HEXCEL CORP /DE/
Form 10-Q
July 24, 2017

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 Quarter Ended June 30, 2017

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 1-8472

Hexcel Corporation

(Exact name of registrant as specified in its charter)

Delaware	94-1109521
(State of Incorporation)	(I.R.S. Employer Identification No.)

Two Stamford Plaza

281 Tresser Boulevard

Stamford, Connecticut 06901-3238

(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (203) 969-0666

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	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 by Rule 12b-2 of the Exchange Act). Yes No

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

Class	Outstanding at July 14, 2017
COMMON STOCK	89,778,622

HEXCEL CORPORATION AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements (Unaudited)

Hexcel Corporation and Subsidiaries
Condensed Consolidated Balance Sheets

(In millions)	(Unaudited) June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$45.5	$35.2
Accounts receivable, net	253.3	245.6
Inventories	313.0	291.0
Prepaid expenses and other current assets	36.6	35.2
Total current assets	648.4	607.0
Property, plant and equipment	2,593.1	2,378.4
Less accumulated depreciation	(807.6)	(752.8)
Property, plant and equipment, net	1,785.5	1,625.6
Goodwill and other intangible assets	73.5	72.2
Investments in affiliated companies	63.9	53.1
Other assets	56.0	42.7
Total assets	$2,627.3	$2,400.6
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portions of capital lease and term loan	$4.3	$4.3
Accounts payable	139.5	137.3
Accrued liabilities	127.0	130.3
Total current liabilities	270.8	271.9
Commitments and contingencies (see Note 11)		
Long-term debt	817.3	684.4
Other non-current liabilities	208.9	199.4
Total liabilities	1,297.0	1,155.7
Stockholders' equity:		
Common stock, $0.01 par value, 200.0 shares authorized, 107.5 shares and 106.7 shares issued at June 30, 2017 and December 31, 2016, respectively	1.1	1.1
Additional paid-in capital	763.1	738.8
Retained earnings	1,360.6	1,254.7

Accumulated other comprehensive loss	(93.0)	(174.4)
	2,031.8	1,820.2
Less – Treasury stock, at cost, 17.7 shares at June 30, 2017, and 15.3 shares at December 31, 2016	(701.5)	(575.3)
Total stockholders' equity	1,330.3	1,244.9
Total liabilities and stockholders' equity	$ 2,627.3	$ 2,400.6

The accompanying notes are an integral part of these condensed consolidated financial statements.

Hexcel Corporation and Subsidiaries

Condensed Consolidated Statements of Operations

(In millions, except per share data)	(Unaudited) Quarter Ended June 30, 2017	2016	(Unaudited) Six Months Ended June 30, 2017	2016
Net sales	$491.3	$522.6	$970.1	$1,020.3
Cost of sales	351.4	372.3	696.1	727.0
Gross margin	139.9	150.3	274.0	293.3
Selling, general and administrative expenses	38.1	38.6	81.0	86.0
Research and technology expenses	12.1	11.6	24.7	23.3
Operating income	89.7	100.1	168.3	184.0
Interest expense, net	6.8	5.7	13.0	11.3
Non-operating expense	—	0.4	—	0.4
Income before income taxes, and equity in earnings from affiliated companies	82.9	94.0	155.3	172.3
Provision for income taxes	22.1	28.7	30.7	51.4
Income before equity in earnings from affiliated companies	60.8	65.3	124.6	120.9
Equity in earnings from affiliated companies	0.8	0.8	1.6	1.2
Net income	$61.6	$66.1	$126.2	$122.1
Basic net income per common share	$0.68	$0.71	$1.39	$1.31
Diluted net income per common share	$0.67	$0.70	$1.37	$1.29
Dividends per share	$0.11	$0.10	$0.22	$0.21
Weighted-average common shares:				
Basic	90.7	93.1	91.1	93.3
Diluted	92.0	94.6	92.4	94.7

Hexcel Corporation and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

(In millions)	(Unaudited) Quarter Ended June 30, 2017	2016	(Unaudited) Six Months Ended June 30, 2017	2016
Net Income	$61.6	$66.1	$126.2	$122.1
Currency translation adjustments	49.4	(21.4)	58.5	(10.6)
Net unrealized pension and other benefit actuarial gains	(0.8)	1.2	(1.0)	1.5

and prior service credits				
Net unrealized gains on financial instruments (net of tax)	16.5	(10.8)	23.9	(1.5)
Total other comprehensive income	65.1	(31.0)	81.4	(10.6)
Comprehensive income	$126.7	$35.1	$207.6	$111.5

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Hexcel Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(In millions)	(Unaudited) Six Months Ended June 30, 2017	2016
Cash flows from operating activities		
Net income	$126.2	$122.1
Reconciliation to net cash provided by operating activities:		
Depreciation and amortization	49.5	45.5
Amortization related to financing	0.4	1.1
Deferred income taxes	2.0	24.6
Equity in earnings from affiliated companies	(1.6)	(1.2)
Stock-based compensation	13.3	12.8
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	2.4	(53.4)
Increase in inventories	(11.6)	(22.6)
Increase in prepaid expenses and other current assets	(2.9)	(5.6)
Increase in accounts payable/accrued liabilities	5.0	9.3
Other – net	(0.3)	2.3
Net cash provided by operating activities	182.4	134.9
Cash flows from investing activities		
Capital expenditures	(169.2)	(156.0)
Acquisition of business and investment in affiliate	(10.0)	(33.6)
Net cash used for investing activities	(179.2)	(189.6)
Cash flows from financing activities		
Proceeds from senior notes due 2027 (including original issue discount of $1.7 million)	398.3	
Issuance costs related to senior notes due 2027	(3.7)	
Proceeds from settlement of treasury locks associated with senior notes due 2027	10.0	
Proceeds from Euro term loan	37.4	
Repayments of Euro term loan	(4.1)	
Borrowing from senior unsecured debt facility		123.1
Issuance costs related to credit facility		(1.7)
Repayment of senior unsecured credit facility	(300.0)	
Other debt, net	0.2	(0.2)
Dividends paid	(20.1)	(19.6)
Repurchase of stock	(120.8)	(54.9)
Activity under stock plans	5.6	(4.7)
Net cash provided by financing activities	2.8	42.0
Effect of exchange rate changes on cash and cash equivalents	4.3	(0.2)
Net increase (decrease) in cash and cash equivalents	10.3	(12.9)
Cash and cash equivalents at beginning of period	35.2	51.8
Cash and cash equivalents at end of period	45.5	38.9

Supplemental data:		
Accrual basis additions to property, plant and equipment	$170.1	$142.2

The accompanying notes are an integral part of these condensed consolidated financial statements.

HEXCEL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 — Significant Accounting Policies

In these notes, the terms "Hexcel," "the Company," "we," "us," or "our" mean Hexcel Corporation and subsidiary companies. The accompanying condensed consolidated financial statements are those of Hexcel Corporation. Refer to Note 1 to the consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2016 for a discussion of our significant accounting policies.

Basis of Presentation

The accompanying Condensed Consolidated Financial Statements have been prepared from the unaudited accounting records of Hexcel pursuant to rules and regulations of the Securities and Exchange Commission ("SEC") and in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. Certain information and footnote disclosures normally included in financial statements have been omitted pursuant to rules and regulations of the SEC.

In the opinion of management, the Condensed Consolidated Financial Statements include all normal recurring adjustments as well as any non-recurring adjustments necessary to present fairly the statement of financial position, results of operations and cash flows for the interim periods presented. The Condensed Consolidated Balance Sheet as of December 31, 2016 was derived from the audited 2016 consolidated balance sheet. Interim results are not necessarily indicative of results expected for any other interim period or for the full year. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our 2016 Annual Report on Form 10-K filed with the SEC on February 9, 2017.

Investments in Affiliated Companies

We have a 50% equity ownership investment in a joint venture Aerospace Composites Malaysia Sdn. Bhd. ("ACM"). This investment is accounted for using the equity method of accounting. In 2016, the Company invested a total of $30.0 million in three new affiliates. In 2017, the Company invested an additional $10 million in one of these affiliates. The investments are each below a 20% ownership level and the Company accounts for these investments using the cost method.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standard Update No. 2014-09 (ASU 2014-09), "Revenue from Contracts with Customers". The update clarifies the principles for recognizing revenue and develops a common revenue standard for all industries. The new guidance is effective for the first quarter of 2018. Our implementation efforts include the identification of revenue within the scope of the guidance, the evaluation of revenue contracts under the guidance and assessing the qualitative and quantitative impacts of the new standard on our financial statements. We are in the process of assessing the anticipated impact of the amended standard on our financial statements. We have several contracts that allow the customer to terminate for convenience, which we are evaluating. The revenue recognition treatment required under the new standard may vary in some instances from our current recognition at the time of shipment. Additionally, we intend to make certain policy elections, such as shipping and handling, within the amended standard that are consistent with our current accounting.

We expect to complete our evaluation by the end of fiscal 2017, which will allow us to select an adoption method and determine the impact of the new standard on our consolidated results of operations and financial condition. The Company plans to adopt the new guidance on January 1, 2018.

In July 2015, the FASB issued Accounting Standards Update No.2015-11 (“ASU 2015-11”), Simplifying the Measurement of Inventory. The update requires that inventory within the scope of the guidance be measured at the lower of cost and net realizable value. The Company adopted this ASU in the first quarter of 2017 with no material impact on our consolidated balance sheets, results of operations and financial condition.

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2016-02 (ASU 2016-02), Leases. This ASU requires lessees to recognize a right of use asset and lease liability on the balance sheet for all leases, with the exception of short-term leases. The Company will adopt this ASU on January 1, 2019. We are currently evaluating the impact of adopting this guidance on our consolidated balance sheets, results of operations and financial condition.

In March 2016, the FASB issued Accounting Standards Update No. 2016-06 (ASU 2016-06), Contingent put and call options in debt instruments. The new guidance clarifies that an exercise contingency does not need to be evaluated to determine whether it relates to interest rates and credit risk in an embedded derivative analysis. The new guidance will be effective for fiscal years beginning after December 15, 2016, including interim periods within those years. We adopted ASU 2016-06 effective for the quarter ended March 31, 2017 with no material impact on our consolidated balance sheets, results of operations and financial condition.

In August of 2016, the FASB issued Accounting Standards Update No. 2016-15 (ASU 2016-15) "Classification of Certain Cash Receipts and Cash Payments" which clarifies the classification of certain types of cash flows. The standard is effective for financial statements issued for fiscal years beginning after December 15, 2017. Early adoption beginning in 2016 was permitted. Retrospective application is required. The Company is not early adopting and expects this ASU to have a minimal impact on the Company's Statements of Cash Flows.

In January 2017, the FASB issued ASU 2017-04, Simplifying the test for Goodwill Impairment, which removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. As a result, under the ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The ASU is effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company early adopted ASU 2017-04 effective for the quarter ended March 31, 2017, for use in its fourth quarter annual goodwill impairment testing.

Note 2 — Net Income per Common Share

(In millions, except per share data)	Quarter Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
Basic net income per common share:				
Net income	$61.6	$66.1	$126.2	$122.1
Weighted average common shares outstanding	90.7	93.1	91.1	93.3
Basic net income per common share	$0.68	$0.71	$1.39	$1.31
Diluted net income per common share:				
Net income	61.6	66.1	126.2	122.1
Weighted average common shares outstanding — Basic	90.7	93.1	91.1	93.3
Plus incremental shares from assumed conversions:				
Restricted stock units	0.4	0.5	0.4	0.4
Stock options	0.9	1.0	0.9	1.0
Weighted average common shares outstanding — Dilutive	92.0	94.6		