

GORMAN RUPP CO
Form 10-Q
July 31, 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 June 30, 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 1-6747

The Gorman-Rupp Company

(Exact name of registrant as specified in its charter)

Ohio
(State or other jurisdiction of
incorporation or organization)

34-0253990
(I.R.S. Employer
Identification No.)

600 South Airport Road, Mansfield, Ohio
(Address of principal executive offices)

44903
(Zip Code)

Registrant's telephone number, including area code (419) 755-1011

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

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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, 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

There were 26,117,045 shares of common stock, without par value, outstanding at July 27, 2018.

The Gorman-Rupp Company

Three and six months ended June 30, 2018 and 2017

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PART I. FINANCIAL INFORMATION**ITEM 1 FINANCIAL STATEMENTS (UNAUDITED)
THE GORMAN-RUPP COMPANY****CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|------------|------------------------------|------------|
| <i>(Dollars in thousands, except per share amounts)</i> | 2018 | 2017 | 2018 | 2017 |
| Net sales | \$ 111,827 | \$ 97,872 | \$ 208,431 | \$ 190,475 |
| Cost of products sold | 81,962 | 70,627 | 152,360 | 140,978 |
| Gross profit | 29,865 | 27,245 | 56,071 | 49,497 |
| Selling, general and administrative expenses | 14,872 | 14,084 | 29,228 | 27,678 |
| Operating income | 14,993 | 13,161 | 26,843 | 21,819 |
| Other income (expense), net | (2,407) | (1,354) | (1,601) | (2,692) |
| Income before income taxes | 12,586 | 11,807 | 25,242 | 19,127 |
| Income taxes | 2,413 | 3,959 | 5,452 | 6,214 |
| Net income | \$ 10,173 | \$ 7,848 | \$ 19,790 | \$ 12,913 |
| Earnings per share | \$ 0.39 | \$ 0.30 | \$ 0.76 | \$ 0.49 |
| Cash dividends per share | \$ 0.125 | \$ 0.115 | \$ 0.250 | \$ 0.230 |
| Average number of shares outstanding | 26,107,670 | 26,096,881 | 26,107,149 | 26,095,013 |

See notes to consolidated financial statements (unaudited).

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------------|-----------|------------------------------|-----------|
| <i>(Dollars in thousands)</i> | 2018 | 2017 | 2018 | 2017 |
| Net income | \$ 10,173 | \$ 7,848 | \$ 19,790 | \$ 12,913 |
| Cumulative translation adjustments | (1,855) | 1,317 | (1,666) | 1,864 |
| Pension and postretirement medical liability adjustments, net of tax | 1,921 | 1,280 | 2,431 | 2,556 |
| Other comprehensive income | 66 | 2,597 | 765 | 4,420 |
| Comprehensive income | \$ 10,239 | \$ 10,445 | \$ 20,555 | \$ 17,333 |

See notes to consolidated financial statements (unaudited).

THE GORMAN-RUPP COMPANY
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| <i>(Thousands of dollars)</i> | June 30, 2018 | December 31, 2017 |
|---|------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 83,721 | \$ 79,680 |
| Accounts receivable, net | 74,058 | 67,369 |
| Inventories, net | 79,418 | 74,967 |
| Prepaid and other | 5,297 | 5,918 |
| Total current assets | 242,494 | 227,934 |
| Property, plant and equipment, net | 115,426 | 117,071 |
| Other assets | 7,574 | 7,779 |
| Prepaid pension assets | 8,087 | 4,313 |
| Goodwill and other intangible assets, net | 36,966 | 37,918 |
| Total assets | \$ 410,547 | \$ 395,015 |
| Liabilities and equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 16,446 | \$ 15,798 |
| Payroll and employee related liabilities | 14,585 | 12,027 |
| Commissions payable | 8,514 | 7,589 |
| Deferred revenue and customer deposits | 3,332 | 4,098 |
| Accrued expenses | 5,308 | 6,184 |
| Total current liabilities | 48,185 | 45,696 |
| Postretirement benefits | 15,190 | 15,737 |
| Other long-term liabilities | 7,605 | 8,087 |
| Total liabilities | 70,980 | 69,520 |
| Equity: | | |
| Common shares, without par value: | | |
| Authorized 35,000,000 shares; | | |
| Outstanding 26,108,045 shares at June 30, 2018 and 26,106,623 shares at December 31, 2017 (after deducting treasury shares of 940,751 and 942,173, respectively), at stated capital amounts | 5,100 | 5,100 |
| Additional paid-in capital | 564 | 526 |
| Retained earnings | 345,647 | 332,378 |
| Accumulated other comprehensive loss | (11,744) | (12,509) |
| Total equity | 339,567 | 325,495 |
| Total liabilities and equity | \$ 410,547 | \$ 395,015 |

See notes to consolidated financial statements (unaudited).

