

WATTS WATER TECHNOLOGIES INC

Form 10-Q

August 05, 2015

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 28, 2015

or

o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to

Commission file number 001-11499

WATTS WATER TECHNOLOGIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

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Delaware
(State or Other Jurisdiction of Incorporation or
Organization)

04-2916536
(I.R.S. Employer Identification No.)

815 Chestnut Street, North Andover, MA
(Address of Principal Executive Offices)

01845
(Zip Code)

Registrant's Telephone Number, Including Area Code: **(978) 688-1811**

(Former Name, Former Address and Former Fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

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 August 3, 2015
Class A Common Stock, \$0.10 par value	28,226,645
Class B Common Stock, \$0.10 par value	6,479,290

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WATTS WATER TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in millions, except share information)

(Unaudited)

	June 28, 2015	December 31, 2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 284.6	\$ 301.1
Trade accounts receivable, less allowance for doubtful accounts of \$10.2 million at June 28, 2015 and \$10.6 million at December 31, 2014	229.0	207.8
Inventories, net:		
Raw materials	99.1	104.8
Work in process	17.7	16.7
Finished goods	137.7	170.1
Total Inventories	254.5	291.6
Prepaid expenses and other assets	28.8	27.4
Deferred income taxes	48.4	45.3
Assets held for sale	34.6	1.1
Total Current Assets	879.9	874.3
PROPERTY, PLANT AND EQUIPMENT:		
Property, plant and equipment, at cost	492.7	526.7
Accumulated depreciation	(306.1)	(323.4)
Property, plant and equipment, net	186.6	203.3
OTHER ASSETS:		
Goodwill	614.5	639.0
Intangible assets, net	195.7	210.1
Deferred income taxes	4.5	4.7
Other, net	12.1	16.6
TOTAL ASSETS	\$ 1,893.3	\$ 1,948.0
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 111.0	\$ 120.8
Accrued expenses and other liabilities	139.4	138.8
Accrued pension plan settlements	40.8	40.0
Accrued compensation and benefits	45.8	44.2
Current portion of long-term debt	226.6	1.9
Total Current Liabilities	563.6	345.7
LONG-TERM DEBT, NET OF CURRENT PORTION	351.9	577.8
DEFERRED INCOME TAXES	73.8	77.4
OTHER NONCURRENT LIABILITIES	31.5	34.7
STOCKHOLDERS EQUITY:		
Preferred Stock, \$0.10 par value; 5,000,000 shares authorized; no shares issued or outstanding		

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Class A Common Stock, \$0.10 par value; 80,000,000 shares authorized; 1 vote per share; issued and outstanding 28,288,685 shares at June 28, 2015 and 28,552,065 shares at December 31, 2014	2.8	2.9
Class B Common Stock, \$0.10 par value; 25,000,000 shares authorized; 10 votes per share; issued and outstanding, 6,479,290 shares at June 28, 2015 and December 31, 2014	0.6	0.6
Additional paid-in capital	504.6	497.4
Retained earnings	499.9	500.6
Accumulated other comprehensive loss	(135.4)	(89.1)
Total Stockholders' Equity	872.5	912.4
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,893.3	\$ 1,948.0

See accompanying notes to consolidated financial statements.

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WATTS WATER TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in millions, except per share information)

(Unaudited)

	Second Quarter Ended		Six Months Ended	
	June 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
Net sales	\$ 386.9	\$ 396.0	\$ 743.1	\$ 761.2
Cost of goods sold	241.1	257.0	466.8	488.9
GROSS PROFIT	145.8	139.0	276.3	272.3
Selling, general and administrative expenses	106.3	99.8	212.0	203.1
Restructuring and other charges, net	4.7	2.6	6.7	6.8
OPERATING INCOME	34.8	36.6	57.6	62.4
Other (income) expense:				
Interest income	(0.2)	(0.2)	(0.4)	(0.3)
Interest expense	5.9	4.9	11.8	9.8
Other expense (income), net	(0.4)	(0.1)	(0.6)	0.3
Total other expense	5.3	4.6	10.8	9.8
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	29.5	32.0	46.8	52.6
Provision for income taxes	10.2	10.7	15.9	17.2
NET INCOME	\$ 19.3	\$ 21.3	\$ 30.9	\$ 35.4
BASIC EPS				
Net income per share:				
NET INCOME	\$ 0.55	\$ 0.60	\$ 0.88	\$ 1.00
Weighted average number of shares	35.0	35.3	35.1	35.3
DILUTED EPS				
Net income per share:				
NET INCOME	\$ 0.55	\$ 0.60	\$ 0.88	\$ 1.00
Weighted average number of shares	35.1	35.4	35.1	35.4
Dividends per share	\$ 0.17	\$ 0.15	\$ 0.32	\$ 0.28

See accompanying notes to consolidated financial statements.

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WATTS WATER TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Amounts in millions)

(Unaudited)

	Second Quarter Ended		Six Months Ended	
	June 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
Net income	\$ 19.3	\$ 21.3	\$ 30.9	\$ 35.4
Other comprehensive income (loss):				
Foreign currency translation adjustments	18.4	(4.3)	(46.7)	(8.6)
Defined benefit pension plans, net of tax:				
Amortization of net losses included in net periodic pension cost	0.2	0.1	0.4	0.3
Other comprehensive income (loss)	18.6	(4.2)	(46.3)	(8.3)
Comprehensive income (loss)	\$ 37.9	\$ 17.1	\$ (15.4)	\$ 27.1

See accompanying notes to consolidated financial statements.

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WATTS WATER TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in millions)

(Unaudited)

	Six Months Ended	
	June 28, 2015	June 29, 2014
OPERATING ACTIVITIES		
Net income from continuing operations	\$ 30.9	\$ 35.4
Adjustments to reconcile net income from continuing operations to net cash provided by continuing operating activities:		
Depreciation	15.6	16.6
Amortization of intangibles	10.3	7.4
Loss on disposal and impairment of goodwill, property, plant and equipment and other	1.3	
Stock-based compensation	5.1	3.4
Deferred income tax benefit	(4.4)	(1.3)
Changes in operating assets and liabilities, net of effects from business acquisitions and divestitures:		
Accounts receivable	(27.3)	(23.2)
Inventories	9.3	(10.7)
Prepaid expenses and other assets	(1.5)	2.5
Accounts payable, accrued expenses and other liabilities	2.6	(11.7)
Net cash provided by continuing operations	41.9	18.4
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(12.5)	(10.6)
Proceeds from the sale of property, plant and equipment	0.1	0.2
Business acquisitions, net of cash acquired	0.7	
Net cash used in investing activities	(11.7)	(10.4)
FINANCING ACTIVITIES		
Payments of long-term debt	(0.8)	(0.9)
Payment of capital leases and other	(2.9)	(2.5)
Proceeds from share transactions under employee stock plans	1.2	4.7
Tax benefit of stock awards exercised	0.1	1.3
Payments to repurchase common stock	(19.5)	(20.0)
Debt issue costs		(2.0)
Dividends	(11.3)	(9.9)
Net cash used in financing activities	(33.2)	(29.3)
Effect of exchange rate changes on cash and cash equivalents	(13.5)	(2.3)
DECREASE IN CASH AND CASH EQUIVALENTS	(16.5)	(23.6)
Cash and cash equivalents at beginning of year	301.1	267.9
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 284.6	\$ 244.3
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Acquisition of businesses:		
Fair value of assets acquired	\$ (0.3)	\$
Cash paid, net of cash acquired	(0.7)	
Liabilities assumed	\$ 0.4	\$
Acquisitions of fixed assets under financing agreement	\$ 0.2	\$
Issuance of stock under management stock purchase plan	\$ 0.3	\$ 0.2

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CASH PAID FOR:

Interest	\$	11.0	\$	9.5
Income taxes	\$	12.6	\$	15.5

See accompanying notes to consolidated financial statements.

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WATTS WATER TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included in the Watts Water Technologies, Inc. (the Company) Consolidated Balance Sheet as of June 28, 2015, the Consolidated Statements of Operations for the second quarters and six months ended June 28, 2015 and June 29, 2014, the Consolidated Statements of Comprehensive Income (Loss) for the second quarters and six months ended June 28, 2015 and June 29, 2014, and the Consolidated Statements of Cash Flows for the six months ended June 28, 2015 and June 29, 2014.

