

ALBANY INTERNATIONAL CORP /DE/
Form 10-Q
May 01, 2019
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, 2019

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: 1-10026

ALBANY INTERNATIONAL CORP.

(Exact name of registrant as specified in its charter)

Delaware 14-0462060
(State or other jurisdiction of (IRS Employer Identification No.)
incorporation or organization)

216 Airport Drive, Rochester, New Hampshire 03867
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code 603-330-5850

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 every Interactive Data File required to be submitted 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 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, 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 Exchange Act). Yes No

The registrant had 29.0 million shares of Class A Common Stock and 3.3 million shares of Class B Common Stock outstanding as of April 17, 2019.

ALBANY INTERNATIONAL CORP.

TABLE OF CONTENTS

	Page No.
Part I Financial information	
<u>Item 1. Financial Statements</u>	3
<u>Consolidated statements of income – three months ended March 31, 2019 and 2018</u>	3
<u>Consolidated statements of comprehensive income/(loss) – three months ended March 31, 2019 and 2018</u>	4
<u>Consolidated balance sheets as of March 31, 2019 and December 31, 2018</u>	5
<u>Consolidated statements of cash flows – three months ended March 31, 2019 and 2018</u>	6
<u>Notes to consolidated financial statements</u>	7
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	33
<u>Forward-looking statements</u>	48
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	48
<u>Item 4. Controls and Procedures</u>	48
Part II Other Information	
<u>Item 1. Legal Proceedings</u>	49
<u>Item 1A. Risk Factors</u>	49
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	49
<u>Item 3. Defaults upon Senior Securities</u>	50
<u>Item 4. Mine Safety Disclosures</u>	50
<u>Item 5. Other Information</u>	50
<u>Item 6. Exhibits</u>	50

ITEM 1. FINANCIAL STATEMENTS

ALBANY INTERNATIONAL CORP.
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended March 31,	
	2019	2018
Net sales	\$251,373	\$223,603
Cost of goods sold	159,602	145,821
Gross profit	91,771	77,782
Selling, general, and administrative expenses	40,945	41,888
Technical and research expenses	10,249	10,317
Restructuring expenses, net	484	8,573
Operating income	40,093	17,004
Interest expense, net	4,417	4,288
Other (income)/expense, net	(1,208)	1,452
Income before income taxes	36,884	11,264
Income tax expense	7,476	3,365
Net income	29,408	7,899
Net income attributable to the noncontrolling interest	218	237
Net income attributable to the Company	\$29,190	\$7,662
Earnings per share attributable to Company shareholders - Basic	\$0.90	\$0.24
Earnings per share attributable to Company shareholders - Diluted	\$0.90	\$0.24
Shares of the Company used in computing earnings per share:		
Basic	32,272	32,220

Diluted	32,285	32,236
Dividends declared per share, Class A and Class B	\$0.18	\$0.17

The accompanying notes are an integral part of the consolidated financial statements

3

ALBANY INTERNATIONAL CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)
(in thousands)
(unaudited)

	Three Months Ended March 31,	
	2019	2018
Net income	\$29,408	\$7,899
Other comprehensive income/(loss), before tax:		
Foreign currency translation and other adjustments	(2,152)	17,505
Amortization of pension liability adjustments:		
Prior service credit	(1,105)	(1,114)
Net actuarial loss	1,121	1,297
Payments and amortization related to interest rate swaps included in earnings	(452)	180
Derivative valuation adjustment	(3,377)	5,715
Income taxes related to items of other comprehensive income/(loss):		
Amortization of pension liability adjustment	(5)	(55)
Payments related to interest rate swaps included in earnings	115	(43)
Derivative valuation adjustment	863	(1,372)
Comprehensive income	24,416	30,012
Comprehensive income/(loss) attributable to the noncontrolling interest	210	230
Comprehensive income attributable to the Company	\$24,206	\$29,782

The accompanying notes are an integral part of the consolidated financial statements

