

ADVANCED DRAINAGE SYSTEMS, INC.

Form 10-Q

November 10, 2014

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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, 2014

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
(State or Other Jurisdiction of
Incorporation or Organization)

51-0105665
(I.R.S. Employer
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, or 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

Accelerated filer

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

Smaller reporting company

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, 2014, 52,938,098 shares of common stock were outstanding. The shares of common stock trade on the New York Stock Exchange under the ticker symbol WMS. In addition, as of October 31, 2014, 234,271 shares of unvested restricted common stock were outstanding and 26,129,869 shares of ESOP preferred stock, convertible into 20,099,096 shares of common stock, were outstanding. As of October 31, 2014, 73,271,465 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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SIGNATURES

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| (Amounts in thousands, except par value) | March 31, | As of September 30, |
|--|-------------------|--------------------------------|
| | 2014 | 2014 |
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 3,931 | \$ 6,581 |
| Receivables (less allowance for doubtful accounts of \$3,977 and \$3,819, respectively) | 150,713 | 248,120 |
| Inventories | 260,300 | 247,368 |
| Deferred income taxes and other current assets | 13,555 | 12,848 |
| Total current assets | 428,499 | 514,917 |
| Property, plant and equipment, net | 292,082 | 288,170 |
| Other assets: | | |
| Goodwill | 86,297 | 86,280 |
| Intangible assets, net | 66,184 | 60,266 |
| Other assets | 64,533 | 68,591 |
| Total assets | \$ 937,595 | \$ 1,018,224 |
| LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Current maturities of debt obligations | \$ 11,153 | \$ 11,148 |
| Accounts payable | 108,111 | 113,530 |
| Other accrued liabilities | 37,956 | 43,508 |
| Accrued income taxes | 7,372 | 22,360 |
| Total current liabilities | 164,592 | 190,546 |
| Long-term debt obligation | 442,895 | 386,435 |
| Deferred tax liabilities | 69,169 | 64,398 |
| Other liabilities | 15,324 | 14,263 |
| Total liabilities | 691,980 | 655,642 |
| Commitments and contingencies (see Note 11) | | |
| Mezzanine equity: | | |
| Redeemable Common Stock; \$0.01 par value: 38,320 and 0 issued and outstanding, respectively | 549,119 | |
| | 291,720 | 326,623 |

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Redeemable Convertible Preferred Stock; \$0.01 par value: 47,070 authorized:
44,170 issued: 26,129 and 26,129 outstanding, respectively

| | | |
|--|-------------------|---------------------|
| Deferred compensation unearned ESOP shares | (197,888) | (217,346) |
| Total mezzanine equity | 642,951 | 109,277 |
| Stockholders equity: | | |
| Common stock; \$0.01 par value: 148,271 and 1,000,000 authorized: 109,951 and 153,560 issued: 9,141 and 52,935 outstanding, respectively | 11,957 | 12,393 |
| Paid-in capital | 22,547 | 675,183 |
| Common stock in treasury, at cost | (448,439) | (447,674) |
| Accumulated other comprehensive loss | (5,977) | (8,483) |
| Retained earnings | | |
| Total ADS stockholders equity | (419,912) | 231,419 |
| Noncontrolling interest in subsidiaries | 22,576 | 21,886 |
| Total stockholders equity | (397,336) | 253,305 |
| Total liabilities, mezzanine equity and stockholders equity | \$ 937,595 | \$ 1,018,224 |

See accompanying notes to condensed consolidated financial statements.

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ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

