PGT Innovations, Inc.
Form 10-Q
May 08, 2018
Table of Contents

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, 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 001-37971

PGT Innovations, Inc.

1070 Technology Drive

North Venice, FL 34275

Registrant s telephone number: 941-480-1600

State of Incorporation	**IRS Employer Identification No.**
Delaware	**20-0634715**

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, a non-accelerated filer, a smaller reporting company, or an emerging growth company.

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	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 Section13(a) of the Exchange Act. Yes No

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

Common Stock, $0.01 par value, outstanding was 49,976,644 shares, as of May 1, 2018.

Table of Contents

PGT INNOVATIONS, INC.

TABLE OF CONTENTS

Form 10-Q for the Three Months Ended March 31, 2018

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

PGT INNOVATIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, except per share amounts)

	Three Months Ended	
	March 31, 2018	**April 1, 2017**
	(unaudited)	
Net sales	$ 140,253	$ 112,721
Cost of sales	95,480	80,982
Gross profit	44,773	31,739
Selling, general and administrative expenses	28,657	22,785
Income from operations	16,116	8,954
Interest expense, net	4,043	4,910
Debt extinguishment costs	3,079	
Income before income taxes	8,994	4,044
Income tax expense	1,654	1,045
Net income	$ 7,340	$ 2,999
Net income per common share:		
Basic	$ 0.15	$ 0.06
Diluted	$ 0.14	$ 0.06
Weighted average shares outstanding:		
Basic	49,858	49,263
Diluted	51,998	51,628
Comprehensive income	$ 7,278	$ 2,999

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

PGT INNOVATIONS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)

(unaudited)

	March 31, 2018	December 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 34,048	$ 34,029
Accounts receivable, net	66,434	60,308
Inventories	35,506	37,816
Contract assets, net	9,210	
Prepaid expenses	3,551	2,490
Other current assets	11,025	9,873
Total current assets	159,774	144,516
Property, plant and equipment, net	88,193	84,133
Trade name and other intangible assets, net	113,384	115,043
Goodwill	108,060	108,060
Other assets, net	1,363	1,367
Total assets	$ 470,774	$ 453,119
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 39,610	$ 41,085
Current portion of long-term debt	299	294
Total current liabilities	39,909	41,379
Long-term debt, less current portion	214,609	212,679
Deferred income taxes	23,398	22,772
Other liabilities	8,317	964
Total liabilities	286,233	277,794
Shareholders equity:		
Preferred stock; par value $.01 per share; 10,000 shares authorized; none outstanding		
Common stock; par value $.01 per share; 200,000 shares authorized; 52,639 and 52,486 shares issued and 49,976 and 49,805 shares outstanding at March 31, 2018 and December 30, 2017, respectively	526	525
Additional paid-in-capital	252,329	252,275

Accumulated other comprehensive loss	(62)	
Accumulated deficit	(55,493)	(64,716)
Shareholders equity	197,300	188,084
Less: Treasury stock at cost	(12,759)	(12,759)
Total shareholders equity	184,541	175,325
Total liabilities and shareholders equity	$ 470,774	$ 453,119

The accompanying notes are an integral part of these condensed consolidated financial statements.

4

Table of Contents

PGT INNOVATIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Three Months Ended	
	March 31, 2018	**April 1, 2017**
	(unaudited)	
Cash flows from operating activities:		
Net income	$ 7,340	$ 2,999
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,961	3,024
Amortization	1,659	1,573
Provision for allowance for doubtful accounts	416	18
Stock-based compensation	514	458
Amortization of deferred financing costs and debt discount	615	691
Debt extinguishment costs	3,079	
Gain on disposal of assets	(10)	(8)
Change in operating assets and liabilities:		
Accounts receivable	(7,921)	(6,194)
Inventories	(3,332)	(3,356)
Contract assets, net, prepaid expenses, other current and other assets	(1,034)	(179)
Accounts payable, accrued and other liabilities	4,591	3,688
Net cash provided by operating activities	8,878	2,714
Cash flows from investing activities:		
Purchases of property, plant and equipment	(6,644)	(3,117)
Proceeds from disposals of assets	10	8
Net cash used in investing activities	(6,634)	(3,109)
Cash flows from financing activities:		
Payments of long-term debt	(72)	
Payments of financing costs	(1,687)	
Taxes paid relating to shares withheld on employee equity awards	(637)	(181)
Proceeds from exercise of stock options	173	284
Proceeds from issuance of common stock under employee stock purchase plan	5	9
Other	(7)	(8)
Net cash (used in) provided by financing activities	(2,225)	104
Net increase (decrease) in cash and cash equivalents	19	(291)

Cash and cash equivalents at beginning of period	34,029	39,210
Cash and cash equivalents at end of period	$ 34,048	$ 38,919

The accompanying notes are an integral part of these condensed consolidated financial statements.

5

Table of Contents

PGT INNOVATIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements include the accounts of PGT Innovations, Inc. and its wholly-owned subsidiary, PGT Industries, Inc., and its wholly-owned subsidiaries CGI Window and Holdings, Inc. (CGI), which includes its wholly-owned subsidiary, CGI Commercial, Inc. (CGIC), and WinDoor, Incorporated (collectively, the Company), after elimination of intercompany accounts and transactions.

These condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all the information and footnotes required by United States Generally Accepted Accounting Principles (GAAP) for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the interim period is not necessarily indicative of the results that may be expected for the remainder of the current year or for any future periods. Each of the Company s fiscal quarters ended March 31, 2018, and April 1, 2017, consisted of 13 weeks.

The condensed consolidated balance sheet as of December 30, 2017, is derived from the audited consolidated financial statements, but does not include all disclosures required by GAAP. The condensed consolidated balance sheet as of December 30, 2017, and the unaudited condensed consolidated financial statements as of and for the period ended March 31, 2018, should be read in conjunction with the more detailed audited consolidated financial statements for the year ended December 30, 2017, included in the Company s most recent Annual Report on Form 10-K. Except for the adoption of the guidance relating to revenue from contracts with customers discussed below, the accounting policies used in the preparation of these unaudited condensed consolidated financial statements are consistent with the accounting policies described in the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K.

Recently Adopted Accounting Pronouncements

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The amendments under ASU 2017-12 refine and expand hedge accounting requirements for both financial (e.g., interest rate) and commodity risks. Its provisions create more transparency around how economic results are presented, both on the face of the financial statements and in the footnotes. It also makes certain targeted improvements to simplify the application of hedge accounting guidance. ASU 2017-12 was effective for us in the first quarter of 2019, but we elected to early-adopt this guidance effective on December 31, 2017, the first day of our 2018 fiscal year. During the three months ended March 31, 2018, we entered into several aluminum forwards contracts which we have designated as cash flow hedges and are accounting for as derivative financial instruments to which we are applying the provisions of ASU 2017-12. For additional information, see Note 12.

In February 2017, the FASB issued ASU 2017-05, Other Income - Gain and Losses from the Derecognition of Nonfinancial Assets. ASU 2017-05 clarifies the scope of Subtopic 610-20, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets and adds guidance for partial sales of nonfinancial assets. Subtopic 610-20, which was issued in May 2014 as a part of ASU 2014-09, provides guidance for recognizing gains and losses from the transfer of nonfinancial assets in contracts with non-customers. We adopted this update effective on December 31, 2017, the first day of our 2018 fiscal year. The adoption of this guidance had no impact on our financial position, results of operations or cash flows.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805) Clarifying the Definition of a Business. ASU 2017-01 affects all companies and other reporting organizations that must determine whether they have acquired or sold a business. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The amendments are intended to help companies and other organizations evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 provides a more robust framework to use in determining when a set of assets and activities is a business. It also provides more consistency in applying the guidance, reduces the costs of application, and makes the definition of a business more operable. We adopted this update effective on December 31, 2017, the first day of our 2018 fiscal year. The adoption of this guidance had no impact on our financial position, results of operations or cash flows.

Table of Contents

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). ASU 2016-15 reduces diversity in practice in how certain transactions are classified in the statement of cash flows. We adopted this update effective on December 31, 2017, the first day of our 2018 fiscal year. The adoption of this guidance had no impact on our statement of cash flows.

Recently Issued Accounting Pronouncements

In addition to the following discussion of the status of our adoption of ASU 2016-02, Leases (Topic 842), see Note 3 to the consolidated financial statements included in our most recent Annual Report on Form 10-K for the year ended December 30, 2017, as filed with the Securities and Exchange Commission on March 14, 2018.

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842) . This guidance supersedes the existing guidance for lease accounting, Leases (Topic 840). ASU 2016-02 requires lessees to recognize leases on their balance sheets, and leaves lessor accounting largely unchanged. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early application is permitted for all entities. ASU 2016-02 requires a modified retrospective approach for all leases existing at, or entered into after, the date of initial application, with an option to elect to use certain transition relief. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

Adoption of ASU 2014-09, Revenue from Contracts with Customers

We adopted the new revenue recognition standard on December 31, 2017 (the first day of our 2018 fiscal year) using the modified retrospective adoption methodology, whereby the cumulative impact of all prior periods is recorded in retained earnings or other impacted balance sheet line items upon adoption. Under the modified retrospective adoption method, we elected to retroactively adjust, inclusive of all previous modifications, only those contracts that were considered open at the date of initial application. Refer to Note 2, Revenue Recognition and Contracts with Customers for further information along with our new accounting policies.

Upon adoption, we recognized a net decrease to the fiscal year 2018 opening balance of accumulated deficit of $1.9 million related to sales in excess of billings of $8.7 million, that would have been recognized as earned over time in our prior year ended December 30, 2017. The details of the adjustment to accumulated deficit upon adoption on December 31, 2017 (the first day or our 2018 fiscal year), as well as the effects on the consolidated balance sheet as of December 30, 2017, as if ASU 2014-09 had been adopted in our 2017 fiscal year are as follows:

	Cumulative Effect	Description of Effects on Line Item
Net sales	$ 8,704	Additional contract asset sales
Cost of sales	(5,642)	Cost of contract asset sales
SG&A expenses	(532)	Accruals for selling costs
Income tax expense	(647)	Estimated income tax effects
Net income	$ 1,883	Additional net income

	As Reported December 30, 2017	New Revenue Standard	Adjusted December 31, 2017	Description of Effects on Line Item
Inventories	$ 37,816	$ (5,642)	$ 32,174	Inventory classified as cost of sales
Other current assets (1)	9,873	8,176	18,049	Contract asset on additional sales
Accounts payable and accrued liabilities (1)	41,085	4	41,089	Accruals for selling costs
Deferred income taxes	22,772	647	23,419	Estimated income tax effects
Accumulated deficit	(64,716)	1,883	(62,833)	Additional net income

(1) - Adjustments to this line item are net of related contract liability of $528 thousand, previously classified as customer deposits.

Table of Contents

The following tables reconcile the balances as presented as of and for the three months ended March 31, 2018 to the balances prior to the adjustments made to implement the new revenue recognition standard for the same period:

	Three Months Ended March 31, 2018		
	As Presented	Impact of ASU 2014-09	Previous Standard
		(unaudited)	
Net sales	$ 140,253	$ (965)	$ 139,288
Cost of sales	95,480	(427)	95,053
Gross profit	44,773	(538)	44,235
Selling, general and administrative expenses	28,657	(85)	28,572
Income from operations	16,116	(453)	15,663
Interest expense, net	4,043		4,043
Debt extinguishment costs	3,079		3,079
Income before income taxes	8,994	(453)	8,541
Income tax expense	1,654	(117)	1,537
Net income	$ 7,340	$ (336)	$ 7,004