

VALMONT INDUSTRIES INC

Form 10-Q

May 02, 2019

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

Form 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended March 30, 2019

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 1-31429

Valmont Industries, Inc.

(Exact name of registrant as specified in its charter)

Delaware 47-0351813

(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

One Valmont Plaza,

Omaha, Nebraska 68154-5215

(Address of Principal Executive Offices) (Zip Code)

(402) 963-1000

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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 every Interactive Data File required to be submitted 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 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 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

21,856,613

Outstanding shares of common stock as of April 26, 2019

VALMONT INDUSTRIES, INC.

INDEX TO FORM 10-Q

	Page No.
PART I. FINANCIAL INFORMATION	
<u>Item 1. Financial Statements</u> (unaudited):	
<u>Condensed Consolidated Statements of Earnings for the thirteen weeks ended March 30, 2019 and March 31, 2018</u>	<u>3</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the thirteen weeks ended March 30, 2019 and March 31, 2018</u>	<u>4</u>
Condensed Consolidated Balance Sheets as of March 30, 2019 and December 29, 2018	<u>5</u>
Condensed Consolidated Statements of Cash Flows for the thirteen weeks ended March 30, 2019 and March 31, 2018	<u>6</u>
Condensed Consolidated Statements of Shareholders' Equity for the thirteen weeks ended March 30, 2019 and March 31, 2018	<u>7</u>
Notes to Condensed Consolidated Financial Statements	<u>8</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>35</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>43</u>
<u>Item 4. Controls and Procedures</u>	<u>43</u>
PART II. OTHER INFORMATION	
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>44</u>
<u>Item 5. Other Information</u>	<u>44</u>
<u>Item 6. Exhibits</u>	<u>44</u>
<u>Signatures</u>	<u>47</u>

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES
PART I. FINANCIAL INFORMATION
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Dollars in thousands, except per share amounts)
(Unaudited)

	Thirteen Weeks Ended	
	March 30, 2019	March 31, 2018
Product sales	\$614,964	\$620,486
Services sales	77,175	78,198
Net sales	692,139	698,684
Product cost of sales	474,395	476,264
Services cost of sales	52,615	53,180
Total cost of sales	527,010	529,444
Gross profit	165,129	169,240
Selling, general and administrative expenses	110,025	105,280
Operating income	55,104	63,960
Other income (expenses):		
Interest expense	(9,878)	(11,074)
Interest income	810	1,267
Gain (loss) on investments (unrealized)	2,832	(172)
Other	1,014	(969)
	(5,222)	(10,948)
Earnings before income taxes	49,882	53,012
Income tax expense (benefit):		
Current	2,765	7,713
Deferred	9,662	4,819
	12,427	12,532
Net earnings	37,455	40,480
Less: Earnings attributable to noncontrolling interests	(974)	(1,199)
Net earnings attributable to Valmont Industries, Inc.	\$36,481	\$39,281
Earnings per share:		
Basic	\$1.67	\$1.74
Diluted	\$1.66	\$1.72

See accompanying notes to condensed consolidated financial statements.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Dollars in thousands)
 (Unaudited)

	Thirteen Weeks Ended	
	March 30, 2019	March 31, 2018
Net earnings	\$37,455	\$40,480
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments:		
Unrealized translation gain	2,266	6,804
Gain (loss) on hedging activities:		
Net investment hedges	69	(789)
Amortization cost included in interest expense	(16)	19
Commodity hedges	—	(93)
Cross currency swaps	2,261	—
Other comprehensive income	4,580	5,941
Comprehensive income	42,035	46,421
Comprehensive income attributable to noncontrolling interests	(1,109)	(4,747)
Comprehensive income attributable to Valmont Industries, Inc.	\$40,926	\$41,674

See accompanying notes to condensed consolidated financial statements.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

(Unaudited)

	March 30, 2019	December 29, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$211,237	\$ 313,210
Receivables, net	512,852	483,963
Inventories	395,799	383,566
Contract asset - costs and profits in excess of billings	119,886	112,525
Prepaid expenses and other assets	54,379	42,800
Refundable income taxes	4,747	4,576
Total current assets	1,298,900	1,340,640
Property, plant and equipment, at cost	1,196,633	1,160,865
Less accumulated depreciation and amortization	669,304	646,873
Net property, plant and equipment	527,329	513,992
Goodwill	416,996	385,207
Other intangible assets, net	192,897	175,956
Other assets	209,865	114,479
Total assets	\$2,645,987	\$ 2,530,274
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current installments of long-term debt	\$764	\$ 779
Notes payable to banks	19,816	10,678
Accounts payable	219,460	218,115
Accrued employee compensation and benefits	63,425	79,291
Accrued expenses	129,161	91,942
Dividends payable	8,213	8,230
Total current liabilities	440,839	409,035
Deferred income taxes	46,440	43,489
Long-term debt, excluding current installments	741,629	741,822
Defined benefit pension liability	133,761	143,904
Operating lease liabilities	88,492	—
Deferred compensation	49,615	46,107
Other noncurrent liabilities	13,996	10,394
Shareholders' equity:		
Preferred stock of \$1 par value - Authorized 500,000 shares; none issued	—	—
Common stock of \$1 par value - Authorized 75,000,000 shares; 27,900,000 issued	27,900	27,900
Retained earnings	2,049,438	2,027,596
Accumulated other comprehensive loss	(298,740)	(303,185)
Treasury stock	(700,333)	(692,549)
Total Valmont Industries, Inc. shareholders' equity	1,078,265	1,059,762
Noncontrolling interest in consolidated subsidiaries	52,950	75,761
Total shareholders' equity	1,131,215	1,135,523

Total liabilities and shareholders' equity \$2,645,987 \$2,530,274

See accompanying notes to condensed consolidated financial statements.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Dollars in thousands)
 (Unaudited)

	Thirteen Weeks Ended	
	March 30, 2019	March 31, 2018
Cash flows from operating activities:		
Net earnings	\$37,455	\$40,480
Adjustments to reconcile net earnings to net cash flows from operations:		
Depreciation and amortization	20,253	21,178
Noncash loss on trading securities	87	71
Impairment of property, plant and equipment	—	1,145
Stock-based compensation	3,670	2,775
Defined benefit pension plan benefit	(132)	(594)
Contribution to defined benefit pension plan	(13,943)	(731)
Gain on sale of property, plant and equipment	(227)	(280)
Deferred income taxes	9,662	4,819
Changes in assets and liabilities:		
Receivables	(25,424)	29,794
Inventories	(7,616)	(1,201)
Prepaid expenses and other assets	(7,310)	(4,489)
Contract asset - costs and profits in excess of billings	(7,361)	(27,536)
Accounts payable	(704)	(29,449)
Accrued expenses	4,585	(6,407)
Other noncurrent liabilities	(234)	440
Income taxes refundable	(4,848)	3,033
Net cash flows from operating activities	7,913	33,048
Cash flows from investing activities:		
Purchase of property, plant and equipment	(21,109)	(16,248)
Proceeds from sale of assets	422	714
Acquisitions, net of cash acquired	(57,106)	(4,800)
Settlement of net investment hedges	—	(863)
Other, net	(1,667)	(1,782)
Net cash flows from investing activities	(79,460)	(22,979)
Cash flows from financing activities:		
Proceeds from short-term agreements	9,327	219
Proceeds from long-term borrowings	10,000	—
Principal payments on long-term borrowings	(10,194)	(249)
Dividends paid	(8,213)	(8,510)
Dividends to noncontrolling interest	(838)	(1,281)
Purchase of noncontrolling interest	(23,082)	(5,510)
Purchase of treasury shares	(9,421)	(14,790)
Proceeds from exercises under stock plans	1,174	2,972
Purchase of common treasury shares—stock plan exercises	(747)	(1,504)
Net cash flows from financing activities	(31,994)	(28,653)
Effect of exchange rate changes on cash and cash equivalents	1,568	5,442
Net change in cash and cash equivalents	(101,973)	(13,142)

Edgar Filing: VALMONT INDUSTRIES INC - Form 10-Q

Cash, cash equivalents, and restricted cash—beginning of year	313,210	492,805
Cash, cash equivalents, and restricted cash—end of period	\$211,237	\$479,663

See accompanying notes to condensed consolidated financial statements.

6

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Dollars in thousands)

(Unaudited)

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensivestock income (loss)	Treasury stock	Noncontrolling interest in consolidated subsidiaries	Total shareholders' equity
Balance at December 29, 2017	\$ 27,900	\$ —	\$ 1,954,344	\$ (279,022)	\$ (590,386)	\$ 38,959	\$ 1,151,795
Net earnings	—	—	39,281	—	—	1,199	40,480
Other comprehensive income (loss)	—	—	—	2,393	—	3,548	5,941
Cash dividends declared (\$0.375 per share)	—	—	(8,493)	—	—	—	(8,493)
Dividends to noncontrolling interests	—	—	—	—	—	(1,281)	(1,281)
Cumulative impact of ASC 606 adoption	—	—	9,771	—	—	—	9,771
Addition of noncontrolling interest	—	—	—	—	—	3,200	3,200
Purchase of noncontrolling interest	—	—	—	—	—	(5,510)	(5,510)
Purchase of treasury shares; 101,387 shares acquired	—	—	—	—	(14,790)	—	(14,790)
Stock plan exercises; 9,548 shares acquired	—	—	—	—	(1,504)	—	(1,504)
Stock options exercised; 27,904 shares issued	—	(2,545)	1,571	—	3,946	—	2,972
Tax benefit from stock option exercises	—	—	—	—	—	—	—
Stock option expense	—	1,090	—	—	—	—	1,090
Stock awards; 1,840 shares issued	—	1,455	—	—	230	—	1,685
Balance at March 31, 2018	\$ 27,900	\$ —	\$ 1,996,474	\$ (276,629)	\$ (602,504)	\$ 40,115	\$ 1,185,356
Balance at December 29, 2018	\$ 27,900	\$ —	\$ 2,027,596	\$ (303,185)	\$ (692,549)	\$ 75,761	\$ 1,135,523
Net earnings	—	—	36,481	—	—	974	37,455
Other comprehensive income (loss)	—	—	—	4,445	—	135	4,580
Cash dividends declared (\$0.375 per share)	—	—	(8,213)	—	—	—	(8,213)
Dividends to noncontrolling interests	—	—	—	—	—	(838)	(838)
Purchase of noncontrolling interest	—	—	—	—	—	(23,082)	(23,082)
Impact of ASC 842 adoption	—	—	(8,886)	—	—	—	(8,886)
Purchase of treasury shares; 70,406 shares acquired	—	—	—	—	(9,421)	—	(9,421)
Stock plan exercises; 5,451 shares acquired	—	—	—	—	(747)	—	(747)
	—	(2,667)	2,460	—	1,381	—	1,174

Stock options exercised; 12,995 shares issued							
Stock option expense	—	728	—	—	—	—	728
Stock awards; 7,635 shares issued	—	1,939	—	—	1,003	—	2,942
Balance at March 30, 2019	\$ 27,900	\$ —	\$ 2,049,438	\$ (298,740)	\$ (700,333)	\$ 52,950	\$ 1,131,215

See accompanying notes to condensed consolidated financial statements.

7

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Condensed Consolidated Financial Statements

The Condensed Consolidated Balance Sheet as of March 30, 2019, the Condensed Consolidated Statements of Earnings and Comprehensive Income for the thirteen weeks ended March 30, 2019 and March 31, 2018, and the Condensed Consolidated Statements of Cash Flows and Shareholders' Equity for the thirteen week periods then ended have been prepared by the Company, without audit. In the opinion of management, all necessary adjustments (which include normal recurring adjustments) have been made to present fairly the financial statements as of March 30, 2019 and for all periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These Condensed Consolidated Financial Statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2018. The accounting policies and methods of computation followed in these interim financial statements are the same as those followed in the financial statements for the year ended December 29, 2018 with the exception of the lease accounting policy which changed from adopting ASU 2016-02 and is discussed in footnote 9. The results of operations for the period ended March 30, 2019 are not necessarily indicative of the operating results for the full year.

Inventories

Approximately 37% of inventory is valued at the lower of cost, determined on the last-in, first-out (LIFO) method, or market as of March 30, 2019 and December 29, 2018. All other inventory is valued at the lower of cost, determined on the first-in, first-out (FIFO) method or market. Finished goods and manufactured goods inventories include the costs of acquired raw materials and related factory labor and overhead charges required to convert raw materials to manufactured and finished goods. The excess of replacement cost of inventories over the LIFO value is approximately \$53,118 and \$53,619 at March 30, 2019 and December 29, 2018, respectively.

Inventories consisted of the following:

	March 30, December 29,	
	2019	2018
Raw materials and purchased parts	\$ 194,396	\$ 190,115
Work-in-process	31,091	35,566
Finished goods and manufactured goods	223,430	211,504
Subtotal	448,917	437,185
Less: LIFO reserve	53,118	53,619
	\$ 395,799	\$ 383,566

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Earnings before income taxes for the thirteen weeks ended March 30, 2019 and March 31, 2018, were as follows:

	Thirteen Weeks Ended	
	2019	2018
United States	\$42,251	\$41,765
Foreign	7,631	11,247
	\$49,882	\$53,012

Pension Benefits

The Company incurs expenses in connection with the Delta Pension Plan ("DPP"). The DPP was acquired as part of the Delta plc acquisition in fiscal 2010 and has no members that are active employees. In order to measure expense and the related benefit obligation, various assumptions are made including discount rates used to value the obligation, expected return on plan assets used to fund these expenses and estimated future inflation rates. These assumptions are based on historical experience as well as current facts and circumstances. An actuarial analysis is used to measure the expense and liability associated with pension benefits.

The components of the net periodic pension (benefit) expense for the thirteen weeks ended March 30, 2019 and March 31, 2018 were as follows:

	Thirteen Weeks Ended	
	2019	2018
Net periodic (benefit) expense:		
Interest cost	\$4,345	\$4,716
Expected return on plan assets	(5,135)	(6,114)
Amortization of actuarial loss	658	804
Net periodic expense (benefit)	\$(132)	\$(594)

Stock Plans

The Company maintains stock based compensation plans approved by the shareholders, which provide that the Human Resource Committee of the Board of Directors may grant incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock awards, restricted stock units, and bonuses of common stock. At March 30, 2019, 1,410,405 shares of common stock remained available for issuance under the plans.

Under the plans, the exercise price of each option equals the closing market price at the date of the grant. Options vest beginning on the first anniversary of the grant in equal amounts over three to six years or on the grant's fifth anniversary. Expiration of grants is from seven years from the date of grant. Restricted stock units and awards generally vest in equal installments over three years beginning on the first anniversary of the grant.

The Company's compensation expense (included in selling, general and administrative expenses) and associated income tax benefits related to stock options and restricted stock for the thirteen weeks ended March 30, 2019 and March 31, 2018, respectively, were as follows:

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	Thirteen Weeks Ended	
	2019	2018
Compensation expense	\$3,670	\$2,775
Income tax benefits	918	694

Fair Value

The Company applies the provisions of Accounting Standards Codification 820, Fair Value Measurements (“ASC 820”) which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of ASC 820 apply to other accounting pronouncements that require or permit fair value measurements. As defined in ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

ASC 820 establishes a three level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Following is a description of the valuation methodologies used for assets and liabilities measured at fair value.