| (Amounts in thousands, except per share data) | Three Months Ended September 30, | | Six Months Ended September 30, | |
|--|-------------------------------------|------------------|-----------------------------------|------------------|
| | 2013 | 2014 | 2013 | 2014 |
| Net sales | \$ 333,240 | \$ 364,724 | \$ 626,342 | \$ 693,021 |
| Cost of goods sold | 260,021 | 282,282 | 487,120 | 538,546 |
| Gross profit | 73,219 | 82,442 | 139,222 | 154,475 |
| Operating expenses: | | | | |
| Selling | 18,166 | 19,762 | 35,843 | 39,008 |
| General and administrative | 17,917 | 18,879 | 35,576 | 39,411 |
| Gain on sale of business | | | (4,848) | |
| Intangible amortization | 2,861 | 2,638 | 5,722 | 5,279 |
| Income from operations | 34,275 | 41,163 | 66,929 | 70,777 |
| Other expense: | | | | |
| Interest expense | 3,866 | 4,338 | 7,967 | 8,953 |
| Other miscellaneous expense (income), net | 287 | (7) | 816 | 7 |
| Income before income taxes | 30,122 | 36,832 | 58,146 | 61,817 |
| Income tax expense | 12,242 | 14,062 | 23,308 | 23,757 |
| Equity in net loss of unconsolidated affiliates | 97 | 2 | 345 | 623 |
| Net income | 17,783 | 22,768 | 34,493 | 37,437 |
| Less net income attributable to noncontrolling interest | 461 | 378 | 875 | 806 |
| Net income attributable to ADS | 17,322 | 22,390 | 33,618 | 36,631 |
| Change in fair value of Redeemable Convertible Preferred Stock | (3,186) | 7,319 | (4,764) | (11,054) |
| Dividends to Redeemable Convertible Preferred Stockholders | (214) | (37) | (430) | (75) |
| Dividends paid to unvested restricted stockholders | (8) | | (16) | |
| Net income available to common stockholders and participating securities | 13,914 | 29,672 | 28,408 | 25,502 |
| Undistributed income allocated to participating securities | (1,536) | (3,404) | (3,124) | (3,040) |
| Net income available to common stockholders | \$ 12,378 | \$ 26,268 | \$ 25,284 | \$ 22,462 |
| Weighted average common shares outstanding: | | | | |
| Basic | 47,250 | 51,518 | 47,220 | 49,538 |
| Diluted | 47,579 | 56,463 | 47,634 | 52,198 |

Net income per share:

| | | | | | | | | |
|--|----|------|----|------|----|------|----|------|
| Basic | \$ | 0.26 | \$ | 0.51 | \$ | 0.54 | \$ | 0.45 |
| Diluted | \$ | 0.26 | \$ | 0.51 | \$ | 0.53 | \$ | 0.45 |
| Cash dividends declared per share | \$ | 0.03 | \$ | | \$ | 0.06 | \$ | |

See accompanying notes to condensed consolidated financial statements.

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ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

| (Amounts in thousands) | Three Months Ended September 30, | | Six Months Ended September 30, | |
|---|-------------------------------------|------------------|-----------------------------------|------------------|
| | 2013 | 2014 | 2013 | 2014 |
| Net income | \$ 17,783 | \$ 22,768 | \$ 34,493 | \$ 37,437 |
| Other comprehensive income (loss): | | | | |
| Currency translation, before tax | 1,164 | (4,608) | (3,974) | (4,268) |
| Other, before tax | | | 5 | |
| Total other comprehensive income (loss), before tax | 1,164 | (4,608) | (3,969) | (4,268) |
| Tax attributes of items in other comprehensive income (loss): | | | | |
| Currency translation | 246 | 1,038 | 918 | 850 |
| Other | | | (2) | |
| Total tax expense | 246 | 1,038 | 916 | 850 |
| Comprehensive income | 19,193 | 19,198 | 31,440 | 34,019 |
| Less other comprehensive loss attributable to noncontrolling interest, net of tax | (297) | (759) | (1,270) | (912) |
| Less net income attributable to noncontrolling interest | 461 | 378 | 875 | 806 |
| Total comprehensive income attributable to ADS | \$ 19,029 | \$ 19,579 | \$ 31,835 | \$ 34,125 |

See accompanying notes to condensed consolidated financial statements.

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ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

| (Amounts in thousands) | Six Months Ended September 30, | |
|---|---------------------------------------|------------------|
| | 2013 | 2014 |
| Cash Flows from Operating Activities | \$ 3,283 | \$ 10,807 |
| Cash Flows from Investing Activities | | |
| Capital expenditures | (21,700) | (15,643) |
| Proceeds from sale of business | 5,877 | |
| Investment in unconsolidated affiliate | (5,300) | (7,566) |
| Additions of capitalized software | (1,380) | (2,008) |
| Other investing activities | (533) | (525) |
| Net cash used in investing activities | (23,036) | (25,742) |
| Cash Flows from Financing Activities | | |
| Cash dividends paid | (3,079) | |
| Debt issuance costs | (2,311) | |
| Redemption of Redeemable Convertible Preferred Stock | (3,146) | |
| Proceeds from Senior Notes | 25,000 | |
| Proceeds from term loan | 100,000 | |
| Payments on term loan | (77,500) | (2,500) |
| Payments of notes, mortgages, and other debt | (963) | (1,665) |
| Proceeds from Revolving Credit Facility | 225,400 | 174,760 |
| Payments on Revolving Credit Facility | (242,300) | (227,000) |
| Proceeds from initial public offering of common stock, net of underwriter discounts and commissions | | 79,131 |
| Payments for deferred initial public offering costs | | (4,458) |
| Other financing activities | (673) | (432) |
| Net cash provided by financing activities | 20,428 | 17,836 |
| Effect of exchange rate changes on cash and cash equivalents | | (251) |
| Net change in cash and equivalents | 675 | 2,650 |
| Cash and equivalents at beginning of period | 1,361 | 3,931 |
| Cash and equivalents at end of period | \$ 2,036 | \$ 6,581 |

See accompanying notes to condensed consolidated financial statements.

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ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND MEZZANINE EQUITY*(unaudited)*

| Paid-In Capital | Common Stock in Treasury | | Accu- mulated Other Compre- hensive Loss | Retained Earnings | Total Stock- holders Equity | Non- con- trolling Interest in Sub- sidiaries | Total Equity | Redeemable Common Stock | | Redeemable Convertible Preferred Stock | |
|--------------------|-----------------------------|-----------|---|----------------------|--------------------------------------|--|-----------------|----------------------------|---------|--|---------|
| | Shares | Amount | | | | | | Shares | Amount | Shares | Amount |
| 41,152 | 101,191 | (448,571) | (856) | 87,331 | (308,987) | 23,265 | (285,722) | 38,292 | 522,276 | 26,547 | 282,500 |
| | | | | 33,618 | 33,618 | 875 | 34,493 | | | | |
| | | | (1,783) | | (1,783) | (1,270) | (3,053) | | | | |
| | | | | (355) | (355) | | (355) | | | | |
| | | | | (2,724) | (2,724) | | (2,724) | | | | |
| | | | | | | (490) | (490) | | | | |
| (1,023) | | | | | (1,023) | | (1,023) | | | | |
| 109 | (94) | 417 | | | 526 | | 526 | | | | |
| 204 | 14 | (204) | | | | | | | | | |
| 246 | | | | | 246 | | 246 | | | | |

| | | | | | | | | | | | |
|---------------|----------------|------------------|----------------|---------------|------------------|---------------|------------------|---------------|----------------|---------------|--------------|
| 850 | (104) | 328 | | 1,178 | | 1,178 | | | | | |
| | | | | | | | | | | (297) | (3,14) |
| | 14 | (171) | | (171) | | (171) | | | | | |
| (385) | | | | (385) | | (385) | 28 | 385 | | | |
| | | | | (4,764) | (4,764) | (4,764) | | | | | 16,1 |
| | | | | (30,528) | (30,528) | (30,528) | | 30,528 | | | |
| 41,153 | 101,021 | (448,201) | (2,639) | 82,578 | (315,152) | 22,380 | (292,772) | 38,320 | 553,189 | 26,250 | 295,5 |
| 22,547 | 100,810 | (448,439) | (5,977) | | (419,912) | 22,576 | (397,336) | 38,320 | 549,119 | 26,129 | 291,7 |
| | | | | 36,631 | 36,631 | 806 | 37,437 | | | | |
| | | | (2,506) | | (2,506) | (912) | (3,418) | | | | |
| | | | | | | (584) | (584) | | | | |
| 983 | | | | 983 | | 983 | | | | | |
| 174 | (78) | 349 | | 523 | | 523 | | | | | |
| 93 | 7 | (93) | | | | | | | | | |

| | | | | | |
|----------|-------|----------|----------|----------|--------|
| 1,817 | | | 1,817 | 1,817 | |
| 1,489 | (114) | 509 | 1,998 | 1,998 | |
| 72,245 | | | 72,298 | 72,298 | |
| 1,522 | | | 1,522 | 1,522 | |
| | | | (11,054) | (11,054) | 34,9 |
| (40,344) | | (25,577) | (65,921) | (65,921) | 65,921 |
| 614,657 | | | 615,040 | 615,040 | |