THE GORMAN-RUPP COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| | Six Months Ended June 30, | |
|---|------------------------------|-----------|
| <i>(Thousands of dollars)</i> | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Net income | \$ 19,790 | \$ 12,913 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 7,210 | 7,433 |
| Pension expense | 3,660 | 4,696 |
| Contributions to pension plan | (4,000) | (2,000) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (7,254) | (649) |
| Inventories, net | (5,214) | 3,227 |
| Accounts payable | 966 | 461 |
| Commissions payable | 1,025 | (3,642) |
| Income taxes | (3,839) | 3,227 |
| Accrued expenses and other | (2,886) | (2,687) |
| Benefit obligations | 4,879 | 1,008 |
| Net cash provided by operating activities | 14,337 | 23,987 |
| Cash used for investing activities: | | |
| Capital additions | (5,479) | (3,345) |
| Proceeds (purchases) of short-term investments, net | 2,969 | (5,999) |
| Net cash used for investing activities | (2,510) | (9,344) |
| Cash used for financing activities: | | |
| Cash dividends | (6,527) | (6,002) |
| Other | (459) | |
| Net cash used for financing activities | (6,986) | (6,002) |
| Effect of exchange rate changes on cash | (800) | 729 |
| Net increase in cash and cash equivalents | 4,041 | 9,370 |
| Cash and cash equivalents: | | |
| Beginning of period | 79,680 | 57,604 |
| End of period | \$ 83,721 | \$ 66,974 |

See notes to consolidated financial statements (unaudited).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Amounts in tables in thousands of dollars, except for per share amounts)

NOTE 1 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The consolidated financial statements include the accounts of The Gorman-Rupp Company (the Company or Gorman-Rupp) and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. In the opinion of management of the Company, all adjustments considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2018 are not necessarily indicative of results that may be expected for the year ending December 31, 2018. For further information, 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, from which related information herein has been derived.

Certain prior year amounts have been reclassified to conform to the three and six months ended June 30, 2018 presentation and reflect the adoption of certain accounting standard updates. These reclassifications had no impact on the Company s previously reported net income, consolidated balance sheets, or consolidated statements of cash flows.

NOTE 2 - RECENTLY ISSUED ACCOUNTING STANDARDS

The Company considers the applicability and impact of all Accounting Standard Updates (ASUs). ASUs not listed below were assessed and determined either to be not applicable or are expected to have minimal impact on the Company s consolidated financial statements.

Recently Adopted Accounting Standards

In March 2017, the FASB issued ASU No. 2017-07, Compensation Retirement Benefits (Topic 715) Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which provides additional guidance on the presentation of net periodic pension and postretirement benefit costs in the income statement and on the components eligible for capitalization. The amendments in this ASU require that an employer report the service cost component of the net periodic benefit costs in the same income statement line item as other compensation costs arising from services rendered by employees during the period. The non-service-cost components of net periodic benefit costs are to be presented in the income statement separately from the service cost components and outside a subtotal of income from operations. The ASU also allows for the capitalization of the service cost components, when applicable (i.e., as a cost of internally-manufactured inventory or a self-constructed asset). The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company adopted ASU 2017-07 on January 1, 2018 on a retrospective basis. As permitted by this ASU, previously disclosed components of postretirement net periodic benefit costs were used as an estimation basis for applying the retrospective presentation as a practical expedient. See Note 7 for further details.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes most current revenue recognition guidance, including industry-specific guidance, and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. Subsequent accounting standards updates have been issued, which amend and/or clarify the application of ASU 2014-09. On January 1, 2018, the Company adopted Topic 606 using the modified retrospective method. See Note 3 for further details.

Recently Issued Accounting Standards Not Yet Adopted

In February 2018, the FASB issued ASU No. 2018-02, Income Statement Reporting Comprehensive Income (Topic 220) Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the U.S. Tax Cuts and Jobs Act (Tax Act) signed into law in December 2017. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018 and early adoption is permitted. The Company currently does not expect the adoption of ASU 2018-02 will have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases with a term of more than one year. Accounting by lessors will remain similar to existing U.S. GAAP. Subsequent accounting standards updates have been issued, which amend and/or clarify the application of ASU 2016-02. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018 and early adoption is permitted. The Company currently does not expect the adoption of ASU 2016-02 will have a material impact on its consolidated financial statements as its future minimum lease commitments are not material.

NOTE 3 - REVENUE

Adoption of ASU 2014-09, Revenue from Contracts with Customers (Topic 606)

On January 1, 2018, the Company adopted ASU 2014-09 using the modified retrospective method applied to those contracts which were not completed as of December 31, 2017. Results for reporting periods beginning after January 1, 2018 are presented under Accounting Standards Codification (ASC) Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with historic accounting guidance under ASC Topic 605. After assessment of the cumulative impact of adopting ASU 2014-09, it was determined that the cumulative effect adjustment required under the new guidance was immaterial and therefore the Company did not record a retrospective adjustment to the opening balance of retained earnings at January 1, 2018.

Disaggregation of Revenue

The following tables disaggregate total net sales by major product category and geographic location:

| | Product Category | | | |
|---|--------------------|-----------|------------------|------------|
| | Three Months Ended | | Six Months Ended | |
| | June 30, | | June 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| Pumps and pump systems | \$ 97,784 | \$ 84,020 | \$ 178,611 | \$ 161,485 |
| Repair parts for pumps and pump systems and other | 14,043 | 13,852 | 29,820 | 28,990 |
| Total net sales | \$ 111,827 | \$ 97,872 | \$ 208,431 | \$ 190,475 |

| | Geographic Location | | | |
|-------------------|---------------------|-----------|------------------|------------|
| | Three Months Ended | | Six Months Ended | |
| | June 30, | | June 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| United States | \$ 71,519 | \$ 63,456 | \$ 135,952 | \$ 122,628 |
| Foreign countries | 40,308 | 34,416 | 72,479 | 67,847 |
| Total net sales | \$ 111,827 | \$ 97,872 | \$ 208,431 | \$ 190,475 |

International sales represented approximately 36% and 35% of total net sales for the second quarter of 2018 and 2017, respectively, and were made to customers in many different countries around the world.

Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to a customer, and is the unit of account in ASC Topic 606. The transaction price for a customer contract is allocated to each distinct performance obligation and recognized as revenue when, or as, the Company's performance obligation is satisfied. Substantially all of our customer contracts are fixed-price contracts and the majority of our customer contracts have a single performance obligation, as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contract. For customer contracts with multiple performance obligations, the Company allocates revenue to each performance obligation based on its relative standalone selling price, which is generally determined based on standalone selling prices charged to customers or using expected cost plus margin.

All of the Company's performance obligations, and associated revenue, are generally transferred to customers at a point in time, with the exception of certain highly customized pump products, which are transferred to the customer over time. Revenue from performance obligations transferred to the customer over time and recognized in the second quarter of 2018 was \$0.5 million greater than what would have been recorded prior to the adoption of ASU 2014-09.

On June 30, 2018, the Company had \$128.9 million of remaining performance obligations, also referred to as backlog. The Company expects to recognize as revenue substantially all of its remaining performance obligations within one year.

Contract Balances

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables (contract assets), and customer advances and deposits (contract liabilities) on the consolidated balance sheets. For certain highly customized pump products, revenue is recognized over time before the customer is invoiced, resulting in contract assets. Sometimes the Company receives advances or deposits from its customers before revenue is recognized, resulting in contract liabilities. These contract assets and liabilities are reported on the consolidated balance sheets as a component of Other Assets and Deferred Revenue and customer deposits, respectively, on a contract-by-contract basis at the end of each reporting period.

The beginning and ending balances of the Company's contract assets and liabilities as of June 30, 2018 are as follows: