

WATTS WATER TECHNOLOGIES INC

FORM 10-Q (Quarterly Report)

Filed 11/13/1995 For Period Ending 9/30/1995

Address	815 CHESTNUT ST NORTH ANDOVER, Massachusetts 01845
Telephone	978-688-1811
CIK	0000795403
Industry	Misc. Fabricated Products
Sector	Basic Materials
Fiscal Year	12/31

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

/ X/ Quarterly report pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the quarterly period ended September 30, 1995 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 0-14787 -

WATTS INDUSTRIES, INC. -
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

04-2916536
(I.R.S. Employer
Identification No.)

815 Chestnut Street, North Andover, MA
(Address of principal executive offices)

01845
(Zip Code)

Registrant's telephone number, including area code (508) 688-1811

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 X No _____

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 31, 1995
Class A Common, \$.10 par value	18,270,338
Class B Common, \$.10 par value	11,365,627

WATTS INDUSTRIES, INC. AND SUBSIDIARIES

INDEX

Part I. Financial Information	Page #
Item 1. Condensed Consolidated Balance Sheets at September 30, 1995 and June 30, 1995.	3
Condensed Consolidated Statements of Earnings for the Three Months Ended September 30, 1995 and September 30, 1994.	4
Condensed Consolidated Statements of Cash Flows for the Three Months Ended September 30, 1995 and September 30, 1994.	5

Notes to Condensed Consolidated Financial Statements.	6,7,8,9
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.	10,11,12,
Part II. Other Information	

Item 6. Exhibits and Reports on Form 8-K.	13
Signatures	14
Exhibit Index	15
Exhibit 11 - Computation of Per Share Earnings.	16
Exhibit 27 - Financial Data Schedule	17

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WATTS INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share information)

	(Unaudited)		
		Sept. 30, 1995	June 30, 1995
CURRENT ASSETS			
Cash and cash equivalents.....	\$ 0	\$	4,257
Short-term investments.....	0		4,483
Trade accounts receivable, less allowance for doubtful accounts of \$5,952 and \$5,828.....	130,390		118,769
Inventories:			
Finished goods.....	83,327		82,638
Work in process.....	44,371		42,034
Raw materials.....	78,672		76,155
	206,370		200,827
Prepaid expenses and other current assets.....	16,950		13,588
Deferred tax benefit.....	14,132		13,206
Total Current Assets.....	367,842		355,130
OTHER ASSETS			
Intangible assets, net.....	8,605		8,210
Goodwill.....	159,332		149,078
Other.....	10,927		9,141
PROPERTY, PLANT AND EQUIPMENT			
Property, plant and equipment at cost.....	284,770		279,970
Less allowance for depreciation.....	(116,655)		(111,558)
Property, plant and equipment, net.....	168,115		168,412
TOTAL ASSETS	\$ 714,821	\$	689,971
	=====		=====

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable.....	\$ 44,019	\$	40,726
Accrued expenses.....	51,870		46,193
Accrued compensation and related items.....	8,318		10,796
Income taxes.....	11,815		3,625
Current portion of long-term debt.....	11,183		11,767
Total Current Liabilities.....	127,205		113,107
LONG-TERM DEBT, less current portion.....	133,894		132,821

DEFERRED INCOME TAXES.....	16,842	17,569
OTHER LIABILITIES.....	13,437	14,098
MINORITY INTEREST.....	6,662	6,422
STOCKHOLDERS' EQUITY		
Class A Common Stock, \$.10 par value; 80,000,000 shares authorized, 18,270,338 shares issued and outstanding at September 30.....	1,827	1,822
Class B Common Stock, \$.10 par value; 25,000,000 shares authorized, 11,365,627 shares issued and outstanding at September 30.....	1,137	1,140
Additional paid-in capital.....	95,629	95,496
Retained earnings.....	317,775	307,493
Equity adjustment from translation.....	413	3
Total Stockholders' Equity.....	416,781	405,954
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....	\$ 714,821	\$ 689,971
	=====	=====

See accompanying notes to condensed consolidated financial statements.

WATTS INDUSTRIES, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Amounts in thousands, except per share data)

	(Unaudited)	
	Three Months Ended	
	Sept. 30, 1995	Sept. 30, 1994
Net sales	\$ 175,304	\$ 152,677
Cost of goods sold	113,448	96,994
GROSS PROFIT	61,856	55,683
Selling, general & administrative expenses	39,042	34,849
OPERATING INCOME	22,814	20,834
Other (income) expense:		
Interest income	(321)	(750)
Interest expense	2,846	2,410
Other - net	617	264
	3,142	1,924
EARNINGS BEFORE INCOME TAXES	19,672	18,910
Provision for income taxes	7,538	7,520
NET EARNINGS	\$ 12,134	\$ 11,390
	=====	=====
Primary and fully-diluted earnings per share :	\$.41	\$.38
	=====	=====
Cash dividends per share.....	\$.0625	\$.0550
	=====	=====

See accompanying notes to condensed consolidated financial statements.

WATTS INDUSTRIES, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

	(Unaudited)	
	Three Months Ended	
	Sept 30, 1995	Sept 30, 1994
OPERATING ACTIVITIES		
Net earnings	\$ 12,134	\$ 11,390
Adjustments to reconcile net earnings to net cash		

provided by operating activities:		
Depreciation and amortization	6,973	5,966
Provision for deferred income taxes	(1,171)	317
(Gain)Loss on disposal of fixed assets	54	(26)
Changes in operating assets and liabilities, net of effects from business acquisitions:		
Accounts receivable	(9,553)	(15,375)
Inventories	(2,198)	4,557
Prepaid expenses and other assets	(4,988)	(906)
Accounts payable and accrued expenses	9,009	6,297
NET CASH PROVIDED BY OPERATING ACTIVITIES	10,260	12,220
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(5,114)	(5,051)
Proceeds from disposal of equipment	301	50
Increase in intangible assets	(679)	(482)
Business acquisitions, net of cash acquired	(12,352)	(41,526)
Repayment of debt of acquired businesses		(305)
Net changes in short-term investments	4,483	38,804
NET CASH USED IN INVESTING ACTIVITIES	(13,361)	(8,510)
FINANCING ACTIVITIES		
Proceeds from exercise of stock options	44	170
Proceeds of long-term borrowings	17,500	114
Payments of long-term debt	(17,090)	(256)
Cash dividends	(1,852)	(1,622)
NET CASH USED IN FINANCING ACTIVITIES	(1,398)	(1,594)
Effect of exchange rates on cash and cash equivalents	242	119
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,257)	2,235
Cash and cash equivalents at beginning of period	4,257	6,231
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 0	\$ 8,466
	=====	=====

See accompanying notes to condensed consolidated financial statements.

WATTS INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all necessary adjustments, consisting only of adjustments of a normal recurring nature, to present fairly Watts Industries, Inc.'s Condensed Consolidated Balance Sheet as of September 30, 1995, the Condensed Consolidated Statements of Earnings for the three months ended September 30, 1995 and September 30, 1994, and the Condensed Consolidated Statements of Cash Flows for the three months ended September 30, 1995 and September 30, 1994.

The balance sheet at June 30, 1995 has been derived from the audited financial statements at that date. The accounting policies followed by the Company are described in the June 30, 1995 financial statements which are contained in the Company's 1995 Annual Report. It is suggested that these financial statements be read in conjunction with the financial statements and notes included in the 1995 Annual Report to stockholders.

2. On July 28, 1994, a wholly owned subsidiary of the Company purchased Jameco Industries, Inc. ("Jameco") of Wyandanch, New York. Jameco is a manufacturer of metal and plastic water supply products, including valves, tubular products and sink strainers that are sold primarily to residential construction and home repair and remodeling markets in the United States and overseas. Jameco had net sales of approximately \$65,000,000 for the twelve months ended June 30, 1995.

In August of 1994, a wholly owned subsidiary of the Company entered into a joint venture with Tanggu Valve Company in Tianjin, Peoples Republic of China. The Company's investment represents a 60% interest in the joint venture.

On November 18, 1994, a wholly owned subsidiary of the Company purchased Pibiviesse S.p.A. ("PBVS") located in Nerviano, Italy. PBVS manufactures a complete range of trunnion mounted ball valves with manufacturing capabilities up through 60 inch diameter and inclusive of Class 2500 pressure ratings to meet the demanding requirements of international pipeline projects. PBVS has annual net sales of approximately \$25,000,000.

In August and December of 1994, a wholly owned subsidiary of the Company acquired two product lines. One product line is a line of cryogenic valves used in industrial applications. The other product line is check and relief valves used in aerospace and military applications.

On March 1, 1995, a wholly owned subsidiary of the Company purchased Anderson-Barrows Metals Corporation ("Anderson-Barrows") of

Palmdale, California. Anderson-Barrows is a manufacturer of compression and flare fittings, plastic tubing and braided metal hose connectors which are sold primarily to the domestic residential construction and home repair and remodeling markets. Anderson-Barrows had net sales of approximately \$21,000,000 for the twelve months ended December 31, 1994.

In July of 1995, a wholly owned subsidiary of the Company entered into a joint venture with Suzhou Valve Factory (SUFA) in Suzhou, Peoples Republic of China, to manufacture ball valves for the industrial and oil and gas markets. The Company has invested \$2,000,000, as of September 30, 1995; the Company's total commitment of \$6,000,000 represents a 60% interest in the joint venture.

On August 28, 1995, a wholly owned subsidiary of the Company purchased Societe des Etablissements Rene Trubert ("Trubert") of Chartres, France. Trubert is a manufacturer of thermostatic mixing valves sold primarily to commercial and industrial applications to accurately control the temperature of water for human safety and process control. Trubert had net sales of approximately \$8,000,000 for the twelve months ended June 30, 1995.

On September 1, 1995, a wholly owned subsidiary of the Company acquired the Keane product line from Keane Controls Corp. This product line consists of solenoid valves and regulators used in high pressure applications. The annual sales of these products are approximately \$1,500,000.

On September 29, 1995, a wholly owned subsidiary acquired the Kieley Mueller Control Valve product line from International Valve Corporation. This product line consists of linear and rotary control valves sold primarily for industrial process applications to accurately control the pressure, flow, and temperature of steam and process fluids. The annual sales of these products are approximately \$2,800,000.

The aggregate purchase price for these investments was \$98,500,000 after certain adjustments, plus acquired debt of \$33,701,000. The Company has repaid \$20,015,680 of debt acquired with three of the companies.

3. Certain of the Company's operations generate solid and hazardous wastes, which are disposed of elsewhere by arrangement with the owners or operators of disposal sites or with transporters of such waste. The Company's foundry and other operations are subject to various federal, state and local laws and regulations relating to environmental quality. Compliance with these laws and regulations requires the Company to incur expenses and monitor its operations on an ongoing basis. The Company cannot predict the effect of future requirements on its capital expenditures, earnings or competitive position due to any changes in either federal, state or local environmental laws, regulations or ordinances.

The Company is currently a party to or otherwise involved with various administrative or legal proceedings under federal, state or local environmental laws or regulations involving a number of sites, in some cases as a participant in a group of potentially responsible parties. Four of these sites, the Sharkey and Combe Landfills in New Jersey, the San Gabriel Valley/El Monte, California water basin matter, and the Jack's Creek/Sitkin Smelting Superfund site in Pennsylvania, are listed on the National Priorities List. With respect to the Sharkey Landfill, the Company has been allocated .75% of the remediation costs, an amount which is not material to the Company. Based on certain developments, the Company elected not to enter into the de minimis settlement proposal with respect to the Sharkey Landfill site and instead decided to participate in the remediation as a participating party. No allocations have been made to date with respect to the Combe Landfill or San Gabriel Valley sites. The EPA has formally notified several entities that they have been identified as being potentially responsible parties with respect to the San Gabriel Valley site. As the Company was not included in this group, its potential involvement in this matter is uncertain at this point given that either the PRPs named to date or the EPA could seek to expand the list of potentially responsible parties. With respect to the Jack's Creek site, the Company has recently made a payment to the EPA as part of a de minimis settlement, the amount of which is not material to the Company. In addition to the foregoing, the Solvent Recovery Service of New England site and the Old Southington landfill site, both in Connecticut, are on the National Priorities List but, with respect thereto, the Company has resort to indemnification from third parties and based on currently available information, the Company believes it will be entitled to participate in a de minimis capacity.

With respect to the Combe Landfill, the Company is one of approximately 30 potentially responsible parties. The Company and all other PRP's received a Supplemental Directive from the New Jersey Department of Environmental Protection & Energy in 1994 seeking to recover approximately \$9 million in the aggregate for the operation, maintenance, and monitoring of the implemented remedial action taken up to that time in connection with the Combe Landfill North site. The Company and the remaining PRPs have recently received a formal demand from the U.S. Environmental Protection Agency to recover approximately \$17 million expended to date in the remediation of this site.

Given the number of parties involved in most environmental sites, the multiplicity of possible solutions, the evolving technology and the years of remedial activity required, it is difficult to estimate with certainty the total cost of remediation, the timing and extent of remedial actions which may be required, and the amount of liability, if any, of the Company alone or in relation to that of other responsible parties. Based on facts presently known to it, the Company does not believe that the outcome of these proceedings will have a material adverse effect on its financial condition, results of operations, or its liquidity.

The Company has established balance sheet accruals which it currently believes are adequate in light of the potential exposure of pending and threatened environmental litigation and proceedings of which it has knowledge. In this regard, with respect to certain of these matters, the Company has resort either to some degree of insurance coverage or indemnifications from third parties which are expected to defray to some extent the effect thereof. With respect to insurance, coverage of some of these claims has been disputed by the carriers based on standard reservations and, therefore, recovery is questionable, a factor which has been considered in the Company's evaluation of these matters. Although difficult to quantify based on the complexity of the issues and the limitation on available information, the Company believes that its accruals for the estimated costs associated with such matters adequately provide for the Company's estimated foreseeable liability for these sites, however, given the nature and scope of the Company's manufacturing operations, there can be no assurance that the Company will not

become subject to other environmental proceedings and liabilities in the future which may be material to the Company.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Quarter Ended September 30, 1995 Compared to Quarter Ended September 30, 1994

Net sales increased \$22,627,000 (14.8%) to \$175,304,000. This increase was attributable to the inclusion of the net sales of acquired companies and the Company's Chinese joint venture located in Tianjin, Peoples Republic of China. These acquisitions principally included Anderson-Barrows Metals Corporation ("Anderson-Barrows") acquired in March 1995, located in California, Pibiviesse S.p.A. ("PBVS") acquired in November 1994, located in Italy, Jameco Industries, Inc. ("Jameco") acquired in July 1994, located in New York, and Societe des Etablissements Rene Trubert ("Trubert") acquired in August of 1995, located in Chartres, France. The Company had increased unit shipments of industrial valves and municipal water valves which were partially offset by decreased unit shipments of steam valves. The Company had increased sales in Europe of \$3,100,000 of which approximately forty percent was due to the strength of certain foreign currencies relative to the U.S. dollar. The Company intends to maintain its strategy of seeking acquisition opportunities as well as expanding its existing market position to achieve sales growth.

Gross profit increased \$6,173,000 (11.1%) to \$61,856,000 and decreased as a percentage of net sales from 36.5% to 35.3%. This decreased percentage was primarily attributable to the inclusion of certain acquired companies which operate at a lower gross margin than the rest of the Company. Gross profit was also adversely affected by increased raw material costs of bronze ingot and brass rod which, due to competitive pricing pressures, could not be completely recovered through price increases.

Selling, general and administrative expenses increased \$4,193,000 (12%) to \$39,042,000. This increase in spending was primarily attributable to the inclusion of the expenses of acquired companies, and increased selling expenses associated with international and drain products sales, partially offset by decreased general and administrative expenses corporate wide.

Interest income decreased \$429,000 (57.2%) to \$321,000. This decrease was attributable to lower levels of cash and short-term investments.

Interest expense increased \$436,000 (18.1%) to \$2,846,000. This increase was attributable to the inclusion of the debt of certain acquired companies in the consolidated balance sheet of the Company.

Net earnings increased \$744,000 (6.5%) to \$12,134,000. The Company's return on investment for the period ended September 30, 1995 was 11.4%.

The change in foreign exchange rates had an immaterial impact on the net results of operations.

The weighted average number of common shares outstanding on September 30, 1995, increased to 29,792,386 from 29,698,391 at September 30, 1994, for primary earnings per share. Primary and fully diluted earnings per share were \$.41 for the quarter ended September 30, 1995 compared to \$.38 for the quarter ended September 30, 1994.

Liquidity and Capital Resources

During the quarter ended September 30, 1995, the Company invested in three acquisitions and one joint venture. In August of 1995, a wholly owned subsidiary of the Company purchased Societe des Etablissements Rene Trubert of Chartres, France. Trubert is a manufacturer of thermostatic mixing valves sold primarily for commercial and industrial applications to accurately control the temperature of water for human safety and process control. Trubert had net sales of approximately \$8,000,000 for the twelve months ended June 30, 1995. Also, in August of 1995, a wholly owned subsidiary of the Company invested an initial \$2,000,000 in the Suzhou Watts Valve Co., Ltd. joint venture located in Suzhou, Peoples Republic of China. This joint venture was established to manufacture ball valves for the industrial and oil and gas markets. The Company's investment will total \$6,000,000 and represent a 60% interest in the joint venture. In September 1995, a wholly owned subsidiary acquired the Keane product line from Keane Controls Corp. This product line consists of solenoid valves and regulators used in high pressure applications. The annual sales of these products are approximately \$1,500,000. Also, in September 1995, a wholly owned subsidiary acquired the Kieley Mueller Control Valve product line from International Valve Corporation. This product line consists of linear and rotary control valves sold primarily for industrial process applications to accurately control the pressure, flow, and temperature of steam and process fluids. The annual sales of these products are approximately \$2,800,000. The aggregate purchase price for these investments was \$17,500,000.

During the quarter ended September 30, 1995, the Company spent \$5,114,000 on capital expenditures, primarily manufacturing machinery and equipment, as part of its commitment to continuously improve its manufacturing capabilities.

Working capital at September 30, 1995 was \$240,637,000 compared to \$242,023,000 at June 30, 1995. Cash and short-term investments were zero at September 30, 1995 compared to \$8,740,000 at June 30, 1995. The Company utilized overdraft facilities with certain banks during the quarter ended September 30, 1995, to minimize borrowings under its line of credit. The ratio of current assets to current liabilities was 2.9 to 1 at September 30, 1995 compared to 3.1 to 1 at June 30, 1995. Debt as a percentage of total capital employed was 25.8% at September 30, 1995 compared to 26.3% at June 30, 1995.

In order to support the Company's acquisition program, working capital requirements from acquisitions, and for general corporate purposes, the Company entered into a five-year commitment for an unsecured line of credit for \$125,000,000 expiring on August 31, 1999. As of September 30, 1995, there was \$33,000,000 outstanding under this credit facility.

The Company from time to time is involved with environmental proceedings and incurs costs on an ongoing basis related to environmental matters. The Company has been named a potentially responsible party with respect to currently identified contaminated sites, which are in various stages of the remediation process. The Company has evaluated its potential exposure based on all currently available information and has recorded its estimate of its liability for environmental matters. The ultimate outcome of these environmental matters cannot be determined. The Company currently anticipates that it will not incur significant expenditures in fiscal 1996 in connection with any of these environmentally contaminated sites. Please see Note 3 to the accompanying condensed consolidated financial statements.

The Company anticipates that available funds and those funds provided from current operations will be sufficient to meet current operating requirements and anticipated capital expenditures for at least the next 24 months.

Part II. Other Information

Item 6. Exhibits and Reports on Form 8-K

There were no reports filed on Form 8-K for the quarter ended September 30, 1995.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WATTS INDUSTRIES, INC.

Date: November 10, 1995

*By: /s/Timothy P. Horne
Timothy P. Horne
President*

Date: November 10, 1995

*By: /s/Kenneth J. McAvoy
Kenneth J. McAvoy
Chief Financial
Officer and Treasurer*

EXHIBIT INDEX

Listed and indexed below are all Exhibits filed as part of this report.

Exhibit No.	Description
11	Computation of earnings per share
27	Financial Data Schedule

EXHIBIT 11
WATTS INDUSTRIES , INC. AND SUBSIDIARIES
COMPUTATION OF EARNINGS PER SHARE
(Unaudited)

Three Months Ended
September 30

	1995	1994
PRIMARY		
Average shares outstanding	29,627,112	29,486,159
Net effect of dilutive stock options - based on the treasury stock method using average market price	165,274	212,232
Total	29,792,386	29,698,391
Net earnings	\$12,133,588	\$11,390,000
Earnings per share	\$.41	\$.38
FULLY-DILUTED		
Average shares outstanding	29,627,112	29,486,159
Net effect of dilutive stock options - based on the treasury stock method using the quarter-end market price, if higher than average market price	184,548	227,393
Total	29,811,660	29,713,552
Net earnings	\$12,133,588	\$11,390,000
Earnings per share	\$.41	\$.38

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	3 MOS
FISCAL YEAR END	JUN 30 1996
PERIOD END	SEP 30 1995
CASH	0
SECURITIES	0
RECEIVABLES	130,390
ALLOWANCES	5,952
INVENTORY	206,370
CURRENT ASSETS	367,842
PP&E	284,770
DEPRECIATION	116,655
TOTAL ASSETS	714,821
CURRENT LIABILITIES	127,205
BONDS	145,077
COMMON	2,964
PREFERRED MANDATORY	0
PREFERRED	0
OTHER SE	413,817
TOTAL LIABILITY AND EQUITY	714,821
SALES	175,304
TOTAL REVENUES	175,304
CGS	113,448
TOTAL COSTS	152,490 ¹
OTHER EXPENSES	3,142 ²
LOSS PROVISION	218
INTEREST EXPENSE	2,846
INCOME PRETAX	19,672
INCOME TAX	7,538
INCOME CONTINUING	12,134
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	12,134
EPS PRIMARY	\$.41
EPS DILUTED	\$.41

¹ INCLUDES ONLY COST OF GOODS SOLD AND OPERATING EXPENSES.

² INCLUDES INTEREST EXPENSE AND LOSS PROVISION SHOWN BELOW.

End of Filing

Powered By **EDGAR**
Online

© 2005 | EDGAR Online, Inc.