

ABM INDUSTRIES INC /DE/
Form 10-Q
September 03, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 31, 2015

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: 1-8929

ABM INDUSTRIES INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

94-1369354

(I.R.S. Employer
Identification No.)

551 Fifth Avenue, Suite 300

New York, New York 10176

(Address of principal executive offices)

(212) 297-0200

(Registrant's telephone number, including area code)

None

(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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) 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 26, 2015
Common Stock, \$0.01 par value per share	56,177,207 shares

ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES

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FORWARD-LOOKING STATEMENTS

This Form 10-Q contains both historical and forward-looking statements. Forward-looking statements are not based on historical facts but instead reflect the current expectations, estimates, or projections of ABM Industries Incorporated (“ABM”), and its subsidiaries (collectively referred to as “ABM,” “we,” “us,” “our,” or the “Company”), concerning future results or events. These statements generally can be identified by the use of forward-looking words or phrases, such as “believe,” “expect,” “expectation,” “anticipate,” “may,” “could,” “intend,” “belief,” “estimate,” “plan,” “target,” “predict,” “should,” “forecast,” “outlook,” or other similar words or phrases. These statements are not guarantees of future performance and are inherently subject to known and unknown risks, uncertainties, and assumptions that are difficult to predict and could cause our actual results to differ materially from those indicated by these statements. Forward-looking statements in this Form 10-Q include, but are not limited to, statements regarding: our future operating and financial performance; our plans to return capital to stockholders, whether through stock repurchases, cash dividends, or otherwise; our review of strategic options for our security business; the ability of our risk management and safety programs to affect our insurance reserves for casualty programs; the adoption of our strategy and transformation initiative; the cost savings we have projected to achieve by the realignment of our business operations to better support specific industries and deliver improved client solutions; and the timing of any of the foregoing. We cannot assure you that any of our expectations, estimates, or projections will be achieved. Numerous factors could cause our actual results and events to differ materially from those expressed or implied by forward-looking statements. These factors include, but are not limited to the following:

- changes to our businesses, operating structure, capital structure, or personnel relating to the adoption of our strategy and transformation initiative may not have the desired effects on our financial condition and results of operations;
- our strategy of moving to an integrated facility solutions provider platform, which focuses on vertical markets, may not generate the organic growth in revenues or profitability that we expect;
- the realignment of our business operations to better support specific industries may not achieve the cost savings we have projected;
- we may not be able to control the costs and expenses of implementing our strategy and transformation initiative;
- the adoption of our strategy and transformation initiative may have an adverse impact on our relationships with employees, clients, and suppliers;
- we may not be able to timely sell our security business at a valuation or upon such terms as our board believes is in the best interests of stockholders, and the costs that we may incur in connection with reviewing strategic alternatives for our security business may not be recouped if a sale of the security business is not consummated;
- risks relating to our acquisition strategy may adversely impact our results of operations;
- we are subject to intense competition that can constrain our ability to gain business as well as our profitability;
- increases in costs that we cannot pass on to clients could affect our profitability;
- we have high deductibles for certain insurable risks, and therefore we are subject to volatility associated with those risks, including the possibility that our risk management and safety programs may not have the intended effect of allowing us to reduce our insurance reserves for casualty programs and that our insurance reserves may need to be materially adjusted from time to time;
- our captive insurance company may not bring us the benefits we expect;
- our restructuring initiatives may not achieve their expected cost reductions;
- our business success depends on our ability to preserve our long-term relationships with clients;
- our business success depends on retaining senior management and attracting and retaining qualified personnel;

we are at risk of losses stemming from accidents or other incidents at facilities in which we operate, which could cause significant damage to our reputation and financial loss;

negative or unexpected tax consequences could adversely affect our results of operations;

- changes in energy prices and government regulations could adversely impact the results of operations of our Building & Energy Solutions business;

significant delays or reductions in appropriations for our government contracts may negatively affect our business and could have an adverse effect on our financial position, results of operations, and cash flows;

we conduct some of our operations through joint ventures, and our ability to do business may be affected by the failure of our joint venture partners to perform their obligations;

our business may be negatively affected by adverse weather conditions;

federal health care reform legislation may adversely affect our business and results of operations;

our services in areas of military conflict expose us to additional risks;

we are subject to cyber-security risks arising out of breaches of security relating to sensitive company, client, and employee information and to the technology that manages our operations and other business processes;

we are subject to business continuity risks associated with centralization of certain administrative functions;

a decline in commercial office building occupancy and rental rates could adversely affect our revenues and profitability;

deterioration in general economic conditions could reduce the demand for facility services and, as a result, reduce our earnings and adversely affect our financial condition;

financial difficulties or bankruptcy of one or more of our clients could adversely affect our results;

any future increase in the level of our debt or in interest rates could affect our results of operations;

our ability to operate and pay our debt obligations depends upon our access to cash;

goodwill impairment charges could have a material adverse effect on our financial condition and results of operations;

impairment of long-lived assets may adversely affect our operating results;

we are defendants in class and representative actions and other lawsuits alleging various claims that could cause us to incur substantial liabilities;

changes in immigration laws or enforcement actions or investigations under such laws could significantly adversely affect our labor force, operations, and financial results;

labor disputes could lead to loss of revenues or expense variations;

we participate in multiemployer pension plans that under certain circumstances could result in material liabilities being incurred;

disasters or acts of terrorism could disrupt services; and

actions of activist investors could be disruptive and costly and could cause uncertainty about the strategic direction of our business.

The list of factors above is illustrative and by no means exhaustive. Additional information regarding these and other risks and uncertainties we face is contained in our Annual Report on Form 10-K for the year ended October 31, 2014 and in other reports we file from time to time with the Securities and Exchange Commission (including all amendments to those reports).

We urge readers to consider these risks and uncertainties in evaluating our forward-looking statements. We caution readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made. We disclaim any obligation or undertaking to publicly release any updates or revisions to any forward-looking statements contained herein (or elsewhere) to reflect any change in our expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is made, whether as a result of new information, future events, or otherwise, except as otherwise required by the federal securities laws.

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS.

ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in millions, except share and per share amounts)

	July 31, 2015	October 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	\$51.2	\$36.7
Trade accounts receivable, net of allowances of \$9.7 and \$10.6 at July 31, 2015 and October 31, 2014, respectively	783.2	748.2
Prepaid expenses	88.5	65.5
Deferred income taxes, net	47.1	46.6
Other current assets	29.6	30.2
Total current assets	999.6	927.2
Other investments	33.9	32.9
Property, plant and equipment, net of accumulated depreciation of \$157.3 and \$138.6 at July 31, 2015 and October 31, 2014, respectively	80.4	83.4
Other intangible assets, net of accumulated amortization of \$162.0 and \$142.9 at July 31, 2015 and October 31, 2014, respectively	119.0	128.8
Goodwill	916.6	904.6
Other assets	114.7	116.0
Total assets	\$2,264.2	\$2,192.9
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Trade accounts payable	\$167.0	\$175.9
Accrued compensation	132.7	131.2
Accrued taxes—other than income	40.4	29.4
Insurance claims	90.6	80.0
Income taxes payable	0.2	2.0
Other accrued liabilities	124.5	107.9
Total current liabilities	555.4	526.4
Noncurrent income taxes payable	54.1	53.7
Line of credit	305.1	319.8
Deferred income tax liability, net	17.2	16.4
Noncurrent insurance claims	300.6	269.7
Other liabilities	45.2	38.1
Total liabilities	1,277.6	1,224.1
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, \$0.01 par value; 500,000 shares authorized; none issued	—	—
Common stock, \$0.01 par value; 100,000,000 shares authorized; 56,164,424 and 55,691,350 shares issued and outstanding at July 31, 2015 and October 31, 2014, respectively	0.6	0.6
Additional paid-in capital	283.4	274.1
Accumulated other comprehensive loss, net of taxes	(4.3	) (2.8
Retained earnings	706.9	696.9
Total stockholders' equity	986.6	968.8
Total liabilities and stockholders' equity	\$2,264.2	\$2,192.9

See accompanying notes to unaudited consolidated financial statements.

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ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

(in millions, except per share amounts)	Three Months Ended July 31,		Nine Months Ended July 31,	
	2015	2014	2015	2014
Revenues	\$1,348.8	\$1,276.1	\$3,908.3	\$3,733.9
Expenses				
Operating	1,251.0	1,144.7	3,551.4	3,356.6
Selling, general and administrative	98.8	91.2	295.7	271.9
Amortization of intangible assets	6.3	6.5	18.5	19.9
Total expenses	1,356.1	1,242.4	3,865.6	3,648.4
Operating (loss) profit	(7.3	) 33.7	42.7	85.5
Income from unconsolidated affiliates, net	2.6	1.6	6.3	4.3
Interest expense	(2.4	) (2.7	) (7.6	) (8.1
(Loss) income before income taxes	(7.1	) 32.6	41.4	81.7
Benefit (provision) for income taxes	8.6	(13.2	) (3.9	) (34.0
Net income	1.5	19.4	37.5	47.7
Other comprehensive income:				
Foreign currency translation	0.1	—	(1.6) —
Other	0.1	0.5	0.1	0.2
Comprehensive income	\$1.7	\$19.9	\$36.0	\$47.9
Net income per common share				
Basic	\$0.03	\$0.34	\$0.66	\$0.85
Diluted	\$0.03	\$0.34	\$0.65	\$0.84
Weighted-average common and common equivalent shares outstanding				
Basic	56.8	56.2	56.7	56.0
Diluted	57.5	57.0	57.4	57.0
Dividends declared per common share	\$0.160	\$0.155	\$0.480	\$0.465

See accompanying notes to unaudited consolidated financial statements.

ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(in millions)	Nine Months Ended July 31,	
	2015	2014
Cash flows from operating activities:		
Net income	\$37.5	\$47.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	43.1	42.4
Deferred income taxes	0.2	0.7
Share-based compensation expense	10.6	12.0
Provision for bad debt	0.1	2.2
Discount accretion on insurance claims	0.2	0.3
Gain on sale of assets	(2.4)	(0.9)
Income from unconsolidated affiliates, net	(6.3)	(4.3)
Distributions from unconsolidated affiliates	5.4	3.5
Changes in operating assets and liabilities, net of effects of acquisitions:		
Trade accounts receivable	(31.6)	(57.9)
Prepaid expenses and other current assets	(5.3)	(6.7)
Other assets	0.6	10.8
Trade accounts payable and other accrued liabilities	22.4	12.5
Insurance claims	41.4	(5.8)
Income taxes payable	(17.1)	3.0
Other liabilities	2.6	(2.5)
Total adjustments	63.9	9.3
Net cash provided by operating activities	101.4	57.0
Cash flows from investing activities:		
Additions to property, plant and equipment	(21.1)	(28.5)
Proceeds from sale of assets	4.5	2.2
Purchase of businesses, net of cash acquired	(19.2)	(12.4)
Investments in unconsolidated affiliates	(0.1)	(0.5)
Net cash used in investing activities	(35.9)	(39.2)
Cash flows from financing activities:		
Proceeds from exercises of stock options	16.5	7.3
Incremental tax benefit from share-based compensation awards	1.7	5.0
Repurchases of common stock	(20.0)	(10.0)
Dividends paid	(27.0)	(25.9)
Deferred financing costs paid	(0.3)	(1.2)
Borrowings from line of credit	729.3	795.1
Repayment of borrowings from line of credit	(744.0)	(798.3)
Changes in book cash overdrafts	(5.3)	5.0
Repayment of capital lease obligations	(1.9)	(2.8)
Net cash used in financing activities	(51.0)	(25.8)
Net increase (decrease) in cash and cash equivalents	14.5	(8.0)
Cash and cash equivalents at beginning of year	36.7	32.6
Cash and cash equivalents at end of period	\$51.2	\$24.6

See accompanying notes to unaudited consolidated financial statements.

ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. THE COMPANY AND NATURE OF OPERATIONS

ABM Industries Incorporated, together with its consolidated subsidiaries (hereinafter collectively referred to as “ABM,” “we,” “us,” “our,” or the “Company”), is a leading provider of end-to-end integrated facility solutions to thousands of commercial, industrial, institutional, retail, residential, and governmental facilities located primarily throughout the United States. Our comprehensive capabilities include expansive facility solutions, energy solutions, commercial cleaning, maintenance and repair, HVAC, electrical, landscaping, parking, security, and commercial aviation support services, which we provide through stand-alone or integrated solutions. The Company was reincorporated in Delaware on March 19, 1985, as the successor to a business founded in California in 1909.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with Article 10 of Regulation S-X under the Securities Exchange Act of 1934, as amended. The unaudited consolidated financial statements should be read in conjunction with our audited consolidated financial statements (and notes thereto) filed with the U.S. Securities and Exchange Commission (“SEC”) in our Annual Report on Form 10-K for the fiscal year ended October 31, 2014 (“Annual Report”). Unless otherwise noted, all references to years are to our fiscal year, which ends on October 31.

In the opinion of our management, our unaudited consolidated financial statements and accompanying notes (the “Financial Statements”) include all normal recurring adjustments that are considered necessary to fairly state the financial position, results of operations, and cash flows for the interim periods presented. Interim results of operations are not necessarily indicative of the results for the full year.

The accounting policies applied in the accompanying Financial Statements are the same as those applied in our audited consolidated financial statements as of and for the year ended October 31, 2014, which are described in our Annual Report.

Effective in the first quarter of 2015, we reallocated certain costs from our Janitorial segment to our Facility Services, Parking, and Security segments to better reflect certain overhead support functions on the operations of our Onsite Services businesses. Such costs were previously recorded within our Janitorial segment. Prior-period segment results have been restated to conform to these changes. See Note 13, “Segment Information,” for more details.

Parking Revenue Presentation

Our Parking business operates certain parking facilities under a managed location arrangement, whereby we manage the underlying parking facility for the owner in exchange for a management fee. For these arrangements, we pass through revenues and expenses from managed locations to the facility owner under the terms and conditions of the contract. We report revenues and expenses, in equal amounts, for reimbursed costs from our managed locations. Such amounts totaled \$78.5 million and \$78.0 million for the three months ended July 31, 2015 and 2014, respectively, and \$230.6 million and \$231.4 million for the nine months ended July 31, 2015 and 2014, respectively.

3. NET INCOME PER COMMON SHARE

Basic and Diluted Net Income Per Common Share Calculations

	Three Months Ended July 31,		Nine Months Ended July 31,	
(in millions, except per share amounts)	2015	2014	2015	2014
Net income	\$1.5	\$19.4	\$37.5	\$