ALBANY INTERNATIONAL CORP.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)
(unaudited)

	March 31, 2019	December 31, 2018
ASSETS		
Cash and cash equivalents	\$187,385	\$197,755
Accounts receivable, net	234,127	223,176
Contract assets	57,869	57,447
Inventories	102,379	85,904
Income taxes prepaid and receivable	6,818	7,473
Prepaid expenses and other current assets	23,696	21,294
Total current assets	612,274	593,049
Property, plant and equipment, net	460,520	462,055
Intangibles, net	47,646	49,206
Goodwill	163,438	164,382
Deferred income taxes	63,736	62,622
Noncurrent receivables	45,354	45,061
Other assets	50,313	41,617
Total assets	\$1,443,281	\$1,417,992
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable	\$74,050	\$52,246
Accrued liabilities	122,342	129,030
Current maturities of long-term debt	19	1,224
Income taxes payable	8,387	6,806
Total current liabilities	204,798	189,306
Long-term debt	491,022	523,707
Other noncurrent liabilities	112,726	88,277
Deferred taxes and other liabilities	8,328	8,422
Total liabilities	816,874	809,712
SHAREHOLDERS' EQUITY		
Preferred stock, par value \$5.00 per share; authorized 2,000,000 shares; none issued	-	-
Class A Common Stock, par value \$.001 per share; authorized 100,000,000 shares; issued 37,478,402 in 2019 and 37,450,329 in 2018	37	37
Class B Common Stock, par value \$.001 per share; authorized 25,000,000 shares; issued and		

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outstanding 3,233,998 in 2019 and 2018	3	3
Additional paid in capital	430,052	430,555
Retained earnings	613,057	589,645
Accumulated items of other comprehensive income:		
Translation adjustments	(116,630)	(115,976)
Pension and postretirement liability adjustments	(48,596)	(47,109)
Derivative valuation adjustment	1,846	4,697
Treasury stock (Class A), at cost; 8,418,620 shares in 2019 and in 2018	(256,603)	(256,603)
Total Company shareholders' equity	623,166	605,249
Noncontrolling interest	3,241	3,031
Total equity	626,407	608,280
Total liabilities and shareholders' equity	\$1,443,281	\$1,417,992

The accompanying notes are an integral part of the consolidated financial statements

ALBANY INTERNATIONAL CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended March 31,	
	2019	2018
OPERATING ACTIVITIES		
Net income	\$29,408	\$7,899
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation	15,642	18,302
Amortization	2,314	2,646
Change in deferred taxes and other liabilities	(1,065)	(2,028)
Provision for write-off of property, plant and equipment	386	271
Non-cash interest expense	151	-
Compensation and benefits paid or payable in Class A Common Stock	(547)	289
Fair value adjustment on foreign currency	-	37

option

Changes in operating assets and liabilities that (used)/provided cash:

Accounts receivable	(11,624)	(25,089)
Contract assets	(481)	2,116
Inventories	(16,662)	(11,753)
Prepaid expenses and other current assets	(2,804)	(4,063)
Income taxes prepaid and receivable	674	102
Accounts payable	21,750	(2,538)
Accrued liabilities	(11,095)	(1,227)
Income taxes payable	1,506	(3,431)
Noncurrent receivables	(294)	(2,527)
Other noncurrent liabilities	(1,679)	(377)
Other, net	(1,014)	2,424
Net cash provided by/(used in) operating activities	24,566	(18,947)

INVESTING ACTIVITIES

Purchases of property, plant and equipment	(20,798)	(15,771)
Purchased software	(22)	(29)
Net cash used in investing activities	(20,820)	(15,800)

FINANCING ACTIVITIES

	20,000	13,011
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Proceeds from borrowings		
Principal payments on debt	(28,004)	(8,490)
Principal payments on finance lease liabilities	(400)	-
Taxes paid in lieu of share issuance	(971)	(1,652)
Proceeds from options exercised	44	147
Dividends paid	(5,808)	(5,474)
Net cash used in financing activities	(15,139)	(2,458)
Effect of exchange rate changes on cash and cash equivalents	1,023	4,904
Decrease in cash and cash equivalents	(10,370)	(32,301)
Cash and cash equivalents at beginning of period	197,755	183,727
Cash and cash equivalents at end of period	\$187,385	\$151,426

The accompanying notes are an integral part of the consolidated financial statements

ALBANY INTERNATIONAL CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Significant Accounting Policies

Basis of Presentation

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary for a fair presentation of results for such periods. Albany International Corp. (Albany, the Registrant, the Company, we, us, or our) consolidates the financial results of its subsidiaries for all periods presented. The results for any interim period are not necessarily indicative of results for the full year.

The preparation of financial statements in accordance with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the amounts reported in Albany International Corp.’s Consolidated Financial Statements and accompanying Notes. Actual results could differ materially from those estimates.

The information included in this Quarterly Report on Form 10-Q should be read in conjunction with “Risk Factors,” “Legal Proceedings,” “Management’s Discussion and Analysis of Financial Condition and Results of Operation,” “Quantitative and Qualitative Disclosures about Market Risk” and the Consolidated Financial Statements and Notes thereto included in Items 1A, 3, 7, 7A and 8, respectively, of the Albany International Corp. Annual Report on Form 10-K for the year ended December 31, 2018. Certain quarterly results for 2018 contained within this report have been revised to correct immaterial errors, as described in Note 24 of Item 8 in that same Annual Report on Form 10-K.

Effective January 1, 2019, we adopted the provisions of ASC 842, *Leases*, using the effective date approach for transition as discussed in Note 3, *Leases*. Accounting policies have been applied consistently to periods presented, except for the application of ASC 842, as further described in Note 3.

2. Reportable Segments

In accordance with applicable disclosure guidance for enterprise segments and related information, the internal organization that is used by management for making operating decisions and assessing performance is used as the basis for our reportable segments.

The Machine Clothing (MC) segment designs and manufactures fabrics and process felts used in the manufacture of all grades of paper products and other industrial products. We sell our MC products directly to customer end-users in countries across the globe. Our products, manufacturing processes, and distribution channels for MC are substantially the same in each region of the world in which we operate. We design, manufacture, and market paper machine clothing (used in the manufacturing of paper, paperboard, tissue and towel) for each section of the paper machine and for every grade of paper. Paper machine clothing products are customized, consumable products of technologically sophisticated design that utilize polymeric materials in a complex structure.

The Albany Engineered Composites (AEC) segment, including Albany Safran Composites, LLC (ASC), in which our customer SAFRAN Group (Safran) owns a 10 percent noncontrolling interest, is a designer and manufacturer of advanced materials-based engineered components for jet engine and airframe applications, supporting both

commercial and military platforms provides highly engineered, advanced composite structures to customers in the commercial and defense aerospace industries. AEC's largest program relates to CFM International's LEAP engine. Under this program,

7

AEC through ASC, is the exclusive supplier of advanced composite fan blades and cases under a long-term supply contract. The manufacturing spaces used for the production of parts under the long-term supply agreement are owned by Safran, and leased to the Company at either a market rent or a minimal cost. All lease expense is reimbursable by Safran to the Company due to the cost-plus nature of the supply agreement. AEC net sales to Safran were \$56.0 million and \$40.8 million in the first quarter of 2019 and 2018, respectively. The total of invoiced receivables, Contract assets and Noncurrent receivables due from Safran amounted to \$107.8 million and \$96.2 million as of March 31, 2019 and December 31, 2018, respectively.

The following tables show data by reportable segment, reconciled to consolidated totals included in the financial statements:

(in thousands)	Three months ended March 31,	
	2019	2018
Net sales		
Machine Clothing	\$144,334	\$141,773
Albany Engineered Composites	107,039	81,830
Consolidated total	\$251,373	\$223,603
Operating income/(loss)		