

ABM INDUSTRIES INC /DE/  
Form 10-Q  
September 07, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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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 July 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: 1-8929

ABM INDUSTRIES INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware 94-1369354  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

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One Liberty Plaza, 7<sup>th</sup> Floor  
New York, New York 10006  
(Address of principal executive offices)

(212) 297-0200  
(Registrant's telephone number, including area code)

None  
(Former name, former address and former fiscal year, if changed since last report)

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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.

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

Number of shares of the registrant’s common stock outstanding as of September 4, 2018: 65,851,793

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ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES

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## FORWARD-LOOKING STATEMENTS

This Form 10-Q contains both historical and forward-looking statements regarding ABM Industries Incorporated (“ABM”) and its subsidiaries (collectively referred to as “ABM,” “we,” “us,” “our,” or the “Company”). We make forward-looking statements related to future expectations, estimates, and projections that are uncertain and often contain words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “forecast,” “intend,” “likely,” “may,” “outlook,” “plan,” “predict,” “shortly,” “will,” and “would,” or similar words or phrases. These statements are not guarantees of future performance and are subject to known and unknown risks, uncertainties, and assumptions that are difficult to predict. Particular risks and uncertainties that could cause our actual results to be materially different from those expressed in our forward-looking statements include those listed below.

• We may not realize the growth opportunities and cost synergies that are anticipated from the acquisition of GCA Services Group (“GCA”).

• We have incurred a substantial amount of debt to complete the acquisition of GCA. To service our debt we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control. We also depend on the profitability of our subsidiaries to satisfy our cash needs. If we cannot generate the required cash, we may not be able to make the necessary payments required to service our indebtedness or we may be required to suspend certain discretionary payments, including our dividend.

• Changes to our businesses, operating structure, financial reporting structure, or personnel relating to the implementation of our 2020 Vision strategic transformation initiative, including our move to our Enterprise Services Center, may not have the desired effects on our financial condition and results of operations.

• Our success depends on our ability to gain profitable business despite competitive pressures and to preserve long-term client relationships.

• Our business success depends on our ability to attract and retain qualified personnel and senior management.

• Our use of subcontractors or joint venture partners to perform work under customer contracts exposes us to liability and financial risk.

• Our international business involves risks different from those we face in the United States that could have an effect on our results of operations and financial condition.

• Unfavorable developments in our class and representative actions and other lawsuits alleging various claims could cause us to incur substantial liabilities.

• We insure our insurable risks through a combination of insurance and self-insurance and we retain a substantial portion of the risk associated with expected losses under these programs, which exposes us to volatility associated with those risks, including the possibility that changes in estimates of ultimate insurance losses could result in a material charge against our earnings.

• Our risk management and safety programs may not have the intended effect of reducing our liability for personal injury or property loss.

• Impairment of goodwill and long-lived assets could have a material adverse effect on our financial condition and results of operations.

• Changes in general economic conditions, including changes in energy prices, government regulations, or changing consumer preferences, could reduce the demand for facility services and, as a result, reduce our earnings and adversely affect our financial condition.

• Our income tax provision and income tax liabilities could be adversely affected by the jurisdictional mix of earnings, changes in valuations of deferred tax assets and liabilities, and changes in tax treaties, laws, and regulations, including the U.S. Tax Cuts and Jobs Act of 2017, which effected significant changes to the U.S. corporate income tax system.

• We could be subject to cyber-security risks, information technology interruptions, and business continuity risks.

• A significant number of our employees are covered by collective bargaining agreements that could expose us to potential liabilities in relationship to our participation in multiemployer pension plans, requirements to make contributions to other benefit plans, and the potential for strikes, work slowdowns or similar activities, and union-organizing drives.

• If we fail to maintain proper and effective internal control over financial reporting in the future, our ability to produce accurate and timely financial statements could be negatively impacted, which could harm our operating results and investors’ perceptions of our company and, as a result, the value of our common stock.

Our business may be negatively impacted by adverse weather conditions.

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•Catastrophic events, disasters, and terrorist attacks could disrupt our services.

•Actions of activist investors could disrupt our business.

The list of factors above is illustrative and by no means exhaustive. Additional information regarding these and other risks and uncertainties we face is contained in our Annual Report on Form 10-K for the year ended October 31, 2017 and in other reports we file from time to time with the Securities and Exchange Commission (including all amendments to those reports).

We urge readers to consider these risks and uncertainties in evaluating our forward-looking statements. We caution readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law.

## PART I. FINANCIAL INFORMATION

## ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS.

## ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in millions, except share and per share amounts)	July 31, 2018	October 31, 2017
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$46.0	\$ 62.8
Trade accounts receivable, net of allowances of \$14.1 and \$25.5 at July 31, 2018 and October 31, 2017, respectively	1,046.0	1,038.1
Prepaid expenses	110.4	101.8
Other current assets	38.2	32.8
Total current assets	1,240.6	1,235.5
Other investments	17.4	17.6
Property, plant and equipment, net of accumulated depreciation of \$163.8 and \$136.4 at July 31, 2018 and October 31, 2017, respectively	142.8	143.1
Other intangible assets, net of accumulated amortization of \$238.4 and \$189.1 at July 31, 2018 and October 31, 2017, respectively	369.6	430.1
Goodwill	1,864.3	1,864.2
Other noncurrent assets	105.8	122.1
Total assets	\$3,740.4	\$ 3,812.6
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Current portion of long-term debt, net	\$27.0	\$ 16.9
Trade accounts payable	224.8	230.8
Accrued compensation	170.6	159.9
Accrued taxes—other than income	63.8	52.5
Insurance claims	115.7	112.5
Income taxes payable	5.2	13.4
Other accrued liabilities	162.7	171.8
Total current liabilities	769.8	757.8
Long-term debt, net	998.4	1,161.3
Deferred income tax liability, net	43.5	57.3
Noncurrent insurance claims	393.6	382.9
Other noncurrent liabilities	60.2	61.3
Noncurrent income taxes payable	18.4	16.3
Total liabilities	2,283.9	2,436.9
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, \$0.01 par value; 500,000 shares authorized; none issued	—	—
Common stock, \$0.01 par value; 100,000,000 shares authorized; 65,833,297 and 65,502,568 shares issued and outstanding at July 31, 2018 and October 31, 2017, respectively	0.7	0.7
Additional paid-in capital	688.3	675.2
Accumulated other comprehensive loss, net of taxes	(5.7	) (20.3
Retained earnings	773.2	720.1
Total stockholders' equity	1,456.4	1,375.7

Total liabilities and stockholders' equity	\$3,740.4	\$3,812.6
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See accompanying notes to unaudited consolidated financial statements.

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ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
(UNAUDITED)

(in millions, except per share amounts)	Three Months Ended		Nine Months Ended	
	July 31, 2018	2017	July 31, 2018	2017
Revenues	\$1,624.3	\$1,318.4	\$4,793.5	\$3,955.6
Operating expenses	1,446.7	1,184.5	4,281.8	3,544.1
Selling, general and administrative expenses	110.0	101.3	326.8	299.2
Restructuring and related expenses	2.9	5.2	22.5	16.0
Amortization of intangible assets	16.6	6.1	49.5	17.4
Impairment recovery and gain on sale	—	(1.1 )	—	(18.5 )
Operating profit	48.1	22.6	112.9	97.4
Income from unconsolidated affiliates, net	1.0	1.2	2.5	3.6
Interest expense	(12.9 )	(2.8 )		