

IES Holdings, Inc.  
Form 10-Q  
May 04, 2018

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the Quarterly Period Ended March 31, 2018**

**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 1-13783**

**IES Holdings, Inc.**

**(Exact name of registrant as specified in its charter)**

**Delaware** **76-0542208**  
**(State or other jurisdiction of** **(I.R.S. Employer**  
**incorporation or organization)** **Identification No.)**  
**5433 Westheimer Road, Suite 500, Houston, Texas 77056**  
**(Address of principal executive offices and ZIP code)**  
**Registrant's telephone number, including area code: (713) 860-1500**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the 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 (Do not check if a smaller reporting company) 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

On May 2, 2018, there were 21,209,916 shares of common stock outstanding.

---

IES HOLDINGS, INC. AND SUBSIDIARIES

INDEX

	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<b><u>Item 1. Financial Statements</u></b>	
<u>Condensed Consolidated Balance Sheets as of March 31, 2018 and September 30, 2017</u>	6
<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended March 31, 2018 and 2017</u>	7
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended March 31, 2018 and 2017</u>	9
<u>Notes to Condensed Consolidated Financial Statements</u>	10
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	34
<u>Item 4. Controls and Procedures</u>	34
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 1. Legal Proceedings</u>	34
<u>Item 1A. Risk Factors</u>	35
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	36
<u>Item 3. Defaults Upon Senior Securities</u>	36
<u>Item 4. Mine Safety Disclosures</u>	36
<u>Item 5. Other Information</u>	36
<u>Item 6. Exhibits</u>	36
<u>Signatures</u>	38

## PART I. FINANCIAL INFORMATION

### DEFINITIONS

In this Quarterly Report on Form 10-Q, the words "IES", "the Company", "the Registrant", "we", "our", "ours" and "us" refer to IES Holdings, Inc. and, except as otherwise specified herein, to our subsidiaries.

### DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes certain statements that may be deemed forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, all of which are based upon various estimates and assumptions that the Company believes to be reasonable as of the date hereof. In some cases, you can identify forward-looking statements by terminology such as "may", "will", "could", "should", "expect", "plan", "project", "intend", "anticipate", "believe", "potential", "pursue", "target", "continue", the negative of such terms or other comparable terminology. These statements involve risks and uncertainties that could cause the Company's actual future outcomes to differ materially from those set forth in such statements. Such risks and uncertainties include, but are not limited to:

the ability of our controlling shareholder to take action not aligned with other shareholders;

the sale or disposition of the shares of our common stock held by our controlling shareholder, which, under certain circumstances, would trigger change of control provisions in our severance plan or financing and surety arrangements, or any other substantial sale of our common stock, which could depress our stock price;

the possibility that certain tax benefits of our net operating losses may be restricted or reduced in a change in ownership or a further change in the federal tax rate;

the potential recognition of valuation allowances or further write-downs on deferred tax assets;

the inability to carry out plans and strategies as expected, including our inability to identify and complete acquisitions that meet our investment criteria in furtherance of our corporate strategy, or the subsequent underperformance of those acquisitions;

limitations on the availability of sufficient credit or cash flow to fund our working capital needs and capital expenditures and debt service;

difficulty in fulfilling the covenant terms of our revolving credit facility, including liquidity, EBITDA and other financial requirements, which could result in a default and acceleration of our indebtedness under our revolving credit facility;

Edgar Filing: IES Holdings, Inc. - Form 10-Q

the possibility that we issue additional shares of common stock or convertible securities that will dilute the percentage ownership interest of existing stockholders and may dilute the book value per share of our common stock;

the relatively low trading volume of our common stock, which could depress our stock price;

competition in the industries in which we operate, both from third parties and former employees, which could result in the loss of one or more customers or lead to lower margins on new projects;

future capital expenditures and refurbishment, repair and upgrade costs; and delays in and costs of refurbishment, repair and upgrade projects;

a general reduction in the demand for our services;

our ability to enter into, and the terms of, future contracts;

success in transferring, renewing and obtaining electrical and other licenses;

challenges integrating new businesses into the Company or new types of work, products or processes into our segments;

credit and capital market conditions, including changes in interest rates that affect the cost of construction financing and mortgages, and the inability for some of our customers to retain sufficient financing, which could lead to project delays or cancellations;

backlog that may not be realized or may not result in profits;

the possibility of errors when estimating revenue and progress to date on percentage-of-completion contracts;

uncertainties inherent in estimating future operating results, including revenues, operating income or cash flow;

complications associated with the incorporation of new accounting, control and operating procedures;

closures or sales of facilities resulting in significant future charges, including potential warranty losses or other unexpected liabilities, or a significant disruption of our operations;

an increased cost of surety bonds affecting margins on work and the potential for our surety providers to refuse bonding or require additional collateral at their discretion;

fluctuations in operating activity due to downturns in levels of construction, seasonality and differing regional economic conditions;

our ability to successfully manage projects;

inaccurate estimates used when entering into fixed-priced contracts;

the cost and availability of qualified labor and the ability to maintain positive labor relations;

our ability to pass along increases in the cost of commodities used in our business, in particular, copper, aluminum, steel, fuel and certain plastics;

a change in the mix of our customers, contracts or business;

increases in bad debt expense and days sales outstanding due to liquidity problems faced by our customers;

the recognition of potential goodwill, long-lived assets and other investment impairments;

potential supply chain disruptions due to credit or liquidity problems faced by our suppliers;

accidents resulting from the physical hazards associated with our work and the potential for accidents;

the possibility that our current insurance coverage may not be adequate or that we may not be able to obtain a policy at acceptable rates;

the possibility that our internal controls over financial reporting and our disclosure controls and procedures may not prevent all possible errors that could occur;

disagreements with taxing authorities with regard to tax positions we have adopted;

the recognition of tax benefits related to uncertain tax positions;

the effect of litigation, claims and contingencies, including warranty losses, damages or other latent defect claims in excess of our existing reserves and accruals;

growth in latent defect litigation in states where we provide residential electrical work for home builders not otherwise covered by insurance;

interruptions to our information systems and cyber security or data breaches;

liabilities under laws and regulations protecting the environment; and

loss of key personnel and effective transition of new management.

You should understand that the foregoing, as well as other risk factors discussed in this document and in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2017, could cause future outcomes to differ materially from those experienced previously or those expressed in such forward-looking statements. We undertake no obligation to publicly update or revise any information, including information concerning our controlling shareholder, net operating losses, borrowing availability or cash position, or any forward-looking statements to reflect events or circumstances that may arise after the date of this report. Forward-looking statements are provided in this Quarterly Report on Form 10-Q pursuant to the safe harbor established under the Private Securities Litigation Reform Act of 1995 and should be evaluated in the context of the estimates, assumptions, uncertainties and risks described herein.



**Item 1. Financial Statements****IES HOLDINGS, INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets****(In Thousands, Except Share Information)**

	<b>March 31, 2018 (Unaudited)</b>	<b>September 30, 2017</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 35,713	\$ 28,290
Accounts receivable:		
Trade, net of allowance of \$608 and \$650, respectively	127,905	142,946
Retainage	20,567	21,360
Inventories	17,590	16,923
Costs and estimated earnings in excess of billings	15,358	13,438
Prepaid expenses and other current assets	9,492	8,795
<b>Total current assets</b>	<b>226,625</b>	<b>231,752</b>
Property and equipment, net	25,055	24,643
Goodwill	46,738	46,693
Intangible assets, net	29,515	31,413
Deferred tax assets	50,948	86,211
Other non-current assets	6,106	3,782
<b>Total assets</b>	<b>\$ 384,987</b>	<b>\$ 424,494</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	111,608	120,710
Billings in excess of costs and estimated earnings	27,820	29,918
<b>Total current liabilities</b>	<b>139,428</b>	<b>150,628</b>
Long-term debt	29,570	29,434
Other non-current liabilities	4,639	4,457
<b>Total liabilities</b>	<b>173,637</b>	<b>184,519</b>
Noncontrolling interest	3,280	3,271
<b>STOCKHOLDERS EQUITY:</b>		
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, none issued and outstanding	220	220

Edgar Filing: IES Holdings, Inc. - Form 10-Q

Common stock, \$0.01 par value, 100,000,000 shares authorized; 22,049,529 issued and 21,259,178 and 21,336,975 outstanding, respectively		
Treasury stock, at cost, 790,351 and 712,554 shares, respectively	(8,108)	(6,898)
Additional paid-in capital	196,835	196,955
Retained earnings	19,123	46,427
<b>Total stockholders equity</b>	<b>208,070</b>	<b>236,704</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 384,987</b>	<b>\$ 424,494</b>

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

---

**IES HOLDINGS, INC. AND SUBSIDIARIES**
**Condensed Consolidated Statements of Comprehensive Income****(In Thousands, Except Share Information)****(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
Revenues	\$ 205,677	\$ 203,662
Cost of services	171,837	171,848
Gross profit	33,840	31,814
Selling, general and administrative expenses	29,647	30,120
Contingent consideration	71	83
Gain on sale of assets	(20)	(6)
Operating income	4,142	1,617
Interest and other (income) expense:		
Interest expense	473	428
Other income, net	(43)	(44)
Income from operations before income taxes	3,712	1,233
Provision for income taxes	1,425	682
Net income	2,287	551
Net income attributable to noncontrolling interest	(66)	(15)
Comprehensive income attributable to IES Holdings, Inc.	\$ 2,221	\$ 536
Earnings per share attributable to IES Holdings, Inc.:		
Basic	\$ 0.11	\$ 0.02
Diluted	\$ 0.11	\$ 0.02
Shares used in the computation of earnings per share:		
Basic	21,182,268	21,299,098
Diluted	21,440,570	21,574,155

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

**IES HOLDINGS, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Comprehensive Income****(In Thousands, Except Share Information)****(Unaudited)**

	<b>Six Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
Revenues	\$ 403,977	\$ 395,840
Cost of services	337,073	328,844
Gross profit	66,904	66,996
Selling, general and administrative expenses	59,736	58,314
Contingent consideration expense	71	83
Gain on sale of assets	(34)	(13)
Operating income	7,131	8,612
Interest and other (income) expense:		
Interest expense	914	874
Other income, net	(141)	(48)
Income from continuing operations before income taxes	6,358	7,786
Provision for income taxes	33,584	3,311
Net income (loss)	(27,226)	4,475
Net income attributable to noncontrolling interest	(122)	(67)
Comprehensive income (loss) attributable to IES Holdings, Inc.	\$ (27,348)	\$ 4,408
Earnings (loss) per share attributable to IES Holdings, Inc.:		
Basic	\$ (1.29)	\$ 0.21
Diluted	\$ (1.29)	\$ 0.20
Shares used in the computation of earnings per share:		
Basic	21,189,641	21,292,523
Diluted	21,189,641	21,560,678

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

---

**IES HOLDINGS, INC. AND SUBSIDIARIES**
**Condensed Consolidated Statements of Cash Flows****(In Thousands)****(Unaudited)**

	<b>Six Months Ended</b>	
	<b>March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (27,226)	\$ 4,475
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Bad debt expense	96	(15)
Deferred financing cost amortization	142	172
Depreciation and amortization	4,269	4,378
Gain on sale of assets	(34)	(13)
Deferred income taxes	33,584	2,675
Non-cash compensation	(111)	926
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Accounts receivable	14,945	(435)
Inventories	(665)	(3,252)
Costs and estimated earnings in excess of billings	(1,921)	(3,491)
Prepaid expenses and other current assets	97	(5,642)
Other non-current assets	(52)	594
Accounts payable and accrued expenses	(10,081)	213
Billings in excess of costs and estimated earnings	(2,098)	1,483
Other non-current liabilities	214	587
<b>Net cash provided by operating activities</b>	<b>11,159</b>	<b>2,655</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(2,327)	(2,891)
Proceeds from sale of property and equipment	94	23
Cash paid for acquisitions	(175)	(11,663)
<b>Net cash used in investing activities</b>	<b>(2,408)</b>	<b>(14,531)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings of debt	68	5,050
Repayments of debt	(109)	(5,053)
Contingent consideration payment		(448)
Distribution to noncontrolling interest	(69)	(122)
Options exercised	11	87
Purchase of treasury stock	(1,229)	(14)
<b>Net cash used in financing activities</b>	<b>(1,328)</b>	<b>(500)</b>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,423	(12,376)
CASH, CASH EQUIVALENTS and RESTRICTED CASH, beginning of period	28,290	33,221
CASH, CASH EQUIVALENTS and RESTRICTED CASH, end of period	\$ 35,713	\$ 20,845

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid for interest	\$ 788	\$ 660
Cash paid for income taxes	\$ 1,456	\$ 1,685

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

---

**IES HOLDINGS, INC.**

**Notes to the Condensed Consolidated Financial Statements**

**(All Amounts in Thousands Except Share Amounts)**

**(Unaudited)**

**1. BUSINESS AND ACCOUNTING POLICIES**

*Description of the Business*

IES Holdings, Inc. is a holding company that owns and manages operating subsidiaries in business activities across a variety of end markets. Our operations are currently organized into four principal business segments, based upon the nature of our current services:

Commercial & Industrial Provider of electrical and mechanical design, construction, and maintenance services to the commercial and industrial markets in various regional markets and nationwide in certain areas of expertise, such as the power infrastructure market.

Communications Nationwide provider of technology infrastructure products and services to large corporations and independent businesses.

Infrastructure Solutions Provider of electro-mechanical solutions for industrial operations.

Residential Regional provider of electrical installation services for single-family housing and multi-family apartment complexes.

The words "IES", the "Company", "we", "our", and "us" refer to IES Holdings, Inc. and, except as otherwise specified here, our wholly-owned subsidiaries.

*Seasonality and Quarterly Fluctuations*

Results of operations from our Residential construction segment are seasonal, depending on weather trends, with typically higher revenues generated during spring and summer and lower revenues generated during fall and winter, with an impact from precipitation in the warmer months. The Commercial & Industrial, Communications and Infrastructure Solutions segments of our business are less subject to seasonal trends, as work in these segments generally is performed inside structures protected from the weather, although weather can still impact these businesses, especially in the early stages of projects. Our service and maintenance business is generally not affected by seasonality. Our volume of business may be adversely affected by declines in construction projects resulting from adverse regional or national economic conditions. Quarterly results may also be materially affected by the timing of new construction projects. Results for our Infrastructure Solutions segment may be affected by the timing of outages at our customers' facilities. Accordingly, operating results for any fiscal period are not necessarily indicative of results that may be achieved for any subsequent fiscal period.

*Basis of Financial Statement Preparation*

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of IES, its wholly-owned subsidiaries, and entities that we control due to ownership of a majority of voting interest and have been prepared in accordance with the instructions to interim financial reporting as prescribed by the Securities and Exchange Commission (the SEC). The results for the interim periods are not necessarily indicative of results for the entire year. These interim financial statements do not include all disclosures required by U.S. generally accepted accounting principles (GAAP), and should be read in conjunction with the consolidated financial statements and notes thereto filed with the SEC in our Annual Report on Form 10-K for the fiscal year ended September 30, 2017. In the opinion of management, the unaudited Condensed Consolidated Financial Statements contained in this report include all known accruals and adjustments necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods reported herein. Any such adjustments are of a normal recurring nature.

*Noncontrolling Interest*

In connection with our acquisitions of STR Mechanical, LLC (STR Mechanical) in fiscal 2016 and NEXT Electric, LLC (NEXT Electric) in fiscal 2017, we acquired an 80 percent interest in each of the entities, with the remaining 20 percent interest in each such entity being retained by the respective third party seller. The interests retained by those third party sellers are identified on our Condensed Consolidated Balance Sheets as noncontrolling interest, classified outside of permanent equity. Under the terms of each entity's operating agreement, after five years from the date of the acquisition, we may elect to purchase, or the third party seller may

require us to purchase, part or all of the remaining 20 percent interest in the applicable entity. The purchase price is variable, based on



---

**IES HOLDINGS, INC.**

**Notes to the Condensed Consolidated Financial Statements**

**(All Amounts in Thousands Except Share Amounts)**

**(Unaudited)**

a multiple of earnings as defined in the operating agreements. Therefore, this noncontrolling interest is carried at the greater of the balance determined under ASC 810 and the redemption amounts assuming the noncontrolling interests were redeemable at the balance sheet date. If all of these interests had been redeemable at March 31, 2018, the redemption amount would have been \$1,995. See Note 13, *Business Combinations* for further discussion. For the six months ended March 31, 2018, we recorded an increase to retained earnings of \$44 to decrease the carrying amount of the noncontrolling interest in STR to the balance determined under ASC 810, as if it had been redeemable at March 31, 2018, the redemption amount would have been less than the carrying amount.

*Use of Estimates*

The preparation of financial statements in conformity with GAAP requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are primarily used in our revenue recognition of construction in progress, fair value assumptions in accounting for business combinations and analyzing goodwill, investments, intangible assets and long-lived asset impairments and adjustments, allowance for doubtful accounts receivable, stock-based compensation, reserves for legal matters, realizability of deferred tax assets, unrecognized tax benefits and self-insured claims liabilities and related reserves.

*Income Taxes*

In December 2017, the Tax Cuts and Jobs Act (the *Act*) was enacted, which, among other changes, reduced the federal statutory corporate tax rate from 35% to 21%, effective January 1, 2018. As a result of this change, the Company's statutory tax rate for fiscal 2018 will be a blended rate of 24.53% and will decrease to 21% thereafter. For the six months ended March 31, 2018, our effective tax rate differed from the statutory tax rate as a result of a preliminary charge of \$31,487 to re-measure our deferred tax assets and liabilities to reflect the estimated impact of the new statutory tax rate. This preliminary charge is subject to completion of our analysis of the impact of the Act, including as it relates to future deductions for executive compensation expense, as well as the effect of changes in the utilization of net deferred tax assets that reverse in fiscal 2018 as compared to subsequent years.

*Accounting Standards Not Yet Adopted*

In May 2014, the Financial Accounting Standards Board ( *FASB* ) issued ASU No. 2014-09, *Revenue from Contracts with Customers*, a comprehensive new revenue recognition standard which will supersede previous existing revenue recognition guidance. The standard creates a five-step model for revenue recognition that requires companies to exercise judgment when considering contract terms and relevant facts and circumstances. The standard also requires expanded disclosures surrounding revenue recognition. The effective date will be the first quarter of our fiscal year ended September 30, 2019. The standard allows for either full retrospective or modified retrospective adoption, and we plan to use the modified retrospective basis on the adoption date. We are continuing to evaluate the impact of the adoption of this standard on our Condensed Consolidated Financial Statements. In particular, we continue to analyze

areas including contract termination provisions, customer furnished materials, accounting for change orders, and accounting for commissions paid. We expect that we will continue to recognize revenues for most of our fixed-price contracts over time, as services are performed, although we have identified a limited number of arrangements where we currently recognize revenue over time, but will no longer do so under the new standard. We are also continuing to assess the necessary changes in processes and controls to meet the disclosure requirements of the new standard.

In February 2016, the FASB issued ASU No. 2016-02, Leases ( ASU 2016-02 ). Under ASU 2016-02, lessees will need to recognize a right-of-use asset and a lease liability for all of their leases, other than those that meet the definition of a short-term lease. For income statement purposes, leases must be classified as either operating or finance. Operating leases will result in straight-line expense, similar to current operating leases, while finance leases will result in a front-loaded pattern, similar to current capital leases. ASU 2016-02 becomes effective for the fiscal year ended September 30, 2020. We are currently evaluating the impact it will have on our Condensed Consolidated Financial Statements.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations ( ASU 2017-01 ). This standard clarifies the definition of a business to assist entities with evaluation of whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The new standard is effective for interim and annual reporting periods beginning after December 15, 2017. The prospective transition method will be required for this new guidance.

---

**IES HOLDINGS, INC.**

**Notes to the Condensed Consolidated Financial Statements**

**(All Amounts in Thousands Except Share Amounts)**

**(Unaudited)**

In May 2017, the FASB issued ASU No. 2017-09, Compensation – Stock Compensation ( ASU 2017-09 ), to reduce the diversity in practice and the cost and complexity when changing the terms or conditions of a share-based payment award. This update is effective for interim and annual financial reporting periods beginning after December 15, 2017, although early adoption is permitted. The prospective transition method will be required for this new guidance.

We do not expect ASU 2017-01 or ASU 2017-09 to have a material effect on our Condensed Consolidated Financial Statements.

## **2. CONTROLLING SHAREHOLDER**

At March 31, 2018, Tontine Capital Partners, L.P., together with its affiliates (collectively, Tontine ), was the Company's controlling shareholder, owning approximately 58% of the Company's outstanding common stock according to a Form 4 filed with the SEC by Tontine on January 4, 2018. Accordingly, Tontine has the ability to exercise significant control over our affairs, including the election of directors and most actions requiring the approval of shareholders.

While Tontine is subject to restrictions under federal securities laws on sales of its shares as an affiliate, the Company has filed a shelf registration statement to register all of the shares of IES common stock owned by Tontine at the time of registration. As long as the shelf registration statement remains effective and the Company remains eligible to use it, Tontine has the ability to resell any or all of its registered shares from time to time in one or more offerings, as described in the shelf registration statement and in any prospectus supplement filed in connection with an offering pursuant to the shelf registration statement.

Should Tontine sell or otherwise dispose of all or a portion of its position in IES, a change in ownership of IES could occur. A change in ownership, as defined by Internal Revenue Code Section 382, could reduce the availability of the Company's net operating losses ( NOLs ) for federal and state income tax purposes. On November 8, 2016, the Company implemented a new tax benefit protection plan (the NOL Rights Plan ). The NOL Rights Plan was designed to deter an acquisition of the Company's stock in excess of a threshold amount that could trigger a change of control within the meaning of Internal Revenue Code Section 382. There can be no assurance that the NOL Rights Plan will be effective in deterring a change of ownership or protecting the NOLs. Furthermore, a change in control would trigger the change of control provisions in a number of our material agreements, including our credit facility, bonding agreements with our sureties and our severance arrangements.

Jeffrey L. Gendell was appointed as a member of the Board of Directors and as non-executive Chairman of the Board in November 2016. He is the managing member and founder of Tontine, and the brother of David B. Gendell, who has served as a member of the Board of Directors since February 2012 and as Interim Director of Operations of the Company since November 2017, and who previously served as non-executive Vice Chairman of the Board from November 2016 to November 2017 and as non-executive Chairman of the Board from January 2015 to November 2016. David B. Gendell was an employee of Tontine from 2004 until December 31, 2017.

The Company is party to a sublease agreement with Tontine Associates, LLC, an affiliate of Tontine, for corporate office space in Greenwich, Connecticut. The lease was renewed for a three-year term in April 2016 with an increase in the monthly rent to \$8, reflecting the increase paid by Tontine Associates, LLC to its landlord and the Company's increased use of the corporate office space. The lease has terms at market rates and payments by the Company are at a rate consistent with that paid by Tontine Associates, LLC to its landlord.

### **3. DEBT**

At March 31, 2018, and September 30, 2017, our long-term debt of \$29,570 and \$29,434, respectively, primarily related to amounts drawn on our revolving credit facility. Our weighted-average annual interest rate on these borrowings was 3.53% at March 31, 2018, and 3.04% at September 30, 2017. At March 31, 2018, we also had \$6,408 in outstanding letters of credit and total availability of \$43,738 under this facility without violating our financial covenants.

There have been no changes to the financial or other covenants disclosed in Item 7 of our Annual Report on Form 10-K for the year ended September 30, 2017. The Company was in compliance with the financial covenants as of March 31, 2018.

At March 31, 2018, the carrying value of amounts outstanding on our revolving credit facility approximated fair value, as debt incurs interest at a variable rate. The fair value of the debt is classified as a Level 2 measurement.

**IES HOLDINGS, INC.**

**Notes to the Condensed Consolidated Financial Statements**

**(All Amounts in Thousands Except Share Amounts)**

**(Unaudited)**

**4. PER SHARE INFORMATION**

The following tables reconcile the components of basic and diluted earnings per share for the three and six months ended March 31, 2018, and 2017:

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Numerator:</b>		
Net income attributable to common shareholders of IES Holdings, Inc.	\$ 2,250	\$ 532
Decrease in noncontrolling interest	(44)	
Net income attributable to restricted shareholders of IES Holdings, Inc.	15	4
<b>Net income attributable to IES Holdings, Inc.</b>	<b>\$ 2,221</b>	<b>\$ 536</b>
<b>Denominator:</b>		
Weighted average common shares outstanding basic	21,182,268	21,299,098
Effect of dilutive stock options and non-vested restricted stock	258,302	275,057
<b>Weighted average common and common equivalent shares outstanding diluted</b>	<b>21,440,570</b>	<b>21,574,155</b>
<b>Earnings per share attributable to IES Holdings, Inc.:</b>		
Basic	\$ 0.11	\$ 0.02
Diluted	\$ 0.11	\$ 0.02
<b>Six Months Ended March 31,</b>		
<b>2018</b>		
<b>2017</b>		
<b>Numerator:</b>		
Net income (loss) attributable to common shareholders of IES Holdings, Inc.	\$ (27,304)	\$ 4,373
Decrease in noncontrolling interest	(44)	
Net income attributable to restricted shareholders of IES Holdings, Inc.		35
<b>Net income (loss) attributable to IES Holdings, Inc.</b>	<b>\$ (27,348)</b>	<b>\$ 4,408</b>
<b>Denominator:</b>		
Weighted average common shares outstanding basic	21,189,641	21,292,523
Effect of dilutive stock options and non-vested restricted stock		268,155

Weighted average common and common equivalent shares			
outstanding	diluted		
		21,189,641	21,560,678

## Earnings (loss) per share attributable to IES Holdings, Inc.:

Basic		\$ (1.29)	\$ 0.21
Diluted		\$ (1.29)	\$ 0.20

When an entity has a net loss, it is prohibited from including potential common shares in the computation of diluted per share amounts. Accordingly, we have utilized basic shares outstanding to calculate both basic and diluted loss per share for the six months ended March 31, 2018. For the three months ended March 31, 2018, and the three and six months ended March 31, 2017, the average price of our common shares exceeded the exercise price of all of our outstanding options; therefore, all of our outstanding stock options were included in the computation of fully diluted earnings per share.

**IES HOLDINGS, INC.**

**Notes to the Condensed Consolidated Financial Statements**

(All Amounts in Thousands Except Share Amounts)

(Unaudited)

**5. OPERATING SEGMENTS**

We manage and measure performance of our business in four distinct operating segments: Commercial & Industrial, Communications, Infrastructure Solutions and Residential.

Transactions between segments, if any, are eliminated in consolidation. Our corporate office provides general and administrative, as well as support services, to our four operating segments. Management allocates certain shared costs between segments for selling, general and administrative expenses and depreciation expense.

Segment information for the three and six months ended March 31, 2018, and 2017 is as follows:

**Three Months Ended March 31, 2018**

	<b>Commercial &amp; Industrial</b>		<b>Communications Solutions</b>		<b>Infrastructure Residential</b>	<b>Corporate</b>	<b>Total</b>
Revenues	\$ 65,589	\$ 50,244	\$ 23,866	\$ 65,978	\$		\$ 205,677
Cost of services	59,068	40,892	18,842	53,035			171,837
Gross profit	6,521	9,352	5,024	12,943			33,840
Selling, general and administrative	6,849	6,201	4,637	9,688	2,272		29,647
Contingent consideration			71				71
Loss (gain) on sale of assets	(17)	(8)	6	(1)			(20)
Operating income (loss)	\$ (311)	\$ 3,159	\$ 310	\$ 3,256	\$ (2,272)		\$ 4,142
Other data:							
Depreciation and amortization expense	\$ 527	\$ 219	\$ 1,140	\$ 155	\$ 20		\$ 2,061
Capital expenditures	\$ 413	\$ 398	\$ 205	\$ 108	\$ 0		\$ 1,124
Total assets	\$ 72,559	\$ 60,102	\$ 100,884	\$ 47,695	\$ 103,747		\$ 384,987

**Three Months Ended March 31, 2017**

	<b>Commercial &amp; Industrial</b>		<b>Communications Solutions</b>		<b>Infrastructure Residential</b>	<b>Corporate</b>	<b>Total</b>
Revenues	\$ 55,272	\$ 61,674	\$ 18,793	\$ 67,923	\$		\$ 203,662
Cost of services	52,604	52,378	14,515	52,351			171,848

Edgar Filing: IES Holdings, Inc. - Form 10-Q

Gross profit	2,668	9,296	4,278	15,572		31,814
Selling, general and administrative	5,261	6,120	4,222	10,932	3,585	30,120
Contingent Consideration			83			83
Loss (gain) on sale of assets	(8)	(1)	6	(3)		(6)
Operating income (loss)	\$ (2,585)	\$ 3,177	\$ (33)	\$ 4,643	\$ (3,585)	\$ 1,617
Other data:						
Depreciation and amortization expense	\$ 306	\$ 171	\$ 1,622	\$ 151	\$ 69	\$ 2,319
Capital expenditures	\$ 435	\$ 481	\$ 56	\$ 108	\$ 15	\$ 1,095
Total assets	\$ 54,485	\$ 68,475	\$ 107,535	\$ 50,743	\$ 126,736	\$ 407,974



**IES HOLDINGS, INC.**

**Notes to the Condensed Consolidated Financial Statements**

(All Amounts in Thousands Except Share Amounts)

(Unaudited)

**Six Months Ended March 31, 2018**

	<b>Commercial &amp; Industrial Communications</b>		<b>Infrastructure Solutions</b>		<b>Residential</b>	<b>Corporate</b>	<b>Total</b>
Revenues	\$ 118,591	\$ 104,703	\$ 45,551	\$ 135,132	\$	\$ 403,977	\$ 403,977
Cost of services	107,227	86,231	35,842	107,773			337,073
Gross profit	11,364	18,472	9,709	27,359			66,904
Selling, general and administrative	12,644	12,285	9,194	20,054	5,559		59,736
Contingent consideration			71				71
Loss (gain) on sale of assets	(29)	(9)	5	(1)			(34)
Operating income (loss)	\$ (1,251)	\$ 6,196	\$ 439	\$ 7,306	\$ (5,559)		\$ 7,131
Other data:							
Depreciation and amortization expense	\$ 1,084	\$ 435	\$ 2,383	\$ 296	\$ 71		\$ 4,269
Capital expenditures	\$ 923	\$ 473	\$ 345	\$ 586			\$ 2,327
Total assets	\$ 72,559	\$ 60,102	\$ 100,884	\$ 47,695	\$ 103,747		\$ 384,987

**Six Months Ended March 31, 2017**

	<b>Commercial &amp; Industrial Communications</b>		<b>Infrastructure Solutions</b>		<b>Residential</b>	<b>Corporate</b>	<b>Total</b>
Revenues	\$ 109,228	\$ 114,977	\$ 37,270	\$ 134,365	\$		\$ 395,840
Cost of services	100,454	97,710	27,617	103,063			328,844
Gross profit	8,774	17,267	9,653	31,302			66,996
Selling, general and administrative	9,585	11,834	8,322	21,485	7,088		58,314
Contingent Consideration			83				83
Gain on sale of assets	(7)	(1)	(2)	(3)			(13)
Operating income (loss)	\$ (804)	\$ 5,434	\$ 1,250	\$ 9,820	\$ (7,088)		\$ 8,612
Other data:							
Depreciation and amortization expense	\$ 654	\$ 345	\$ 2,945	\$ 301	\$ 133		\$ 4,378
Capital expenditures	\$ 644	\$ 1,560	\$ 137	\$ 347	\$ 203		\$ 2,891

Total assets	\$ 54,485	\$ 68,475	\$ 107,535	\$ 50,743	\$ 126,736	\$ 407,974
--------------	-----------	-----------	------------	-----------	------------	------------

## 6. STOCKHOLDERS' EQUITY

### *Equity Incentive Plan*

The Company's 2006 Equity Incentive Plan, as amended and restated (the "Equity Incentive Plan"), provides for grants of stock options as well as grants of stock, including restricted stock. Approximately 3.0 million shares of common stock are authorized for issuance under the Equity Incentive Plan, of which approximately 1,059,671 shares were available for issuance at March 31, 2018.

### *Stock Repurchase Program*

Our Board of Directors has authorized a stock repurchase program for the purchase from time to time of up to 1.5 million shares of the Company's common stock. Share purchases are made for cash in open market transactions at prevailing market prices or in privately negotiated transactions or otherwise. The timing and amount of purchases under the program are determined based upon prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. All or part of the repurchases may be implemented under a Rule 10b5-1 trading plan, which allows repurchases under pre-set terms at times when the Company might otherwise be prevented from purchasing under insider trading laws or because of self-imposed blackout periods. The program does not require the Company to purchase any specific number of shares and may be modified, suspended or reinstated at any time at the Company's discretion and without notice. We repurchased 79,817 shares of our common stock during the three and six months ended March 31, 2018, in open market transactions at an average price of \$ 15.40 per share. We made no purchases of stock pursuant to this plan during the three and six months ended March 31, 2017.

*Treasury Stock*

During the six months ended March 31, 2018, we repurchased 79,817 shares of common stock on the open market pursuant to the repurchase program. During the six months ended March 31, 2018, we issued 520 unrestricted shares of common stock from treasury stock to members of our Board of Directors as part of their overall compensation and 1,500 unrestricted shares of common stock to satisfy the exercise of outstanding options for employees.

---

**IES HOLDINGS, INC.**

**Notes to the Condensed Consolidated Financial Statements**

**(All Amounts in Thousands Except Share Amounts)**

**(Unaudited)**

During the six months ended March 31, 2017, we repurchased 683 shares of common stock from our employees to satisfy minimum tax withholding requirements upon the vesting of restricted stock issued under the Equity Incentive Plan. During the six months ended March 31, 2017, we issued 1,287 unrestricted shares of common stock from treasury stock to members of our Board of Directors as part of their overall compensation and 14,750 unrestricted shares to satisfy the exercise of outstanding options.

*Restricted Stock*

During the three months ended March 31, 2018, and 2017, we recognized \$131 and \$136, respectively, in compensation expense related to our restricted stock awards. During the six months ended March 31, 2018, and 2017, we recognized \$245 and \$273, respectively, in compensation expense related to our restricted stock awards. At March 31, 2018, the unamortized compensation cost related to outstanding unvested restricted stock was \$11.

*Performance Based Phantom Cash Units*

Performance based phantom cash units ( PPCUs ) are a contractual right to a cash payment of \$20 per PPCU. The PPCUs will generally become vested, if at all, upon achievement of certain specified performance objectives. During the three months ended March 31, 2018, and 2017, we recognized compensation expense of zero and \$58, respectively, related to these units. During the six months ended March 31, 2018, and 2017, we recognized compensation expense of zero and \$193, respectively, related to these units.

*Phantom Stock Units*

Phantom stock units ( PSUs ) are primarily granted to the members of the Board of Directors as part of their overall compensation. These PSUs are paid via unrestricted stock grants to each director upon their departure from the Board of Directors. We record compensation expense for the full value of the grant on the date of grant. During the three months ended March 31, 2018, and 2017, we recognized \$49 and \$40, respectively, in compensation expense related to these grants. During the six months ended March 31, 2018, and 2017, we recognized \$91 and \$84, respectively, in compensation expense related to these grants.

*Performance Based Phantom Stock Units*

A performance based phantom stock unit (a PPSU ) is a contractual right to receive one share of the Company's common stock upon the achievement of certain specified performance objectives and continued performance of services. At March 31, 2018, the Company had outstanding an aggregate of 399,027 three-year PPSUs. The vesting of these awards is subject to the achievement of specified levels of cumulative net income before taxes or specified stock price levels and continued performance of services through mid-December 2018. At March 31, 2018, redemption of a portion of the awards is deemed probable. During the three and six months ended March 31, 2018, we recognized a benefit to compensation expense of \$652 and \$449, respectively, related to these grants. This benefit is a result of a reduction in the estimated number of units deemed probable of vesting, based on the projected achievement of

specified performance objectives. During the three and six months ended March 31, 2017, we recognized compensation expense of \$225 and \$528, respectively, related to these grants.

## **7. SECURITIES AND EQUITY INVESTMENTS**

Our financial instruments consist of cash and cash equivalents, accounts receivable, notes receivable, investments, accounts payable and a loan agreement. We believe that the carrying value of these financial instruments in the accompanying Condensed Consolidated Balance Sheets approximates their fair value due to their short-term nature. Additionally, we have a cost method investment in EnerTech Capital Partners II L.P. ( EnerTech ). We estimate the fair value of our investment in EnerTech (Level 3) using cash flow projections and market multiples of the underlying non-public companies.

*Investment in EnerTech*

The following table presents the reconciliation of the carrying value to the fair value of the investment in EnerTech as of March 31, 2018, and September 30, 2017:

	<b>March 31, 2018</b>	<b>September 30, 2017</b>
Carrying value	\$ 558	\$ 558
Unrealized gains	170	171
Fair value	\$ 728	\$ 729

---

**IES HOLDINGS, INC.**

**Notes to the Condensed Consolidated Financial Statements**

**(All Amounts in Thousands Except Share Amounts)**

**(Unaudited)**

At each reporting date, the Company performs an evaluation of impairment for securities to determine if any unrealized losses are other-than temporary. Based on the results of this evaluation, we believe the unrealized gain at March 31, 2018, and September 30, 2017, indicated our investment was not impaired.

**8. EMPLOYEE BENEFIT PLANS**

*401(k) Plan*

The Company offers employees the opportunity to participate in its 401(k) savings plans. During the three months ended March 31, 2018 and 2017, we recognized \$485 and \$315, respectively, in matching expense. During the six months ended March 31, 2018 and 2017, we recognized \$914 and \$459, respectively, in matching expense.

*Post Retirement Benefit Plans*

Certain individuals at one of the Company's locations are entitled to receive fixed annual payments pursuant to post retirement benefit plans. We had an unfunded benefit liability of \$775 recorded as of March 31, 2018, and \$815 as of September 30, 2017, related to such plans.

**9. FAIR VALUE MEASUREMENTS**

*Fair Value Measurement Accounting*

Fair value is considered the price to sell an asset, or transfer a liability, between market participants on the measurement date. Fair value measurements assume that the asset or liability is (1) exchanged in an orderly manner, (2) the exchange is in the principal market for that asset or liability, and (3) the market participants are independent, knowledgeable, able and willing to transact an exchange. Fair value accounting and reporting establishes a framework for measuring fair value by creating a hierarchy for observable independent market inputs and unobservable market assumptions and expands disclosures about fair value measurements. Considerable judgment is required to interpret the market data used to develop fair value estimates. As such, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current exchange. The use of different market assumptions and/or estimation methods could have a material effect on the estimated fair value.

At March 31, 2018, financial assets and liabilities measured at fair value on a recurring basis were limited to our Executive Deferred Compensation Plan, under which certain employees are permitted to defer a portion of their base salary and/or bonus for a Plan Year (as defined in the plan), and contingent consideration liabilities related to certain of our acquisitions.

Financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2018, and September 30, 2017, are summarized in the following tables by the type of inputs applicable to the fair value measurements:

	<b>March 31, 2018</b>		
	<b>Total Fair Value</b>	<b>Quoted Prices (Level 1)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Executive savings plan assets	\$ 686	\$ 686	\$
Executive savings plan liabilities	(572)	(572)	
Contingent consideration	(467)		(467)
<b>Total</b>	<b>\$ (353)</b>	<b>\$ 114</b>	<b>\$ (467)</b>



---

**IES HOLDINGS, INC.**
**Notes to the Condensed Consolidated Financial Statements****(All Amounts in Thousands Except Share Amounts)****(Unaudited)**

	<b>September 30, 2017</b>		
	<b>Total Fair Value</b>	<b>Quoted Prices (Level 1)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Executive savings plan assets	\$ 641	\$ 641	\$
Executive savings plan liabilities	(529)	(529)	
Contingent consideration	(786)		(786)
<b>Total</b>	<b>\$ (674)</b>	<b>\$ 112</b>	<b>\$ (786)</b>

In fiscal years 2016 and 2017, we entered into contingent consideration arrangements related to certain acquisitions. Please see Note 13, **Business Combinations** for further discussion. At March 31, 2018, we estimated the fair value of these contingent consideration liabilities at \$467. The table below presents a reconciliation of the fair value of these obligations, which used significant unobservable inputs (Level 3).

	<b>Contingent Consideration Agreements</b>
Fair Value at September 30, 2017	\$ 786
Settlements	(390)
Net Adjustments to Fair Value	71
Fair Value at March 31, 2018	\$ 467

**10. INVENTORY**

Inventories consist of the following components:

	<b>March 31, 2018</b>	<b>September 30, 2017</b>
Raw materials	\$ 3,414	\$ 4,104
Work in process	4,197	3,731
Finished goods	1,605	1,692
Parts and supplies	8,374	7,396

Total inventories	\$ 17,590	\$ 16,923
-------------------	-----------	-----------

## 11. GOODWILL AND INTANGIBLE ASSETS

### *Goodwill*

The following is a progression of goodwill by segment for the six months ended March 31, 2018:

	<b>Commercial &amp; Industrial</b>	<b>Infrastructure Solutions</b>	<b>Residential</b>	<b>Total</b>
Goodwill at September 30, 2017	\$ 7,176	\$ 30,886	\$ 8,631	\$ 46,693
Adjustments		45		45
Goodwill at March 31, 2018	\$ 7,176	\$ 30,931	\$ 8,631	\$ 46,738

---

**IES HOLDINGS, INC.**
**Notes to the Condensed Consolidated Financial Statements****(All Amounts in Thousands Except Share Amounts)****(Unaudited)***Intangible Assets*

Intangible assets consist of the following:

		<b>March 31, 2018</b>		
	<b>Estimated Useful Lives (in Years)</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Trademarks/trade names	5-20	\$ 4,643	\$ 622	\$ 4,021
Technical library	20	400	91	309
Customer relationships	6-15	31,229	6,234	24,995
Backlog	1	2,412	2,412	
Construction contracts	1	2,399	2,209	190
Total		\$ 41,083	\$ 11,568	\$ 29,515

		<b>September 30, 2017</b>		
	<b>Estimated Useful Lives (in Years)</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Trademarks/trade names	5-20	\$ 4,643	\$ 440	\$ 4,203
Technical library	20	400	81	319
Customer relationships	6-15	31,115	4,741	26,374
Backlog	1	2,412	2,130	282
Construction contracts	1	2,399	2,164	235
Total		\$ 40,969	\$ 9,556	\$ 31,413

**12. COMMITMENTS AND CONTINGENCIES***Legal Matters*

From time to time we are a party to various claims, lawsuits and other legal proceedings that arise in the ordinary course of business. We maintain various insurance coverages to minimize financial risk associated with these

proceedings. None of these proceedings, separately or in the aggregate, are expected to have a material adverse effect on our financial position, results of operations or cash flows. With respect to all such proceedings, we record reserves when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. We expense routine legal costs related to these proceedings as they are incurred.

The following is a discussion of our significant legal matters:

#### Capstone Construction Claims

From 2003 to 2005, two of our former subsidiaries performed HVAC and electrical work under contract with Capstone Building Corporation ( Capstone ) on a university student housing project in Texas. In 2005, our subsidiaries filed for arbitration against Capstone, seeking payment for work performed, change orders and other impacts. The parties settled those claims, and the release included a waiver of warranties associated with any of the HVAC work. Several years later, the subsidiaries discontinued operations, and the Company sold their assets.

On October 24, 2013, Capstone filed a petition in the 12th Judicial District Court of Walker County, Texas against these subsidiaries, among other subcontractors, seeking contribution, defense, indemnity and damages for breach of contract in connection with alleged construction defect claims brought against Capstone by the owner of the student housing project. The owner claimed \$10,406 in damages, plus attorneys fees and costs against Capstone, which Capstone sought to recover from the subcontractors. The claims against the Company were based on alleged defects in the mechanical design, construction and installation of the HVAC and electrical systems performed by our former subsidiaries.

---

**IES HOLDINGS, INC.**

**Notes to the Condensed Consolidated Financial Statements**

**(All Amounts in Thousands Except Share Amounts)**

**(Unaudited)**

Following mediation in June and November 2017, the Company reached an agreement in late December 2017 to settle all claims brought against it. In the six months ended March 31, 2018, a mutual settlement and release agreement was executed by the plaintiffs and the Company resulting in a charge and payment by the Company of \$200.

**USAMRIID Claim**

On December 6, 2017, IES Commercial, Inc. filed suit in the United States District Court of Maryland in the matter *USA for the use and benefit of IES Commercial, Inc. and IES Commercial, Inc. v. Manhattan Construction Co., Torcon, Inc., Manhattan Torcon A Joint Venture, Federal Ins. Co., Fidelity & Deposit Co. of Maryland, Zurich American Ins. Co., and Travelers Casualty & Surety Co.* This suit relates to a large project which has been ongoing since 2009 and was scheduled for completion in early 2013. As the Company has previously disclosed, the Company entered into a subcontract in 2009 with Manhattan Torcon A Joint Venture to perform subcontracting services at the U.S. Army Medical Research Institute for Infectious Diseases ( USAMRIID ) replacement facility project for a contract value of approximately \$61,146, subject to additions or deductions. Because of delays on the project and additional work the Company performed, the Company believes it is owed approximately \$21,000 for claims incurred as of August 31, 2017, and an additional approximate \$4,500 for claims the Company expects to incur from August 31, 2017, through completion of the project. On January 22, 2018, the defendants in this matter filed a motion to dismiss the suit, and on February 2, 2018, we filed our response. We are awaiting a decision on this matter.

Given the uncertainty litigation poses, the Company has not recorded any recovery in connection with this claim. There can be no assurance that the Company will prevail in this litigation matter or that, if the Company does prevail, it will receive an amount substantially similar to the amount sought or not receive a significantly lower award.

***Risk-Management***

We retain the risk for workers' compensation, employer's liability, automobile liability, construction defects, general liability and employee group health claims, as well as pollution coverage, resulting from uninsured deductibles per accident or occurrence which are generally subject to annual aggregate limits. Our general liability program provides coverage for bodily injury and property damage. In many cases, we insure third parties, including general contractors, as additional insureds under our insurance policies. Losses are accrued based upon our known claims incurred and an estimate of claims incurred but not reported. As a result, many of our claims are effectively self-insured. Many claims against our insurance are in the form of litigation. At March 31, 2018, and September 30, 2017, we had \$6,816 and \$6,204, respectively, accrued for self-insurance liabilities. We are also subject to construction defect liabilities, primarily within our Residential segment. As of March 31, 2018, and September 30, 2017, we had \$230 and \$218, respectively, reserved for these claims. Because the reserves are based on judgment and estimates and involve variables that are inherently uncertain, such as the outcome of litigation and an assessment of insurance coverage, there can be no assurance that the ultimate liability will not be higher or lower than such estimates or that the timing of payments will not create liquidity issues for the Company.

Some of the underwriters of our casualty insurance program require us to post letters of credit as collateral. This is common in the insurance industry. To date, we have not had a situation where an underwriter has had reasonable cause to effect payment under a letter of credit. At March 31, 2018, and September 30, 2017, \$5,900 and \$5,985, respectively, of our outstanding letters of credit was utilized to collateralize our insurance program.

*Surety*

As of March 31, 2018, the estimated cost to complete our bonded projects was approximately \$60,114. We evaluate our bonding requirements on a regular basis, including the terms offered by our sureties. We believe the bonding capacity presently provided by our current sureties is adequate for our current operations and will be adequate for our operations for the foreseeable future. Posting letters of credit in favor of our sureties reduces the borrowing availability under our credit facility.

*Other Commitments and Contingencies*

Some of our customers and vendors require us to post letters of credit, or provide intercompany guarantees, as a means of guaranteeing performance under our contracts and ensuring payment by us to subcontractors and vendors. If our customer has

reasonable cause to effect payment under a letter of credit, we would be required to reimburse our creditor for the letter of credit. At both March 31, 2018, and September 30, 2017, \$508 of our outstanding letters of credit were to collateralize our vendors.

---

**IES HOLDINGS, INC.**

**Notes to the Condensed Consolidated Financial Statements**

**(All Amounts in Thousands Except Share Amounts)**

**(Unaudited)**

From time to time, we may enter into firm purchase commitments for materials, such as copper or aluminum wire, which we expect to use in the ordinary course of business. These commitments are typically for terms of less than one year and require us to buy minimum quantities of materials at specific intervals at a fixed price over the term. As of March 31, 2018, we had no such commitments.

**13. BUSINESS COMBINATIONS**

2017

The Company completed three acquisitions in the year ended September 30, 2017, for a total aggregate consideration of \$20,979. See Note 18, Business Combinations and Divestitures in our Annual Report on Form 10-K for the year ended September 30, 2017, for further information.

**Freeman Enclosure Systems, LLC** We acquired 100% of the membership interests and associated real estate of Freeman and its affiliate Strategic Edge LLC on March 16, 2017. Strategic Edge LLC was subsequently merged into Freeman, with Freeman as the surviving entity. Freeman is included in our Infrastructure Solutions segment. Freeman's ability to manufacture custom generator enclosures has expanded our solutions offering.

**Technical Services II, LLC** STR Mechanical, our 80% owned subsidiary which is consolidated, acquired all of the membership interests of Technical Services, a Chesapeake, Virginia-based provider of mechanical maintenance services, including commercial heating, ventilation and air conditioning, food service equipment, electrical and plumbing services, on June 15, 2017. Technical Services operates as a subsidiary of STR Mechanical within the Company's Commercial & Industrial segment. The acquisition of Technical Services has expanded our geographic reach and diversified our customer base for mechanical maintenance services.

**NEXT Electric, LLC** On July 14, 2017, the Company acquired 80% of the membership interests of NEXT Electric, a Milwaukee, Wisconsin-based electrical contractor specializing in the design, installation and maintenance of electrical systems for commercial, industrial, healthcare, water treatment and education end markets. NEXT Electric operates within the Company's Commercial & Industrial segment.

The total purchase consideration for the Freeman and Technical Services acquisitions included contingent consideration payments based on the acquired company's earnings, as defined in the applicable purchase and sale agreement. The fair value of the total contingent consideration liability for all acquisitions, including Freeman and Technical Services, was estimated at \$467 at March 31, 2018, and is included in other non-current liabilities on our Condensed Consolidated Balance Sheets.

Edgar Filing: IES Holdings, Inc. - Form 10-Q

The Company accounted for the transactions under the acquisition method of accounting, which requires recording assets and liabilities at fair value (Level 3). The valuations of Technical Services and NEXT Electric, which are derived from estimated fair value assessments and assumptions used by management, are preliminary pending finalization of certain tangible and intangible asset valuations and assessment of deferred taxes.

*Unaudited Pro Forma Information*

The following unaudited supplemental pro forma results of operations, calculated as if each acquisition occurred as of October 1 of the fiscal year prior to consummation, for the three and six months ended March 31, 2018, and 2017, are as follows:

	<b>Unaudited Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
Revenues	\$ 205,677	\$ 210,557
Net income attributable to IES Holdings, Inc.	\$ 2,221	\$ 499



**IES HOLDINGS, INC.****Notes to the Condensed Consolidated Financial Statements****(All Amounts in Thousands Except Share Amounts)****(Unaudited)**

	<b>Unaudited</b>	
	<b>Six Months Ended</b>	
	<b>March 31,</b>	
	<b>2018</b>	<b>2017</b>
Revenues	\$ 403,977	\$ 410,371
Net income (loss) attributable to IES Holdings, Inc.	\$ (27,348)	\$ 4,212

**14. SUBSEQUENT EVENTS***Acquisition of Azimuth Communications, Inc.*

On April 6, 2018, the Company acquired all of the outstanding capital stock of Azimuth Communications, Inc. ( Azimuth ), a Portland, Oregon-based provider of design and integration services for structured cabling, physical security, access control systems, distributed antenna systems, wireless access, and audio visual systems. Azimuth will operate within our Communications segment.

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

The following discussion and analysis should be read in conjunction with our Consolidated Financial Statements and the notes thereto, set forth in Item 8. *Financial Statements and Supplementary Data* as set forth in our Annual Report on Form 10-K for the year ended September 30, 2017, and the Condensed Consolidated Financial Statements and notes thereto included in Part I of this Quarterly Report on Form 10-Q. The following discussion may contain forward looking statements. For additional information, see *Disclosure Regarding Forward Looking Statements* in Part I of this Quarterly Report on Form 10-Q.

**OVERVIEW****Executive Overview**

Please refer to Item 1. *Business* of our Annual Report on Form 10-K for the year ended September 30, 2017, for a discussion of the Company's services and corporate strategy. IES Holdings, Inc., a Delaware corporation, is a holding company that owns and manages operating subsidiaries, comprised of providers of industrial products and infrastructure services, to a variety of end markets. Our operations are currently organized into four principal business segments: Commercial & Industrial, Communications, Infrastructure Solutions and Residential.

**RESULTS OF OPERATIONS**

We report our operating results across our four operating segments: Commercial & Industrial, Communications, Infrastructure Solutions and Residential. Expenses associated with our corporate office are classified separately. The following tables present selected historical results of operations of IES, as well as the results of acquired businesses from the dates acquired.

	Three Months Ended March 31,		2017	
	2018			
	\$	%	\$	%
	<b>(Dollars in thousands, Percentage of revenues)</b>			
Revenues	\$ 205,677	100.0%	\$ 203,662	100.0%
Cost of services	171,837	83.5%	171,848	84.4%
Gross profit	33,840	16.5%	31,814	15.6%
Selling, general and administrative expenses	29,647	14.4%	30,120	14.8%
Contingent consideration	71	0.0%	83	0.0%
Gain on sale of assets	(20)	0.0%	(6)	0.0%
Operating Income	4,142	2.0%	1,617	0.8%
Interest and other (income) expense, net	430	0.2%	384	0.2%
Income from operations before income taxes	3,712	1.8%	1,233	0.6%
Provision for income taxes	1,425	0.7%	682	0.3%
Net income	2,287	1.1%	551	0.3%
Net income attributable to noncontrolling interest	(66)	0.0%	(15)	0.0%

Edgar Filing: IES Holdings, Inc. - Form 10-Q

Comprehensive income attributable to IES Holdings, Inc.	\$ 2,221	1.1%	\$ 536	0.3%
---	----------	------	--------	------

Consolidated revenues for the three months ended March 31, 2018, were \$2.0 million higher than for the three months ended March 31, 2017, an increase of 1.0%, with increases at our Commercial & Industrial and Infrastructure Solutions segments. Revenues at our three businesses acquired in fiscal 2017 increased by \$15.1 million, partly offset by a \$5.5 million decrease at two underperforming branches within our Commercial & Industrial segment, which are in the process of winding down operations.

Consolidated gross profit for the three months ended March 31, 2018, increased \$2.0 million compared with the three months ended March 31, 2017. Our overall gross profit percentage increased to 16.5% during the three months ended March 31, 2018, as compared to 15.6% during the three months ended March 31, 2017. Gross profit as a percentage of revenue increased at all of our segments, with the exception of our Residential segment.

Selling, general and administrative expenses include costs not directly associated with performing work for our customers. These costs consist primarily of compensation and benefits related to corporate, segment and branch management (including incentive-based compensation), occupancy and utilities, training, professional services, information technology costs, consulting fees, travel and certain types of depreciation and amortization. We allocate certain corporate selling, general and administrative costs across our segments as we believe this more accurately reflects the costs associated with operating each segment.

During the three months ended March 31, 2018, our selling, general and administrative expenses were \$29.6 million, a decrease of \$0.5 million, or 1.6%, over the three months ended March 31, 2017. Selling, general and administrative expense as a percent of revenue decreased from 14.8% for the three months ended March 31, 2017, to 14.4% for the three months ended March 31, 2018. This decrease was primarily attributable to lower variable compensation and incentive costs. Businesses acquired during fiscal 2017 contributed an additional \$1.4 million for the three months March 31, 2018.

	Six Months Ended March 31, 2018		2017	
	\$	%	\$	%
	(Dollars in thousands, Percentage of revenues)			
Revenues	\$ 403,977	100.0%	\$ 395,840	100.0%
Cost of services	337,073	83.4%	328,844	83.1%
Gross profit	66,904	16.6%	66,996	16.9%
Selling, general and administrative expenses	59,736	14.8%	58,314	14.7%
Contingent consideration	71	0.0%	83	0.0%
Gain on sale of assets	(34)	0.0%	(13)	0.0%
Operating income	7,131	1.8%	8,612	2.2%
Interest and other (income) expense, net	773	0.2%	826	0.2%
Income from operations before income taxes	6,358	1.6%	7,786	2.0%
Provision for income taxes <sup>(1)</sup>	33,584	8.3%	3,311	0.8%
Net income (loss)	(27,226)	(6.7) %	4,475	1.2%
Net income attributable to noncontrolling interest	(122)	0.0%	(67)	0.0%
Comprehensive income (loss) attributable to IES Holdings, Inc.	\$ (27,348)	(6.8) %	\$ 4,408	1.2%

(1) 2018 includes a charge of \$31.5 million to re-measure our net deferred tax assets in connection with the Tax Cuts and Jobs Act.

Consolidated revenues for the six months ended March 31, 2018 were \$8.1 million higher than for the six months ended March 31, 2017, an increase of 2.1%, with increases at all of our operating segments with the exception of our Communications segment. Revenues from our businesses acquired in fiscal 2017 contributed \$27.3 million of the revenue increase for the six months ended March 31, 2018, largely offset by a \$12.7 million decrease in revenue at the Denver and Roanoke branches of our Commercial & Industrial segment, which are in the process of winding down

operations.

Our overall gross profit percentage decreased to 16.6% during the six months ended March 31, 2018, as compared to 16.9% during the six months ended March 31, 2017. Businesses acquired in fiscal 2017, contributed an additional \$3.4 million of gross profit for the six months ended March 31, 2018, as compared with the six months ended March 31, 2018. However, this increase was largely offset by a decrease in margin associated with higher materials costs in our Residential segment.

During the six months ended March 31, 2018, our selling, general and administrative expenses were \$59.7 million, an increase of \$1.4 million, or 2.4%, over the six months ended March 31, 2017. This increase was primarily attributable to expense incurred at businesses acquired during fiscal 2017, which contributed \$3.0 million of the increase for the six months ended March 31, 2018. This increase was partly offset by a reduction in variable compensation expense.

**Commercial & Industrial**

	Three Months Ended March 31, 2018		2017	
	\$	%	\$	%
	<b>(Dollars in thousands, Percentage of revenues)</b>			
Revenue	\$ 65,589	100.0%	\$ 55,272	100.0%
Cost of services	59,068	90.1%	52,604	95.2%
Gross profit	6,521	9.9%	2,668	4.8%
Selling, general and administrative expenses	6,849	10.4%	5,261	9.5%
Gain on sale of assets	(17)	0.0%	(8)	0.0%
Operating Income	(311)	-0.5%	(2,585)	-4.7%

*Revenue.* Revenues in our Commercial & Industrial segment increased \$10.3 million, or 18.7%, during the three months ended March 31, 2018, compared to the three months ended March 31, 2017. The increase was largely driven by revenues at businesses acquired in the third and fourth quarters of fiscal 2017, which contributed an additional \$10.5 million during the three months ended March 31, 2018, compared to the three months ended March 31, 2017. Additionally, increased bid volume at several of our branches also contributed to the overall increase in revenues. These increases were offset by a \$5.5 million decrease relating to our Denver and Roanoke branches, which are in the process of winding down operations. The market for this segment's services remains highly competitive.

*Gross Profit.* Our Commercial & Industrial segment's gross profit during the three months ended March 31, 2018, increased by \$3.9 million, as compared to the three months ended March 31, 2017. The increase is due to both the \$2.5 million reduction in losses at our Denver and Roanoke branches, which are in the process of winding down operations, and \$1.6 million of additional gross profit contributed by our fiscal 2017 acquisitions during the three months ended March 31, 2018, compared to the three months ended March 31, 2017.

*Selling, General and Administrative Expenses.* Our Commercial & Industrial segment's selling, general and administrative expenses during the three months ended March 31, 2018, increased \$1.6 million, or 30.2%, compared to the three months ended March 31, 2017. Selling, general and administrative expenses as a percentage of revenues increased 0.9% to 10.4% during the three months ended March 31, 2018, compared to the three months ended March 31, 2017. The increase relates primarily to our fiscal 2017 acquisitions, which increased expense by \$1.1 million.

The following table summarizes the results of our Denver and Roanoke branches, which are in the process of winding down operations. These results are included in the consolidated Commercial & Industrial results shown above:

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Revenues	\$ 3,949	\$ 9,403
Cost of Service	3,993	11,936
Selling, general and administrative expenses	453	815

Edgar Filing: IES Holdings, Inc. - Form 10-Q

Loss from continuing operations	\$	(497)	\$	(3,348)
---------------------------------	----	-------	----	---------

	Six Months Ended March 31, 2018		2017	
	\$	%	\$	%
	<b>(Dollars in thousands, Percentage of revenues)</b>			
Revenue	\$ 118,591	100.0%	\$ 109,228	100.0%
Cost of services	107,227	90.4%	100,454	92.0%
Gross profit	11,364	9.6%	8,774	8.0%
Selling, general and administrative expenses	12,644	10.7%	9,585	8.8%
Gain on sale of assets	(29)	0.0%	(7)	0.0%
Operating Income	(1,251)	-1.1%	(804)	-0.7%

*Revenue.* Revenues in our Commercial & Industrial segment increased \$9.4 million during the six months ended March 31, 2018, an increase of 8.6% compared to the six months ended March 31, 2017. The increase in revenue over this period was driven by our fiscal 2017 acquisitions, which contributed \$19.6 million of additional revenue during the six months ended March 31, 2018 compared to the six months ended March 31, 2017. This increase in revenue was partly offset by a \$12.7 million decrease in revenue attributable to the winding down of operations at our Denver and Roanoke locations for the six months ended March 31, 2018, as compared with the six months ended March 31, 2017. The market for this segment's services remains highly competitive.

*Gross Profit.* Our Commercial & Industrial segment's gross profit during the six months ended March 31, 2018, increased by \$2.6 million, or 29.5%, as compared to the six months ended March 31, 2017. As a percentage of revenue, gross profit increased from 8.0% for the six months ended March 31, 2017, to 9.6% for the six months ended March 31, 2018. The increase was driven by \$3.1 million of additional gross profit contributed by our fiscal 2017 acquisitions during the six months ended March 31, 2018, compared to the six months ended March 31, 2017. Additionally, for the six months ended March 31, 2018, gross margin improved by \$2.1 million compared with the six months ended March 31, 2017 at our Denver and Roanoke branches, which are in the process of winding down operations. These increases were partly offset by a benefit we received from a change order on a large project in the six months ended March 31, 2017. Additionally, results for the six months ended March 31, 2018 were affected by an increase in workers' compensation expense in the first quarter of fiscal 2018, as a result of claims incurred related to certain incidents which occurred prior to fiscal 2018. As we are effectively self-insured with respect to workers' compensation, we may incur costs related to a claim in a reporting period subsequent to the incident related to the claim, and expense can vary significantly from period to period, depending on the timing of claims development. See Note 12, Commitments and Contingencies for further discussion.

*Selling, General and Administrative Expenses.* Our Commercial & Industrial segment's selling, general and administrative expenses during the six months ended March 31, 2018, increased \$3.1 million, or 31.9%, compared to the six months ended March 31, 2017, and increased 1.9% as a percentage of revenue. The increase was driven by our fiscal 2017 acquisitions, where selling, general and administrative expense for the six months ended March 31, 2018, increased by \$2.1 million. The remaining increase relates primarily to employee expense associated with management hired to provide additional oversight at the regional and branch levels.

The following table summarizes the results of our Denver and Roanoke branches, which are in the process of winding down operations. These results are included in the consolidated Commercial & Industrial segment results shown above:

	<b>Six Months Ended March 31, 2018</b>	<b>Six Months Ended March 31, 2017</b>
Revenues	\$ 7,110	\$ 19,801
Cost of Service	7,304	22,085
Selling, general and administrative expenses	943	1,463
Loss from continuing operations	\$ (1,137)	\$ (3,747)

## Communications



	Three Months Ended March 31, 2018		2017	
	\$	%	\$	%
	<b>(Dollars in thousands, Percentage of revenues)</b>			
Revenue	\$ 50,244	100.0%	\$ 61,674	100.0%
Cost of services	40,892	81.4%	52,378	84.9%
Gross profit	9,352	18.6%	9,296	15.1%
Selling, general and administrative expenses	6,201	12.3%	6,120	9.9%
Gain on sale of assets	(8)	0.0%	(1)	0.0%
Operating Income	3,159	6.3%	3,177	5.2%

*Revenue.* Our Communications segment's revenues decreased by \$11.4 million during the three months ended March 31, 2018, primarily as a result of \$6.8 million of revenue we received in the three months ended March 31, 2017 on a large system upgrade project for a school district. This project was completed in fiscal 2017. Revenues in our Communications segment can vary from quarter to quarter based on the capital spending cycles of our customers.

*Gross Profit.* Our Communications segment's gross profit during the three months ended March 31, 2018, increased by \$0.1 million compared to the three months ended March 31, 2017. Gross profit as a percentage of revenue increased 3.5% to 18.6% for the three months ended March 31, 2018, primarily as a result of improved project execution.

*Selling, General and Administrative Expenses.* Our Communications segment's selling, general and administrative expenses increased by \$0.1 million, or 1.3%, during the three months ended March 31, 2018, compared to the three months ended March 31, 2017. Selling, general and administrative expenses as a percentage of revenues in the Communications segment increased 2.4% to 12.3% of segment revenue during the three months ended March 31, 2018, compared to the three months ended March 31, 2017. The increase is a result of higher personnel cost, particularly related to higher incentive compensation expense in connection with improved profitability and cash flows, as well as continuing investment to support anticipated growth.

	Six Months Ended March 31, 2018		2017	
	\$	%	\$	%
	<b>(Dollars in thousands, Percentage of revenues)</b>			
Revenue	\$ 104,703	100.0%	\$ 114,977	100.0%
Cost of services	86,231	82.4%	97,710	85.0%
Gross profit	18,472	17.6%	17,267	15.0%
Selling, general and administrative expenses	12,285	11.7%	11,834	10.3%
Gain on sale of assets	(9)	0.0%	(1)	0.0%
Operating Income	6,196	5.9%	5,434	4.7%

*Revenue.* Our Communications segment revenues decreased by \$10.3 million during the six months ended March 31, 2018, primarily as a result of \$6.8 million of revenue we received in the three months ended March 31, 2017 on a large system upgrade project for a school district. This project was completed in fiscal 2017. Revenues in our Communications segment can vary from quarter to quarter based on the capital spending cycles of our customers.

*Gross Profit.* Our Communications segment's gross profit during the six months ended March 31, 2018, increased \$1.2 million, or 7.0%, as compared to the six months ended March 31, 2017. Gross profit as a percentage of revenue increased 2.6% to 17.6% for the six months ended March 31, 2018. The increase is driven, primarily by improved project execution.

*Selling, General and Administrative Expenses.* Our Communications segment's selling, general and administrative expenses increased \$0.5 million, or 3.8%, during the six months ended March 31, 2018, compared to the six months ended March 31, 2017. Selling, general and administrative expenses as a percentage of revenues in the Communications segment increased by 1.4% to 11.7% of segment revenue during the six months ended March 31, 2018, compared to the six months ended March 31, 2017. The increase is a result of higher personnel cost, including increased incentive compensation associated with higher profitability and cash flows. Additionally, we have continued to invest in the necessary infrastructure to support anticipated growth.

## Infrastructure Solutions

	2018		2017	
	\$	%	\$	%
	<b>Three Months Ended March 31,</b>			
	<b>(Dollars in thousands, Percentage of</b>			
	<b>revenues)</b>			
Revenue	\$ 23,866	100.0%	\$ 18,793	100.0%
Cost of services	18,842	78.9%	14,515	77.2%
Gross profit	5,024	21.1%	4,278	22.8%
Selling, general and administrative expenses	4,637	19.4%	4,222	22.5%
Contingent consideration	71	0.3%	83	0.4%
Loss on sale of assets	6	0.0%	6	0.0%
Operating income (loss)	310	1.3%	(33)	-0.2%

**Revenue.** Revenues in our Infrastructure Solutions segment increased \$5.1 million during the three months ended March 31, 2018, an increase of 27.0% compared to the three months ended March 31, 2017. The increase in revenue was driven primarily by additional revenue of \$4.5 million contributed by the acquisition of Freeman Enclosures in the second quarter of fiscal 2017.

**Gross Profit.** Our Infrastructure Solutions segment's gross profit during the three months ended March 31, 2018, increased \$0.7 million as compared to the three months ended March 31, 2017. Gross profit as a percentage of revenue decreased 1.7% to 21.1%. Margins are primarily affected by the mix of work performed.

**Selling, General and Administrative Expenses.** Our Infrastructure Solutions segment's selling, general and administrative expenses during the three months ended March 31, 2018, increased \$0.4 million compared to the three months ended March 31, 2017, largely as a result of general and administrative expenses at Freeman Enclosures, which was acquired during the second quarter of fiscal 2017.

	Six Months Ended March 31, 2018		2017	
	\$	%	\$	%
	(Dollars in thousands, Percentage of revenues)			
Revenue	\$ 45,551	100.0%	\$ 37,270	100.0%
Cost of services	35,842	78.7%	27,617	74.1%
Gross profit	9,709	21.3%	9,653	25.9%
Selling, general and administrative expenses	9,194	20.2%	8,322	22.3%
Contingent consideration	71	0.2%	83	0.2%
Loss (gain) on sale of assets	5	0.0%	(2)	0.0%
Operating income	439	1.0%	1,250	3.4%

**Revenue.** Revenues in our Infrastructure Solutions segment increased \$8.3 million during the six months ended March 31, 2018, an increase of 22.2% compared to the six months ended March 31, 2017. The increase was primarily driven by \$10.0 million of additional revenue contributed by Freeman Enclosures, which we acquired during the second quarter of fiscal 2017.

**Gross Profit.** Our Infrastructure Solutions segment's gross profit during the six months ended March 31, 2018, increased \$0.1 million as compared to the six months ended March 31, 2017. Gross profit as a percentage of revenues decreased 4.6% to 21.3% for the six months ended March 31, 2018. Margins are affected by the mix of work performed.

**Selling, General and Administrative Expenses.** Our Infrastructure Solutions segment's selling, general and administrative expenses during the six months ended March 31, 2018, increased \$0.9 million compared to the six months ended March 31, 2017. The increase was primarily the result of general and administrative costs incurred at Freeman Enclosures, which increased \$0.8 million for the six months ended March 31, 2018.

## Residential

### Three Months Ended March 31,

Edgar Filing: IES Holdings, Inc. - Form 10-Q

	2018		2017	
	\$	%	\$	%
	<b>(Dollars in thousands, Percentage of revenues)</b>			
Revenue	\$ 65,978	100.0%	\$ 67,923	100.0%
Cost of services	53,035	80.4%	52,351	77.1%
Gross profit	12,943	19.6%	15,572	22.9%
Selling, general and administrative expenses	9,688	14.7%	10,932	16.1%
Gain on sale of assets	(1)	0.0%	(3)	0.0%
Operating income	3,256	4.9%	4,643	6.8%

**Revenue.** Our Residential segment's revenues decreased by \$1.9 million during the three months ended March 31, 2018, a decrease of 2.9% as compared to the three months ended March 31, 2017. The decrease is driven by our multi-family business, where revenues decreased by \$7.0 million for the three months ended March 31, 2018, compared with the three months ended March 31, 2017. The quarter ended March 31, 2017, benefitted from a historically high level of backlog, which was the result of project delays in the previous fiscal year. Our current multi-family backlog has returned to a more typical level. This decrease was partly offset by our single-family business, where revenues increased by \$3.9 million. Service and solar revenues also increased by \$1.2 million for the three months ended March 31, 2018, compared with the same period in the prior year.

**Gross Profit.** During the three months ended March 31, 2018, our Residential segment experienced a \$2.6 million, or 16.9%, decrease in gross profit as compared to the three months ended March 31, 2017. The decrease in gross profit was driven primarily by an increase in copper and other commodity prices, as we experienced favorable commodity prices in the quarter ended March 31, 2017, as well as an increase in labor costs, as a result of tightening labor markets. Gross margin as a percentage of revenue decreased 3.3% to 19.6% during the quarter ended March 31, 2018, as compared with the quarter ended March 31, 2017.

**Selling, General and Administrative Expenses.** Our Residential segment experienced a \$1.2 million, or 11.4%, decrease in selling, general and administrative expenses during the three months ended March 31, 2018, compared to the three months ended March 31, 2017, primarily as a result of lower incentive compensation expense in connection with lower profitability. Selling, general and administrative expenses as a percentage of revenues in the Residential segment decreased to 14.7% of segment revenue during the three months ended March 31, 2018, compared to 16.1% in the three months ended March 31, 2017.

	Six Months Ended March 31,		2017	
	2018			2017
	\$	%	\$	%
	<b>(Dollars in thousands, Percentage of revenues)</b>			
Revenue	\$ 135,132	100.0%	\$ 134,365	100.0%
Cost of services	107,773	79.8%	103,063	76.7%
Gross profit	27,359	20.2%	31,302	23.3%
Selling, general and administrative expenses	20,054	14.8%	21,485	16.0%
Gain on sale of assets	(1)	0.0%	(3)	0.0%
Operating income	7,306	5.4%	9,820	7.3%

**Revenue.** Our Residential segment revenues increased by \$0.8 million during the six months ended March 31, 2018, an increase of 0.6% as compared to the six months ended March 31, 2017. The increase is driven by our single-family business, where revenues increased by \$9.4 million for the six months ended March 31, 2018, compared with the six months ended March 31, 2017. Service and solar revenues also increased by \$2.1 million for the six months ended March 31, 2018, compared with the same period in the prior year. These increases were partly offset by a decrease in multi-family revenues, which declined by \$10.7 million. The six months ended March 31, 2017, benefitted from a historically high level of backlog, which was the result of project delays in the previous fiscal year. Our current multi-family backlog has returned to a more typical level.

**Gross Profit.** During the six months ended March 31, 2018, our Residential segment experienced a \$3.9 million, or 12.6%, decrease in gross profit as compared to the six months ended March 31, 2017. The decrease in gross profit was driven primarily by an increase in copper and other commodity prices, as we experienced favorable commodity prices

in the six months ended March 31, 2017, as well as an increase in labor costs, as a result of tightening labor markets. Gross margin as a percentage of revenue decreased 3.1% to 20.2% during the six months ended March 31, 2018, as compared with the six months ended March 31, 2017.

*Selling, General and Administrative Expenses.* Our Residential segment experienced a \$1.4 million, or 6.7%, decrease in selling, general and administrative expenses during the six months ended March 31, 2018, compared to the six months ended March 31, 2017, driven by decreased compensation expense, primarily as a result of a decrease of \$0.7 million in variable compensation and incentive costs associated with decreased profitability. Selling, general and administrative expenses as a percentage of revenues in the Residential segment decreased by 1.2% to 14.8% of segment revenue during the six months ended March 31, 2018.

**INTEREST AND OTHER EXPENSE, NET**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>(In thousands)</b>	
Interest expense	\$ 402	\$ 341
Deferred financing charges	71	87
<b>Total interest expense</b>	<b>473</b>	<b>428</b>
Other (income) expense, net	(43)	(44)
<b>Total interest and other expense, net</b>	<b>\$ 430</b>	<b>\$ 384</b>

During the three months ended March 31, 2018, we incurred interest expense of \$0.5 million primarily comprised of interest expense from our term loan facility with Wells Fargo Bank, N.A. ( Wells Fargo ), an average letter of credit balance of \$6.4 million under our revolving credit facility and an average unused line of credit balance of \$28.5 million. This compares to interest expense of \$0.4 million for the three months ended March 31, 2017, primarily comprised of interest expense from our term loan facility, an average letter of credit balance of \$6.6 million under our revolving credit facility and an average unused line of credit balance of \$33.2 million.

	<b>Six Months Ended</b>	
	<b>March 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>(In thousands)</b>	
Interest expense	\$ 772	\$ 702
Deferred financing charges	142	172
<b>Total interest expense</b>	<b>914</b>	<b>874</b>
Other (income) expense, net	(141)	(48)
<b>Total interest and other expense, net</b>	<b>\$ 773</b>	<b>\$ 826</b>

During the six months ended March 31, 2018, we incurred interest expense of \$0.9 million primarily comprised of interest expense from our revolving credit facility, an average letter of credit balance of \$6.4 million and an average unused line of credit balance of \$24.3 million. This compares to interest expense of \$0.9 million for the six months ended March 31, 2017, primarily comprised of interest expense from our revolving credit facility, an average letter of credit balance of \$6.7 million and an average unused line of credit balance of \$33.1 million.

**PROVISION FOR INCOME TAXES**

We recorded income tax expense of \$1.4 million for the three months ended March 31, 2018, compared to income tax expense of \$0.7 million for the three months ended March 31, 2017.

We recorded income tax expense of \$33.6 million for the six months ended March 31, 2018, compared to income tax expense of \$3.3 million for the six months ended March 31, 2017.



For the six months ended March 31, 2018, our income tax expense included a preliminary charge of \$31.5 million to re-measure our deferred tax assets and liabilities to reflect the estimated impact of the new statutory tax rate enacted during the quarter.

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Management's discussion and analysis of financial condition and results of operations is based upon our Condensed Consolidated Financial Statements included in this report on Form 10-Q, which have been prepared in accordance with U.S. generally accepted accounting principles ( GAAP ). The preparation of our Condensed Consolidated Financial Statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities known to exist as of the date of the Condensed Consolidated Financial Statements, and the reported amounts of revenues and expenses recognized during the periods presented. We review all significant estimates affecting our Condensed Consolidated Financial Statements on a recurring basis and record the effect of any necessary adjustments prior to their publication. Judgments and estimates are based on our beliefs and assumptions derived from information available at the same time such judgments and estimates are made. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of financial statements. There can be no assurance that actual results will not differ from those estimates.

## BACKLOG

Backlog is a measure of revenue that we expect to recognize from work that has yet to be performed on uncompleted contracts and from work that has been contracted but has not started, exclusive of short-term projects. While all of our backlog is supported by documentation from customers authorizing the performance of future work, backlog is not a guarantee of future revenues, as contractual commitments may change and our performance may vary. Not all of our work is performed under contracts included in backlog; for example, most of the apparatus repair work that is completed by our Infrastructure Solutions segment is performed under master service agreements on an as needed basis. Additionally, electrical installation services for single-family housing at our Residential segment is completed on a short-term basis and is therefore excluded from backlog. In addition, certain service work is performed under master service agreements on an as-needed basis. Our backlog has increased from \$331 million at September 30, 2017, to \$343 million at March 31, 2018.

## WORKING CAPITAL

During the six months ended March 31, 2018, working capital exclusive of cash decreased by \$1.4 million from September 30, 2017, reflecting a \$12.6 million decrease in current assets excluding cash and a \$11.2 million decrease in current liabilities during the period.

During the six months ended March 31, 2018, our current assets exclusive of cash decreased to \$190.9 million, as compared to \$203.5 million as of September 30, 2017. The decrease primarily relates to a \$15.7 million decrease in accounts receivable and retainage. Days sales outstanding decreased to 59 at March 31, 2018, from 66 at September 30, 2017. While the rate of collections may vary, our typically secured position, resulting from our ability in general to secure liens against our customers' overdue receivables, offers some protection that collection will occur eventually to the extent that our security retains value.

During the six months ended March 31, 2018, our total current liabilities decreased by \$11.2 million to \$139.4 million, compared to \$150.6 million as of September 30, 2017, primarily related to a decrease in accounts payable and accrued liabilities.

The decreases in both accounts receivable and accounts payable are typical for the six months of our fiscal year, based on a slowing of activity around the end of the calendar year, combined with winter weather related project delays.

### *Surety*

We believe the bonding capacity presently provided by our sureties is adequate for our current operations and will be adequate for our operations for the foreseeable future. As of March 31, 2018, the estimated cost to complete our bonded projects was approximately \$60.1 million.

## LIQUIDITY AND CAPITAL RESOURCES

### *The Revolving Credit Facility*

We maintain a \$100 million revolving credit facility with Wells Fargo Bank, N.A. that matures in August 2021 (as amended, the Credit Facility), pursuant to a Second Amended and Restated Credit and Security Agreement with Wells Fargo Bank, N.A., which was further amended on July 14, 2017, and August 2, 2017 (as amended, the Amended Credit Agreement).

The Credit Facility contains customary affirmative, negative and financial covenants as well as events of default.

As of March 31, 2018, we were in compliance with the financial covenants under the Amended Credit Agreement, requiring that we maintain:

a Fixed Charge Coverage Ratio (as defined in the Amended Credit Agreement), measured quarterly on a trailing four-quarter basis at the end of each quarter, of at least 1.1 to 1.0;

minimum Liquidity (as defined in the Amended Credit Agreement) of at least thirty percent (30%) of the Maximum Revolver Amount (as defined in the Amended Credit Agreement), or \$30 million; with, for purposes of this covenant, at least fifty percent (50%) of our Liquidity comprised of Excess Availability (as defined in the Amended Credit Agreement); and

minimum EBITDA (as defined in the Amended Credit Agreement), measured at the end of each quarter, of at least the required amount set forth in the following table for the applicable period set forth opposite thereto:

<b>Applicable Amount</b>	<b>Applicable Period</b>
\$ 32.5 million	For the four quarter period ending March 31, 2018
\$ 35.0 million	For each four quarter period ending June 30, 2018 and each quarter-end thereafter

At March 31, 2018, our Liquidity was \$79.5 million, our Excess Availability was \$43.7 million (or greater than 50% of minimum Liquidity), our Fixed Charge Coverage Ratio was 5.8:1.0; and our EBITDA, as defined in the Amended Credit Agreement for the four quarters ended March 31, 2018 was \$36.3 million.

If in the future our Liquidity falls below \$30 million (or Excess Availability falls below 50% or our minimum Liquidity), our Fixed Charge Coverage Ratio is less than 1.1:1.0, we fail to meet our minimum EBITDA requirement, or if we otherwise fail to perform or otherwise comply with certain of our covenants or other agreements under the Amended Credit Agreement, it would result in an event of default under the Amended Credit Agreement, which could result in some or all of our indebtedness becoming immediately due and payable.

At March 31, 2018, we had \$6.4 million in outstanding letters of credit with Wells Fargo Bank, N.A and outstanding borrowings of \$30.2 million.

#### *Operating Activities*

Our cash flow from operations is not only influenced by cyclical, demand for our services, operating margins and the type of services we provide, but can also be influenced by working capital needs such as the timing of our receivable collections. Working capital needs are generally lower during our fiscal first and second quarters due to the seasonality that we experience in many regions of the country.

Operating activities provided net cash of \$11.2 million during the six months ended March 31, 2018, as compared to \$2.7 million of net cash provided in the six months ended March 31, 2017. The increase in operating cash flow resulted primarily from improved working capital at our Communications segment, where we had a higher level of cost-plus arrangements in the six months ended March 31, 2018 as compared with March 31, 2017, under which the timing of collections from customers is later as compared to a typical fixed-price contract.

#### *Investing Activities*

Net cash used in investing activities was \$2.4 million for the six months ended March 31, 2018, compared with \$14.5 million for the six months ended March 31, 2017. We used cash of \$2.3 million for purchases of fixed assets in the six months ended March 31, 2018. For the six months ended March 31, 2017, we used \$2.9 million of cash for the purchase of fixed assets. We used \$0.2 million in conjunction with business combinations in the six months ended March 31, 2018, compared to \$11.7 million in the six months ended March 31, 2017.

#### *Financing Activities*

Net cash used in financing activities for the six months ended March 31, 2018 was \$1.3 million, compared with a usage of \$0.5 million in the six months ended March 31, 2017. We used \$1.2 million in conjunction with our stock repurchase plan during the six months ended March 31, 2018. During the six months ended March 31, 2017, we used \$0.4 million to make contingent consideration payments.

*Stock Repurchase Program*

Our Board of Directors has authorized a stock repurchase program for the purchase from time to time of up to 1.5 million shares of the Company's common stock. Share purchases are made for cash in open market transactions at prevailing market prices or in privately negotiated transactions or otherwise. The timing and amount of purchases under the program are determined based upon prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. All or part of the repurchases may be implemented under a Rule 10b5-1 trading plan, which allows repurchases under pre-set terms at times when the Company might

otherwise be prevented from purchasing under insider trading laws or because of self-imposed blackout periods. The program does not require the Company to purchase any specific number of shares and may be modified, suspended or reinstated at any time at the Company's discretion and without notice. We purchased 79,817 shares pursuant to this program during the six months ended March 31, 2018.

#### **OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS**

There have been no material changes in our contractual obligations and commitments from those disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2017.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Management is actively involved in monitoring exposure to market risk and continues to develop and utilize appropriate risk management techniques. Our exposure to significant market risks includes fluctuations in commodity prices for copper, aluminum, steel and fuel. Commodity price risks may have an impact on our results of operations due to the fixed price nature of many of our contracts. We are also exposed to interest rate risk with respect to our outstanding debt obligations on the Amended Credit Agreement. For additional information see *Disclosure Regarding Forward-Looking Statements* in Part I of this Quarterly Report on Form 10-Q and our risk factors in Item 1A. *Risk Factors* in our Annual Report on Form 10-K for the fiscal year ended September 30, 2017.

**Commodity Risk**

Our exposure to significant market risks includes fluctuations in commodity prices for copper, aluminum, steel and fuel. Commodity price risks may have an impact on our results of operations due to the fixed nature of many of our contracts. Over the long-term, we expect to be able to pass along a portion of these costs to our customers, as market conditions in the construction industry will allow. The Company has not entered into any commodity price risk hedging instruments.

**Interest Rate Risk**

We are subject to interest rate risk on our floating interest rate borrowings on the Amended Credit Agreement. If LIBOR were to increase, our interest payment obligations on outstanding borrowings would increase, having a negative effect on our cash flow and financial condition. We currently do not maintain any hedging contracts that would limit our exposure to variable rates of interest when we have outstanding borrowings. Floating rate debt, where the interest rate fluctuates periodically, exposes us to short-term changes in market interest rates.

All of the long-term debt outstanding under our revolving credit facility is structured on floating interest rate terms. A one percentage point increase in the interest rates on our long-term debt outstanding under the credit facility as of March 31, 2018, would cause a \$0.3 million pre-tax annual increase in interest expense.

**Item 4. Controls and Procedures**

**Changes in Internal Control Over Financial Reporting**

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15 and 15d-15 under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are likely to materially affect, the Company's internal control over financial reporting.

**Disclosure Controls and Procedures**

In accordance with Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934, as amended (the Exchange Act), we carried out an evaluation, under the supervision and with the participation of management, including our President and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our President and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2018, to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Our disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our President and Chief Financial Officer, as appropriate, to allow timely decisions regarding

required disclosure.

## **PART II. OTHER INFORMATION**

### **Item 1. *Legal Proceedings***

For information regarding legal proceedings, see Note 12, Commitments and Contingencies – Legal Matters in the Notes to our Condensed Consolidated Financial Statements set forth in Part I, Item 1 of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.



**Item 1A. Risk Factors**

There have been no material changes to the risk factors disclosed under Item 1A. *Risk Factors* in our Annual Report on Form 10-K for the fiscal year ended September 30, 2017.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table presents information with respect to purchases of common stock of the Company made during the three months ended March 31, 2018:

Date	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan (2)	Maximum Number of Shares That May Yet
				Be Purchased Under the Publicly Announced Plan as of March 31, 2018
January 1, 2018 - January 31, 2018				825,431
February 1, 2018 - February 28, 2018	8,713	\$ 15.49	8,713	816,718
March 1, 2018 - March 31, 2018	71,104	\$ 15.39	71,104	736,901
Total	79,817	\$ 15.40	79,817	736,901

- (1) The total number of shares purchased includes shares purchased pursuant to the plan described in footnote (2) below. No shares were surrendered to the Company to satisfy tax withholding obligations in connection with the vesting of restricted stock issued to employees during the quarter ended March 31, 2018.
- (2) Our Board of Directors has authorized a stock repurchase program for the purchase of up to 1.5 million shares of the Company's common stock from time to time.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

**Exhibit No.**

**Description**

- 2.1 Stock Purchase Agreement dated as of June 1, 2016, by and among IES Infrastructure Solutions, LLC, IES Holdings, Inc., Technibus, Inc. and Technibus, LLC. (Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on June 15, 2016)

Edgar Filing: IES Holdings, Inc. - Form 10-Q

- 3.1 Second Amended and Restated Certificate of Incorporation of IES Holdings, Inc., as amended by the Certificate of Amendment thereto, effective May 24, 2016 (composite). (Incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q filed on August 8, 2016)
- 3.2 Certificate of Designations of Series A Junior Participating Preferred Stock (Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on January 28, 2013)
- 3.3 Amended and Restated Bylaws of IES Holdings, Inc., effective May 24, 2016. (Incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on May 24, 2016)

- 4.1 Specimen common stock certificate. (Incorporated by reference to Exhibit 4.1 to the Company's Annual Report on Form 10-K filed on December 9, 2016)
- 4.2 Tax Benefit Protection Plan Agreement by and between IES Holdings, Inc. and American Stock Transfer & Trust Company, LLC, as Rights Agent, dated as of November 8, 2016, including the form of Rights Certificate and Summary of Stockholder Rights Plan attached thereto as Exhibits A and B, respectively. (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on November 9, 2016)
- (1)31.1 Rule 13a-14(a)/15d-14(a) Certification of Robert W. Lewey, President.
- (1)31.2 Rule 13a-14(a)/15d-14(a) Certification of Tracy A. McLauchlin, Senior Vice President, Chief Financial Officer and Treasurer
- (1)32.1 Section 1350 Certification of Robert W. Lewey, President
- (1)32.2 Section 1350 Certification of Tracy A. McLauchlin, Senior Vice President, Chief Financial Officer and Treasurer
- (1)101.INS XBRL Instance Document
- (1)101.SCH XBRL Schema Document
- (1)101.LAB XBRL Label Linkbase Document
- (1)101.PRE XBRL Presentation Linkbase Document
- (1)101.DEF XBRL Definition Linkbase Document
- (1)101.CAL XBRL Calculation Linkbase Document
- (1) Filed herewith.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on May 4, 2018.

**IES HOLDINGS, INC.**

By: /s/ TRACY A. MCLAUHLIN  
Tracy A. McLauchlin  
Senior Vice President, Chief Financial  
Officer and Treasurer (Principal Financial  
Officer and Authorized Signatory)