



NN, Inc. Reports First Quarter 2019 Results

May 9, 2019

CHARLOTTE, N.C., May 9, 2019 /PRNewswire/ -- NN, Inc., (NASDAQ: NNBR), a diversified industrial company, today reported its financial results for the first quarter ended March 31, 2019.

GAAP Results

First Quarter

Net sales for the first quarter of 2019 increased \$44.1 million, or 26.1%, to \$213.3 million, compared to \$169.1 million for the first quarter of 2018. Growth was driven by \$55.2 million from acquisitions, partially offset by lower organic volume of \$8.0 million and unfavorable foreign currency impacts of \$2.8 million.

On a GAAP basis, income from operations for the first quarter of 2019 was \$0.6 million, compared to income from operations of \$3.7 million for the same period in 2018. In the first quarter of 2019, income from operations included an increase in selling, general and administrative expense of \$5.9 million, compared to the first quarter of 2018, primarily due to the 2018 business acquisitions which collectively contributed \$5.0 million to selling, general and administrative expense. These increases were partially offset by lower costs for professional services and a reduction in acquisition related costs as there was no business acquisition activity during the first quarter of 2019.

Net loss on a GAAP basis for first quarter of 2019 was \$18.6 million, compared to net loss on a GAAP basis of \$6.0 million in the first quarter of 2018. The first quarter of 2019 net loss included a discrete tax charge of \$6.0 million related to final tax regulations published by the Department of the Treasury and Internal Revenue Service. In addition, the first quarter of 2019 included \$2.7 million in debt extinguishment costs.

On a GAAP basis, income from operations for first quarter 2019 in the Life Sciences segment was \$3.8 million, compared to \$4.2 million for the same period in 2018.

On a GAAP basis, income from operations for first quarter 2019 in the Mobile Solutions segment was \$4.1 million, compared to income from operations of \$9.8 million for the same period in 2018.

On a GAAP basis, income from operations for first quarter 2019 in the Power Solutions segment was \$3.8 million, compared to income from operations of \$5.2 million for the same period in 2018.

Adjusted Results

First Quarter

Adjusted income from operations for the first quarter of 2019 was \$23.1 million, compared to \$17.8 million for the same period in 2018. Adjusted net income was \$8.5 million, or \$0.20 per diluted share, compared to \$8.7 million, or \$0.32 per diluted share, for the same period in 2018. Adjusted income from operations growth was primarily driven by acquisitions, partially offset by lower organic volume and unfavorable foreign currency impacts. Additionally, first quarter 2019 earnings per share was impacted by the issuance of 14.4 million shares in the third quarter of 2018.

Richard Holder, President and Chief Executive Officer, commented, "Overall we are very pleased with our performance during the first quarter, bolstered by continued out-performance in our Life Sciences group and a solid operating performance from the Mobile Solutions and Power Solutions groups."

Life Sciences

Net sales for the first quarter of 2019 were \$86.0 million, compared to \$31.2 million in the first quarter of 2018, an increase of 175.6% or \$54.8 million. Adjusted income from operations for the quarter was \$17.2 million, compared to \$6.9 million in 2018.

Mr. Holder commented, "Life Sciences continues to outperform the market and our integration of Paragon remains on track. As the integration progresses, we continue to see the expected improvement of the group's operating performance."

Mobile Solutions

Net sales for the first quarter of 2019 were \$78.1 million, compared to \$89.8 million in the first quarter of 2018, a decrease of 13.0% or \$11.7 million. Adjusted income from operations for the quarter decreased \$4.5 million to \$6.4 million, compared to \$11.0 million in the first quarter of 2018. Continued headwinds in the global automotive market impacted sales and adjusted operating income during the quarter.

Mr. Holder commented, "The Mobile Solutions group performed well during the quarter in the face of continued challenges in the global vehicle market. The team's focus on flexing cost and the continued launch of new platforms mitigated the impact of the lower demand environment."

Power Solutions

Net sales for the first quarter of 2019 were \$49.7 million, compared to \$48.7 million in the first quarter of 2018, an increase of 2.0% or \$1.0 million. Adjusted income from operations for the quarter was \$8.4 million, compared to \$9.2 million in 2018.

Mr. Holder commented, "We continued to feel the effects of a customer's supply chain disruption, which we expect to be resolved during the second quarter. Additionally, we continue to grow and invest in our aerospace and defense business."

The full set of financial guidance for the first quarter of 2019 can be found in our supplemental presentation posted in the Investor Relations section of our website at www.nninc.com.

NN will discuss its results during its quarterly investor conference call on May 10, 2019 at 9:00 a.m. ET. The call and supplemental presentation may be accessed via NN's website, www.nninc.com. The conference call can also be accessed by dialing 1-800-667-5617 or 1-334-323-0509 Conference ID: 2654598. For those who are unavailable to listen to the live broadcast, a replay will be available shortly after the call for 30 days.

NN discloses in this press release the non-GAAP financial measures of adjusted income from operations, adjusted net income (loss) and adjusted net income per diluted share. Each of adjusted income from operations, adjusted net income (loss) and adjusted net income per diluted share provides supplementary information about the impacts of restructuring and integration expense, acquisition and transition expenses, foreign exchange impacts on inter-company loans, amortization of intangibles and deferred financing costs, and other non-operating impacts on our business.

The financial tables found later in this press release include a reconciliation of adjusted income from operations, adjusted net income (loss) and adjusted net income (loss) per diluted share to the U.S. GAAP financial measures of income from operations, net income (loss) and net income (loss) per diluted share.

NN, Inc., a diversified industrial company combines advanced engineering and production capabilities with in-depth materials science expertise to design and manufacture high-precision components and assemblies for a variety of markets on a global basis. Headquartered in Charlotte, North Carolina, NN has 51 facilities in North America, Europe, South America and China.

Except for specific historical information, many of the matters discussed in this press release may express or imply projections of revenues or expenditures, statements of plans and objectives or future operations or statements of future economic performance. These, and similar statements, are forward-looking statements concerning matters that involve risks, uncertainties and other factors which may cause the actual performance of NN, Inc. and its subsidiaries to differ materially from those expressed or implied by this discussion. All forward-looking information is provided by the Company pursuant to the safe harbor established under the Private Securities Litigation Reform Act of 1995 and should be evaluated in the context of these factors. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "assumptions", "target", "guidance", "outlook", "plans", "projection", "may", "will", "would", "expect", "intend", "estimate", "anticipate", "believe", "potential" or "continue" (or the negative or other derivatives of each of these terms) or similar terminology. Factors which could materially affect actual results include, but are not limited to: general economic conditions and economic conditions in the industrial sector, inventory levels, regulatory compliance costs and the Company's ability to manage these costs, start-up costs for new operations, debt reduction, competitive influences, risks that current customers will commence or increase captive production, risks of capacity underutilization, quality issues, availability and price of raw materials, currency and other risks associated with international trade, the Company's dependence on certain major customers, and the successful implementation of the global growth plan including development of new products. Similarly, statements made herein and elsewhere regarding pending and completed transactions are also forward-looking statements, including statements relating to the future performance and prospects of an acquired business, the expected benefits of an acquisition on the Company's future business and operations and the ability of the Company to successfully integrate recently acquired businesses or the possibility that the Company will be unable to execute on the intended redeployment of proceeds from a divestiture, whether due to a lack of favorable investment opportunities or otherwise.

For additional information concerning such risk factors and cautionary statements, please see the section titled "Risk Factors" in the Company's periodic reports filed with the Securities and Exchange Commission, including, but not limited to, the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018. Except as required by law, we undertake no obligation to update or revise any forward-looking statements we make in our press releases, whether as a result of new information, future events or otherwise.

Financial Tables Follow

NN, Inc.
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)
(Unaudited)

Amounts in thousands, except per share data

	Three Months Ended	
	March 31,	
	2019	2018
Net sales	\$ 213,256	\$ 169,148
Cost of sales (exclusive of depreciation and amortization shown separately below)	161,269	126,444
Selling, general and administrative expense	28,125	22,177
Acquisition related costs excluded from selling, general and administrative expense	-	1,776
Depreciation and amortization	23,425	14,281
Restructuring and integration expense	(12)	755
Other operating (income) expense, net	(152)	22
Income from operations	601	3,693
Interest expense	13,801	11,996
Loss on extinguishment of debt and write-off of debt issuance costs	2,699	-
Other (income) expense, net	729	(313)
Loss before (provision) benefit for income taxes and share of net income from joint venture	(16,628)	(7,990)
(Provision) benefit for income taxes	(2,241)	1,176
Share of net income from joint venture	269	831
Net loss	\$ (18,600)	\$ (5,983)

Other comprehensive income (loss):		
Change in fair value of interest rate swap, net of tax	(3,856)	-
Foreign currency translation gain	1,262	5,465
Other comprehensive income (loss)	<u>\$ (2,594)</u>	<u>\$ 5,465</u>
Comprehensive loss	<u>\$ (21,194)</u>	<u>\$ (518)</u>
Basic net loss per share		
Net loss per share	<u>\$ (0.44)</u>	<u>\$ (0.22)</u>
Weighted average shares outstanding	<u>41,972</u>	<u>27,597</u>
Diluted net loss per share		
Net loss per share	<u>\$ (0.44)</u>	<u>\$ (0.22)</u>
Weighted average shares outstanding	<u>41,972</u>	<u>27,597</u>

Reconciliation of GAAP Income from Operations to Non-GAAP Adjusted Income from Operations

\$000s	Three Months Ended		\$000s	Three Months Ended	
	March 31,			March 31,	
NN, Inc. Consolidated	2019	2018	Power Solutions	2019	2018
GAAP income from operations	\$ 601	\$ 3,693	GAAP income from operations	\$ 3,824	\$ 5,233
Restructuring and integration expense	(12)	755	Restructuring and integration expense	-	-
Acquisition and transition expense*	9,828	7,338	Acquisition and transition expense	1,832	1,251
Amortization of intangibles	12,650	6,007	Amortization of intangibles	2,748	2,725
Impairments (Goodwill and fixed assets)	-	-	Impairments (Goodwill and fixed assets)	-	-
Non-GAAP adjusted income from operations (a)	<u>\$ 23,067</u>	<u>\$ 17,793</u>	Non-GAAP adjusted income from operations (a)	<u>\$ 8,404</u>	<u>\$ 9,209</u>
GAAP net sales	\$ 213,256	\$ 169,148	GAAP net sales	\$ 49,657	\$ 48,682
\$000s	Three Months Ended		\$000s	Three Months Ended	
Mobile Solutions	March 31,			March 31,	
	2019	2018	Life Sciences	2019	2018
GAAP income from operations	\$ 4,107	\$ 9,785	GAAP income from operations	\$ 3,846	\$ 4,204
Restructuring and integration expense	(12)	27	Restructuring and integration expense	-	-
Acquisition and transition expense	1,451	256	Acquisition and transition expense	4,342	261
Amortization of intangibles	885	885	Amortization of intangibles	9,017	2,397
Impairments (Goodwill and fixed assets)	-	-	Impairments (Goodwill and fixed assets)	-	-
Non-GAAP adjusted income from operations (a)	<u>\$ 6,431</u>	<u>\$ 10,953</u>	Non-GAAP adjusted income from operations (a)	<u>\$ 17,205</u>	<u>\$ 6,862</u>
GAAP net sales	\$ 78,075	\$ 89,794	GAAP net sales	\$ 86,008	\$ 31,200

* 2019 Includes Capacity & Capabilities Development - \$2.9 / Professional Fees - \$1.3 / Integration & Transformation - \$5.7 / Acquisition Transaction Costs - \$0.0

2018 Includes Capacity & Capabilities Development - \$1.0 / Professional Fees - \$3.0 / Integration & Transformation - \$1.6 / Acquisition Transaction Costs - \$1.8

Reconciliation of Net Income (Loss) to Non-GAAP Adjusted Net Income (Loss) and Net Income (Loss) per Diluted Share to Non-GAAP Adjusted Net Income (Loss) per Diluted Share

\$000s	Three Months Ended	
	March 31,	
	2019	2018
GAAP net income (loss)	\$ (18,600)	\$ (5,983)
Pre-tax acquisition and transition expense	9,828	7,338
Pre-tax foreign exchange (gain) loss on inter-company loans	499	98
Pre-tax restructuring and integration expense	(12)	755
Pre-tax write-off of unamortized debt issuance costs	2,699	-
Pre-tax gain on change in fair value of interest rate swap	-	-
Pre-tax amortization of intangibles and deferred financing costs	13,841	7,221
Pre-tax interest expense on cash held from divestiture	-	2,728
Pre-tax impairments of fixed asset costs	-	-
Tax effect of adjustments reflected above (b)	(5,741)	(3,418)
Non-GAAP discrete tax adjustments	6,000	-
Impairments (Goodwill and JV)	-	-
Impact due to tax cuts and jobs act	-	-
Divestiture of Business Segment, exclusive of tax reform	-	-

Income from discontinued operations	-	-
Non-GAAP adjusted net income (loss) (c)	\$ 8,514	\$ 8,739

Amounts per share, diluted	Three Months Ended	
	March 31,	
	2019	2018
GAAP net income (loss) per diluted share	\$ (0.44)	\$ (0.22)
Pre-tax acquisition and transition expense	0.23	0.27
Pre-tax foreign exchange (gain) loss on inter-company loans	0.01	0.00
Pre-tax restructuring and integration expense	(0.00)	0.03
Pre-tax write-off of unamortized debt issuance costs	0.06	-
Pre-tax gain on change in fair value of interest rate swap	-	-
Pre-tax amortization of intangibles and deferred financing costs	0.33	0.26
Pre-tax interest expense on cash held from divestiture	-	0.10
Pre-tax impairments of fixed asset costs	-	-
Tax effect of adjustments reflected above (b)	(0.14)	(0.12)
Non-GAAP discrete tax adjustments	0.14	-
Impairments (Goodwill and JV)	-	-
Impact due to tax cuts and jobs act	-	-
Divestiture of Business Segment, exclusive of tax reform	-	-
Income from discontinued operations	-	-
Non-GAAP adjusted net income (loss) per diluted share (c)	\$ 0.20	\$ 0.32
Weighted average shares outstanding, diluted	41,972	27,597

The Company discloses in this presentation the non-GAAP financial measures of adjusted income from operations, adjusted net income (loss), and adjusted net income per diluted share. Each of these non-GAAP financial measures provides supplementary information about the impacts of acquisition, divestiture and integration related expenses, foreign-exchange impacts on inter-company loans, reorganizational and impairment charges. Over the past five years, we have completed seven acquisitions, two of which were transformative for the Company, and sold two of our businesses. The costs we incurred in completing such acquisitions, including the amortization of intangibles and deferred financing costs, and these divestitures have been excluded from these measures because their size and inconsistent frequency are unrelated to our commercial performance during the period, and which we believe are not indicative of our ongoing operating costs. We exclude the impact of currency translation from these measures because foreign exchange rates are not under management's control and are subject to volatility. Other non-operating charges are excluded as the charges are not indicative of our ongoing operating cost. We believe the presentation of adjusted income from operations, adjusted net income (loss), and adjusted net income per diluted share provides useful information in assessing our underlying business trends and facilitates comparison of our long-term performance over given periods.

The non-GAAP financial measures provided herein may not provide information that is directly comparable to that provided by other companies in the Company's industry, as other companies may calculate such financial results differently. The Company's non-GAAP financial measures are not measurements of financial performance under GAAP and should not be considered as alternatives to actual income growth derived from income amounts presented in accordance with GAAP. The Company does not consider these non-GAAP financial measures to be a substitute for, or superior to, the information provided by GAAP financial results.

(a) Non-GAAP Adjusted income from operations represents GAAP income from operations, adjusted to exclude the effects of restructuring and integration expense; non-operational charges related to acquisition and transition expense, intangible amortization costs for fair value step-up in values related to acquisitions, non-cash impairment charges, and when applicable, our share of income from joint venture operations. We believe this presentation is commonly used by investors and professional research analysts in the valuation, comparison, rating and investment recommendations of companies in the industrial industry. We use this information for comparative purposes within the industry. Non-GAAP adjusted income from operations is not a measure of financial performance under GAAP and should not be considered as a measure of liquidity or as an alternative to GAAP income from operations.

(b) This line item reflects the aggregate tax effect of all nontax adjustments reflected in the respective table. NN, Inc. estimates the tax effect of the adjustment items identified in the reconciliation schedule above by applying the applicable statutory rates by tax jurisdiction unless the nature of the item and/or the tax jurisdiction in which the item has been recorded requires application of a specific tax rate or tax treatment.

(c) Non-GAAP adjusted net income (loss) represents GAAP net income (loss) adjusted to exclude the tax-affected effects of restructuring and integration charges (related to plant closures and other charges incurred to implement our strategic goals that do not necessarily represent a major strategic shift in operations), charges related to acquisition and transition costs, amortization of intangibles costs for fair value step-up in values related to acquisitions and amortization of deferred financing costs, foreign exchange gain (loss) on inter-company loans, estimated interest expense on cash held from divestiture, non-cash impairment charges, the impact of enactment of the Tax Cut and Jobs Act and income from discontinued operations. We believe this presentation is commonly used by investors and professional research analysts in the valuation, comparison, rating and investment recommendations of companies in the industrial industry. We use this information for comparative purposes within the industry. Non-GAAP adjusted income (loss) from segment operations is not a measure of financial performance under GAAP and should not be considered as a measure of liquidity or as an alternative to GAAP income (loss) from continuing operations.

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