

MKS INSTRUMENTS INC
Form 10-Q
August 03, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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 June 30, 2017

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 0-23621

MKS INSTRUMENTS, INC.

(Exact name of registrant as specified in its charter)

Massachusetts
(State or other jurisdiction

04-2277512
(I.R.S. Employer

of incorporation or organization)

Identification No.)

2 Tech Drive, Suite 201, Andover, Massachusetts
(Address of principal executive offices)

01810
(Zip Code)

Registrant's telephone number, including area code (978) 645-5500

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, 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 (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 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 July 27, 2017, the registrant had 54,275,561 shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

MKS INSTRUMENTS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

(Unaudited)

	June 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 422,830	\$ 228,623
Restricted cash	5,282	5,287
Short-term investments	149,016	189,463
Trade accounts receivable, net	268,544	248,757
Inventories, net	304,707	275,869
Other current assets	51,721	50,770
Total current assets	1,202,100	998,769
Property, plant and equipment, net	167,212	174,559
Goodwill	586,865	588,585
Intangible assets, net	386,075	408,004
Long-term investments	10,329	9,858
Other assets	32,102	32,467
Total assets	\$ 2,384,683	\$ 2,212,242
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Short-term borrowings and current portion of long-term debt	\$ 9,810	\$ 10,993
Accounts payable	73,291	69,337
Accrued compensation	65,243	67,728
Income taxes payable	42,142	22,794
Deferred revenue	9,975	14,463
Other current liabilities	57,795	51,985
Total current liabilities	258,256	237,300
Long-term debt	551,846	601,229
Non-current deferred taxes	71,895	66,446
Non-current accrued compensation	48,560	44,714
Other liabilities	24,370	20,761

Total liabilities	954,927	970,450
Commitments and contingencies (Note 18)		
Stockholders' equity:		
Preferred Stock, \$0.01 par value per share, 2,000,000 shares authorized; none issued and outstanding		
Common Stock, no par value, 200,000,000 shares authorized; 54,273,154 and 53,672,861 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	113	113
Additional paid-in capital	779,058	777,482
Retained earnings	661,341	494,744
Accumulated other comprehensive loss	(10,756)	(30,547)
Total stockholders' equity	1,429,756	1,241,792
Total liabilities and stockholders' equity	\$ 2,384,683	\$ 2,212,242

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

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MKS INSTRUMENTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE INCOME

(in thousands, except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net revenues:				
Products	\$ 431,950	\$ 285,471	\$ 824,872	\$ 439,092
Services	48,807	40,390	93,038	70,450
Total net revenues	480,757	325,861	917,910	509,542
Cost of revenues:				
Cost of products	229,304	163,993	434,364	249,345
Cost of services	31,870	25,955	58,416	46,371
Total cost of revenues (exclusive of amortization shown separately below)	261,174	189,948	492,780	295,716
Gross profit	219,583	135,913	425,130	213,826
Research and development	33,680	28,214	66,962	45,441
Selling, general and administrative	71,979	59,579	146,199	93,529
Acquisition and integration costs	790	20,055	2,232	22,549
Restructuring	2,064	24	2,586	24
Asset impairment	6,719		6,719	
Amortization of intangible assets	11,468	8,855	23,969	10,538
Income from operations	92,883	19,186	176,463	41,745
Interest income	507	530	1,023	1,454
Interest expense	6,997	8,474	15,829	8,519
Gain on sale of business	74,856		74,856	
Other (expense) income, net	(3,277)	1,126	(1,256)	1,493
Income before income taxes	157,972	12,368	235,257	36,173
Provision for income taxes	37,532	3,158	49,757	9,400
Net income	\$ 120,440	\$ 9,210	\$ 185,500	\$ 26,773
Other comprehensive income:				
Changes in value of financial instruments designated as	\$ 23	\$ (319)	\$ (2,429)	\$ (1,865)

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cash flow hedges, net of tax expense (benefit) ⁽¹⁾				
Foreign currency translation adjustments, net of tax of \$0	17,729	(8,886)	22,264	(6,233)
Unrecognized pension gain, net of tax expense ⁽²⁾	123		205	
Unrealized (loss) gain on investments, net of tax (benefit) expense ⁽³⁾	(168)	68	(249)	445
Total comprehensive income	\$ 138,147	\$ 73	\$ 205,291	\$ 19,120
Net income per share:				
Basic	\$ 2.22	\$ 0.17	\$ 3.44	\$ 0.50
Diluted	\$ 2.19	\$ 0.17	\$ 3.37	\$ 0.50
Cash dividends per common share	\$ 0.175	\$ 0.17	\$ 0.35	\$ 0.34
Weighted average common shares outstanding:				
Basic	54,178	53,461	53,973	53,348
Diluted	55,001	53,806	54,979	53,685

(1) Tax expense (benefit) was \$6 and \$(209) for the three months ended June 30, 2017 and 2016, respectively. Tax (benefit) was \$(1,813) and \$(1,250) for the six months ended June 30, 2017 and 2016, respectively.

(2) Tax expense was \$34 and \$153 for the three and six months ended June 30, 2017, respectively.

(3) Tax (benefit) expense was \$(46) and \$44 for the three months ended June 30, 2017 and 2016, respectively. Tax (benefit) expense was \$(185) and \$299 for the six months ended June 30, 2017 and 2016, respectively.

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

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MKS INSTRUMENTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Six Months Ended June 30,	
	2017	2016
Cash flows provided by operating activities:		
Net income	\$ 185,500	\$ 26,773
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	42,421	21,708
Amortization of debt issuance costs, original issue discount and soft call premium	3,742	2,408
Amortization of inventory step-up adjustment to fair value		10,119
Asset impairment	6,719	
Gain on sale of business	(74,856)	
Stock-based compensation	14,989	14,668
Provision for excess and obsolete inventory	11,002	6,737
Provision for bad debt	511	85
Deferred income taxes	7,798	1,381
Excess tax benefits from stock-based compensation		(452)
Other	796	72
Changes in operating assets and liabilities:		
Trade accounts receivable	(15,901)	(35,874)
Inventories	(34,056)	3,868
Income taxes	21,918	6,420
Other current and non-current assets	(2,779)	(12,998)
Accrued compensation	(161)	391
Other current and non-current liabilities	4,970	(993)
Accounts payable	2,860	7,457
Net cash provided by operating activities	175,473	51,770
Cash flows provided by investing activities:		
Acquisition of businesses, net of cash acquired		(939,591)
Net proceeds from sale of business	72,509	
Purchases of investments	(69,582)	(99,261)
Maturities of investments	85,234	114,256
Sales of investments	25,319	336,276
Purchases of property, plant and equipment	(9,739)	(7,264)
Net cash provided by (used in) investing activities	103,741	(595,584)

Cash flows used in financing activities: