

STANDARD MOTOR PRODUCTS INC
Form 10-Q
October 30, 2018

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, 2018

or

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

Commission file number: 1-4743

Standard Motor Products, Inc.

(Exact name of registrant as specified in its charter)

New York

(State or other jurisdiction of incorporation or organization)

11-1362020

(I.R.S. Employer Identification No.)

37-18 Northern Blvd., Long Island City, N.Y. 11101

(Address of principal executive offices) (Zip Code)

(718) 392-0200

(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 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, a smaller reporting company, or an emerging growth company. See definition 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

As of the close of business on October 26, 2018, there were 22,431,618 outstanding shares of the registrant's Common Stock, par value \$2.00 per share.

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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PART I – FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018 (Unaudited)	2017	2018 (Unaudited)	2017
Net sales	\$296,619	\$281,058	\$845,081	\$876,165
Cost of sales	209,313	198,523	603,897	618,854
Gross profit	87,306	82,535	241,184	257,311
Selling, general and administrative expenses	60,137	54,963	175,604	172,726
Restructuring and integration expenses	6	1,132	3,073	3,914
Other income, net	15	316	328	946
Operating income	27,178	26,756	62,835	81,617
Other non-operating income, net	351	482	800	2,372
Interest expense	1,254	595	3,137	1,785
Earnings from continuing operations before taxes	26,275	26,643	60,498	82,204
Provision for income taxes	7,002	9,535	15,801	30,468
Earnings from continuing operations	19,273	17,108	44,697	51,736
Loss from discontinued operations, net of income taxes	(3,524)	(3,983)	(5,014)	(5,113)
Net earnings	\$15,749	\$13,125	\$39,683	\$46,623
<u>Per Share Data:</u>				
Net earnings per common share – Basic:				
Earnings from continuing operations	\$0.86	\$0.75	\$1.99	\$2.27
Discontinued operations	(0.16)	(0.17)	(0.22)	(0.22)
Net earnings per common share – Basic	\$0.70	\$0.58	\$1.77	\$2.05
Net earnings per common share – Diluted:				
Earnings from continuing operations	\$0.84	\$0.74	\$1.95	\$2.22
Discontinued operations	(0.15)	(0.17)	(0.22)	(0.22)
Net earnings per common share – Diluted	\$0.69	\$0.57	\$1.73	\$2.00
Dividend declared per share	\$0.21	\$0.19	\$0.63	\$0.57
Average number of common shares	22,424,962	22,660,157	22,464,697	22,774,927
Average number of common shares and dilutive common shares	22,938,925	23,174,700	22,954,649	23,287,052

See accompanying notes to consolidated financial statements (unaudited).

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2018 (Unaudited)	2017	September 30, 2018 (Unaudited)	2017
Net earnings	\$ 15,749	\$ 13,125	\$ 39,683	\$ 46,623
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	719	1,595	(2,997)	7,051
Pension and postretirement plans:				
Amortization of:				
Unrecognized gain	(10)	(165)	(31)	(496)
Unrecognized actuarial gains	—	—	12	472
Income tax related to pension and postretirement plans	4	66	8	10
Pension and postretirement plans, net of tax	(6)	(99)	(11)	(14)
Total other comprehensive income (loss), net of tax	713	1,496	(3,008)	7,037
Comprehensive income	\$ 16,462	\$ 14,621	\$ 36,675	\$ 53,660

See accompanying notes to consolidated financial statements (unaudited).

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	September 30, 2018 (Unaudited)	December 31, 2017
(In thousands, except share and per share data)		
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 27,321	\$ 17,323
Accounts receivable, less allowances for discounts and doubtful accounts of \$5,537 and \$4,967 for 2018 and 2017, respectively	163,309	140,057
Inventories	318,420	326,411
Unreturned customer inventories	21,295	—
Prepaid expenses and other current assets	11,681	12,300
Total current assets	542,026	496,091
Property, plant and equipment, net of accumulated depreciation of \$190,015 and \$191,081 for 2018 and 2017, respectively	91,735	89,103
Goodwill	67,387	67,413
Other intangibles, net	50,263	56,261
Deferred income taxes	34,907	32,420
Investments in unconsolidated affiliates	33,785	31,184
Other assets	16,284	15,095
Total assets	\$ 836,387	\$ 787,567
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable	\$ 45,000	\$ 57,000
Current portion of other debt	5,980	4,699
Accounts payable	84,031	77,990
Sundry payables and accrued expenses	30,879	40,012
Accrued customer returns	53,717	35,916
Accrued core liability	30,002	11,899
Accrued rebates	35,329	35,346
Payroll and commissions	24,013	23,035
Total current liabilities	308,951	285,897
Long-term debt	26	79
Other accrued liabilities	18,039	14,561
Accrued asbestos liabilities	35,319	33,376
Total liabilities	362,335	333,913
Commitments and contingencies		
Stockholders' equity:		
Common stock – par value \$2.00 per share:		
Authorized – 30,000,000 shares; issued 23,936,036 shares	47,872	47,872
Capital in excess of par value	104,876	100,057
Retained earnings	381,503	357,153

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Accumulated other comprehensive income	(7,117)	(4,109)
Treasury stock – at cost (1,520,524 shares and 1,424,025 shares in 2018 and 2017, respectively)	(53,082)	(47,319)
Total stockholders' equity	474,052		453,654	
Total liabilities and stockholders' equity	\$ 836,387		\$ 787,567	

See accompanying notes to consolidated financial statements (unaudited).

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Nine Months Ended September 30, 2018 2017 (Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$39,683	\$46,623
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	17,745	17,439
Amortization of deferred financing cost	258	258
Increase to allowance for doubtful accounts	40	889
Increase to inventory reserves	2,753	1,579
Amortization of deferred gain on sale of building	(218)	(786)
Equity income from joint ventures	(603)	(970)
Employee Stock Ownership Plan allocation	1,918	1,619
Stock-based compensation	5,614	5,663
(Increase) decrease in deferred income taxes	(2,556)	700
Loss on discontinued operations, net of tax	5,014	5,113
Change in assets and liabilities:		
Increase in accounts receivable	(23,428)	(27,753)
(Increase) decrease in inventories	2,761	(18,746)
(Increase) decrease in prepaid expenses and other current assets	1,202	(4,805)
Increase in accounts payable	5,193	90
Increase in sundry payables and accrued expenses	12,828	8,728
Net change in other assets and liabilities	(619)	1,120
Net cash provided by operating activities	67,585	36,761
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of and investments in businesses	(9,852)	—
Capital expenditures	(15,633)	(17,710)
Other investing activities	37	6
Net cash used in investing activities	(25,448)	(17,704)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings (payments) under line-of-credit agreements	(12,000)	18,188
Net borrowings (payments) of other debt and capital lease obligations	1,463	(35)
Purchase of treasury stock	(9,271)	(20,000)
Increase in overdraft balances	1,382	658
Dividends paid	(14,144)	(12,990)
Net cash used in financing activities	(32,570)	(14,179)
Effect of exchange rate changes on cash	431	724
Net increase in cash and cash equivalents	9,998	5,602
CASH AND CASH EQUIVALENTS at beginning of period	17,323	19,796
CASH AND CASH EQUIVALENTS at end of period	\$27,321	\$25,398

Supplemental disclosure of cash flow information:

Cash paid during the period for:

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Interest	\$2,896	\$1,456
Income taxes	\$11,829	\$30,181

See accompanying notes to consolidated financial statements (unaudited).

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CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Nine Months Ended September 30, 2018

(Unaudited)

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
(In thousands)						
Balance at December 31, 2017	\$ 47,872	\$ 100,057	\$ 357,153	\$ (4,109)	\$ (47,319)	\$ 453,654
Cumulative effect adjustment (Note 2)	—	—	(1,189)	—	—	(1,189)
Net earnings	—	—	39,683	—	—	39,683
Other comprehensive income (loss), net of tax	—	—	—	(3,008)	—	(3,008)
Cash dividends paid	—	—	(14,144)	—	—	(14,144)
Purchase of treasury stock	—	—	—	—	(9,115)	(9,115)
Stock-based compensation	—	4,054	—	—	—	—