currency translation reduced operating income by \$1.7 million.

Other (expense) income, net increased from a benefit of \$0.9 million in 2017 to expense of \$0.6 million for the nine months ended September 30, 2018. This is driven by the reclassification of actuarial losses related to our pension plans from other comprehensive income in the period.

Interest expense, net increased \$0.2 million primarily due to an increase in expense of \$0.9 million from higher interest rates, \$0.3 million resulting from higher average debt levels, largely offset by a benefit of \$0.6 from cross currency swaps.

Income tax expense for the nine months ended September 30, 2018 reflected an expected effective income tax rate of 25.71% compared to 31% in the same period in 2017. In addition, discrete tax benefits of \$6.8 million and \$5.9 million were recognized for the nine months ended September 30, 2018 and 2017, respectively, primarily resulting from vesting of stock based compensation.

OPERATING RESULTS OF BUSINESS SEGMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

(In millions, except %)	Nine Months Ended		Favorable/(Unfavorable) \$/bps
	September 30, 2018	2017	
Revenue:			
JBT FoodTech	\$997.7	\$816.6	\$ 181.1
JBT AeroTech	384.6	334.8	49.8
Other revenue and intercompany eliminations	0.1	—	0.1
Total revenue	\$1,382.4	\$1,151.4	\$ 231.0
Operating income before income taxes			
Segment operating profit ⁽¹⁾⁽²⁾ :			
JBT FoodTech	\$110.8	\$89.4	\$ 21.4
JBT FoodTech segment operating profit %	11.1	% 10.9	% 20 bps
JBT AeroTech	40.2	35.8	4.4
JBT AeroTech segment operating profit %	10.5	% 10.7	% -20 bps
Total segment operating profit	151.0	125.2	25.8
Total segment operating profit %	10.9	% 10.9	% 0 bps
Corporate items:			
Corporate expense	(33.5)	(32.4)	(1.1)
Restructuring expense	(32.8)	(1.3)	(31.5)
Operating income	\$84.7	\$91.5	\$ (6.8)
Operating income %	6.1	% 7.9	% -180 bps
Inbound orders: ⁽³⁾			
JBT FoodTech	\$952.9	\$897.3	
JBT AeroTech	467.3	365.4	
Intercompany eliminations/other	0.2	0.1	
Total inbound orders	\$1,420.4	\$1,262.8	

(1) Refer to Note 13. Business Segment Information of the Notes to Condensed Consolidated Financial Statements.

Segment operating profit is defined as total segment revenue less segment operating expenses. Corporate expense, restructuring expense, interest income and expense and income taxes are not allocated to the segments. Corporate (2) expense generally includes corporate staff-related expense, stock-based compensation, LIFO adjustments, certain foreign currency-related gains and losses, and the impact of unusual or strategic events not representative of segment operations.

(3) Inbound orders are not impacted by the adoption of ASC 606.

JBT FoodTech

FoodTech revenue for the nine months ended September 30, 2018 increased \$181.1 million compared to the same period in 2017. This is a 22% increase, with a 12% gain from the new revenue recognition standard, 6% growth in organic revenues, 3% contribution from acquisitions, and a 1% foreign currency translation benefit. Organic revenue growth resulted from high demand for Protein solutions and higher aftermarket revenue, particularly from Liquid Foods customers.

FoodTech operating profit increased \$21.4 million in the nine months ended September 30, 2018 compared to the same period in 2017. Operating profit margins increased by 0.2% driven by higher revenue. The results reflect 2.3% decline in FoodTech gross profit margins. These are the result of higher costs in the first quarter from execution of larger projects and higher revenues associated with ASC 606. Higher sales volumes generating higher gross profit dollars compensated for the gross profit margin erosion and higher spending in selling, general and administrative costs and research and development costs.

JBT AeroTech

AeroTech revenue for the nine months ended September 30, 2018 increased \$49.8 million compared to the same period in 2017. This is a 15% increase, with 11% from organic growth, 2% from acquisitions and 1% each from the new revenue recognition standard and from a foreign currency translation benefit. Organic revenue growth primarily reflects an increase in mobile equipment revenue and to a lesser extent, higher service revenue from new maintenance contracts.

AeroTech operating profit increased \$4.4 million for the nine months ended September 30, 2018 compared to the same period in 2017. Operating profit margins of 10.5% were 20 bps below the prior year. Gross profit margins declined 60 bps due to an unfavorable mix of equipment and services, a litigation settlement and higher material costs partly offset by leveraging of fixed manufacturing costs. Selling, general and administrative expenses for the nine months ended September 30, 2018 were \$3.6 million higher than the same period in 2017, including \$1.8 million from acquisitions, but were down 40 bps as a result of leveraging higher volumes.

Currency translation did not have a significant impact on our operating profit comparative results for AeroTech.

Corporate Expense

Corporate expense increased \$1.1 million during the nine months ended September 30, 2018, compared to the same period in 2017. This year's results were absent of stock compensation forfeiture income of \$0.5 million reported in 2017. Corporate expense declined as a percentage of sales from 2.8% in the prior year compared to 2.4% in 2018, reflective of controlled spending.

Restructuring

In the first quarter of 2016, we implemented our optimization program ("2016 restructuring plan") to realign FoodTech's Protein business in North America and Liquid Foods business in Europe, accelerate JBT's strategic sourcing initiatives, and consolidate smaller facilities. The total cost in connection with this plan was approximately \$12.0 million. We completed this plan in the first quarter 2018, and in doing so released \$1.7 million in remaining liability during the quarter. Approximately half of this release was related to amounts we no longer expect to pay in connection with this plan due to actual severance payments differing from original estimates and natural attrition of employees. The remainder was included in the liability balance recorded in the first quarter attributable to the 2018 restructuring plan until the final severance payments are made.

During the fourth quarter of 2016 we implemented and acquired a restructuring plan to consolidate certain facilities and optimize our general and administrative infrastructure subsequent to a FoodTech acquisition. The total estimated

cost in connection with this plan is approximately \$4.0 million. We incurred no additional expense in the quarter, and have incurred \$3.0 million to date. We expect to complete this plan by first quarter of 2019.

In the first quarter of 2018, we implemented a restructuring program ("2018 restructuring plan") to address JBT's global processes to flatten the organization, improve efficiency and better leverage general and administrative resources. During the nine months ended September 30, 2018, we incurred \$36.3 million in expense primarily associated with the FoodTech segment, of which \$22.4 million is related to consulting fees and \$13.9 million is related to severance amounts incurred as a direct result of the 2018 restructuring plan. The total estimated cost in connection with this plan is approximately \$50 million, of which we have recognized \$36.3 million during the nine months ended September 30, 2018, and the remainder we expect to recognize by mid 2019.

The cumulative cost savings through September 30, 2018 for both the 2016 restructuring plan and the acquired restructuring plans are \$8.2 million. The amount and timing of these cost savings were generally consistent with our expectations. A portion of the \$8 million in savings was used to fund our JBT Elevate growth initiatives. The cumulative cost savings through September 30, 2018 for the 2018 restructuring plan is \$2 million with savings of \$1.5 million in cost of goods sold and \$0.5 million in selling, general and administrative expenses. For the 2018 restructuring plan, we expect to generate annualized savings of \$45 million in total, consisting of approximately \$2 million in the fourth quarter of 2018, an incremental \$13 million in 2019, and an incremental \$28 million in 2020.

Liquidity and Capital Resources

Our primary sources of liquidity are cash flows provided by operating activities from our U.S. and foreign operations and borrowings from our revolving credit facility. Our liquidity as of September 30, 2018, or cash plus borrowing capacity under our credit facilities was \$394.4 million. The cash flows generated by our operations and the credit facility are expected to be sufficient to satisfy our working capital needs, research and development activities, restructuring costs, capital expenditures, pension contributions, anticipated share repurchases, acquisitions and other financing requirements.

As of September 30, 2018, we had \$38.5 million of cash and cash equivalents, \$34.4 million of which was held by our foreign subsidiaries. Although these funds are considered permanently invested in our foreign subsidiaries, we are not presently aware of any restriction on the repatriation of these funds. We maintain significant operations outside of the U.S., and many of our uses of cash for working capital, capital expenditures and business acquisitions arise in these foreign locations. If these funds were needed to fund our operations or satisfy obligations in the U.S., they could be repatriated and their repatriation into the U.S. could cause us to incur additional U.S. income taxes and foreign withholding taxes. Any additional taxes could be offset, in part or in whole, by foreign tax credits. The amount of such taxes and application of tax credits would be dependent on the income tax laws and other circumstances at the time any of these amounts are repatriated.

As noted above, funds held outside of the U.S. are considered permanently invested in our non-U.S. subsidiaries. At times, these foreign subsidiaries have cash balances that exceed their immediate working capital or other cash needs. In these circumstances, the foreign subsidiaries may loan funds to the U.S. parent company on a temporary basis; the U.S. parent company has in the past and may in the future use the proceeds of these temporary intercompany loans to reduce outstanding borrowings under our committed credit facilities. By using available non-U.S. cash to repay our debt on a short-term basis, we can optimize our leverage ratio, which has the effect of both lowering the rate we pay on certain of our borrowings and lowering our interest costs.

Under Internal Revenue Service (“IRS”) guidance, no incremental tax liability is incurred on the proceeds of these loans as long as each individual loan has a term of 30 days or less and all such loans from each subsidiary are outstanding for a total of less than 60 days during the year. The amount outstanding subject to IRS guidance at September 30, 2018 was approximately \$18 million. During 2018, any such loan is expected to be outstanding for less than 30 days, and all such loans are expected to be outstanding for less than 60 days in the aggregate. The U.S. parent may use the proceeds of these intercompany loans to reduce outstanding borrowings under our five-year revolving credit facility. We may choose to access such funds again in the future to the extent they are available and can be transferred without significant cost, and use them on a temporary basis to repay outstanding borrowings or for other corporate purposes, but intend to do so only as allowed under this IRS guidance.

On August 10, 2018, the Board authorized new share repurchase program of up to \$30 million of the Company's common stock, effective January 1, 2019 through December 31, 2021, which replaced the prior share repurchase

program. Shares may be purchased from time to time in open market transactions, subject to market conditions. Repurchased shares become treasury shares, which are accounted for using the cost method and are intended to be used for future awards under the Incentive Compensation Plan.

Cash Flows

Cash flows for the nine months ended September 30, 2018 and 2017 were as follows:

(In millions)	2018	2017
Cash provided by continuing operating activities	\$26.6	\$69.2
Cash required by investing activities	(84.3)	(129.2)
Cash provided by financing activities	65.2	65.0
Net cash required by discontinued operations	(0.6)	(1.2)
Effect of foreign exchange rate changes on cash and cash equivalents	(2.4)	1.4
Increase in cash and cash equivalents	\$4.5	\$5.2

Cash provided by continuing operating activities during the nine months ended September 30, 2018 was \$26.6 million, representing a \$42.5 million decrease compared to the same period in 2017. The decrease was driven primarily by higher payments related to pension and restructuring and decrease in advance and progress payments year over year. These were partially offset by lower inventory and trade receivables and an increase in accounts payable year over year.

Cash required by investing activities during the nine months ended September 30, 2018 was \$84.3 million, a decrease of \$44.9 million compared to the same period in 2017, due primarily to decreased acquisition spending in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017.

Cash provided by financing activities of \$65.2 million during the nine months ended September 30, 2018 was consistent with the prior year, with proceeds of \$184.1 million from 2.3 million shares of common stock issued in 2017 offset by higher borrowings from the Company's credit facility in 2018.

Financing Arrangements

On June 19, 2018, the Company and its wholly owned subsidiary John Bean Technologies Europe B.V. (the "Dutch Borrower" and together with the Company, the "Borrowers") entered into a Credit Agreement (the "Credit Agreement") with Wells Fargo Bank, National Association, as administrative agent, and the other lenders party thereto. The Credit Agreement provides for a \$1 billion revolving credit facility that matures in June 2023. The borrowings under the Credit Agreement were used to repay in full all outstanding indebtedness under an existing credit agreement. Revolving loans under the credit facility bear interest, at our option, at LIBOR (subject to a floor rate of zero) or an alternative base rate (which is the greater of Wells Fargo's Prime Rate, the Federal Funds Rate plus 50 basis points, and LIBOR plus 1%) plus, in each case, a margin dependent on our leverage ratio. We must also pay an annual commitment fee of 15.0 to 35.0 basis points dependent on our leverage ratio. The Credit Agreement contains customary representations, warranties, and covenants, including a minimum interest coverage ratio and maximum leverage ratio, as well as certain events of default.

As of September 30, 2018 we had \$489.8 million drawn on the credit facility. Our ability to use the credit facility is limited by the leverage ratio covenant.

Our credit agreement includes covenants that, if not met, could lead to a renegotiation of our credit lines, a requirement to repay our borrowings and/or a significant increase in our cost of financing. As of September 30, 2018, we were in compliance with all covenants in our credit agreement. We expect to remain in compliance with all covenants in the foreseeable future. However, there can be no assurance that continued or increased volatility in global economic conditions will not impair our ability to meet our covenants, or that we will continue to be able to access the capital and credit markets on terms acceptable to us or at all.

The Borrowers' obligations under the Credit Agreement are guaranteed by six of the Company's domestic subsidiaries and subsequently formed or acquired domestic subsidiaries (the "Domestic Subsidiary Guarantors"), and the Dutch Borrower's obligations under the Credit Agreement are guaranteed by two of the Company's Dutch subsidiaries and subsequently formed or acquired Dutch subsidiaries (collectively, the "Foreign Subsidiary Guarantors"). The Borrowers' obligations under the Credit Agreement are secured by a first-priority security interest in substantially all of the tangible and intangible personal property of the Borrowers and the Domestic Subsidiary Guarantors and a pledge of the capital stock of each existing or subsequently acquired or organized domestic Subsidiary or first-tier foreign subsidiary (in each case, limited to 65% of the voting stock and 100% of the non-voting stock of any such foreign subsidiary). The Dutch Borrower's obligations under the Credit Agreement

are secured by a pledge of the existing or subsequently acquired equity interests held directly by the Dutch Borrower and each Foreign Subsidiary Guarantor.

We have entered into interest rate swaps to fix the interest rate applicable to certain of our variable-rate debt. The agreements swap one-month LIBOR for fixed rates. We have designated these swaps as cash flow hedges and all changes in fair value of the swaps are recognized in accumulated other comprehensive income (loss). As a result, as of September 30, 2018, some of our debt was effectively fixed rate debt while approximately \$264.8 million, or 54%, was subject to floating, or market, rates. To the extent interest rates increase in future periods, our earnings could be negatively impacted by higher interest expense.

We have entered into a cross currency swap agreements that synthetically swaps \$116.4 million of fixed rate debt to Euro denominated fixed rate debt. The agreements are designated as a net investment hedge for accounting purposes. Accordingly, the gain or loss on this derivative instrument is included in the foreign currency translation component of other comprehensive income until the net investment is sold, diluted, or liquidated. Coupons received for the cross currency swap are excluded from the net investment hedge effectiveness assessment and are recorded in interest expense, net on the condensed consolidated statements of income. For the three months and the nine months ended September 30, 2018, gains recorded in interest expense, net under the cross currency swap agreement were \$0.6 million.

CRITICAL ACCOUNTING ESTIMATES

There were no material changes in our judgments and assumptions associated with the development of our critical accounting estimates during the period ended September 30, 2018. Refer to our Annual Report on Form 10-K for the year ended December 31, 2017 for a discussion of our critical accounting estimates.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in reported market risks from the information reported in our Annual Report on Form 10-K for the year ended December 31, 2017.

ITEM 4. CONTROLS AND PROCEDURES

Under the direction of our principal executive officer and principal financial officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of September 30, 2018. We have concluded that, as of September 30, 2018, our disclosure controls and procedures were:

- i) effective in ensuring that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and
- ii) effective in ensuring that information required to be disclosed is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

In the ordinary course of business, we review our system of internal control over financial reporting and make changes to our systems and processes to improve such controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, automating manual processes and updating existing systems.

In 2017, the Company established new internal controls related to our accounting policies and procedures as part of our adoption of the new revenue recognition standard. These internal controls included providing global training to our finance team and holding regular meetings with management to review and approve key decisions. Beginning January 2018, we have implemented new internal controls to address risks associated with applying the new standard, including risks related to judgments made to determine the estimates to complete for contracts recognized over time.

We are in the process of implementing a new enterprise resource planning system ("ERP") that will enhance our business and financial processes and standardize our information systems. We have completed the implementation at several locations and will continue to roll out the ERP in phases over the next several years.

As with any new information system we implement, this application, along with the internal controls over financial reporting included in this process, will require testing for effectiveness. In connection with this ERP implementation, we are updating our internal controls over financial reporting, as necessary, to accommodate modifications to our business processes and accounting procedures. We do not believe that the ERP implementation will have an adverse effect on our internal control over financial reporting.

Other than as noted above, there were no changes in controls identified in the evaluation for the quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act.

Report of Independent Registered Public Accounting Firm
To the Stockholders and Board of Directors
John Bean Technologies Corporation:

Results of Review of Interim Financial Information

We have reviewed the condensed consolidated balance sheet of John Bean Technologies Corporation and subsidiaries as of September 30, 2018, the related condensed consolidated statements of income and comprehensive income for the three-month and nine-month periods ended September 30, 2018 and 2017, the related condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2018 and 2017, and the related notes (collectively, the consolidated interim financial information).

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated interim financial information for it to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Company as of December 31, 2017, and the related consolidated statements of income and comprehensive income (loss), changes in stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 28, 2018, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2017, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

This consolidated interim financial information is the responsibility of the Company's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our reviews in accordance with the standards of the PCAOB. A review of consolidated interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ KPMG LLP

Chicago, IL
November 2, 2018

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no material legal proceedings identified or material developments in existing material legal proceedings during the three months ended September 30, 2018.

