

FRANKLIN ELECTRIC CO INC
Form 10-Q
May 08, 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 March 31, 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 0-362

FRANKLIN ELECTRIC CO., INC.
(Exact name of registrant as specified in its charter)

Indiana 35-0827455
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

9255 Coverdale Road
Fort Wayne, Indiana 46809
(Address of principal executive offices) (Zip Code)

(260) 824-2900
(Registrant's telephone number, including area code)

Not Applicable
(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 x 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 (Section 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

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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," "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 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.

	Outstanding at
Class of Common Stock	April 30, 2018
\$.10 par value	46,517,589 shares

FRANKLIN ELECTRIC CO., INC.
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PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FRANKLIN ELECTRIC CO., INC. AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)	First Quarter Ended	
	March 31, 2018	March 31, 2017
Net sales	\$295,630	\$220,252
Cost of sales	196,648	144,436
Gross profit	98,982	75,816
Selling, general, and administrative expenses	76,275	56,996
Restructuring expense	7	315
Operating income	22,700	18,505
Interest expense	(2,428)	(3,514)
Other income/(expense), net	(204)	672
Foreign exchange income/(expense)	(551)	475
Income before income taxes	19,517	16,138
Income tax (benefit)/expense	(1,698)	204
Net income	\$21,215	\$15,934
Less: Net income attributable to noncontrolling interests	(41)	(204)
Net income attributable to Franklin Electric Co., Inc.	\$21,174	\$15,730
Income per share:		
Basic	\$0.45	\$0.33
Diluted	\$0.45	\$0.33
Dividends per common share	\$0.1075	\$0.1000

See Notes to Condensed Consolidated Financial Statements.

FRANKLIN ELECTRIC CO., INC. AND CONSOLIDATED SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)	First Quarter Ended	
	March 31, 2018	March 31, 2017
Net income	\$21,215	\$15,934
Other comprehensive income, before tax:		
Foreign currency translation adjustments	6,995	8,403
Employee benefit plan activity	778	743
Other comprehensive income	7,773	9,146
Income tax expense related to items of other comprehensive income	(177)	(252)
Other comprehensive income, net of tax	7,596	8,894
Comprehensive income	28,811	24,828
Less: Comprehensive income attributable to noncontrolling interests	93	211
Comprehensive income attributable to Franklin Electric Co., Inc.	\$28,718	\$24,617

See Notes to Condensed Consolidated Financial Statements.

FRANKLIN ELECTRIC CO., INC. AND CONSOLIDATED SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited)

(In thousands)	March 31, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$67,370	\$ 67,233
Receivables, less allowances of \$5,052 and \$4,430, respectively	192,771	171,007
Inventories:		
Raw material	121,743	109,590
Work-in-process	18,695	16,742
Finished goods	202,878	185,993
Total inventories	343,316	312,325
Other current assets	38,394	38,566
Total current assets	641,851	589,131
Property, plant, and equipment, at cost:		
Land and buildings	144,854	142,088
Machinery and equipment	272,405	268,373
Furniture and fixtures	49,290	52,916
Other	26,509	22,810
Property, plant, and equipment, gross	493,058	486,187
Less: Allowance for depreciation	(275,690)	(270,493)
Property, plant, and equipment, net	217,368	215,694
Deferred income taxes	9,212	8,929
Intangible assets, net	129,918	131,471
Goodwill	239,000	236,810
Other assets	3,315	3,318
Total assets	\$1,240,664	\$ 1,185,353

	March 31, 2018	December 31, 2017
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$84,829	\$79,348
Accrued expenses and other current liabilities	48,196	63,887
Income taxes	2,747	2,213
Current maturities of long-term debt and short-term borrowings	152,945	100,453
Total current liabilities	288,717	245,901
Long-term debt	125,076	125,596
Income taxes payable non-current	17,391	17,391
Deferred income taxes	26,021	30,913
Employee benefit plans	41,058	42,178
Other long-term liabilities	18,485	19,251
Commitments and contingencies (see Note 15)	—	—
Redeemable noncontrolling interest	1,360	1,502
Shareholders' equity:		
Common stock (65,000 shares authorized, \$.10 par value) outstanding (46,522 and 46,630, respectively)	4,652	4,663
Additional capital	244,095	240,136
Retained earnings	613,113	604,905
Accumulated other comprehensive loss	(141,503)	(149,047)
Total shareholders' equity	720,357	700,657
Noncontrolling interest	2,199	1,964
Total equity	722,556	702,621
Total liabilities and equity	\$1,240,664	\$1,185,353

See Notes to Condensed Consolidated Financial Statements.

FRANKLIN ELECTRIC CO., INC. AND CONSOLIDATED SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)

(In thousands)	Three Months Ended March 31, March 31, 2018 2017	
Cash flows from operating activities:		
Net income	\$21,215	\$ 15,934
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	9,896	8,924
Share-based compensation	3,326	2,941
Deferred income taxes	(5,417)	(1,483)
(Gain)/loss on disposals of plant and equipment	(396)	79
Foreign exchange (income)/expense	551	(475)
Changes in assets and liabilities, net of acquisitions		
Receivables	(17,242)	(6,560)
Inventory	(23,932)	(29,661)
Accounts payable and accrued expenses	(15,378)	(10,539)
Income taxes	(2,463)	(2,002)
Employee benefit plans	(786)	(1,230)
Other, net	3,442	(499)
Net cash flows from operating activities	(27,184)	(24,571)
Cash flows from investing activities:		
Additions to property, plant, and equipment	(5,921)	(4,908)
Proceeds from sale of property, plant, and equipment	208	34
Cash paid for acquisitions, net of cash acquired	(8,428)	—
Other, net	—	(7)
Net cash flows from investing activities	(14,141)	(4,881)
Cash flows from financing activities:		
Proceeds from issuance of debt	59,561	20,383
Repayment of debt	(7,554)	(20,843)
Proceeds from issuance of common stock	642	481
Purchases of common stock	(7,949)	(665)
Dividends paid	(5,037)	(4,668)
Net cash flows from financing activities	39,663	(5,312)
Effect of exchange rate changes on cash	1,799	1,084
Net change in cash and equivalents	137	(33,680)
Cash and equivalents at beginning of period	67,233	104,331
Cash and equivalents at end of period	\$67,370	\$ 70,651

(In thousands)	Three Months	
	Ended	
	March	March
	31,	31,
	2018	2017
Cash paid for income taxes, net of refunds	\$6,029	\$4,165
Cash paid for interest	\$2,502	\$2,312
Non-cash items:		
Additions to property, plant, and equipment, not yet paid	\$—	\$530
Payable to seller of Bombas Leao	\$—	\$24
Payable to seller of Valley Farms Supply, Inc.	\$450	\$—

See Notes to Condensed Consolidated Financial Statements.

FRANKLIN ELECTRIC CO., INC. AND CONSOLIDATED SUBSIDIARIES
INDEX TO NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying condensed consolidated balance sheet as of December 31, 2017, which has been derived from audited financial statements, and the unaudited interim condensed consolidated financial statements as of March 31, 2018, and for the first quarters ended March 31, 2018 and March 31, 2017 have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations. In the opinion of management, all accounting entries and adjustments (including normal, recurring adjustments) considered necessary for a fair presentation of the financial position and the results of operations for the interim period have been made. Operating results for the first quarter ended March 31, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2018. For further information, including a description of the critical accounting policies of Franklin Electric Co., Inc. (the "Company"), refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

2. ACCOUNTING PRONOUNCEMENTS

Adoption of New Accounting Standards

In March 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU&#