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Compass Diversified Holdings
Form 10-Q
August 01, 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 _____

COMPASS DIVERSIFIED HOLDINGS

(Exact name of registrant as specified in its charter)

Delaware 001-34927 57-6218917
(State or other jurisdiction of (Commission (I.R.S. employer
incorporation or organization) file number) identification number)

COMPASS GROUP DIVERSIFIED HOLDINGS LLC

(Exact name of registrant as specified in its charter)

Delaware 001-34926 20-3812051
(State or other jurisdiction of (Commission (I.R.S. employer
incorporation or organization) file number) identification number)

301 Riverside Avenue
Second Floor
Westport, CT 06880
(203) 221-1703

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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. See 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

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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 ý

As of August 1, 2018, there were 59,900,000 Trust common shares of Compass Diversified Holdings outstanding.

COMPASS DIVERSIFIED HOLDINGS
QUARTERLY REPORT ON FORM 10-Q
For the period ended June 30, 2018
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NOTE TO READER

In reading this Quarterly Report on Form 10-Q, references to:

the "Trust" and "Holdings" refer to Compass Diversified Holdings;

"businesses," "operating segments," "subsidiaries" and "reporting units" refer to, collectively, the businesses controlled by the Company;

the "Company" refer to Compass Group Diversified Holdings LLC;

the "Manager" refer to Compass Group Management LLC ("CGM");

the "Trust Agreement" refer to the Second Amended and Restated Trust Agreement of the Trust dated as of December 6, 2016;

the "2014 Credit Facility" refer to the credit agreement, as amended from time to time, entered into on June 6, 2014 with a group of lenders led by Bank of America N.A. as administrative agent, which provides for a Revolving Credit Facility and a Term Loan;

the "2014 Revolving Credit Facility" refer to the \$550 million Revolving Credit Facility provided by the 2014 Credit Facility that matures in June 2019;

the "2018 Credit Facility" refer to the amended and restated credit agreement entered into on April 18, 2018 among the Company, the Lenders from time to time party thereto (the "Lenders"), Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer (the "agent") and other agents party thereto.

the "2018 Revolving Credit Facility" refers to the \$600 million in revolving loans, swing line loans and letters of credit provided by the 2018 Credit Facility that matures in 2023;

the "2018 Term Loan" refer to the \$500 million term loan provided by the 2018 Credit Facility that matures in June 2021;

the "LLC Agreement" refer to the fifth amended and restated operating agreement of the Company dated as of December 6, 2016; and

"we," "us" and "our" refer to the Trust, the Company and the businesses together.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, contains both historical and forward-looking statements. We may, in some cases, use words such as "project," "predict," "believe," "anticipate," "plan," "expect," "estimate," "intend," "should," "would," "could," "potentially," "may," or other words that convey uncertainty of future events or outcomes to identify these forward-looking statements. Forward-looking statements in this Quarterly Report on Form 10-Q are subject to a number of risks and uncertainties, some of which are beyond our control, including, among other things:

- our ability to successfully operate our businesses on a combined basis, and to effectively integrate and improve future acquisitions;
- our ability to remove CGM and CGM's right to resign;
- our organizational structure, which may limit our ability to meet our dividend and distribution policy;
- our ability to service and comply with the terms of our indebtedness;
- our cash flow available for distribution and reinvestment and our ability to make distributions in the future to our shareholders;
- our ability to pay the management fee and profit allocation if and when due;
- our ability to make and finance future acquisitions;
- our ability to implement our acquisition and management strategies;
- the regulatory environment in which our businesses operate;
- trends in the industries in which our businesses operate;
- changes in general economic or business conditions or economic or demographic trends in the United States and other countries in which we have a presence, including changes in interest rates and inflation;
- environmental risks affecting the business or operations of our businesses;
- our and CGM's ability to retain or replace qualified employees of our businesses and CGM;
- costs and effects of legal and administrative proceedings, settlements, investigations and claims; and
- extraordinary or force majeure events affecting the business or operations of our businesses.

Our actual results, performance, prospects or opportunities could differ materially from those expressed in or implied by the forward-looking statements. Additional risks of which we are not currently aware or which we currently deem immaterial could also cause our actual results to differ.

In light of these risks, uncertainties and assumptions, you should not place undue reliance on any forward-looking statements. The forward-looking events discussed in this Quarterly Report on Form 10-Q may not occur. These forward-looking statements are made as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to publicly update or revise any forward-looking statements to reflect subsequent events or circumstances, whether as a result of new information, future events or otherwise, except as required by law.

PART I
FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

COMPASS DIVERSIFIED HOLDINGS
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2018	December 31, 2017
(in thousands)		
Assets		
Current assets:		
Cash and cash equivalents	\$37,456	\$ 39,885
Accounts receivable, net	272,707	215,108
Inventories	300,263	246,928
Prepaid expenses and other current assets	37,656	24,897
Total current assets	648,082	526,818
Property, plant and equipment, net	212,610	173,081
Goodwill	645,102	531,689
Intangible assets, net	753,210	580,517
Other non-current assets	12,292	8,198
Total assets	\$2,271,296	\$ 1,820,303
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 103,718	\$ 84,538
Accrued expenses	118,126	106,873
Due to related party	10,247	7,796
Current portion, long-term debt	5,000	5,685
Other current liabilities	4,749	7,301
Total current liabilities	241,840	212,193
Deferred income taxes	77,263	81,049
Long-term debt	963,851	584,347
Other non-current liabilities	18,310	16,715
Total liabilities	1,301,264	894,304
Commitments and contingencies		
Stockholders' equity		
Trust preferred shares, 50,000 authorized; 8,000 shares issued and outstanding at June 30, 2018 and 4,000 shares issued and outstanding at December 31, 2017		
Series A preferred shares, no par value; 4,000 shares issued and outstanding at June 30, 2018 and December 31, 2017	96,417	96,417
Series B preferred shares, no par value; 4,000 shares issued and outstanding at June 30, 2018	96,504	—
Trust common shares, no par value, 500,000 authorized; 59,900 shares issued and outstanding at June 30, 2018 and December 31, 2017	924,680	924,680
Accumulated other comprehensive loss	(5,991) (2,573)
Accumulated deficit	(195,318) (145,316)
Total stockholders' equity attributable to Holdings	916,292	873,208
Noncontrolling interest	53,740	52,791
Total stockholders' equity	970,032	925,999