ITEM 1A. RISK FACTORS

There have been no material changes in reported risk factors from the information reported in our Annual Report on Form 10-K for the year ended December 31, 2017, except as described below.

The risk factor under the caption “Changes to trade regulation, quotas, duties or tariffs, caused by the changing U.S. and geopolitical environments or otherwise, may increase our costs or limit the amount of raw materials and products that we can import” in our Annual Report on Form 10-K for the year ended December 31, 2017 is updated and replaced in its entirety with the following:

Changes to trade regulation, quotas, duties or tariffs, caused by the changing U.S. and geopolitical environments or otherwise, may increase our costs or limit the amount of raw materials and products that we can import, or may otherwise adversely impact our business.

The current U.S. administration has voiced strong concerns about imports from countries that it perceives as engaging in unfair trade practices, and may decide to impose import duties or other restrictions on products or raw materials sourced from those countries, which may include China and other countries from which we import raw materials or in which we manufacture our products. Any such duties or restrictions could have a material adverse effect on our business, results of operations or financial condition.

Moreover, these new tariffs, or other changes in U.S. trade policy, could trigger retaliatory actions by affected countries. Certain foreign governments have instituted or are considering imposing trade sanctions on certain U.S. goods. Others are considering the imposition of sanctions that will deny U.S. companies access to critical raw materials. A “trade war” of this nature or other governmental action related to tariffs or international trade agreements or policies has the potential to adversely impact demand for our products, our costs, customers, suppliers and/or the U.S. economy or certain sectors thereof and, thus, to adversely impact our businesses.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table includes information about the Company’s stock repurchases during the three months ended September 30, 2018:

(Dollars in millions, except per share amounts)

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as part of Publicly Announced Program ⁽¹⁾	Approximate Dollar Value of Shares that may yet be Purchased under the Program
July 1, 2018 through July 31, 2018	—	\$	—	\$ 8.7
August 1, 2018 through August 31, 2018	—	—	—	8.7
September 1, 2018 through September 30, 2018	—	—	—	8.7
	—	\$	—	\$ 8.7

Shares repurchased under a share repurchase program for up to \$30 million of our common stock that was (1) authorized in 2015 and was set to expire on December 31, 2018. Refer to our Annual Report on Form 10-K for the year ended December 31, 2017, Note 11. Stockholders' Equity for share repurchase program details.

On August 10, 2018, the Board authorized a new share repurchase program of up to \$30 million of the Company's common stock, effective January 1, 2019 through December 31, 2021, which replaced the prior share repurchase program. Shares may be purchased from time to time in open market transactions, subject to market conditions. Repurchased shares become treasury shares, which are accounted for using the cost method and are intended to be used for future awards under the Incentive Compensation Plan.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

All exhibits are set forth on the Exhibit Index, which is incorporated herein by reference.

42

EXHIBIT INDEX

Number in Exhibit Table	Description
10.1*	<u>John Bean Technologies Corporation Non-Qualified Savings and Investment Plan As Amended and Restated, Effective January 1, 2019</u>
10.2*	<u>Nineteenth Amendment Of John Bean Technologies Corporation Savings And Investment Plan (As Amended and Restated, Effective as of January 1, 2012)</u>
10.3*	<u>Twentieth Amendment Of John Bean Technologies Corporation Savings And Investment Plan (As amended and restated, Effective as of January 1, 2012)</u>
10.4*	<u>Twenty-First Amendment Of John Bean Technologies Corporation Savings And Investment Plan (As Amended and Restated, Effective as of January 1, 2012)</u>
10.5*	<u>Twenty-Second Amendment Of John Bean Technologies Corporation Savings And Investment Plan (As amended and restated, Effective as of January 1, 2012)</u>
10.6*	<u>Twenty-Third Amendment Of John Bean Technologies Corporation Savings And Investment Plan (As Amended and Restated, Effective as of January 1, 2012)</u>
15*	<u>Letter re: Unaudited interim financial information.</u>
31.1*	<u>Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) /15d-14(a).</u>
31.2*	<u>Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) /15d-14(a).</u>
32.1*	<u>Certification of Chief Executive Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2*	<u>Certification of Chief Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101*	The following materials from John Bean Technologies Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Income, (ii) Condensed Consolidated Statements of Comprehensive Income, (iii) Condensed Consolidated Balance Sheets, (iv) Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements.
*	Filed herewith.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

John Bean Technologies Corporation
(Registrant)

/s/ Jessi L. Corcoran
Jessi L. Corcoran

Assistant Corporate Controller and Chief Accounting Officer, and duly authorized officer
(Principal Accounting Officer)

Date: November 2, 2018