The consolidated balance sheet at December 31, 2014 has been derived from the audited consolidated financial statements at that date. The accounting policies followed by the Company are described in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. The financial statements included in this report should be read in conjunction with the consolidated financial statements and notes included in the Annual Report on Form 10-K for the year ended December 31, 2014. Operating results for the interim periods presented are not necessarily indicative of the results to be expected for the year ending December 31, 2015.

The Company operates on a 52-week fiscal year ending on December 31st. Any quarterly data contained in this Quarterly Report on Form 10-Q generally reflect the results of operations for a 13-week period or 26-week period, respectively.

2. Accounting Policies

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 those estimates.

Goodwill and Long-Lived Assets

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During the second quarter of 2015, \$4.1 million of goodwill in the Americas segment was reclassified to assets held for sale. Refer to Note 6 Assets Held for Sale for further discussion. Also during the second quarter of 2015, the working capital adjustment relating to the AERCO International, Inc. (AERCO) acquisition was finalized resulting in a \$0.7 million reduction in the purchase price and goodwill recorded in the Americas segment. The final purchase price after the adjustment was \$271.5 million.

The changes in the carrying amount of goodwill by geographic segment are as follows:

	June 28, 2015							Net Goodwill June 28, 2015
	Balance January 1, 2015	Gross Balance		Balance June 28, 2015	Accumulated Impairment Losses		Balance June 28, 2015	
		Acquired During the Period	Foreign Currency Translation and Other		Balance January 1, 2015	Impairment Loss During the Period		
(in millions)								
Americas	\$ 398.0	\$	\$ (5.7)	\$ 392.3	\$ (24.5)	\$	\$ (24.5)	\$ 367.8
Europe, Middle East and Africa (EMEA)	265.5		(18.8)	246.7				246.7
Asia-Pacific	12.9			12.9	(12.9)		(12.9)	
Total	\$ 676.4	\$	\$ (24.5)	\$ 651.9	\$ (37.4)	\$	\$ (37.4)	\$ 614.5

	June 29, 2014							Net Goodwill June 29, 2014
	Balance January 1, 2014	Gross Balance		Balance June 29, 2014	Accumulated Impairment Losses		Balance June 29, 2014	
		Acquired During the Period	Foreign Currency Translation and Other		Balance January 1, 2014	Impairment Loss During the Period		
(in millions)								
Americas	\$ 224.7	\$	\$ (0.1)	\$ 224.6	\$ (24.5)	\$	\$ (24.5)	\$ 200.1
EMEA	301.3		(2.8)	298.5				298.5
Asia-Pacific	13.3		(0.4)	12.9				12.9
Total	\$ 539.3	\$	\$ (3.3)	\$ 536.0	\$ (24.5)	\$	\$ (24.5)	\$ 511.5

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Goodwill and indefinite-lived intangible assets are tested for impairment at least annually or more frequently if events or circumstances indicate that it is more likely than not that they might be impaired, such as from a change in business conditions. The Company performs its annual goodwill and indefinite-lived intangible assets impairment assessment in the fourth quarter of each year.

Intangible assets with estimable lives and other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Recoverability of intangible assets with estimable lives and other long-lived assets are measured by a comparison of the carrying amount of an asset or asset group to future net undiscounted pretax cash flows expected to be generated by the asset or asset group. If these comparisons indicate that an asset is not recoverable, the impairment loss recognized is the amount by which the carrying amount of the asset or asset group exceeds the related estimated fair value. Estimated fair value is based on either discounted future pretax operating cash flows or appraised values, depending on the nature of the asset. The Company determines the discount rate for this analysis based on the weighted average cost of capital based on the market and guideline public companies for the related business, and does not allocate interest charges to the asset or asset group being measured. Judgment is required to estimate future operating cash flows.

Intangible assets include the following:

		June 28, 2015			December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	(in millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents	\$ 16.2	\$ (13.7)	\$				