EnerSys Reports Third Quarter Fiscal 2019 Results

February 6, 2019

READING, Pa., Feb. 06, 2019 (GLOBE NEWSWIRE) -- EnerSys (NYSE: ENS), the global leader in stored energy solutions for industrial applications, announced today results for its third quarter of fiscal 2019, which ended on December 30, 2018.

Net earnings attributable to EnerSys stockholders (“Net earnings”) for the third quarter of fiscal 2019 were $48.4 million, or $1.12 per diluted share, which included an unfavorable highlighted net of tax impact of $2.0 million, or $0.05 per diluted share, from highlighted items described in further detail in the tables shown below, reconciling non-GAAP adjusted financial measures to reported amounts.

As previously disclosed, EnerSys completed the acquisition of subsidiaries and assets from the Alpha Group on December 7, 2018. For the third quarter of fiscal 2019, the contribution of the acquisition was $26.8 million to net sales and $(4.4) million to Net earnings, excluding the effect of the transaction and integration costs and interest expense on the debt to finance the acquisition.

Net loss attributable to EnerSys stockholders (“Net loss”) for the third quarter of fiscal 2018 was $25.8 million, or $0.61 loss per diluted share, which included an unfavorable highlighted net of tax impact of $79.1 million, or $1.86 per diluted share from highlighted items described in further detail in the tables shown below. The $79.1 million net of tax impact included an estimated net tax expense of $77.3 million comprised of a one-time transition tax of $94.0 million, a tax benefit related to the remeasurement of U.S. deferred taxes of $14.7 million, and a tax benefit of $2.0 million related to the reduction of the fiscal 2018 federal tax rate to 31.5%, on account of the Tax Cuts and Jobs Act (“Tax Act”).

Excluding these highlighted items, adjusted Net earnings per diluted share for the third quarter of fiscal 2019, on a non-GAAP basis, were $1.17. The guidance of $1.23 to $1.27 per diluted share for the third fiscal quarter given by the Company on November 7, 2018, assumed that the acquisition of the Alpha companies would not close in this period. Excluding the effects of this transaction, the Company earned $1.21 per diluted share on a non-GAAP basis. The $.04 negative impact ($1.21 compared to $1.17) primarily reflects the additional interest and amortization from the transaction as the three weeks of post acquisition net sales of $26.8 million had a neutral impact. The adjusted Net earnings per diluted share for the third quarter of fiscal 2019, on a non-GAAP basis compare to the prior year third quarter adjusted Net earnings of $1.25 per diluted share. Please refer to the section included herein under the heading “Reconciliation of Non-GAAP Financial Measures” for a discussion of the Company’s use of non-GAAP adjusted financial information, which include tables reconciling GAAP and non-GAAP adjusted financial measures for the quarters ended December 30, 2018 and December 31, 2017.

Net sales for the third quarter of fiscal 2019 were $680.0 million, an increase of 3% from the prior year third quarter net sales of $658.9 million and a 3% sequential quarterly increase from the second quarter of fiscal 2019 net sales of $660.5 million. The increase in the current quarter compared to the prior year quarter was the result of a 4% increase due to acquisitions and a 2% increase in pricing, partially offset by a 3% decrease in foreign currency translation impact. The 3% sequential quarterly increase was primarily due to a 4% increase due to acquisitions, partially offset by a 1% decrease in foreign currency translation impact.

The Company’s operating results for its business segments for the third quarters of fiscal 2019 and 2018 are as follows:

	Quarter ended ($ millions)	
	December 30, 2018	December 31, 2017
Net sales by segment		
Americas	$ 402.0	$ 353.2
EMEA	217.8	224.9
Asia	60.2	80.8
Total net sales	$ 680.0	$ 658.9
Operating earnings		
Americas	$ 49.8	$ 43.8
EMEA	17.1	24.2
Asia	0.7	3.3
Inventory step up to fair value relating to Alpha acquisition - Americas	(3.7)	—
Restructuring charges - Americas	(0.6)	(1.0)
Restructuring and other exit charges - EMEA	(4.4)	(0.8)
Restructuring charges - Asia	(0.4)	—

Legal proceedings settlement income - EMEA	2.8	—
Gain on sale of facility - EMEA	0.5	—
ERP system implementation and other - Americas	(1.6)	(0.5)
Acquisition activity expense - Americas	(10.2)	(0.1)
Acquisition activity expense - EMEA	—	(0.2)
Total operating earnings	$ 50.0	$ 68.7

EMEA - Europe, Middle East and Africa

Net earnings for the nine months of fiscal 2019 were $141.7 million, or $3.31 per diluted share, which included an unfavorable net of tax impact of $8.3 million, or $0.19 per diluted share, from cash and non-cash charges from highlighted items described in further detail in the tables shown below, reconciling non-GAAP adjusted financial measures to reported amounts.

Net earnings for the nine months of fiscal 2018 were $65.6 million, or $1.51 per diluted share, which included an unfavorable net of tax impact of $82.4 million, or $1.90 per diluted share, from highlighted items. The $82.4 million net of tax impact includes an estimated net tax expense of $77.3 million comprised of a one-time transition tax of $94.0 million, a tax benefit related to the remeasurement of U.S. deferred taxes of $14.7 million, and a tax benefit of $2.0 million related to the reduction of the fiscal 2018 federal tax rate to 31.5%, on account of the recently enacted Tax Act.

Adjusted Net earnings for the nine months of fiscal 2019, on a non-GAAP basis, were $3.50 per diluted share. This compares to the prior year nine months adjusted Net earnings of $3.41 per diluted share. Please refer to the section included herein under the heading “Reconciliation of Non-GAAP Financial Measures” for a discussion of the Company's use of non-GAAP adjusted financial information.

Net sales for the nine months of fiscal 2019 were $2,011.4 million, an increase of 6% from the net sales of $1,898.8 million in the comparable period in fiscal 2018. This increase was the result of a 4% increase in organic volume, a 2% increase in pricing and a 1% increase in acquisitions, partially offset by a 1% decrease in foreign currency translation impact.

The Company's operating results for its business segments for the nine months of fiscal years 2019 and 2018 are as follows:

	Nine months ended ($ millions)	
	December 30, 2018	**December 31, 2017**
Net sales by segment		
Americas	$ 1,183.1	$ 1,049.3
EMEA	632.3	621.9
Asia	196.0	227.6
Total net sales	$ 2,011.4	$ 1,898.8
Operating earnings		
Americas	$ 149.8	$ 143.4
EMEA	48.1	56.2
Asia	4.5	10.7
Inventory step up to fair value relating to Alpha acquisition - Americas	(3.7)	—
Inventory adjustment relating to exit activities - Asia	(0.5)	—
Restructuring charges - Americas	(0.6)	(1.3)
Restructuring and other exit charges - EMEA	(6.6)	(3.1)
Restructuring charges - Asia	(0.5)	—
Fixed asset write-off relating to exit activities - Asia	(0.6)	—
Legal proceedings settlement income - EMEA	2.8	—
Gain on sale of facility - EMEA	0.5	—
ERP system implementation and other - Americas	(3.0)	(2.1)
Acquisition activity expense - Americas	(12.7)	(0.2)
Acquisition activity expense - EMEA	—	(0.5)
Total operating earnings	$ 177.5	$ 203.1

EMEA - Europe, Middle East and Africa

“Our third quarter results were lower than guidance mainly due to lower U.S. telecommunications sales resulting from recent restructuring initiatives at our key customers. We believe this restructuring is largely to finance future investment in 5G network upgrades. In addition we experienced higher than projected freight costs in the quarter,” stated David M. Shaffer, President and Chief Executive Officer of EnerSys. “However, the carriers continue to forecast substantial purchasing increases for DC power products in calendar year 2019.” Mr. Shaffer added, “Our fourth quarter guidance for non-GAAP adjusted net earnings per diluted share is between $1.41 to $1.45, which excludes an expected charge of $0.30 primarily from Alpha related inventory step up costs, as well as other highlighted items related to restructuring programs and ERP system implementation expenses. Our guidance at its midpoint reflects approximately $1.40 of legacy EnerSys business and $.06 from Alpha, with the combined results diluted by approximately $.03 from the issuance of 1.18 million shares to the seller on the Alpha transaction.”

Reconciliation of Non-GAAP Financial Measures

This press release contains financial information determined by methods other than in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). EnerSys' management uses the non-GAAP measure “adjusted Net earnings” as applicable, in their analysis of the Company's performance. This measure, as used by EnerSys in past quarters and years, adjusts Net earnings determined in accordance with GAAP to reflect changes in financial results associated with the Company's restructuring initiatives and other highlighted charges and income items. Management believes the presentation of this financial measure reflecting these non-GAAP adjustments provides important supplemental information in evaluating the operating results of the Company as distinct from results that include items that are not indicative of ongoing operating results; in particular, those charges that the Company incurs as a result of restructuring activities, impairment of goodwill and indefinite-lived intangibles and other assets, acquisition activities and those charges and credits that are not directly related to operating unit performance, such as significant legal proceedings, ERP system implementation and tax valuation allowance changes, including those related to the adoption of the Tax Cuts and Jobs Act. Because these charges are not incurred as a result of ongoing operations, or are incurred as a result of a potential or previous acquisition, they are not as helpful a measure of the performance of our underlying business, particularly in light of their unpredictable nature and are difficult to forecast.

Income tax effects of non-GAAP adjustments are calculated using the applicable statutory tax rate for the jurisdictions in which the charges (benefits) are incurred, while taking into consideration any valuation allowances. For those items which are non-taxable, the tax expense (benefit) is calculated at 0%.

This non-GAAP disclosure has limitations as an analytical tool, should not be viewed as a substitute for Net earnings determined in accordance with GAAP, and should not be considered in isolation or as a substitute for analysis of the Company's results as reported under GAAP, nor is it necessarily comparable to non-GAAP performance measures that may be presented by other companies. Management believes that this non-GAAP supplemental information will be helpful in understanding the Company's ongoing operating results. This supplemental presentation should not be construed as an inference that the Company's future results will be unaffected by similar adjustments to Net earnings determined in accordance with GAAP.

Included below is a reconciliation of non-GAAP adjusted financial measures to reported amounts. Non-GAAP adjusted Net earnings are calculated excluding restructuring and other highlighted charges and credits. The following tables provide additional information regarding certain non-GAAP measures:

	Quarter ended *(in millions, except share and per share amounts)*			
	December 30, 2018		**December 31, 2017**	
Net Earnings reconciliation				
As reported Net Earnings (Loss)	$ 48.4		$ (25.8)	
Non-GAAP adjustments:				
Inventory step up to fair value relating to Alpha acquisition	3.7	(1)	—	(1)
Restructuring and other exit charges	5.4	(2)	1.8	(2)
Legal proceedings settlement income	(2.8)	(3)	—	(3)
Gain on sale of facility	(0.5)	(4)	—	(4)
ERP system implementation and other	1.6	(5)	0.5	(5)
Acquisition activity expense	10.2	(6)	0.3	(6)
Income tax effect of above non-GAAP adjustments	(2.2)		(0.8)	
Tax Act *	(13.4)		77.3	
Non-GAAP adjusted Net Earnings	$ 50.4		$ 53.3	
Outstanding shares used in Non-GAAP adjusted Net Earnings per share calculations				
Basic	42,337,459		42,125,745	
Diluted	43,102,598		42,547,343	

Outstanding shares used in Reported Net Earnings per share calculations

Basic	42,337,459	42,125,745
Diluted	43,102,598	42,125,745
Non-GAAP adjusted Net Earnings per share:		
Basic	$ 1.19	$ 1.27
Diluted	$ 1.17	$ 1.25
Reported Net Earnings (Loss) per share:		
Basic	$ 1.14	$ (0.61)
Diluted	$ 1.12	$ (0.61)
Dividends per common share	$ 0.175	$ 0.175

The following table provides the regional allocation of the non-GAAP adjustments shown in the reconciliation above:

	Quarter ended	
	($ millions)	
	December 30, 2018	**December 31, 2017**
	Pre-tax	Pre-tax
(1) Inventory step up to fair value relating to Alpha acquisition - Americas	$ 3.7	$ —
(2) Restructuring charges - Americas	0.6	1.0
(2) Restructuring and other exit charges - EMEA	4.4	0.8
(2) Restructuring charges - Asia	0.4	—
(3) Legal proceedings settlement income - EMEA	(2.8)	—
(4) Gain on sale of facility - EMEA	(0.5)	—
(5) ERP system implementation and other - Americas	1.6	0.5
(6) Acquisition activity expense - Americas	10.2	0.1
(6) Acquisition activity expense - EMEA	—	0.2
Total Non-GAAP adjustments	$ 17.6	$ 2.6

EMEA - Europe, Middle East and Africa

* See Income Taxes in Note 6 to the Consolidated Condensed Financial Statements on Form 10-Q for the quarterly period ended December 30, 2018.

	Nine months ended			
	(in millions, except share and per share amounts)			
	December 30, 2018		**December 31, 2017**	
Net Earnings reconciliation				
As reported Net Earnings	$ 141.7		$ 65.6	
Non-GAAP adjustments:				
Inventory step up to fair value relating to Alpha acquisition	3.7	(1)	—	(1)
Restructuring and other exit charges	8.8	(2)	4.4	(2)
Legal proceedings settlement income	(2.8)	(3)	—	(3)
Gain on sale of facility	(0.5)	(4)	—	(4)
ERP system implementation and other	3.0	(5)	2.1	(5)
Acquisition activity expense	12.7	(6)	0.7	(6)
Income tax effect of above non-GAAP adjustments	(3.7)		(2.1)	
Adjustment to prior year foreign tax valuation allowance	0.5		—	
Tax Act *	(13.4)		77.3	

Non-GAAP adjusted Net Earnings	$ 150.0	$ 148.0
Outstanding shares used in Non-GAAP adjusted Net Earnings per share calculations		
Basic	42,161,163	42,837,986
Diluted	42,816,762	43,345,926
Outstanding shares used in Reported Net Earnings per share calculations		
Basic	42,161,163	42,837,986
Diluted	42,816,762	43,345,926
Non-GAAP adjusted Net Earnings per share:		
Basic	$ 3.56	$ 3.45
Diluted	$ 3.50	$ 3.41
Reported Net Earnings per share:		
Basic	$ 3.36	$ 1.53
Diluted	$ 3.31	$ 1.51
Dividends per common share	$ 0.525	$ 0.525

	Nine months ended	
	($ millions)	
	December 30, 2018	**December 31, 2017**
	Pre-tax	Pre-tax
(1) Inventory step up to fair value relating to Alpha acquisition - Americas	$ 3.7	$ —
(2) Inventory adjustment relating to exit activities - Asia	0.5	—
(2) Restructuring charges - Americas	0.6	1.3
(2) Restructuring and other exit charges - EMEA	6.6	3.1
(2) Fixed asset write-off relating to exit activities - Asia	0.6	—
(2) Restructuring charges - Asia	0.5	—
(3) Legal proceedings settlement income - EMEA	(2.8)	—
(4) Gain on sale of facility - EMEA	(0.5)	—
(5) ERP system implementation and other - Americas	3.0	2.1
(6) Acquisition activity expense - Americas	12.7	0.2
(6) Acquisition activity expense - EMEA	—	0.5
Total Non-GAAP adjustments	$ 24.9	$ 7.2

EMEA - Europe, Middle East and Africa

* See Income Taxes in Note 6 to the Consolidated Condensed Financial Statements on Form 10-Q for the quarterly period ended December 30, 2018.

Summary of Earnings (Unaudited)
(In millions, except share and per share data)

	Quarter ended	
	December 30, 2018	**December 31, 2017**
Net sales	$ 680.0	$ 658.9
Gross profit	164.6	167.2

Operating expenses	112.0	96.7
Restructuring and other exit charges	5.4	1.8
Legal proceedings settlement income	(2.8)	—
Operating earnings	50.0	68.7
Earnings before income taxes	42.9	62.5
Income tax (benefit) expense	(5.7)	88.3
Net earnings (loss) attributable to EnerSys stockholders	$ 48.4	$ (25.8)
Net reported earnings (loss) per common share attributable to EnerSys stockholders:		
Basic	$ 1.14	$ (0.61)
Diluted	$ 1.12	$ (0.61)
Dividends per common share	$ 0.175	$ 0.175
Weighted-average number of common shares used in reported earnings per share calculations:		
Basic	42,337,459	42,125,745
Diluted	43,102,598	42,125,745

	Nine months ended	
	December 30, 2018	**December 31, 2017**
Net sales	$ 2,011.4	$ 1,898.8
Gross profit	490.8	491.0
Operating expenses	307.8	283.5
Restructuring and other exit charges	8.3	4.4
Legal proceedings settlement income	(2.8)	—
Operating earnings	177.5	203.1
Earnings before income taxes	158.4	178.6
Income tax expense	16.4	112.9
Net earnings attributable to EnerSys stockholders	$ 141.7	$ 65.6
Net reported earnings per common share attributable to EnerSys stockholders:		
Basic	$ 3.36	$ 1.53
Diluted	$ 3.31	$ 1.51
Dividends per common share	$ 0.525	$ 0.525
Weighted-average number of common shares used in reported earnings per share calculations:		
Basic	42,161,163	42,837,986
Diluted	42,816,762	43,345,926

EnerSys also announced that it will host a conference call to discuss the Company's third quarter fiscal year 2019 financial results and provide an overview of the business. The call will conclude with a question and answer session.

The call, scheduled for Thursday, February 7, 2019 at 9:00 a.m., Eastern Time, will be hosted by David M. Shaffer, President and Chief Executive Officer, and Michael J. Schmidtlein, Chief Financial Officer.

The call will also be webcast on EnerSys' website. There will be a free download of a compatible media player on the Company's website at http://www.enersys.com.

The conference call information is:

Date:	Thursday, February 7, 2019
Time:	9:00 a.m. Eastern Time

Via Internet:	http://www.enersys.com
Domestic Dial-In Number:	877-359-9508
International Dial-In Number:	224-357-2393
Passcode:	2283592

A replay of the conference call will be available from 12:30 p.m. on February 7, 2019 through 12:30 p.m. on March 9, 2019.

The replay information is:

Via Internet:	http://www.enersys.com
Domestic Replay Number:	855-859-2056
International Replay Number:	404-537-3406
Passcode:	2283592

For more information, contact Thomas O'Neill, Vice President and Treasurer, EnerSys, P.O. Box 14145, Reading, PA 19612-4145, USA. Tel: 610-236-4040 or by emailing investorrelations@enersys.com; Web site: www.enersys.com.

EDITOR'S NOTE: EnerSys, the global leader in stored energy solutions for industrial applications, manufactures and distributes reserve power and motive power batteries, battery chargers, power equipment, battery accessories and outdoor equipment enclosure solutions to customers worldwide. Motive power batteries and chargers are utilized in electric forklift trucks and other commercial electric powered vehicles. Reserve power batteries are used in the telecommunication and utility industries, uninterruptible power supplies, and numerous applications requiring stored energy solutions including medical, aerospace and defense systems. Outdoor equipment enclosure products are utilized in the telecommunication, cable, utility, transportation industries and by government and defense customers. The company also provides aftermarket and customer support services to its customers in over 100 countries through its sales and manufacturing locations around the world. With the recent Alpha acquisition, EnerSys provides highly integrated power solutions and services to broadband, telecom, renewable and industrial customers.

More information regarding EnerSys can be found at www.enersys.com.

Caution Concerning Forward-Looking Statements

This press release, and oral statements made regarding the subjects of this release, contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, or the Reform Act, which may include, but are not limited to, statements regarding EnerSys' earnings estimates, intention to pay quarterly cash dividends, return capital to stockholders, plans, objectives, expectations and intentions and other statements contained in this press release that are not historical facts, including statements identified by words such as “believe,” “plan,” “seek,” “expect,” “intend,” “estimate,” “anticipate,” “will,” and similar expressions. All statements addressing operating performance, events, or developments that EnerSys expects or anticipates will occur in the future, including statements relating to sales growth, earnings or earnings per share growth, order intake, backlog, payment of future cash dividends, commodity prices, execution of its stock buy back program, judicial or regulatory proceedings, and market share, as well as statements expressing optimism or pessimism about future operating results or benefits from either its cash dividend or its stock buy back programs, are forward-looking statements within the meaning of the Reform Act. The forward-looking statements are based on management's current views and assumptions regarding future events and operating performance, and are inherently subject to significant business, economic, and competitive uncertainties and contingencies and changes in circumstances, many of which are beyond the Company's control. The statements in this press release are made as of the date of this press release, even if subsequently made available by EnerSys on its website or otherwise. EnerSys does not undertake any obligation to update or revise these statements to reflect events or circumstances occurring after the date of this press release.

Although EnerSys does not make forward-looking statements unless it believes it has a reasonable basis for doing so, EnerSys cannot guarantee their accuracy. The foregoing factors, among others, could cause actual results to differ materially from those described in these forward-looking statements. For a list of other factors which could affect EnerSys' results, including earnings estimates, see EnerSys' filings with the Securities and Exchange Commission, “Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations,” including “Forward-Looking Statements,” set forth in EnerSys' Annual Report on Form 10-K for the fiscal year ended March 31, 2018. No undue reliance should be placed on any forward-looking statements.

EnerSys