RBC Bearings INC
Form 10-Q
November 03, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended October 1, 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: 333-124824

RBC Bearings Incorporated
(Exact name of registrant as specified in its charter)

Delaware	95-4372080
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Tribology Center	
Oxford, CT	06478
(Address of principal executive offices)	(Zip Code)

(203) 267-7001
(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 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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. (Check one):

Large accelerated filer þ Accelerated filer ¨

Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of October 20, 2016, RBC Bearings Incorporated had 23,754,826 shares of Common Stock outstanding.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

RBC Bearings Incorporated

Consolidated Balance Sheets

(dollars in thousands, except share and per share data)

	October 1, 2016 (Unaudited)	April 2, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$37,462	$39,208
Accounts receivable, net of allowance for doubtful accounts of $1,326 at October 1, 2016 and $1,324 at April 2, 2016	103,942	102,351
Inventory	287,173	280,537
Prepaid expenses and other current assets	8,832	6,861
Total current assets	437,409	428,957
Property, plant and equipment, net	184,783	184,744
Goodwill	268,059	267,259
Intangible assets, net of accumulated amortization of $26,751 at October 1, 2016 and $22,165 at April 2, 2016	201,573	207,252
Other assets	11,692	10,298
Total assets	$1,103,516	$1,098,510
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$35,506	$35,597
Accrued expenses and other current liabilities	35,823	42,234
Current portion of long-term debt	11,729	10,486
Total current liabilities	83,058	88,317
Deferred income taxes	3,949	3,208
Long-term debt, less current portion	318,330	353,210
Other non-current liabilities	32,084	32,828
Total liabilities	437,421	477,563
Stockholders' equity:		
	—	—

Preferred stock, $.01 par value; authorized shares: 10,000,000 at October 1, 2016 and April 2, 2016; none issued and outstanding		
Common stock, $.01 par value; authorized shares: 60,000,000 at October 1, 2016 and April 2, 2016; issued and outstanding shares: 24,406,802 at October 1, 2016 and 24,146,767 at April 2, 2016	244	241
Additional paid-in capital	293,166	279,420
Accumulated other comprehensive loss	(8,328)	(6,990)
Retained earnings	414,338	378,070
Treasury stock, at cost, 652,405 shares at October 1, 2016 and 603,035 shares at April 2, 2016	(33,325)	(29,794)
Total stockholders' equity	666,095	620,947
Total liabilities and stockholders' equity	$1,103,516	$1,098,510

See accompanying notes.

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RBC Bearings Incorporated

Consolidated Statements of Operations

(dollars in thousands, except share and per share data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	October 1, 2016	**September 26, 2015**	**October 1, 2016**	**September 26, 2015**
Net sales	$153,943	$148,696	$308,522	$291,004
Cost of sales	97,212	96,578	194,540	186,122
Gross margin	56,731	52,118	113,982	104,882
Operating expenses:				
Selling, general and administrative	25,188	24,944	50,984	48,669
Other, net	1,989	3,575	4,223	10,253
Total operating expenses	27,177	28,519	55,207	58,922
Operating income	29,554	23,599	58,775	45,960
Interest expense, net	2,255	2,273	4,548	3,984
Other non-operating (income) expense	149	(596)	267	10
Income before income taxes	27,150	21,922	53,960	41,966
Provision for income taxes	8,922	7,403	17,692	14,043
Net income	$18,228	$14,519	$36,268	$27,923
Net income per common share:				
Basic	$0.78	$0.63	$1.55	$1.20
Diluted	$0.77	$0.62	$1.53	$1.19
Weighted average common shares:				
Basic	23,470,650	23,210,640	23,395,614	23,186,600
Diluted	23,712,717	23,495,285	23,670,000	23,516,537

See accompanying notes.

RBC Bearings Incorporated

Consolidated Statements of Comprehensive Income

(dollars in thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
	October 1, 2016	**September 26, 2015**	**October 1, 2016**	**September 26, 2015**
Net income	$18,228	$ 14,519	$36,268	$ 27,923
Pension and postretirement liability adjustments, net of taxes	233	(228)	467	(455)
Foreign currency translation adjustments	(376)	(3,380)	(1,805)	(1,675)
Total comprehensive income	$18,085	$ 10,911	$34,930	$ 25,793

See accompanying notes.

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RBC Bearings Incorporated

Consolidated Statements of Cash Flows

(dollars in thousands)

(Unaudited)

	Six Months Ended **October 1, 2016**	**September 26, 2015**
Cash flows from operating activities:		
Net income	$ 36,268	$ 27,923
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	9,109	8,302
Excess tax benefits from stock-based compensation	(3,019)	(1,682)
Deferred income taxes	991	791
Amortization of intangible assets	4,590	4,170
Amortization of deferred financing costs	712	621
Stock-based compensation	5,952	4,628
Other non-cash charges	41	232
Gain on acquisition	(293)	—
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(1,090)	4,068
Inventory	(5,720)	(9,481)
Prepaid expenses and other current assets	(1,937)	(3,946)
Other non-current assets	(1,527)	(20)

Accounts payable	(399)	(1,206)
Accrued expenses and other current liabilities	(3,943)	769
Other non-current liabilities	(1,222)	5,091
Net cash provided by operating activities	38,513	40,260
Cash flows from investing activities:		
Purchase of property, plant and equipment	(9,621)	(9,799)
Proceeds from sale of assets	16	40
Business acquisition	(651)	(500,000)
Net cash used in investing activities	(10,256)	(509,759)
Cash flows from financing activities:		
Proceeds from revolving credit facility	—	225,000
Repayments of revolving credit facility	(29,000)	(20,000)
Proceeds from term loans	—	200,000
Repayments of term loans	(5,000)	(5,000)
Payments of notes payable	(239)	(245)
Finance fees paid in connection with credit facility	—	(7,122)
Exercise of stock options	4,778	1,837
Excess tax benefits from stock-based compensation	3,019	1,682
Repurchase of common stock	(3,530)	(7,698)
Net cash (used in) provided by financing activities	(29,972)	388,454
Effect of exchange rate changes on cash	(31)	(333)

Cash and cash equivalents:				
Decrease during the period		(1,746)		(81,378)
Cash, at beginning of period		39,208		125,455
Cash, at end of period	$	37,462	$	44,077

See accompanying notes.

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RBC Bearings Incorporated

Notes to Unaudited Interim Consolidated Financial Statements

(dollars in thousands, except share and per share data)

The consolidated financial statements included herein have been prepared by RBC Bearings Incorporated, a Delaware corporation (collectively with its subsidiaries, the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. The April 2, 2016 fiscal year end balance sheet data have been derived from the Company's audited financial statements, but do not include all disclosures required by generally accepted accounting principles in the United States. The interim financial statements included with this report have been prepared on a consistent basis with the Company's audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended April 2, 2016.

These statements reflect all adjustments, accruals and estimates consisting only of items of a normal recurring nature, which are, in the opinion of management, necessary for the fair presentation of the consolidated financial condition and consolidated results of operations for the interim periods presented. These financial statements should be read in conjunction with the Company's audited financial statements and notes thereto included in the Annual Report on Form 10-K.

The results of operations for the three month period ended October 1, 2016 are not necessarily indicative of the operating results for the entire fiscal year ending April 1, 2017. The three month periods ended October 1, 2016 and September 26, 2015 each include 13 weeks. The amounts shown are in thousands, unless otherwise indicated.

Critical Accounting Policies

Revenue Recognition. In accordance with SEC Staff Accounting Bulletin 101 "Revenue Recognition in Financial Statements as amended by Staff Accounting Bulletin 104," we recognize revenues principally from the sale of products at the point of passage of title, which is at the time of shipment, except for certain customers for which it occurs when the products reach their destination.