Trading Securities: The assets and liabilities recorded for the investments held in the Valmont Deferred Compensation Plan of \$40,796 (\$37,516 at December 29, 2018) represent mutual funds, invested in debt and equity securities, classified as trading securities in accordance with Accounting Standards Codification 320, Accounting for Certain Investments in Debt and Equity Securities, considering the employee's ability to change investment allocation of their deferred compensation at any time. The Company's ownership of shares in Delta EMD Pty. Ltd. (JSE:DTA) is also classified as trading securities. The shares are valued at \$2,410 and \$2,508 as of March 30, 2019 and December 29, 2018, respectively, which is the estimated fair value. Quoted market prices are available for these securities in an active market and therefore categorized as a Level 1 input.

Derivative Financial Instruments: The fair value of foreign currency and commodity forward contracts, and cross currency contracts is based on a valuation model that discounts cash flows resulting from the differential between the contract price and the market-based forward rate.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	Carrying Value	Fair Value Measurement Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Trading Securities	\$ 43,206	\$43,206	\$ —	\$ —
Derivative financial instruments, net	13,743	—	13,743	—
		Fair Value Measurement Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Trading Securities	\$ 40,024	\$40,024	\$ —	\$ —
Derivative financial instruments, net	9,147	—	9,147	—

Long-Lived Assets

The Company's other non-financial assets include goodwill and other intangible assets, which are classified as Level 3 items. These assets are measured at fair value on a non-recurring basis as part of annual impairment testing. Note 5 to these condensed consolidated financial statements contain additional information related to goodwill and intangible asset impairments.

Comprehensive Income

Comprehensive income includes net earnings, currency translation adjustments, certain derivative-related activity and changes in net actuarial gains/losses from a pension plan. Results of operations for foreign subsidiaries are translated using the average exchange rates during the period. Assets and liabilities are translated at the exchange rates in effect on the balance sheet dates. Accumulated other comprehensive income (loss) consisted of the following at March 30, 2019 and December 29, 2018:

	Foreign Currency Translation Adjustments	Gain/(Loss) on Hedging Activities	Defined Benefit Pension Plan	Accumulated Other Comprehensive Loss
Balance at December 29, 2018	\$ (230,261)	\$ 11,171	\$(84,095)	\$ (303,185)
Current-period comprehensive income (loss)	2,131	2,314	—	4,445

Balance at March 30, 2019 \$(228,130) \$ 13,485 \$(84,095) \$ (298,740)

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

The Company determines the appropriate revenue recognition for our contracts by analyzing the type, terms and conditions of each contract or arrangement with a customer. Contracts with customers for all businesses are fixed-price with sales tax excluded from revenue, and do not include variable consideration. Discounts included in contracts with customers, typically early pay discounts, are recorded as a reduction of net sales in the period in which the sale is recognized. Contract revenues are classified as product when the performance obligation is related to the manufacturing of goods. Contract revenues are classified as service when the performance obligation is the performance of a service. Service revenue is primarily related to the Coatings segment.

Customer acceptance provisions exist only in the design stage of our products and acceptance of the design by the customer is required before the project is manufactured and delivered to the customer. The Company is not entitled to any compensation solely based on design of the product and does not recognize revenue associated with the design stage. There is one performance obligation for revenue recognition. No general rights of return exist for customers once the product has been delivered and the Company establishes provisions for estimated warranties. The Company does not sell extended warranties for any of its products.

Shipping and handling costs associated with sales are recorded as cost of goods sold. The Company elected to use the practical expedient of treating freight as a fulfillment obligation instead of a separate performance obligation and ratably recognize freight expense as the structure is being manufactured, when the revenue from the associated customer contract is being recognized over time. With the exception of the Utility segment and the wireless communication structures product line, the Company's inventory is interchangeable for a variety of each segment's customers. The Company elected the practical expedient to not disclose the partially satisfied performance obligation at the end of the period when the contract has an original expected duration of one year or less. In addition, the Company elected the practical expedient to not adjust the amount of consideration to be received in a contract for any significant financing component if payment is expected within twelve months of transfer of control of goods or services; the Company expects all consideration to be received in one year or less at contract inception.

Segment and Product Line Revenue Recognition

The global Utility segment revenues are derived from manufactured steel and concrete structures for the North America utility industry and offshore and other complex structures used in energy generation and distribution outside of the United States. Steel and concrete utility structures are engineered to customer specifications resulting in limited ability to sell the structure to a different customer if an order is canceled after production commences. The continuous transfer of control to the customer is evidenced either by contractual termination clauses or by our rights to payment for work performed to-date plus a reasonable profit as the products do not have an alternative use to the Company. Since control is transferring over time, revenue is recognized based on the extent of progress towards completion of the performance obligation. The selection of the method to measure progress towards completion requires judgment. For our steel and concrete utility and wireless communication structure product lines, we generally recognize revenue on an inputs basis, using total production hours incurred to-date for each order as a percentage of total hours estimated to produce the order. The completion percentage is applied to the order's total revenue and total estimated costs to determine reported revenue, cost of goods sold and gross profit. Production of an order, once started, is typically completed within three months. Revenue from the offshore and other complex structures business is also recognized using an inputs method, based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. External sales agents are used in certain sales of steel and concrete structures; the Company has chosen to use the practical expedient to expense estimated commissions owed to third parties by recognizing them proportionately as the goods are manufactured.

The global ESS segment revenues are derived from the manufacture and distribution of engineered metal, composite structures and components for lighting and traffic and roadway safety, engineered access systems, and wireless communication. For the lighting and traffic and roadway safety product lines, revenue is recognized upon shipment or delivery of goods to the customer depending on contract terms, which is the same point in time that the customer is billed. For Access Systems, revenue is generally recognized upon delivery of goods to the customer which is the same point in time that the customer is billed. The wireless communication product line has large regional customers who have unique product

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

specifications for communication structures. When the customer contract includes a cancellation clause that would require them to pay for work completed plus a reasonable margin if an order was canceled, revenue is recognized over time based on hours worked as a percent of total estimated hours to complete production. For the remaining wireless communication product line customers which do not provide a contractual right to bill for work completed on a canceled order, revenue is recognized upon shipment or delivery of the goods to the customer which is the same point in time that the customer is billed.

The global Coatings segment revenues are derived by providing coating services to customers' products, which include galvanizing, anodizing, and powder coating. Revenue is recognized once the coating service has been performed and the goods are ready to be picked up or delivered to the customer which is the same time that the customer is billed.

The global Irrigation segment revenues are derived from the manufacture of agricultural irrigation equipment and related parts and services for the agricultural industry and tubular products for industrial customers. Revenue recognition for the irrigation segment is generally upon shipment of the goods to the customer which is the same point in time that the customer is billed. The remote monitoring subscription services are primarily billed annually and revenue is recognized on a straight-line basis over the subsequent twelve months.

Disaggregation of revenue by product line is disclosed in the Segment footnote. A breakdown by segment of revenue recognized over time and at a point in time for the thirteen weeks ended March 30, 2019 and March 31, 2018 is as follows:

	Point in Time Thirteen weeks ended March 30, 2019	Over Time Thirteen weeks ended March 30, 2019	Point in Time Thirteen weeks ended March 31, 2018	Over Time Thirteen weeks ended March 31, 2018
Utility Support Structures	\$30,292	\$212,966	\$—	\$209,859
Engineered Support Structures	218,980	8,989	207,194	8,722
Coatings	70,231	—	68,458	—
Irrigation	147,858	2,823	183,234	2,818
Other	—	—	18,399	—
Total	\$467,361	\$224,778	\$477,285	\$221,399

Both steel and concrete utility customers are generally invoiced upon shipment or delivery of the goods to the customer's specified location and there are normally no up-front or progress payments. The offshore and complex steel structures business invoices customers a number of ways including advanced billings, progress billings, and billings upon shipment.

At March 30, 2019 and December 29, 2018, the contract liability for revenue recognized over time was \$6,420 and \$4,906, respectively. The contract liability is included in Accrued Expenses on the condensed consolidated balance sheets. During the thirteen weeks ended March 30, 2019 and March 31, 2018, the Company recognized \$1,030 and \$2,824 of revenue that was included in the liability as of December 29, 2018 and December 30, 2017, respectively.

The revenue recognized was due to applying advance payments received for projects completed during the period.

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842), which provides revised guidance on leases requiring lessees to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). The Company implemented a lease management tool to support the new reporting requirements and adopted the ASU on the first day of fiscal 2019. The Company made an accounting policy election to keep leases with an initial term of 12 months or less off of the balance sheet for all classes of underlying assets. The Company elected to not recast its comparative periods in transition

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(the "Comparatives Under 840 Option") as allowed under ASU 2018-11. The new standard did not have an impact in the condensed consolidated statements of earnings; footnote 9 provides the impact on the condensed consolidated balance sheet including the transition adoption adjustment recorded to retained earnings.

2) ACQUISITIONS

On February 11, 2019, the Company acquired the outstanding shares of United Galvanizing ("United"), a provider of coatings services for \$26,000 in cash. The agreed upon purchase price was \$28,000, with \$2,000 being held back for seller representations and warranties that will be settled within 12 months of the acquisition date. The acquisition of United, located in Houston, Texas further expands the Company's galvanizing footprint in North America and will be reported in the Coatings segment. The preliminary fair values assigned were \$15,720 for goodwill, \$3,092 for customer relationships, trade name of \$894, \$7,216 for property, plant, and equipment, and the remainder is net working capital. Goodwill is not deductible for tax purposes and the customer relationship will be amortized over 10 years. The trade name has an indefinite life. The Company expects the purchase price allocation to be finalized in the fourth quarter of 2019, once the hold back payment is settled and management reviews are complete.

On December 31, 2018, the Company acquired the assets of Larson Camouflage ("Larson"), an industry leading provider of architectural and camouflage concealment solutions for the wireless telecommunication market for \$31,106 in cash. The agreed upon purchase price was \$34,562, with 10% being held back for seller representations and warranties and will be settled within 12 months of the acquisition date. Larson was acquired to grow our product offerings in the wireless communication market and will be reported in the ESS segment. The preliminary fair values assigned were \$17,050 for customer relationships, \$14,494 for goodwill, \$1,151 for property, plant, and equipment and the remainder is net working capital. Goodwill is deductible for tax purposes and the customer relationships will be amortized over 12 years. The Company expects the purchase price allocation to be finalized in the fourth quarter of 2019, once the hold back payment is settled and management reviews are complete.

On October 18, 2018, the Company acquired CSP Coatings Systems of Auckland, New Zealand, a provider of a wide range of coatings services for \$17,711 in cash. The acquisition further strengthens the Company's Asia-Pacific market position and is reported in the Coatings segment. The preliminary fair values assigned were \$7,373 to property, plant, and equipment, \$3,113 for customer relationships, \$5,120 for goodwill, with the remainder net working capital. Goodwill is not deductible for tax purposes and the customer relationships will be amortized over 10 years. The Company expects the purchase price allocation to be finalized in the second quarter of 2019.

On August 3, 2018, the Company purchased approximately 72% of the outstanding shares of Walpar, LLC ("Walpar") for \$57,805 in cash. Walpar is an industry leader in the design, engineering and manufacturing of overhead sign structures for the North America transportation market. Walpar is located in Birmingham, Alabama and its operations are reported in the ESS segment. The transaction was funded with cash on hand. The acquisition of Walpar was completed to expand the Company's product offering in the sign structure market. The preliminary fair value measurement disclosed below is subject to management reviews and completion of the fair value measurements of the assets acquired and liabilities assumed. Customer relationships will be amortized over 14 years and the trade name has an indefinite life. Goodwill is not deductible for tax purposes.

In January 2019, the 28% non-controlling interest shares of Walpar, LLC were acquired for \$23,082. The Company expects the purchase price allocation to be finalized in the second quarter of 2019.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

2) ACQUISITIONS (Continued)

The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed of Walpar as of the date of acquisition:

	At August 3, 2018
Current assets	\$ 13,210
Customer relationships	32,000
Trade name	4,300
Goodwill	42,216
Total fair value of assets acquired	\$ 91,726
Current liabilities	2,185
Deferred taxes	8,654
Total fair value of liabilities assumed	\$ 10,839
Non-controlling interest	23,082
Net assets acquired	\$ 57,805

On August 3, 2018, the Company acquired 75% of the outstanding shares of Convert Italia SpA ("Convert") for \$43,504 in cash. Additional purchase price will be paid contingent on Convert realizing specific EBITDA and revenue targets in calendar years 2018 and 2020. The Company recorded \$11,608 in estimated contingent consideration liability. Convert is a designer and provider of engineered solar tracker solutions that is headquartered in Italy, with offices in Brazil and Argentina. The Company acquired Convert to grow market adjacencies in the Utility Support Structures segment.

The preliminary fair value measurements disclosed below are subject to management reviews and completion of the fair value measurements of the assets acquired and liabilities assumed. Patents and proprietary technology will be amortized over 15 years and the trade name has an indefinite life. Goodwill is not deductible for tax purposes. The Company expects the fair value measurement process and purchase price allocation will be finalized in the third quarter of 2019. The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed of Convert as of the date of acquisition:

	At August 3, 2018
Current assets	\$ 18,349
Other assets	3,166
Patent and Proprietary Technology	16,554
Trade name	8,701
Goodwill	34,280
Total fair value of assets acquired	\$ 81,050
Current liabilities	5,376
Contingent consideration liability	11,608
Deferred taxes	6,061
Total fair value of liabilities assumed	\$ 23,045
Non-controlling interest	14,501
Net assets acquired	\$ 43,504

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

2) ACQUISITIONS (Continued)

On August 1, 2018, the Company acquired the operational assets of Derit Infrastructure Pvt. Ltd. ("Derit") for \$14,700 in cash, net of assumed liabilities. The Company acquired the net assets at fair value with no value assigned to intangible assets in the preliminary purchase price allocation. Derit has a manufacturing facility in India with production capabilities for steel lattice structures for power transmission, wireless communication, and a provider of zinc galvanizing services. Derit was acquired to provide the Company with lattice structure manufacturing capabilities and to further expand the geographic footprint of the galvanizing business. The majority of the business will be reported in the Utility Support Structures segment, while the galvanizing business will be reported in the Coatings segment. The purchase price allocation was finalized in the fourth quarter of 2018. Proforma disclosures for Derit were omitted as this business does not have a significant impact on the Company's financial results.

On January 26, 2018, the Company acquired 60% of the assets of Torrent Engineering and Equipment ("Torrent") for \$4,800 in cash. Torrent operates in Indiana and is an integrator of prefabricated pump stations that involves designing high pressure water and compressed air process systems. Torrent has annual sales of approximately \$9,000. In the purchase price allocation, goodwill of \$3,922 and \$4,020 of customer relationships and other intangible assets were recorded. A portion of the goodwill is deductible for tax purposes. Torrent is included in the Irrigation segment and was acquired to expand the Company's water management capabilities. The purchase price allocation was finalized in the second quarter of 2018.

The Company's condensed consolidated statements of earnings for the thirteen weeks ended March 30, 2019 and March 31, 2018 included net sales of \$41,557 and \$932 and net earnings of \$647 and \$86 resulting from the United, Larson, CSP Coatings, Walpar, Convert, and Torrent acquisitions. The proforma effect of these acquisitions on the first quarter of 2019 and 2018 is as follows:

	Thirteen weeks ended March 30, 2019	Thirteen weeks ended March 31, 2018
Net sales	\$694,558	\$713,686
Net earnings	36,719	39,879
Earnings per share-diluted	1.67	1.75

Acquisitions of Noncontrolling Interests

In March 2018, the Company acquired the remaining 10% of Valmont Industria e Commercio Ltda. that it did not own for \$5,510. As this transaction was for the acquisition of all of the remaining shares of a consolidated subsidiary with no change in control, it was recorded within shareholders' equity and as a financing activity in the Consolidated Statements of Cash Flows.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(3) DIVESTITURE

On April 30, 2018, the Company completed the sale of Donhad, its grinding media business in Australia, reported in the Other segment. The business was sold because it did not fit the long-term strategic plans for the Company. The grinding media business historical annual sales, operating profit, and net assets are not significant for discontinued operations presentation. The grinding media business had an operating loss of \$913 for the thirteen weeks ended March 31, 2018. The Company received Australian \$82,500 (U.S. \$62,518) in proceeds from the sale.

The pre-tax loss recorded during the second quarter of 2018 from the divestiture is reported in other income (expense). The loss is comprised of the proceeds from buyer, less deal-related costs, less the net assets of the business which resulted in a gain of \$4,334. Offsetting this amount is a \$(10,418) realized loss on foreign exchange translation adjustments and net investment hedges previously reported in shareholders' equity.

Pre-tax gain from divestiture, before recognition of currency translation loss	\$4,334
Recognition of cumulative currency translation loss and hedges (out of OCI)	(10,418)
Net pre-tax loss from divestiture of the grinding media business	\$(6,084)

The transaction did not result in a taxable capital gain as the cash proceeds were less than the tax carrying value of the business. There is an insignificant tax benefit from the tax deductibility of deal related expenses.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(4) RESTRUCTURING ACTIVITIES

During 2018, the Company executed certain regional restructuring activities (the "2018 Plan") primarily in the ESS and Utility segments to transform its operational business model including exiting certain local markets. During the full year of 2018, the Company incurred \$23,515 of cost of sales and \$18,460 of selling, general, and administrative expense for the 2018 Plan.

The following pre-tax expense were recognized during the first quarter of 2018:

	ESS	Utility	Total
Severance	\$423	\$ —	\$423
Other cash restructuring expenses	—	772	772
Asset impairments/net loss on disposals	1,145	—	1,145
Total cost of sales	1,568	772	2,340
Severance	1,978	—	1,978
Other cash restructuring expenses	82	—	82
Total selling, general and administrative expenses	2,060	—	2,060
Consolidated total	\$3,628	\$ 772	\$4,400

Liabilities recorded for the restructuring plans and changes therein for the first thirteen weeks of 2019 were as follows:

	Balance at December 29, 2018	Recognized Restructuring Expense	Costs Paid or Otherwise Settled	Balance at March 30, 2019
Severance	\$ 6,594	\$ —	—\$ (2,620)	\$ 3,974
Other cash restructuring expenses	3,462	—	(1,252)	2,210
Total	\$ 10,056	\$ —	—\$ (3,872)	\$ 6,184

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(5) GOODWILL AND INTANGIBLE ASSETS

Amortized Intangible Assets

The components of amortized intangible assets at March 30, 2019 and December 29, 2018 were as follows:

	March 30, 2019		
	Gross Carrying Amount	Accumulated Amortization	Weighted Average Life
Customer Relationships	\$240,786	\$ 136,961	13 years
Patents & Proprietary Technology	23,396	5,232	14 years
Other	7,918	6,887	5 years
	\$272,100	\$ 149,080	
	December 29, 2018		
	Gross Carrying Amount	Accumulated Amortization	Weighted Average Life
Customer Relationships	\$219,508	\$ 132,180	13 years
Patents & Proprietary Technology	23,662	4,837	14 years
Other	7,971	6,891	5 years
	\$251,141	\$ 143,908	

Amortization expense for intangible assets for the thirteen weeks ended March 30, 2019 and March 31, 2018, respectively was as follows:

Thirteen Weeks Ended	
2019	2018
\$4,390	\$3,883

Estimated annual amortization expense related to finite lived intangible assets is as follows:

Estimated Amortization Expense	
2019	\$ 18,238
2020	17,404
2021	15,378
2022	13,228
2023	11,483

The useful lives assigned to finite lived intangible assets included consideration of factors such as the Company's past and expected experience related to customer retention rates, the remaining legal or contractual life of the underlying arrangement that resulted in the recognition of the intangible asset and the Company's expected use of the intangible asset.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(5) GOODWILL AND INTANGIBLE ASSETS (Continued)

Non-amortized intangible assets

Intangible assets with indefinite lives are not amortized. The carrying values of trade names at March 30, 2019 and December 29, 2018 were as follows:

	March 30, 2019	December 29, 2018	Year Acquired
Newmark	\$ 11,111	\$ 11,111	2004
Webforge	9,105	8,872	2010
Convert Italia S.p.A	8,414	8,580	2018
Valmont SM	7,999	8,155	2015
Ingal EPS/Ingal Civil Products	7,423	7,233	2010
Walpar	4,300	4,300	2018
Shakespeare	4,000	4,000	2014
Other	17,525	16,472	
	\$ 69,877	\$ 68,723	

In its determination of these intangible assets as indefinite lived, the Company considered such factors as its expected future use of the intangible asset, legal, regulatory, technological and competitive factors that may impact the useful life or value of the intangible asset and the expected costs to maintain the value of the intangible asset. The Company expects that these intangible assets will maintain their value indefinitely. Accordingly, these assets are not amortized.

The Company's trade names were tested for impairment in the third quarter of 2018. The values of each trade name was determined using the relief-from-royalty method. Based on this evaluation, the value of the offshore and other complex steel structures (Valmont SM) trade name was deemed to be impaired and the Company recorded a charge of \$1,425 in the third quarter of 2018. No other trade names were determined to be impaired.

Goodwill

The carrying amount of goodwill by segment as of March 30, 2019 and December 29, 2018 was as follows:

	Engineered Support Structures Segment	Utility Support Structures Segment	Coatings Segment	Irrigation Segment	Total
Gross Balance December 29, 2018	\$ 204,735	\$ 123,618	\$ 80,937	\$ 25,164	\$ 434,454
Accumulated impairment losses	(18,670)	(14,355)	(16,222)	—	(49,247)
Balance at December 29, 2018	186,065	109,263	64,715	25,164	385,207
Acquisitions	14,494	—	15,720	—	30,214
Foreign currency translation	1,930	(710)	300	55	1,575
Balance at March 30, 2019	\$ 202,489	\$ 108,553	\$ 80,735	\$ 25,219	\$ 416,996

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(5) GOODWILL AND INTANGIBLE ASSETS (Continued)

The Company's annual impairment test of goodwill was performed during the third quarter of 2018, using the discounted cash flow method. The Company previously highlighted significant, adverse challenges in the wind energy market in Northern Europe that impacts our offshore and other complex steel structures business. A lack of protective tariffs has led to an extremely competitive environment in that region. Lower near-term financial projections and an approximately 15% decline in the undiscounted terminal value, when compared to the 2017 annual impairment test, is a result of challenging onshore wind and energy transmission structures pricing that is difficult to predict when it will recover. This resulted in an estimated fair value of the offshore and other complex steel structures reporting unit below the Company's investment in this business. As a result, a goodwill impairment was recorded in the third quarter of 2018 totaling \$14,355, which represents all of the goodwill of the offshore and other complex steel reporting unit. For the remaining reporting units, the Company determined that its goodwill was not impaired, as the valuation of the reporting units exceeded their respective carrying values.

(6) CASH FLOW SUPPLEMENTARY INFORMATION

The Company considers all highly liquid temporary cash investments purchased with an original maturity of three months or less at the time of purchase to be cash equivalents. Cash payments for interest and income taxes (net of refunds) for the thirteen weeks ended March 30, 2019 and March 31, 2018 were as follows:

	2019	2018
Interest	\$ 586	\$ 439
Income taxes	2,852	2,912

(7) EARNINGS PER SHARE

The following table provides a reconciliation between Basic and Diluted earnings per share (EPS):

	Basic EPS	Dilutive Effect of Stock Options	Diluted EPS
Thirteen weeks ended March 30, 2019			
Net earnings attributable to Valmont Industries, Inc.	\$36,481	\$ —	\$36,481
Weighted average shares outstanding (000's)	21,886	78	21,964
Per share amount	\$1.67	\$ 0.01	\$1.66
Thirteen Weeks Ended March 31, 2018			
Net earnings attributable to Valmont Industries, Inc.	\$39,281	\$ —	\$39,281
Weighted average shares outstanding (000's)	22,609	187	22,796
Per share amount	\$1.74	\$ 0.02	\$1.72

At March 30, 2019 and March 31, 2018, there were 297,412 and 147,554 outstanding stock options with exercise prices exceeding the market price of common stock that were excluded from the computation of diluted earnings per share, respectively.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(8) HEDGING ACTIVITIES

The Company manages interest rate risk, commodity price risk, and foreign currency risk related to foreign currency denominated transactions and investments in foreign subsidiaries. Depending on the circumstances, the Company may manage these risks by utilizing derivative financial instruments. Some derivative financial instruments are marked to market and recorded in the Company's consolidated statements of earnings, while others may be accounted for as fair value, cash flow, or net investment hedges. Derivative financial instruments have credit and market risk. The Company manages these risks of derivative instruments by monitoring limits as to the types and degree of risk that can be taken, and by entering into transactions with counterparties who are recognized, stable multinational banks. Fair value of derivative instruments at March 30, 2019 and December 29, 2018 are as follows:

Derivatives designated as hedging instruments: Balance sheet location		March 30, 2019	December 29, 2018
Commodity forward contracts	Prepaid expenses and other assets	\$—	\$ (285)
Foreign currency forward contracts	Prepaid expenses and other assets	9,000	8,357
Cross currency swap contracts	Prepaid expenses and other assets	4,743	1,075
		\$13,743	\$ 9,147

Gains (losses) on derivatives recognized in the condensed consolidated statements of earnings for the thirteen weeks ended March 30, 2019 and March 31, 2018 are as follows:

Derivatives designated as hedging instruments: Statements of earnings location		Thirteen Weeks Ended	
		March 30, 2019	March 31, 2018
Foreign currency forward contracts	Other income (expenses)	552	—
Cross currency swap contracts	Interest expense	653	—
		\$1,205	\$ —

Cash Flow Hedges

In 2019 and 2018, the Company entered into steel hot rolled coil (HRC) forward contracts that qualified as a cash flow hedge of the variability in cash flows attributable to future steel purchases. In 2019, the forward contracts had a notional amount of \$12,128 for the purchase of 3,500 short tons for each month from May 2019 to September 2019. In 2018, the forward contracts entered into had a notional amount of \$8,469 for the purchase of 3,500 short tons for each month from July 2018 to September 2018 and a notional amount of \$15,563 for the purchase of 6,500 short tons for each month from October 2018 to December 2018. The gain/(loss) realized upon settlement is recorded in product cost of sales in the condensed consolidated statements of earnings over average inventory turns.

On June 19, 2018, the Company issued and sold \$200,000 aggregate principal amount of the Company's 5.00% senior notes due 2044 and \$55,000 aggregate principal amount of the Company's 5.25% senior notes due 2054. During the second quarter of 2018, the Company executed contracts to hedge the risk of potential fluctuations in the treasury rates on the 2044 Notes and 2054 Notes which would change the amount of net proceeds received from the debt offering. These contracts had a combined notional amount of \$175,000. On June 8, 2018, these contracts were settled with the Company paying \$2,467 to the counterparties which was recorded in Other Comprehensive Income ("OCI") and will be amortized as an increase to interest expense over the term of the debt. Due to the retirement of the 2020 bonds in July 2018, the Company wrote off the remaining \$411 unamortized loss on the related cash flow hedge.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(8) HEDGING ACTIVITIES (Continued)

Net Investment Hedges

The Company previously executed two six-month foreign currency forward contracts which qualified as net investment hedges, in order to mitigate foreign currency risk on the grinding media business that is denominated in both Australian dollars and British pounds. Due to the sale of the grinding media business in the second quarter of 2018, the Company reclassified the net investment hedge loss of \$1,621 (\$1,215 after tax) from OCI to loss from divestiture of grinding media business in the Statements of Earnings.

In the second quarter of 2018, the Company entered into two foreign currency forward contracts to mitigate foreign currency risk of the Company's investment in its Australian dollar and Euro denominated businesses. The forward contracts, which qualify as net investment hedges, have a maturity date of May 2020 and notional amounts to sell Australian dollars and Euro to receive \$100,000 and \$50,000, respectively.

Effective in the third quarter of 2018, the Company elected as an accounting policy to change its method of assessing effectiveness for all net investment hedges from the forward method to the spot method. As a result of this election, all existing and future net investment hedges will be accounted for under the spot method. As an additional accounting policy election to be applied to similar hedges under this new standard, the initial value of any component excluded from the assessment of effectiveness will be recognized in income or expense using a systematic and rational method over the life of the hedging instrument.

Due to the change in the method used to assess effectiveness from the forward to the spot method in the third quarter of 2018, the Euro and Australian dollar net investment hedges were de-designated. The forward contracts were then re-designated as net investment hedges under the spot method and the initial excluded component value related to the Australian dollar and Euro net investment hedges were \$538 and \$3,190, respectively, which the Company has elected to amortize in other income (expense) in the condensed consolidated statements of earnings using the straight-line method over the remaining term of the contracts.

On August 24, 2018, the Company entered into three fixed-for-fixed cross currency swaps ("CCS"), swapping U.S. dollar principal and interest payments on a portion of its 5.00% senior unsecured notes due 2044 for Danish krone (DKK) and Euro denominated payments. The CCS were entered into in order to mitigate foreign currency risk on the Company's Euro and DKK investments and to reduce interest expense. Interest is exchanged twice per year on April 1 and October 1.

Key terms of the three CCS are as follows:

Currency	Notional Amount	Termination Date	Swapped Interest Rate	Settlement Amount
Danish Kroner, DKK	\$ 60,000	October 1, 2023	2.52%	DKK 386,118
Euro	\$ 25,000	October 1, 2020	2.14%	€21,580
Euro	\$ 10,000	October 1, 2021	2.29%	€8,631

The Company designated the full notional amount of the three CCS (\$95,000) as a hedge of the net investment in certain Danish and European subsidiaries under the spot method, with all changes in the fair value of the CCS that are included in the assessment of effectiveness (changes due to spot foreign exchange rates) are recorded as cumulative foreign currency translation within OCI, and will remain in OCI until either the sale or substantially complete liquidation of the related subsidiaries. Net interest receipts will be recorded as a reduction of interest expense over the life of the CCS.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(9) LEASES

The Company has operating leases for plant locations, corporate offices, sales offices, and certain equipment. Outstanding leases at March 30, 2019 have remaining lease terms of one year to fifteen years, some of which include options to extend leases for up to five years. The Company does not have any financing leases. The Company elected practical expedients not to reassess whether existing contracts are or contain leases, to not reassess the lease classification of any existing leases, to not reassess initial direct costs for any existing leases, to use hindsight in determining the lease term and in assessing impairment of the right-of-use asset, and to not separate lease and non-lease components for all classes of underlying assets.

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets, accrued expenses, and operating lease liabilities in our condensed consolidated balance sheets. ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make future lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the leases do not provide an implicit rate, the Company used its incremental borrowing rate based on information available at the date of adoption in determining the present value of future lease payments. The operating lease ROU asset also includes any lease payments made and excludes any lease incentives and impairments. Some of the Company's facility leases include options to extend the lease when it is reasonably certain that the option will be exercised. Lease expense is recognized on a straight-line basis over the lease term.

Lease cost and other information related to the Company's operating leases are as follows:

	Thirteen weeks ended March 30, 2019
Operating lease cost	\$5,296
Short-term lease cost	600
Total lease cost	\$5,896
Operating cash outflows from operating leases	\$6,046
ROU assets obtained in exchange for lease obligations	\$1,236
Weighted average remaining lease term	10 years
Weighted average discount rate	3.9 %

As part of the adoption of ASC 842, the Company evaluated at the historical and projected cash flow generation of the operations at each of its long-term leased facilities. One of those facilities, a galvanizing operation in Melbourne, Australia, will not generate sufficient cash flows on an undiscounted cash flow basis to recover the carrying value of the right of use asset. The Company then estimated a value for this operation using a discounted cash flow model. The result was an impairment of the right-of-use lease asset of approximately \$12,063. The after-tax balance of \$8,444 was recorded as a reduction to retained earnings for the transition adjustment of adoption.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(9) LEASES (Continued)

Supplemental balance sheet information related to operating leases for the first quarter of 2019 is as follows:

	Classification	March 30, 2019
Operating lease assets	Other assets	\$93,871
Operating lease short-term liabilities	Accrued expenses	15,145
Operating lease long-term liabilities	Operating lease liabilities	88,492
Total lease liabilities		\$103,637

Minimum lease payments under operating leases expiring subsequent to March 30, 2019 are as follows:

Fiscal year ending	
2019 (excluding the three months ended March 30, 2019)	\$14,443
2020	17,190
2021	14,333
2022	11,894
2023	9,183
Subsequent	59,860
Total minimum lease payments	\$126,903

The below table as of December 29, 2018 is carried forward, including certain amounts that were historically included in the table as a result of the historical lease term conclusions but were not included in the initial ROU asset and lease liability measurement as of December 30, 2018 due to the Company's election of the hindsight practical expedient.

The Company also determined one of its leases with escalating rent payments should be expensed using the straight-line method over a longer-term and the result was an additional reduction to retained earnings of \$442 for a transition adjustment. Minimum lease payments for operating leases under ASC 840 expiring subsequent to December 29, 2018 are as follows:

Fiscal year ending	
2019	\$18,757
2020	16,830
2021	13,992
2022	11,932
2023	8,866
Subsequent	76,438
Total minimum lease payments	\$146,815

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(10) BUSINESS SEGMENTS

The Company has four reportable segments based on its management structure. Each segment is global in nature with a manager responsible for segment operational performance and the allocation of capital within the segment. Net corporate expense is net of certain service related expenses that are allocated to business units generally on the basis of employee headcounts.

Reportable segments are as follows:

ENGINEERED SUPPORT STRUCTURES: This segment consists of the manufacture of engineered metal and composite poles, towers, and components for global lighting, traffic, and wireless communication markets, engineered access systems, integrated structure solutions for smart cities, and highway safety products;

UTILITY SUPPORT STRUCTURES: This segment consists of the manufacture of engineered steel and concrete structures for the global utility transmission, distribution, and generation applications, renewable energy generation equipment, and inspection services;

COATINGS: This segment consists of galvanizing, painting, and anodizing services; and

IRRIGATION: This segment consists of the manufacture of agricultural irrigation equipment, parts, services, tubular products, water management solutions, and technology for precision agriculture.

In addition to these four reportable segments, the Company had other businesses and activities that individually are not more than 10% of consolidated sales, operating income or assets. This includes the manufacture of forged steel grinding media for the mining industry and is reported in the "Other" category.

The Company evaluates the performance of its business segments based upon operating income and invested capital. The Company does not allocate LIFO expense, interest expense, non-operating income and deductions, or income taxes to its business segments.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(10) BUSINESS SEGMENTS (Continued)

Summary by Business

	Thirteen Weeks Ended	
	March 30, 2019	March 31, 2018
SALES:		
Engineered Support Structures segment:		
Lighting, Traffic, and Highway Safety Products	\$ 157,184	\$ 160,444
Communication Products	42,865	34,113
Access Systems	30,239	30,397
Engineered Support Structures segment	230,288	224,954
Utility Support Structures segment:		
Steel	159,760	163,983
Concrete	29,844	23,662
Engineered Solar Tracker Solutions	30,292	—
Offshore and Other Complex Steel Structures	24,026	22,217
Utility Support Structures segment	243,922	209,862
Coatings segment	86,779	84,947
Irrigation segment:		
North America	108,477	109,854
International	44,339	78,099
Irrigation segment	152,816	187,953
Other	—	18,399
Total	713,805	726,115
INTERSEGMENT SALES:		
Engineered Support Structures segment	2,319	9,038
Utility Support Structures segment	664	3
Coatings segment	16,548	16,489
Irrigation segment	2,135	1,901
Other	—	—
Total	21,666	27,431
NET SALES:		
Engineered Support Structures segment	227,969	215,916
Utility Support Structures segment	243,258	209,859
Coatings segment	70,231	68,458
Irrigation segment	150,681	186,052
Other	—	18,399
Total	\$ 692,139	\$ 698,684
OPERATING INCOME:		
Engineered Support Structures segment	\$ 12,445	\$ 6,947
Utility Support Structures segment	25,048	23,367

Edgar Filing: VALMONT INDUSTRIES INC - Form 10-Q

Coatings segment	10,140	11,867
Irrigation segment	20,134	33,887
Other	—	(579)
Adjustment to LIFO inventory valuation method	502	(1,081)
Corporate	(13,165)	(10,448)
Total	\$55,104	\$63,960

27

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

11) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION

The Company has two tranches of senior unsecured notes. All of the senior notes are guaranteed, jointly, severally, fully and unconditionally (subject to certain customary release provisions, including sale of the subsidiary guarantor, or sale of all or substantially all of its assets) by certain of the Company's current and future direct and indirect domestic and foreign subsidiaries (collectively the "Guarantors"), excluding its other current domestic and foreign subsidiaries which do not guarantee the debt (collectively referred to as the "Non-Guarantors"). All Guarantors are 100% owned by the parent company.

Consolidated financial information for the Company ("Parent"), the Guarantor subsidiaries and the Non-Guarantor subsidiaries is as follows:

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

For the Thirteen weeks ended March 30, 2019

	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Net sales	\$299,002	\$139,507	\$312,291	\$(58,661)	\$692,139
Cost of sales	225,127	103,312	257,607	(59,036)	527,010
Gross profit	73,875	36,195	54,684	375	165,129
Selling, general and administrative expenses	57,846	7,109	45,070	—	110,025
Operating income	16,029	29,086	9,614	375	55,104
Other income (expense):					
Interest expense	(9,583)	(3,541)	(295)	3,541	(9,878)
Interest income	111	12	4,228	(3,541)	810
Other	3,537	10	299	—	3,846
	(5,935)	(3,519)	4,232	—	(5,222)
Earnings before income taxes and equity in earnings of nonconsolidated subsidiaries	10,094	25,567	13,846	375	49,882
Income tax expense (benefit)	462	5,950	5,959	56	12,427
Earnings before equity in earnings of nonconsolidated subsidiaries	9,632	19,617	7,887	319	37,455
Equity in earnings of nonconsolidated subsidiaries	26,849	3,944	—	(30,793)	—
Net earnings	36,481	23,561	7,887	(30,474)	37,455
Less: Earnings attributable to noncontrolling interests	—	—	(974)	—	(974)
Net earnings attributable to Valmont Industries, Inc.	\$36,481	\$23,561	\$6,913	\$(30,474)	\$36,481

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(11) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

For the Thirteen weeks ended March 31, 2018

	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Net sales	\$315,992	\$121,171	\$332,136	\$(70,615)	\$698,684
Cost of sales	235,596	94,459	271,716	(72,327)	529,444
Gross profit	80,396	26,712	60,420	1,712	169,240
Selling, general and administrative expenses	46,531	11,917	46,832	—	105,280
Operating income	33,865	14,795	13,588	1,712	63,960
Other income (expense):					
Interest expense	(10,881)	(3,880)	(193)	3,880	(11,074)
Interest income	176	10	4,961	(3,880)	1,267
Other	(106)	12	(1,047)	—	(1,141)
	(10,811)	(3,858)	3,721	—	(10,948)
Earnings before income taxes and equity in earnings of nonconsolidated subsidiaries	23,054	10,937	17,309	1,712	53,012
Income tax expense (benefit)	8,360	2,677	1,358	137	12,532
Earnings before equity in earnings of nonconsolidated subsidiaries	14,694	8,260	15,951	1,575	40,480
Equity in earnings of nonconsolidated subsidiaries	24,587	2,729	—	(27,316)	—
Net earnings	39,281	10,989	15,951	(25,741)	40,480
Less: Earnings attributable to noncontrolling interests	—	—	(1,199)	—	(1,199)
Net earnings attributable to Valmont Industries, Inc.	\$39,281	\$10,989	\$14,752	\$(25,741)	\$39,281

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Thirteen weeks ended March 30, 2019

	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Net earnings	\$36,481	\$ 23,561	\$ 7,887	\$ (30,474)	\$37,455
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustments:					
Unrealized translation gain (loss)	—	5,629	(3,363)	—	2,266
Gain (loss) on hedging activities	2,314	—	—	—	2,314
Equity in other comprehensive income	2,131	—	—	(2,131)	—
Other comprehensive income (loss)	4,445	5,629	(3,363)	(2,131)	4,580
Comprehensive income (loss)	40,926	29,190	4,524	(32,605)	42,035
Comprehensive income attributable to noncontrolling interests	—	—	(1,109)	—	(1,109)
Comprehensive income (loss) attributable to Valmont Industries, Inc.	\$40,926	\$ 29,190	\$ 3,415	\$ (32,605)	\$40,926

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Thirteen Weeks Ended March 31, 2018

	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Net earnings	\$39,281	\$ 10,989	\$ 15,951	\$ (25,741)	\$40,480
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustments:					
Unrealized translation gain (loss)	—	(8,680)	15,484	—	6,804
Gain (loss) on hedging activities	(863)	—	—	—	(863)
Equity in other comprehensive income	3,256	—	—	(3,256)	—
Other comprehensive income (loss)	2,393	(8,680)	15,484	(3,256)	5,941
Comprehensive income (loss)	41,674	2,309	31,435	(28,997)	46,421
Comprehensive income attributable to noncontrolling interests	—	—	(4,747)	—	(4,747)
Comprehensive income (loss) attributable to Valmont Industries, Inc.	\$41,674	\$ 2,309	\$ 26,688	\$ (28,997)	\$41,674

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(11) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)

CONDENSED CONSOLIDATED BALANCE SHEETS

March 30, 2019

	Parent	Guarantors	Non-Guarantors	Eliminations	Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$58,146	\$7,731	\$145,360	\$—	\$211,237
Receivables, net	148,952	91,153	272,747	—	512,852
Inventories	133,792	38,993	225,041	(2,027)	395,799
Contract asset - costs and profits in excess of billings	58,485	35,086	26,315	—	119,886
Prepaid expenses and other assets	12,288	13,079	29,012	—	54,379
Refundable income taxes	4,747	—	—	—	4,747
Total current assets	416,410	186,042	698,475	(2,027)	1,298,900
Property, plant and equipment, at cost	590,577	188,120	417,936	—	1,196,633
Less accumulated depreciation and amortization	398,031	101,322	169,951	—	669,304
Net property, plant and equipment	192,546	86,798	247,985	—	527,329
Goodwill	20,108	140,775	256,113	—	416,996
Other intangible assets	63	47,561	145,273	—	192,897
Investment in subsidiaries and intercompany accounts	1,336,332	1,031,430	1,277,773	(3,645,535)	—
Other assets	99,721	4,028	106,116	—	209,865
Total assets	\$2,065,180	\$1,496,634	\$2,731,735	\$(3,647,562)	\$2,645,987
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Current installments of long-term debt	\$—	\$—	\$764	\$—	\$764
Notes payable to banks	—	—	19,816	—	19,816
Accounts payable	63,348	22,967	133,145	—	219,460
Accrued employee compensation and benefits	30,829	4,633	27,963	—	63,425
Accrued expenses	44,779	9,516	74,866	—	129,161
Dividends payable	8,213	—	—	—	8,213
Total current liabilities	147,169	37,116	256,554	—	440,839
Deferred income taxes	18,505	—	27,935	—	46,440
Long-term debt, excluding current installments	734,114	125,685	7,515	(125,685)	741,629
Defined benefit pension liability	—	—	133,761	—	133,761
Other noncurrent liabilities	87,127	3,440	61,536	—	152,103
Shareholders' equity:					
Common stock of \$1 par value	27,900	457,950	648,682	(1,106,632)	27,900
Additional paid-in capital	—	162,906	1,107,536	(1,270,442)	—
Retained earnings	2,049,438	634,175	810,599	(1,444,774)	2,049,438

Edgar Filing: VALMONT INDUSTRIES INC - Form 10-Q

Accumulated other comprehensive income (loss)	(298,740)	75,362	(375,333)	299,971	(298,740)
Treasury stock	(700,333)	—	—	—	(700,333)
Total Valmont Industries, Inc. shareholders' equity	1,078,265	1,330,393	2,191,484	(3,521,877)	1,078,265
Noncontrolling interest in consolidated subsidiaries	—	—	52,950	—	52,950
Total shareholders' equity	1,078,265	1,330,393	2,244,434	(3,521,877)	1,131,215
Total liabilities and shareholders' equity	\$2,065,180	\$1,496,634	\$2,731,735	\$(3,647,562)	\$2,645,987

31

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(11) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)

CONDENSED CONSOLIDATED BALANCE SHEETS

December 29, 2018

	Parent	Guarantors	Non-Guarantors	Eliminations	Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 104,256	\$ 5,518	\$ 203,436	\$—	\$ 313,210
Receivables, net	134,943	75,204	273,816	—	483,963
Inventories	138,158	37,019	210,791	(2,402)	383,566
Contract asset - costs and profits in excess of billings	50,271	35,200	27,054	—	112,525
Prepaid expenses and other assets	21,858	746	20,196	—	42,800
Refundable income taxes	4,576	—	—	—	4,576
Total current assets	454,062	153,687	735,293	(2,402)	1,340,640
Property, plant and equipment, at cost	579,046	172,050	409,769	—	1,160,865
Less accumulated depreciation and amortization	390,438	93,374	163,061	—	646,873
Net property, plant and equipment	188,608	78,676	246,708	—	513,992
Goodwill	20,108	110,562	254,537	—	385,207
Other intangible assets	76	27,452	148,428	—	175,956
Investment in subsidiaries and intercompany accounts	1,286,545	1,161,612	932,982	(3,381,139)	—
Other assets	47,674	—	66,805	—	114,479
Total assets	\$ 1,997,073	\$ 1,531,989	\$ 2,384,753	\$ (3,383,541)	\$ 2,530,274
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Current installments of long-term debt	\$—	\$—	\$ 779	\$—	\$ 779
Notes payable to banks	—	—	10,678	—	10,678
Accounts payable	68,304	21,081	128,730	—	218,115
Accrued employee compensation and benefits	41,418	7,186	30,687	—	79,291