

ABM INDUSTRIES INC /DE/  
Form 10-Q  
March 09, 2016

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

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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 January 31, 2016

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.)

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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)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Number of shares of the registrant’s common stock outstanding as of March 1, 2016: 56,091,277

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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. In particular, such statements are included in Item 2., “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” These statements generally can be identified by the use of forward-looking words or phrases, such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “forecast,” “intend,” “likely,” “outlook,” “plan,” “predict,” “should,” “target,” 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. 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 implementation of our 2020 Vision strategic transformation initiative may not have the desired effects on our financial condition and results of operations;

- 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 costs for casualty programs and that our insurance reserves may need to be materially adjusted from time to time;

- 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;

- our acquisition strategy may adversely impact our results of operations;

- our captive insurance company may not generate the benefits that we expect;

- 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 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;

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

- 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;

- a decline in commercial office building occupancy and rental rates could 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;
- actions of activist investors could be disruptive and costly and could cause uncertainty about the strategic direction of our business; and
- disasters or acts of terrorism could disrupt services.

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, 2015 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 undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law.

## 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)

	January 31, 2016	October 31, 2015
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$55.9	\$55.5
Trade accounts receivable, net of allowances of \$10.0 and \$8.6 at January 31, 2016 and October 31, 2015, respectively	777.7	742.9
Prepaid expenses	82.2	68.6
Other current assets	37.2	27.0
Total current assets	953.0	894.0
Other investments	30.5	35.7
Property, plant and equipment, net of accumulated depreciation of \$155.4 and \$148.7 at January 31, 2016 and October 31, 2015, respectively	73.2	74.0
Other intangible assets, net of accumulated amortization of \$155.8 and \$149.4 at January 31, 2016 and October 31, 2015, respectively	130.3	111.4
Goodwill	910.7	867.5
Deferred income taxes, net	42.5	34.1
Other noncurrent assets	115.0	114.0
Total assets	\$2,255.2	\$2,130.7
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Trade accounts payable	\$176.5	\$179.1
Accrued compensation	115.8	128.8
Accrued taxes—other than income	40.8	31.6
Insurance claims	91.0	90.0
Income taxes payable	0.7	8.9
Other accrued liabilities	140.4	129.8
Total current liabilities	565.2	568.2
Noncurrent income taxes payable	54.2	53.2
Line of credit	286.7	158.0
Noncurrent insurance claims	301.7	297.4
Other noncurrent liabilities	51.7	46.4
Total liabilities	1,259.5	1,123.2
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; 56,045,640 and 56,105,761 shares issued and outstanding at January 31, 2016 and October 31, 2015, respectively	0.6	0.6
Additional paid-in capital	267.5	275.5
Accumulated other comprehensive loss, net of taxes	(13.5	) (5.1
Retained earnings	741.1	736.5
Total stockholders' equity	995.7	1,007.5
Total liabilities and stockholders' equity	\$2,255.2	\$2,130.7

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 January 31,	
	2016	2015
Revenues	\$1,268.4	\$1,194.5
Expenses		
Operating	1,146.4	1,073.0
Selling, general and administrative	94.8	98.7
Restructuring and related	7.2	—
Amortization of intangible assets	6.4	6.0
Total expenses	1,254.8	1,177.7
Operating profit	13.6	16.8
Income from unconsolidated affiliates, net	2.4	1.5
Interest expense	(2.7)	) (2.7)
Income from continuing operations before income taxes	13.3	15.6
Benefit from (provision for) income taxes	0.3	(1.3)
Income from continuing operations	13.6	14.3
Income from discontinued operations, net of income tax benefit	0.4	3.4
Net income	14.0	17.7