We also recognize revenue on a Ship-In-Place basis for two customers who have required that we hold the product after final production is complete. In this case, a written agreement has been executed (at the customer's request) whereby the customer accepts the risk of loss for product that is invoiced under the Ship-In-Place arrangement. For each transaction for which revenue is recognized under a Ship-In-Place arrangement, all final manufacturing inspections have been completed and customer acceptance has been obtained. In the three months ended October 1, 2016, 2.3% of the Company’s total net sales was recognized under Ship-In-Place transactions.

Adoption of Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards update (“ASU") No. 2016-09, "Improvements to Employee Share-Based Payment Accounting" which amends ASC Topic 718, Compensation - Stock Compensation. This ASU includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. This ASU is effective for public companies for the financial statements issued for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Earlier application is permitted as of the beginning of an interim or annual reporting period, with any adjustments reflected as of the beginning of the fiscal year of adoption. The Company has not determined the effect that the adoption of the pronouncement may have on its financial position and/or results of operations.

In March 2016, the FASB issued ASU No. 2016-08, "Revenue from Contracts with Customers (Topic 606) – Principal versus Agent Considerations (Reporting Revenue Gross versus Net)", which amends the principal-versus-agent implementation guidance in ASU No. 2014-09 (Topic 606), Revenue from Contracts with Customers, issued by the FASB in May 2014. ASU No. 2016-08 clarifies the principal-versus-agent guidance in Topic 606 and requires an entity to determine whether the nature of its promise to provide goods or services to a customer is performed in a principal or agent capacity and to recognize revenue in a gross or net manner based on its principal/agent designation. ASU 2014-09 is a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under U.S. GAAP. This update requires the Company to recognize revenue at amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services at the time of transfer. In doing so, the Company will need to use more judgement and make more estimates than under today's guidance, such estimates include identifying performance obligations in the contracts, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The Company can either apply a full retrospective adoption or a modified retrospective adoption. This ASU is effective for annual reporting periods beginning after December 15, 2017 and interim periods therein. The Company has not determined the effect that the adoption of the pronouncement may have on its financial position and/or results of operations.

In February 2016, the FASB issued ASU No. 2016-02: "Leases." The core principal of ASU 2016-02 is that an entity should recognize on its balance sheet assets and liabilities arising from a lease. In accordance with that principle, ASU 2016-02 requires that a lessee recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying leased asset for the lease term. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will depend on the lease classification as a finance or operating lease. This new accounting guidance is effective for public companies for fiscal years beginning after December 15, 2018 under a modified retrospective approach and early adoption is permitted. The Company is currently evaluating the impact this adoption will have on its consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, (Topic 740): "Balance Sheet Classification of Deferred Taxes". The FASB issued this ASU as part of its simplification initiative to reduce complexity in accounting standards. This ASU eliminates the current requirement that requires an organization to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, organizations with a classified balance sheet are now required to classify all deferred tax assets and liabilities as noncurrent assets or noncurrent liabilities. This ASU is effective for public companies for the financial statements issued for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Earlier application is permitted as of the beginning of an interim or annual reporting period. The Company elected to early adopt this guidance prospectively during the fourth quarter of fiscal year 2016.

In September 2015, the FASB issued ASU No. 2015-16, "Business Combinations (Topic 805), Simplifying the Accounting for Measurement-Period Adjustments." This ASU allows an acquirer in a business combination to account for measurement-period adjustments during the period in which it determines the amount of the adjustment. An acquirer would also need to capture in the current period any effect on earnings it would have recorded in previous periods if the accounting had been completed at the acquisition date. This pronouncement is effective for fiscal and interim periods beginning after December 15, 2015. Early adoption is permitted. The Company adopted this update effective with their interim period beginning June 28, 2015.

In July 2015, the FASB issued ASU No. 2015-11, “Simplifying the Measurement of Inventory.” This update requires the company to measure inventory using the lower of cost and net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This ASU applies to companies measuring inventory using methods other than the last-in, first-out (LIFO) and retail inventory methods, including but not limited to the first-in, first-out (FIFO) or average costing methods. This pronouncement is effective for fiscal years and interim periods beginning after December 15, 2016. The adoption of this ASU is not expected to have a material impact on the Company’s consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-04, “Compensation - Retirement Benefits: Practical Expedient for the Measurement Date of an Employer’s Defined Benefit Obligation and Plan Assets.” This ASU permits an entity with a fiscal year-end that does not coincide with a month-end, to measure defined benefit plan assets and obligations using the month end that is closest to the entity’s fiscal year-end and apply that consistently from year to year. The practical expedient requires if a contribution or significant event occurs between the month-end date used to measure the defined benefit plan assets and an entity’s fiscal year end, the entity should adjust the measurement of the defined benefit plan assets and obligations to reflect the effects of those contributions and other significant events. This pronouncement is effective for fiscal and interim periods beginning after December 15, 2015. The Company has elected to adopt this guidance for the fiscal year ended April 2, 2016. The respective assets and liabilities associated with the defined benefit plans have been valued as of March 31, 2016, with no material impact on the Company’s consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, “Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs.” This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. This pronouncement is effective for fiscal and interim periods beginning after December 15, 2015. Early adoption is allowed. The Company adopted this pronouncement in the first quarter of fiscal 2016. Other than a different presentation within the balance sheet, the adoption of this ASU did not have a material impact on the Company’s financial statements.

In January 2015, the FASB issued ASU No. 2015-01, “Income Statement-Extraordinary and Unusual Items.” This update eliminates the concept of extraordinary items and removes the requirements to separately present extraordinary events. This ASU also requires additional disclosures for items that are both unusual in nature and infrequent in occurrence. This pronouncement is effective for fiscal years and interim periods beginning after December 15, 2015. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, “Presentation of Financial Statements-Going Concern.” This update requires management to evaluate whether there are conditions or events that raise substantial doubt about an entity’s ability to continue as a going concern, and requires related footnote disclosures. This pronouncement is effective for fiscal years and interim periods beginning after December 15, 2016. The adoption of this ASU is not expected to have a material impact on the Company’s consolidated financial statements.

1. Accumulated Other Comprehensive Income (Loss)

The components of comprehensive income (loss) that relate to the Company are net income, foreign currency translation adjustments and pension plan and postretirement benefits, all of which are presented in the consolidated statements of stockholders' equity and comprehensive income (loss).

The following summarizes the activity within each component of accumulated other comprehensive income (loss):

	Currency Translation	**Pension and Postretirement Liability**	Total
Balance at April 2, 2016	$ 222	$ (7,212)	$ (6,990)
Other comprehensive income (loss) before reclassifications (net of taxes)	(1,805)	—	(1,805)
Amounts reclassified from accumulated other comprehensive income (loss)	—	467	467

Net current period other comprehensive income (loss)	(1,805)	467	(1,338)
Balance at October 1, 2016	$ (1,583)	$ (6,745)	$ (8,328)

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2. Net Income Per Common Share

Basic net income per common share is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding.

Diluted net income per common share is computed by dividing net income by the sum of the weighted-average number of common shares and dilutive common share equivalents then outstanding using the treasury stock method. Common share equivalents consist of the incremental common shares issuable upon the exercise of stock options.

The table below reflects the calculation of weighted-average shares outstanding for each period presented as well as the computation of basic and diluted net income per common share:

	Three Months Ended		Six Months Ended	
	October 1, 2016	**September 26, 2015**	**October 1, 2016**	**September 26, 2015**
Net income	$18,228	$ 14,519	$36,268	$ 27,923
Denominator for basic net income per common share—weighted-average shares outstanding	23,470,650	23,210,640	23,395,614	23,186,600
Effect of dilution due to employee stock awards	242,067	284,645	274,386	329,937
Denominator for diluted net income per common share — weighted-average shares outstanding	23,712,717	23,495,285	23,670,000	23,516,537
Basic net income per common share	$0.78	$ 0.63	$1.55	$ 1.20