

ADVANCED DRAINAGE SYSTEMS, INC.
Form 10-Q
November 06, 2017

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 September 30, 2017

OR

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

Commission file number: 001-36557

ADVANCED DRAINAGE SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware 51-0105665
(State or Other Jurisdiction of (I.R.S. Employer

Incorporation or Organization) Identification No.)

4640 Trueman Boulevard, Hilliard, Ohio 43026

(Address of Principal Executive Offices, Including Zip Code)

(614) 658-0050

(Registrant's Telephone Number, Including Area Code)

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," and "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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 Exchange Act). Yes No

As of October 31, 2017, the registrant had 55,931,405 shares of common stock outstanding. The shares of common stock trade on the New York Stock Exchange under the ticker symbol "WMS." In addition, as of October 31, 2017, 303,936 shares of unvested restricted common stock were outstanding and 23,712,251 shares of ESOP, preferred stock, convertible into 18,241,771 shares of common stock, were outstanding. As of October 31, 2017, 74,477,112 shares of common stock were outstanding, inclusive of outstanding shares of unvested restricted common stock and on an as-converted basis with respect to the outstanding shares of ESOP preferred stock.

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PART I. FINANCIAL INFORMATION

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited) (In thousands, except par value)

| | September 30, | March 31, |
|---|------------------|--------------|
| | 2017 | 2017 |
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 11,183 | \$ 6,450 |
| Receivables (less allowance for doubtful accounts of \$10,747 and \$10,431, respectively) | 279,711 | 168,943 |
| Inventories | 214,283 | 258,430 |
| Other current assets | 7,161 | 6,743 |
| Total current assets | 512,338 | 440,566 |
| Property, plant and equipment, net | 410,271 | 406,858 |
| Other assets: | | |
| Goodwill | 103,380 | 100,566 |
| Intangible assets, net | 48,429 | 51,758 |
| Other assets | 35,691 | 46,537 |
| Total assets | \$ 1,110,109 | \$ 1,046,285 |
| LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current maturities of debt obligations | \$ 26,818 | \$ 37,789 |
| Current maturities of capital lease obligations | 21,949 | 21,450 |
| Accounts payable | 93,944 | 121,922 |
| Current portion of liability-classified stock-based awards | — | 11,926 |
| Other accrued liabilities | 71,611 | 54,460 |
| Accrued income taxes | 12,209 | 8,207 |
| Total current liabilities | 226,531 | 255,754 |
| Long-term debt obligations (less unamortized debt issuance costs of \$3,412 and \$1,723, respectively) | 358,047 | 310,849 |
| Long-term capital lease obligations | 60,934 | 58,710 |
| Deferred tax liabilities | 42,971 | 44,007 |
| Other liabilities | 22,868 | 26,530 |
| Total liabilities | 711,351 | 695,850 |
| Commitments and contingencies (see Note 9) | | |
| Mezzanine equity: | | |

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Redeemable convertible preferred stock: \$0.01 par value; 47,070 shares authorized;

| | | |
|---|-------------|-------------|
| 44,170 shares issued; 23,713 and 24,225 shares outstanding, respectively | 296,410 | 302,814 |
| Deferred compensation – unearned ESOP shares | (194,192) | (198,216) |
| Redeemable noncontrolling interest in subsidiaries | 8,682 | 8,227 |
| Total mezzanine equity | 110,900 | 112,825 |
| Stockholders' equity: | | |
| Common stock; \$0.01 par value: 1,000,000 shares authorized; 153,560 shares issued; | | |
| 55,413 and 55,338 shares outstanding, respectively | 12,393 | 12,393 |
| Paid-in capital | 778,548 | 755,787 |
| Common stock in treasury, at cost | (442,787) | (436,984) |
| Accumulated other comprehensive loss | (19,442) | (24,815) |
| Retained deficit | (56,746) | (83,678) |
| Total ADS stockholders' equity | 271,966 | 222,703 |
| Noncontrolling interest in subsidiaries | 15,892 | 14,907 |
| Total stockholders' equity | 287,858 | 237,610 |
| Total liabilities, mezzanine equity and stockholders' equity | \$1,110,109 | \$1,046,285 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited) (In thousands, except per share data)

| | Three Months Ended | | Six Months Ended | |
|---|-----------------------|-----------|-----------------------|-----------|
| | September 30, 2017 | 2016 | September 30, 2017 | 2016 |
| Net sales | \$401,049 | \$360,785 | \$759,408 | \$718,361 |
| Cost of goods sold | 311,248 | 270,273 | 582,868 | 531,243 |
| Gross profit | 89,801 | 90,512 | 176,540 | 187,118 |
| Operating expenses: | | | | |
| Selling | 24,346 | 23,210 | 47,445 | 47,440 |
| General and administrative | 23,887 | 21,181 | 50,563 | 55,710 |
| Loss on disposal of assets and costs from exit and disposal activities | 5,121 | 737 | 8,544 | 939 |
| Intangible amortization | 2,015 | 2,128 | 4,059 | 4,315 |
| Income from operations | 34,432 | 43,256 | 65,929 | 78,714 |
| Other expense: | | | | |
| Interest expense | 5,055 | 4,546 | 9,534 | 9,330 |
| Derivative gains and other income, net | (2,539) | (1,734) | (3,493) | (4,771) |
| Income before income taxes | 31,916 | 40,444 | 59,888 | 74,155 |
| Income tax expense | 13,437 | 15,348 | 23,183 | 29,542 |
| Equity in net loss of unconsolidated affiliates | 520 | 815 | 272 | 911 |
| Net income | 17,959 | 24,281 | 36,433 | 43,702 |
| Less: net income attributable to noncontrolling interest | 96 | 547 | 828 | 1,695 |
| Net income attributable to ADS | 17,863 | 23,734 | 35,605 | 42,007 |
| Accretion of redeemable noncontrolling interest | — | (380) | — | (742) |
| Dividends to redeemable convertible preferred stockholders | (470) | (415) | (959) | (840) |
| Dividends paid to unvested restricted stockholders | (16) | (24) | (35) | (54) |
| Net income available to common stockholders and participating securities | 17,377 | 22,915 | 34,611 | 40,371 |
| Undistributed income allocated to participating securities | (1,397) | (2,040) | (2,830) | (3,563) |