

MODINE MANUFACTURING CO
Form 10-Q
February 01, 2019

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 December 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 1-1373

MODINE MANUFACTURING COMPANY
(Exact name of registrant as specified in its charter)

WISCONSIN 39-0482000
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

1500 DeKoven Avenue, Racine, Wisconsin 53403
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (262) 636 1200

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 such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer

Non-accelerated Filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by checkmark if the registrant has not elected 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

The number of shares outstanding of the registrant's common stock, \$0.625 par value, was 50,628,421 at January 25, 2019.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

MODINE MANUFACTURING COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
For the three and nine months ended December 31, 2018 and 2017
(In millions, except per share amounts)
(Unaudited)

| | Three months ended December 31, | | Nine months ended December 31, | |
|--|------------------------------------|------------|-----------------------------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| Net sales | \$ 541.0 | \$ 512.7 | \$ 1,656.0 | \$ 1,536.5 |
| Cost of sales | 449.3 | 427.3 | 1,382.1 | 1,276.5 |
| Gross profit | 91.7 | 85.4 | 273.9 | 260.0 |
| Selling, general and administrative expenses | 57.2 | 60.8 | 179.9 | 182.2 |
| Restructuring expenses | 0.5 | 9.4 | 0.7 | 11.5 |
| Impairment charges | 0.4 | 1.3 | 0.4 | 1.3 |
| Loss on sale of assets | - | - | 1.7 | - |
| Operating income | 33.6 | 13.9 | 91.2 | 65.0 |
| Interest expense | (6.2) | (6.3) | (18.9) | (19.5) |
| Other expense – net | (0.5) | (0.3) | (2.1) | (2.3) |
| Earnings before income taxes | 26.9 | 7.3 | 70.2 | 43.2 |
| (Provision) benefit for income taxes | (8.6) | (35.2) | 9.3 | (37.4) |
| Net earnings (loss) | 18.3 | (27.9) | 79.5 | 5.8 |
| Net earnings attributable to noncontrolling interest | (0.3) | (0.4) | (1.0) | (1.2) |
| Net earnings (loss) attributable to Modine | \$ 18.0 | \$ (28.3) | \$ 78.5 | \$ 4.6 |
| Net earnings (loss) per share attributable to Modine shareholders: | | | | |
| Basic | \$ 0.36 | \$ (0.57) | \$ 1.55 | \$ 0.09 |
| Diluted | \$ 0.35 | \$ (0.57) | \$ 1.53 | \$ 0.09 |
| Weighted-average shares outstanding: | | | | |
| Basic | 50.5 | 50.0 | 50.4 | 49.8 |
| Diluted | 51.2 | 50.0 | 51.2 | 50.6 |

The notes to condensed consolidated financial statements are an integral part of these statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three and nine months ended December 31, 2018 and 2017

(In millions)

(Unaudited)

| | Three months ended December 31, | | Nine months ended December 31, | |
|---|------------------------------------|------------|-----------------------------------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| Net earnings (loss) | \$ 18.3 | \$ (27.9) | \$ 79.5 | \$ 5.8 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation | (2.1) | 5.0 | (32.6) | 32.8 |
| Defined benefit plans, net of income taxes of \$0.3, \$0.4, \$0.9 and \$1.3 million | 1.0 | 0.9 | 3.0 | 2.6 |
| Cash flow hedges, net of income taxes of (\$0.2), \$0.2, (\$0.3) and \$0.2 million | (0.9) | 0.4 | (1.0) | 0.4 |
| Total other comprehensive income (loss) | (2.0) | 6.3 | (30.6) | 35.8 |
| Comprehensive income (loss) | 16.3 | (21.6) | 48.9 | 41.6 |
| Comprehensive income attributable to noncontrolling interest | (0.3) | (0.8) | (0.5) | (1.6) |
| Comprehensive income (loss) attributable to Modine | \$ 16.0 | \$ (22.4) | \$ 48.4 | \$ 40.0 |

The notes to condensed consolidated financial statements are an integral part of these statements.

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MODINE MANUFACTURING COMPANY

CONSOLIDATED BALANCE SHEETS

December 31, 2018 and March 31, 2018

(In millions, except per share amounts)

(Unaudited)

| | December 31, 2018 | March 31, 2018 |
|--|----------------------|-------------------|
| <u>ASSETS</u> | | |
| Cash and cash equivalents | \$ 30.7 | \$ 39.3 |
| Trade accounts receivable – net | 301.5 | 342.4 |
| Inventories | 211.0 | 191.3 |
| Other current assets | 71.7 | 70.1 |
| Total current assets | 614.9 | 643.1 |
| Property, plant and equipment – net | 489.1 | 504.3 |
| Intangible assets – net | 119.5 | 129.9 |
| Goodwill | 169.0 | 173.8 |
| Deferred income taxes | 96.5 | 96.9 |
| Other noncurrent assets | 23.7 | 25.4 |
| Total assets | \$ 1,512.7 | \$ 1,573.4 |
| <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u> | | |
| Short-term debt | \$ 67.5 | \$ 53.2 |
| Long-term debt – current portion | 45.7 | 39.9 |
| Accounts payable | 245.7 | 277.9 |
| Accrued compensation and employee benefits | 73.7 | 97.3 |
| Other current liabilities | 41.9 | 47.2 |
| Total current liabilities | 474.5 | 515.5 |
| Long-term debt | 354.2 | 386.3 |
| Deferred income taxes | 9.1 | 9.9 |
| Pensions | 99.1 | 109.6 |
| Other noncurrent liabilities | 35.1 | 53.6 |
| Total liabilities | 972.0 | 1,074.9 |
| Commitments and contingencies (see Note 16) | | |
| Shareholders' equity: | | |
| Preferred stock, \$0.025 par value, authorized 16.0 million shares, issued - none | - | - |
| Common stock, \$0.625 par value, authorized 80.0 million shares, issued 52.7 million and 52.3 million shares | 32.9 | 32.7 |
| Additional paid-in capital | 236.7 | 229.9 |
| Retained earnings | 465.8 | 394.9 |
| Accumulated other comprehensive loss | (170.4 |) (140.3 |
| Treasury stock, at cost, 2.1 million and 1.8 million shares | (31.4 |) (27.1 |
| Total Modine shareholders' equity | 533.6 | 490.1 |
| Noncontrolling interest | 7.1 | 8.4 |
| Total equity | 540.7 | 498.5 |
| Total liabilities and equity | \$ 1,512.7 | \$ 1,573.4 |

The notes to condensed consolidated financial statements are an integral part of these statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the nine months ended December 31, 2018 and 2017

(In millions)

(Unaudited)

| | Nine months ended December 31, | |
|---|--------------------------------|-----------|
| | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Net earnings | \$ 79.5 | \$ 5.8 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 57.6 | 56.8 |
| Loss on sale of assets | 1.7 | - |
| Impairment charges | 0.4 | 1.3 |
| Stock-based compensation expense | 6.8 | 7.6 |
| Deferred income taxes | (2.9) |) 10.1 |
| Other – net | 2.4 | 6.6 |
| Changes in operating assets and liabilities: | | |
| Trade accounts receivable | 23.8 | 22.3 |
| Inventories | (31.2) |) (10.5) |
| Accounts payable | (11.8) |) 2.2 |
| Other assets and liabilities | (58.9) |) 3.8 |
| Net cash provided by operating activities | 67.4 | 106.0 |
| Cash flows from investing activities: | | |
| Expenditures for property, plant and equipment | (58.7) |) (55.0) |
| Other – net | 1.0 |) (0.8) |
| Net cash used for investing activities | (57.7) |) (55.8) |
| Cash flows from financing activities: | | |
| Borrowings of debt | 189.2 | 121.5 |
| Repayments of debt | (199.3) |) (162.5) |
| Dividend paid to noncontrolling interest | (1.8) |) (0.9) |
| Other – net | (4.4) |) 2.7 |
| Net cash used for financing activities | (16.3) |) (39.2) |
| Effect of exchange rate changes on cash | (2.3) |) 3.0 |
| Net (decrease) increase in cash, cash equivalents and restricted cash | (8.9) |) 14.0 |
| Cash, cash equivalents and restricted cash – beginning of period | 40.3 | 34.8 |
| Cash, cash equivalents and restricted cash – end of period | \$ 31.4 | \$ 48.8 |

The notes to condensed consolidated financial statements are an integral part of these statements.

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MODINE MANUFACTURING COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In millions, except per share amounts)
(unaudited)

Note 1: General

The accompanying condensed consolidated financial statements were prepared in conformity with generally accepted accounting principles (“GAAP”) in the United States applied on a basis consistent with those principles used in the preparation of the annual consolidated financial statements of Modine Manufacturing Company (“Modine” or the “Company”) for the fiscal year ended March 31, 2018, except in regard to the new accounting guidance adopted, as described below. The financial statements include all normal recurring adjustments that are, in the opinion of management, necessary for a fair statement of results for the interim periods. Results for the first nine months of fiscal 2019 are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with the consolidated financial statements and related notes in Modine’s Annual Report on Form 10-K for the year ended March 31, 2018.

Sale of AIAC Air Conditioning South Africa (Pty) Ltd.

During the second quarter of fiscal 2019, the Company completed the sale of its AIAC Air Conditioning South Africa (Pty) Ltd. business, which was reported within the Building HVAC Systems segment, for a selling price of \$0.5 million. As a result of this transaction, the Company recorded a loss of \$1.7 million, which included the write-off of accumulated foreign currency translation losses of \$0.8 million. The Company reported this loss on sale of assets as a separate line within the consolidated statements of operations. Annual net sales attributable to this disposed business were less than \$2.0 million.

New Accounting Guidance

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (“FASB”) issued new guidance that outlines a comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principle of the new guidance is that companies are to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance also includes a cohesive set of disclosure requirements intended to provide users of financial statements with comprehensive information about revenue arising from contracts with customers. The Company adopted this new guidance for fiscal 2019 using the modified-retrospective transition method.

The Company assessed customer contracts and evaluated contractual provisions in light of the new guidance. Through its evaluation process, the Company identified a limited number of customer contracts that provide an enforceable right to payment for customized products, which require revenue recognition prior to the product being shipped to the customer. As a result of its adoption of the new guidance, the Company recorded an increase of \$0.7 million to retained earnings as of April 1, 2018, along with related balance sheet reclassifications. The increase to retained earnings reflects \$3.0 million of net sales that, had the new guidance been in effect, the Company would have recognized as of March 31, 2018. See Note 2 for additional information regarding revenue recognition.

Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory

In October 2016, the FASB issued new guidance related to income tax accounting for intercompany asset transfers. This new guidance requires companies to recognize the income tax effects of intercompany asset transfers other than inventory at the transaction date. The income tax effects of these transfers were previously deferred. The Company adopted this new guidance for fiscal 2019 using the modified-retrospective transition method. Upon adoption, the Company recorded a decrease to retained earnings of \$8.3 million as of April 1, 2018.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS(In millions, except per share amounts)
(unaudited)

Statement of Cash Flows: Restricted Cash

In November 2016, the FASB issued new guidance that requires restricted cash to be included with cash and cash equivalents when reconciling the beginning and ending balances presented within the statement of cash flows. The Company adopted this new guidance for fiscal 2019 using the retrospective transition method. As a result, all prior period information has been recast to be comparable to the new presentation requirements. See Note 10 for information regarding the Company's restricted cash.

Leases

In February 2016, the FASB issued new comprehensive lease accounting guidance that supersedes existing lease accounting guidance and requires balance sheet recognition for most leases. This guidance is effective for the Company's first quarter of fiscal 2020. The Company will apply a modified-retrospective transition method, under which it expects to elect not to adjust comparative periods. Upon adoption of this new guidance, the Company will recognize right-of-use assets and corresponding lease liabilities on its balance sheet. The Company has completed an initial assessment of its lease portfolio and is in the process of collecting data, testing a new lease accounting software solution, and implementing new processes and internal controls to adopt the new guidance. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements.

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued new guidance related to the accounting for certain stranded income tax effects in accumulated other comprehensive income (loss) resulting from tax reform legislation that was enacted in the U.S. in December 2017. This guidance permits companies to reclassify stranded income tax effects to retained earnings and is effective for the Company's first quarter of fiscal 2020. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements.

The cumulative effects on the Company's consolidated balance sheet, as of April 1, 2018, resulting from the adoption of new accounting guidance were as follows:

| | Balance as of March 31, 2018 | Adjustments Due to New Accounting Guidance | | Balance as of April 1, 2018 |
|---|------------------------------------|---|--|--------------------------------------|
| | | Revenue Recognition | Intra-entity Transfers of Assets | |
| <u>ASSETS</u> | | | | |
| Inventories | \$ 191.3 | \$ (2.0) | \$ - | \$ 189.3 |
| Other current assets | 70.1 | 3.0 | (8.3) | 64.8 |
| Deferred income taxes | 96.9 | (0.2) | - | 96.7 |
| <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u> | | | | |
| Deferred income taxes | \$ 9.9 | \$ 0.1 | \$ - | \$ 10.0 |
| Retained earnings | 394.9 | 0.7 | (8.3) | 387.3 |

Note 2: Revenue Recognition

Effective April 1, 2018, the Company adopted new revenue recognition accounting guidance using the modified-retrospective transition method and, as a result, recorded a cumulative-effect adjustment to increase retained earnings by \$0.7 million. The Company's condensed consolidated financial statements for the three and nine months ended December 31, 2018 reflect the adoption of this new guidance; however, the comparable prior-year periods have not been restated. See Note 1 for additional information regarding the adjustments to the Company's consolidated balance sheet as of April 1, 2018.

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MODINE MANUFACTURING COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In millions, except per share amounts)
(unaudited)

Significant Accounting Policy

The Company generates revenue from selling innovative thermal management products and solutions to diversified global markets and customers. The Company recognizes revenue based upon consideration specified in a contract and as it satisfies performance obligations by transferring control over its products to its customers, which may be at a point in time or over time. The majority of the Company's revenue is recognized at a point in time, based upon shipment terms.

The Company records an allowance for doubtful accounts for estimated uncollectible receivables and accrues for estimated warranty costs at the time of sale. These estimates are based upon historical experience, current business trends, and current economic conditions.

The Company accounts for shipping and handling activities as fulfillment costs rather than separate performance obligations, and records shipping and handling costs in cost of sales and related amounts billed to customers in net sales.

The Company establishes payment terms with its customers based upon industry and regional practices, which typically do not exceed 90 days. As the Company expects to receive payment from its customers within one year from the time of sale, it disregards the effects of the time value of money in its determination of the transaction price.

The Company has not disclosed the value of unsatisfied performance obligations because the original expected performance period is one year or less for the large majority of its customer contracts.

Nature of Goods and Services and Significant Judgments

The following is a description of the Company's principal revenue-generating activities:

Vehicular Thermal Solutions ("VTS")

The VTS segment principally generates revenue from providing engineered heat transfer systems and components for use in on- and off-highway original equipment. This segment provides powertrain and engine cooling products, including, but not limited to, radiators, charge air coolers, condensers, oil coolers, EGR coolers, and fuel coolers, to original equipment manufacturers ("OEMs") in the automotive, commercial vehicle, and off-highway markets in the Americas, Europe, and Asia regions. In addition, the VTS segment designs customer-owned tooling for OEMs and also serves Brazil's automotive and commercial vehicle aftermarkets.

While the VTS segment provides customized production and service parts to customers under multi-year programs, these programs typically do not contain contractually-guaranteed volumes to be purchased by the customer. As a result, individual purchase orders typically represent the quantities ordered by the customer. With the exception of a small number of VTS customers, the terms within the customer agreement, purchase order, or customer-owned tooling contract do not provide the Company with an enforceable right to payment for performance completed to date. As a result, the VTS segment recognizes revenue primarily at the time control is transferred to the customer based upon shipping terms, which is generally upon shipment.

In regard to VTS customers with contractual cancellation terms that provide an enforceable right to payment for performance completed to date, the Company recognizes revenue over time based upon its estimated progress towards satisfaction of the performance obligations. The VTS segment measures progress by evaluating the production status of ordered products not yet shipped to the customer.

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MODINE MANUFACTURING COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In millions, except per share amounts)
(unaudited)

For certain customer programs, the Company agrees to provide annual price reductions based upon contract terms. For these scheduled price reductions, the Company evaluates whether the provisions represent a material right to the customer, and if so, defers associated revenue as a result.

At times, the Company makes up-front incentive payments to certain customers related to future sales under multi-year programs. The Company capitalizes these incentive payments, which it expects to recover through future sales, and amortizes the assets as a reduction to revenue when the related products are sold to customers.

Commercial and Industrial Solutions (“CIS”)

The CIS segment principally generates revenue from providing thermal management products, including customized coils and coolers, to the heating, ventilating, air conditioning, and refrigeration (“HVAC&R”) markets in North America, Europe, and Asia. In addition, the segment applies corrosion protection solutions, which are referred to as coatings, to heat-transfer equipment.

For the sale of coils and coolers, individual customer purchase orders generally represent the Company’s contract with its customers. With the exception of a small number of customers, the applicable customer contracts do not provide the Company with an enforceable right to payment for performance completed to date. As a result, the CIS segment recognizes revenue for its sale of coils and coolers primarily at the time control is transferred to the customer based upon shipping terms, which is generally upon shipment.

For both sales to customers whose contract cancellation terms provide an enforceable right to payment and sales from the coatings businesses, in which the customers control the heat-transfer equipment being enhanced by the coating application, the CIS segment recognizes revenue over time based upon its estimated progress towards satisfaction of the performance obligations. The segment measures progress by evaluating the production status towards completion of ordered products or services not yet shipped to its customers.

Building HVAC Systems (“BHVAC”)

The BHVAC segment principally generates revenue from providing a variety of heating, ventilating, and air conditioning products, primarily for commercial buildings and related applications in North America and the U.K., as well as mainland Europe and the Middle East.

Heating products are manufactured in the U.S. and are generally sold to independent distributors, who in turn market the heating products to end customers. Because these products are sold to many different customers without contractual or practical limitations, the BHVAC segment recognizes revenue at the time control is transferred to the customer based upon shipping terms, which is generally upon shipment.

Ventilation and air conditioning products are highly-specified to a customer’s needs; however, the underlying sales contracts do not provide the Company with an enforceable right to payment for performance completed to date. As a result, the BHVAC segment recognizes revenue for these products at the time control is transferred to the customer based upon shipping terms, which is generally upon shipment.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS(In millions, except per share amounts)
(unaudited)

Disaggregation of Revenue

The table below presents revenue to external customers for each of the Company's business segments by primary end market, by geographic location and based upon the timing of revenue recognition.

| | Three months ended December 31, 2018 | | | |
|---|--------------------------------------|----------|---------|---------------|
| | VTS | CIS | BHVAC | Segment Total |
| Primary end market: | | | | |
| Automotive | \$ 130.4 | \$ - | \$ - | \$ 130.4 |
| Commercial vehicle | 92.0 | - | - | 92.0 |
| Off-highway | 74.2 | - | - | 74.2 |
| Commercial HVAC | - | 72.2 | 53.2 | 125.4 |
| Commercial refrigeration | - | 42.4 | - | 42.4 |
| Data center cooling | - | 40.2 | 11.0 | 51.2 |
| Industrial cooling | - | 11.8 | - | 11.8 |
| Other | 26.7 | 0.4 | - | 27.1 |
| Net sales | \$ 323.3 | \$ 167.0 | \$ 64.2 | \$ 554.5 |
| Geographic location: | | | | |
| Americas | \$ 150.7 | \$ 96.0 | \$ 40.9 | \$ 287.6 |
| Europe | 124.9 | 59.8 | 23.3 | 208.0 |
| Asia | 47.7 | 11.2 | - | 58.9 |
| Net sales | \$ 323.3 | \$ 167.0 | \$ 64.2 | \$ 554.5 |
| Timing of revenue recognition: | | | | |
| Products transferred at a point in time | \$ 309.4 | \$ 128.7 | \$ 64.2 | \$ 502.3 |
| Products transferred over time | 13.9 | 38.3 | - | 52.2 |
| Net sales | \$ 323.3 | \$ 167.0 | \$ 64.2 | \$ 554.5 |

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MODINE MANUFACTURING COMPANY
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (In millions, except per share amounts)
 (unaudited)

| | Nine months ended December 31, 2018 | | | |
|---|-------------------------------------|---------|---------|---------------|
| | VTS | CIS | BHVAC | Segment Total |
| Primary end market: | | | | |
| Automotive | \$411.9 | \$- | \$- | \$411.9 |
| Commercial vehicle | 287.5 | - | - | 287.5 |
| Off-highway | 234.9 | - | - | 234.9 |
| Commercial HVAC | - | 237.4 | 130.6 | 368.0 |
| Commercial refrigeration | - | 140.1 | - | 140.1 |
| Data center cooling | - | 110.3 | 29.3 | 139.6 |
| Industrial cooling | - | 36.4 | - | 36.4 |
| Other | 77.4 | 4.9 | - | 82.3 |
| Net sales | \$1,011.7 | \$529.1 | \$159.9 | \$1,700.7 |
| Geographic location: | | | | |
| Americas | \$460.8 | \$304.0 | \$98.0 | \$862.8 |
| Europe | 400.6 | 187.0 | 61.9 | 649.5 |
| Asia | 150.3 | 38.1 | - | 188.4 |
| Net sales | \$1,011.7 | \$529.1 | \$159.9 | \$1,700.7 |
| Timing of revenue recognition: | | | | |
| Products transferred at a point in time | \$974.7 | \$426.2 | \$159.9 | \$1,560.8 |
| Products transferred over time | 37.0 | 102.9 | - | 139.9 |
| Net sales | \$1,011.7 | \$529.1 | \$159.9 | \$1,700.7 |

Contract Balances

Contract assets and contract liabilities from contracts with customers were as follows:

| | December 31, 2018 | March 31, 2018 |
|----------------------|-------------------|----------------|
| Contract assets | \$ 25.5 | \$ 13.5 |
| Contract liabilities | 5.6 | 6.8 |

Contract assets, included within other current assets in the consolidated balance sheet, primarily consist of capitalized costs related to customer-owned tooling contracts, wherein the customer has guaranteed reimbursement, and assets recorded for revenue recognized over time, which represent the Company's rights to consideration for work completed but not yet billed. The \$12.0 million increase in contract assets during the first nine months of fiscal 2019 was primarily related to contract assets totaling \$8.2 million as of December 31, 2018 for revenue recognized over time, which were recorded as a result of the Company's adoption of the new revenue recognition accounting guidance, and customer-owned tooling contracts, under which more costs were capitalized than reimbursed.

Contract liabilities, included within other current liabilities in the consolidated balance sheet, consist of payments received in advance of satisfying performance obligations under customer contracts, including contracts for customer-owned tooling. The \$1.2 million decrease in contract liabilities during fiscal 2019 was primarily due to the Company's satisfaction of performance obligations under customer contracts for which payment had been received in advance.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS(In millions, except per share amounts)
(unaudited)

Impacts of Adopting New Accounting Guidance

The impacts from the adoption of the new revenue recognition guidance to the Company's consolidated statements of operations for the three and nine months ended December 31, 2018 and its consolidated balance sheet as of December 31, 2018 were as follows:

| | Three months ended December 31, 2018 | | |
|---|--------------------------------------|-----------------------------------|---|
| | As Reported | Impact of New Accounting Guidance | Results Without Impact of New Accounting Guidance |
| Net sales | \$ 541.0 | \$ (5.6) |) \$ 535.4 |
| Net earnings attributable to Modine | 18.0 | (2.1) |) 15.9 |
| Net earnings per share attributable to Modine shareholders: | | | |
| Basic | \$ 0.36 | \$ (0.04) |) \$ 0.32 |
| Diluted | 0.35 | (0.04) |) 0.31 |

| | Nine months ended December 31, 2018 | | |
|---|-------------------------------------|-----------------------------------|---|
| | As Reported | Impact of New Accounting Guidance | Results Without Impact of New Accounting Guidance |
| Net sales | \$ 1,656.0 | \$ (5.2) |) \$ 1,650.8 |
| Net earnings attributable to Modine | 78.5 | (2.0) |) 76.5 |
| Net earnings per share attributable to Modine shareholders: | | | |
| Basic | \$ 1.55 | \$ (0.04) |) \$ 1.51 |
| Diluted | 1.53 | (0.04) |) 1.49 |

| | December 31, 2018 | | |
|---|-------------------|-----------------------------------|--|
| | As Reported | Impact of New Accounting Guidance | Balances Without Impact of New Accounting Guidance |
| <u>ASSETS</u> | | | |
| Inventories | \$211.0 | \$ 4.3 |) \$ 215.3 |
| Other current assets | 71.7 | (8.2) |) 63.5 |
| Deferred income taxes | 96.5 | 0.1 |) 96.6 |
| <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u> | | | |
| Deferred income taxes | \$9.1 | \$ (0.9) |) \$ 8.2 |
| Retained earnings | 465.8 | (2.9) |) 462.9 |

Note 3: Fair Value Measurements

Fair value is defined as the price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. Fair value measurements are classified under the following hierarchy:

- Level 1 – Quoted prices for identical instruments in active markets.
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.
- Level 3 – Model-derived valuations in which one or more significant inputs are not observable.

When available, the Company uses quoted market prices to determine fair value and classifies such measurements as Level 1. In some cases, where market prices are not available, the Company uses observable market-based inputs to calculate fair value, in which case the measurements are classified as Level 2. If quoted or observable market prices are not available, the Company determines fair value based upon valuation models that use, where possible, market-based data such as interest rates, yield curves or currency rates. These measurements are classified as Level 3.

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The carrying values of cash, cash equivalents, restricted cash, short-term investments, trade accounts receivable, accounts payable, and short-term debt approximate fair value due to the short-term nature of these instruments. The Company holds trading securities in deferred compensation trusts to fund obligations under certain non-qualified deferred compensation plans. The securities' fair values, which are recorded as other noncurrent assets, are determined based upon quoted prices from active markets and classified within Level 1 of the valuation hierarchy. The Company's deferred compensation obligations, which are recorded as other noncurrent liabilities, are recorded at the fair values of the investments held by the trust. The fair values of the Company's trading securities and deferred compensation obligations each totaled \$5.5 million and \$5.8 million as of December 31, 2018 and March 31, 2018, respectively. The fair value of the Company's long-term debt is disclosed in Note 15.

Note 4: Pensions

Pension cost included the following components:

| | Three months ended | | Nine months ended | |
|---------------------------------------|--------------------|--------|-------------------|--------|
| | December 31, | | December 31, | |
| | 2018 | 2017 | 2018 | 2017 |
| Service cost | \$ 0.2 | \$ 0.1 | \$ 0.4 | \$ 0.4 |
| Interest cost | 2.4 | 2.5 | 7.2 | 7.4 |
| Expected return on plan assets | (3.1) | (2.9) | (9.2) | (8.9) |
| Amortization of unrecognized net loss | 1.4 | 1.4 | 4.2 | 4.2 |
| Curtailment gain (a) | - | (0.3) | - | (0.3) |
| Net periodic benefit cost | \$ 0.9 | \$ 0.8 | \$ 2.6 | \$ 2.8 |

During the third quarter of fiscal 2018, the Company recorded a curtailment gain as a result of the closure of a (a) manufacturing facility in Austria (CIS segment). See Note 6 for additional information regarding the closure of this facility.

During the nine months ended December 31, 2018 and 2017, the Company contributed \$4.6 million and \$11.1 million, respectively to its U.S. pension plans.

Note 5: Stock-Based Compensation

The Company's stock-based incentive programs consist of the following: (1) a long-term incentive compensation program for officers and other executives that consists of stock awards, stock options, and performance-based stock awards granted for retention and performance, (2) a discretionary equity program for other management and key employees, and (3) stock awards for non-employee directors.

The Company calculates compensation expense based upon the fair value of the instruments at the time of grant and subsequently recognizes expense ratably over the respective vesting periods of the stock-based awards. The Company recognized stock-based compensation expense of \$1.6 million and \$2.2 million for the three months ended December 31, 2018 and 2017, respectively. The Company recognized stock-based compensation expense of \$6.8 million and \$7.6 million for the nine months ended December 31, 2018 and 2017, respectively. The performance component of

awards granted under the Company's long-term incentive plan during the first quarter of fiscal 2019 is based upon both a target three-year average cash flow return on invested capital and a target three-year average revenue growth at the end of the three-year performance period.

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The fair value of stock-based compensation awards granted during the nine months ended December 31, 2018 and 2017 were as follows:

| | Nine months ended December 31, | | 2017 | |
|---------------------------|--------------------------------|------------|--------|------------|
| | 2018 | Fair Value | Shares | Fair Value |
| | Shares | Per Award | | Per Award |
| Stock options | 0.2 | \$ 7.81 | 0.2 | \$ 7.30 |
| Restricted stock awards | 0.2 | \$ 17.90 | 0.2 | \$ 15.90 |
| Performance stock awards | 0.2 | \$ 17.90 | 0.2 | \$ 15.90 |
| Unrestricted stock awards | 0.1 | \$ 17.60 | 0.1 | \$ 16.95 |

The Company used the following assumptions in determining fair value for stock options:

| | Nine months ended December 31, | | 2017 | |
|--|--------------------------------|---|------|---|
| | 2018 | | | |
| Expected life of awards in years | 6.3 | | 6.4 | |
| Risk-free interest rate | 2.8 | % | 1.9 | % |
| Expected volatility of the Company's stock | 39.7 | % | 44.3 | % |
| Expected dividend yield on the Company's stock | 0.0 | % | 0.0 | % |

As of December 31, 2018, unrecognized compensation expense related to non-vested stock-based compensation awards, which will be amortized over the remaining service periods, was as follows:

| | Unrecognized Compensation Expense | Weighted-Average Remaining Service Period in Years |
|--------------------------|-----------------------------------|--|
| Stock options | \$ 2.5 | 2.7 |
| Restricted stock awards | 5.9 | 2.7 |
| Performance stock awards | 4.2 | 1.7 |
| Total | \$ 12.6 | 2.4 |

Note 6: Restructuring Activities

Restructuring and repositioning expenses for the first nine months of fiscal 2019 primarily resulted from restructuring activities within the VTS and CIS segments, including targeted headcount reductions.

During fiscal 2018, the Company ceased production at its Gailtal, Austria manufacturing facility, primarily to reduce excess capacity and lower manufacturing costs in Europe. As a result of this facility closure, the Company recorded \$8.2 million of restructuring expenses and a \$1.3 million asset impairment charge during the third quarter of fiscal 2018 within the CIS segment. Fiscal 2018 restructuring activities also included plant consolidation activities, targeted headcount reductions, and certain product line transfers in Europe within the VTS segment.

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During the third quarter of fiscal 2019, the Company recorded an additional \$0.4 million asset impairment charge related to the closed CIS Austrian facility to reduce its carrying value to its current estimated fair value, less costs to sell.

Restructuring and repositioning expenses were as follows:

| | Three months ended December 31, | | Nine months ended December 31, | |
|--|------------------------------------|--------|-----------------------------------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| Employee severance and related benefits | \$ 0.2 | \$ 8.6 | \$ 0.3 | \$ 9.2 |
| Other restructuring and repositioning expenses | 0.3 | 0.8 | 0.4 | 2.3 |
| Total | \$ 0.5 | \$ 9.4 | \$ 0.7 | \$ 11.5 |

Other restructuring and repositioning expenses primarily consist of equipment transfers and plant consolidation costs.

The Company accrues severance in accordance with its written plans, procedures, and relevant statutory requirements. Changes in accrued severance were as follows:

| | Three months ended December 31, | |
|---------------------------------|---------------------------------|---------|
| | 2018 | 2017 |
| Beginning balance | \$ 3.4 | \$ 3.0 |
| Additions | 0.2 | 8.6 |
| Payments | (0.9) | (0.6) |
| Effect of exchange rate changes | (0.1) | 0.2 |
| Ending balance | \$ 2.6 | \$ 11.2 |

| | Nine months ended December 31, | |
|---------------------------------|--------------------------------|---------|
| | 2018 | 2017 |
| Beginning balance | \$ 11.0 | \$ 6.5 |
| Additions | 0.3 | 9.2 |
| Payments | (8.1) | (5.1) |
| Effect of exchange rate changes | (0.6) | 0.6 |
| Ending balance | \$ 2.6 | \$ 11.2 |

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Note 7: Other Income and Expense

Other income and expense consisted of the following:

| | Three months ended | | Nine months ended | |
|--|--------------------|-----------|-------------------|-----------|
| | December 31, | | December 31, | |
| | 2018 | 2017 | 2018 | 2017 |
| Equity in earnings of non-consolidated affiliate | \$ 0.3 | \$ 0.1 | \$ 0.7 | \$ - |
| Interest income | - | 0.1 | 0.3 | 0.3 |
| Foreign currency transactions (a) | (0.2) | 0.1 | (1.1) | (0.4) |
| Net periodic benefit cost (b) | (0.6) | (0.6) | (2.0) | (2.2) |
| Total other expense - net | \$ (0.5) | \$ (0.3) | \$ (2.1) | \$ (2.3) |

Foreign currency transactions primarily consist of foreign currency transaction gains and losses on the re-measurement or settlement of foreign currency-denominated assets and liabilities, including intercompany loans and transactions denominated in a foreign currency, along with gains and losses on foreign currency exchange contracts.

(b) Represents net periodic benefit cost, exclusive of service cost, for the Company's pension and postretirement plans.

Note 8: Income Taxes

The Company's effective tax rate for the three months ended December 31, 2018 and 2017 was 32.0 percent and 482.2 percent, respectively. The Company's effective tax rate for the nine months ended December 31, 2018 and 2017 was (13.2) percent and 86.6 percent, respectively. The effective tax rates for the fiscal 2019 periods are lower than in the prior year, primarily due to \$35.7 million of income tax charges recorded during the third quarter of fiscal 2018 related to the Company's accounting for the Tax Cuts and Jobs Act (the "Tax Act"). The Company completed its accounting for the Tax Act during fiscal 2019 and, as a result, recorded adjustments to the provisional amounts that were recorded in prior periods. These adjustments resulted in income tax charges totaling \$3.1 million during the third quarter of fiscal 2019 and tax benefits totaling \$7.7 million during the first nine months of fiscal 2019. Other factors that impacted the Company's effective tax rate for the three and nine months ended December 31, 2018, as compared with the prior-year periods, included fiscal 2019 income tax benefits from the recognition of tax assets for both foreign tax credits and a manufacturing deduction in the United States, fiscal 2018 income tax benefits from the recognition of a development tax credit in Hungary, changes in the valuation allowances related to certain foreign jurisdictions, and changes in the mix of foreign and domestic earnings. The recognition of tax assets resulted in tax benefits of \$2.5 million and \$17.0 million in the three and nine months ended December 31, 2018, respectively. The Hungarian development tax credit resulted in tax benefits of \$2.2 million and \$7.9 million in the three and nine months ended December 31, 2017, respectively.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Act. Shortly after the Tax Act was enacted, the SEC issued accounting guidance which provided a one-year measurement period during which a company could complete its accounting for the impacts of the Tax Act. To the extent a company's accounting for certain income tax effects of the Tax Act was incomplete, the company could determine a reasonable estimate for those effects and record a provisional estimate in its financial statements. If a

company could not determine a provisional estimate to be included in the financial statements, it was to continue applying the provisions of the tax laws that were in effect immediately prior to the Tax Act being enacted. The Company completed its accounting for the Tax Act during the third quarter of fiscal 2019.

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During fiscal 2018, the Company recorded provisional discrete tax charges totaling \$38.0 million related to the Tax Act. The Company adjusted its U.S. deferred tax assets by \$19.0 million due to the reduction in the U.S. federal corporate tax rate. This net reduction in deferred tax assets also included the estimated impact on the Company's net state deferred tax assets. In addition, the Company recorded a \$19.0 million charge for the transition tax required under the Tax Act.

During fiscal 2019, the Company completed its accounting for the Tax Act, which resulted in an income tax benefit totaling \$7.7 million. The Company determined it will utilize its deferred tax attributes against the transition tax and finalized its fiscal 2018 U.S. federal income tax return. As a result, the Company decreased the provisional charge recorded for the reduction in the U.S. federal corporate tax rate by \$9.3 million, since more deferred tax assets were utilized to offset taxable income at a higher fiscal 2018 U.S. federal corporate tax rate. The Company also decreased the transition tax liability to \$18.9 million, a reduction of \$0.1 million. In addition, the Company recorded a charge of \$1.7 million for a reduction to state deferred tax assets.

Also during fiscal 2019, the Company amended its tax returns from previous fiscal years to recognize foreign tax credits that are expected to be realized based on future sources of income. As a result, the Company recorded income tax benefits totaling \$0.9 million and \$14.5 million in the three and nine months ended December 31, 2018, respectively.

The Company has elected to record the tax effects of the global intangible low taxed income ("GILTI") provision as a period expense in the applicable tax year.

Previously, the Company's practice and intention was to reinvest, with certain insignificant exceptions, the earnings of its non-U.S. subsidiaries outside of the U.S. As a result, the Company did not record U.S. deferred income taxes or foreign withholding taxes for these earnings. The Company has not changed its practices or intentions with respect to these earnings.

As of December 31, 2018, valuation allowances against deferred tax assets in certain foreign jurisdictions totaled \$33.9 million and valuation allowances against certain U.S. deferred tax assets totaled \$7.0 million, as it is more likely than not these assets will not be realized based upon historical financial results. During the first quarter of fiscal 2019, the Company recorded a benefit of \$2.0 million related to the reversal of a valuation allowance for deferred tax assets in a foreign jurisdiction after determining it was more likely than not the deferred tax assets would be realized in the future. During the second quarter of fiscal 2019, the Company recorded a valuation allowance of \$1.0 million on certain deferred tax assets in a foreign jurisdiction after determining it was more likely than not the deferred tax assets would not be realized. The Company will continue to provide a valuation allowance against its net deferred tax assets in each of the applicable jurisdictions until the need for a valuation allowance is eliminated. The need for a valuation allowance is eliminated when the Company determines it is more likely than not the deferred tax assets will be realized.

Accounting policies for interim reporting require the Company to adjust its effective tax rate each quarter to be consistent with its estimated annual effective tax rate. Under this methodology, the Company applies its estimated annual income tax rate to its year-to-date ordinary earnings to derive its income tax provision each quarter. The Company records the tax impacts of certain significant, unusual or infrequently occurring items in the period in which they occur. The Company excluded the impact of its operations in certain foreign locations from the overall effective tax rate methodology and recorded them discretely based upon year-to-date results because the Company anticipates

net operating losses for the full fiscal year in these jurisdictions. The Company does not anticipate a significant change in unrecognized tax benefits during the remainder of fiscal 2019.

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Note 9: Earnings Per Share

The components of basic and diluted earnings per share were as follows:

| | Three months ended | | Nine months ended | |
|--|--------------------|------------|-------------------|---------|
| | December 31, | | December 31, | |
| | 2018 | 2017 | 2018 | 2017 |
| Net earnings (loss) attributable to Modine | \$ 18.0 | \$ (28.3) | \$ 78.5 | \$ 4.6 |
| Less: Undistributed earnings attributable to unvested shares | (0.1) | - | (0.3) | - |
| Net earnings (loss) available to Modine shareholders | \$ 17.9 | \$ (28.3) | \$ 78.2 | \$ 4.6 |
| Weighted-average shares outstanding - basic | 50.5 | 50.0 | 50.4 | 49.8 |
| Effect of dilutive securities | 0.7 | - | 0.8 | 0.8 |
| Weighted-average shares outstanding - diluted | 51.2 | 50.0 | 51.2 | 50.6 |
| Earnings per share: | | | | |
| Net earnings (loss) per share - basic | \$ 0.36 | \$ (0.57) | \$ 1.55 | \$ 0.09 |
| Net earnings (loss) per share - diluted | \$ 0.35 | \$ (0.57) | \$ 1.53 | \$ 0.09 |

For the three and nine months ended December 31, 2018, the calculation of diluted earnings per share excluded 0.5 million and 0.4 million stock options, respectively, because they were anti-dilutive. For both the three and nine months ended December 31, 2017, the calculation of diluted earnings per share excluded 0.2 million stock options because they were anti-dilutive. For the three months ended December 31, 2017, the total number of potentially dilutive securities was 1.1 million. However, these securities were not included in the computation of diluted net loss per share since to do so would have decreased the loss per share.

Note 10: Cash, Cash Equivalents and Restricted Cash

Cash, cash equivalents and restricted cash consisted of the following:

| | December 31, 2018 | March 31, 2018 |
|---------------------------|-------------------|----------------|
| Cash and cash equivalents | \$ 30.7 | \$ 39.3 |
| Restricted cash | 0.7 | 1.0 |
| | \$ 31.4 | \$ 40.3 |

Restricted cash, which is reported within other noncurrent assets in the consolidated balance sheets, consists primarily of deposits for contractual guarantees or commitments required for rents, import and export duties, and commercial agreements.

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Note 11: Inventories

Inventories consisted of the following:

| | December 31, 2018 | March 31, 2018 |
|-------------------|-------------------|----------------|
| Raw materials | \$ 125.7 | \$ 114.4 |
| Work in process | 34.8 | 34.8 |
| Finished goods | 50.5 | 42.1 |
| Total inventories | \$ 211.0 | \$ 191.3 |

Note 12: Property, Plant and Equipment

Property, plant and equipment, including depreciable lives, consisted of the following:

| | December 31, 2018 | March 31, 2018 |
|--|-------------------|----------------|
| Land | \$ 21.1 | \$ 22.6 |
| Buildings and improvements (10-40 years) | 288.3 | 295.6 |
| Machinery and equipment (3-12 years) | 838.8 | 840.8 |
| Office equipment (3-10 years) | 91.8 | 93.0 |
| Construction in progress | 61.9 | 50.2 |
| | 1,301.9 | 1,302.2 |
| Less: accumulated depreciation | (812.8 |) (797.9 |
| Net property, plant and equipment | \$ 489.1 | \$ 504.3 |

Note 13: Goodwill and Intangible Assets

Changes in the carrying amount of goodwill were as follows:

| | VTS | Building HVAC | CIS | Total |
|---------------------------------|--------|------------------|----------|----------|
| Goodwill, March 31, 2018 | \$ 0.5 | \$ 15.0 | \$ 158.3 | \$ 173.8 |
| Effect of exchange rate changes | - | (1.2 |) (3.6 |) (4.8 |
| Goodwill, December 31, 2018 | \$ 0.5 | \$ 13.8 | \$ 154.7 | \$ 169.0 |

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Intangible assets consisted of the following:

| | December 31, 2018 | | | March 31, 2018 | | |
|-------------------------|----------------------|--------------------------|-----------------------|----------------------|--------------------------|-----------------------|
| | Gross Carrying Value | Accumulated Amortization | Net Intangible Assets | Gross Carrying Value | Accumulated Amortization | Net Intangible Assets |
| Customer relationships | \$62.1 | \$ (8.3) | \$ 53.8 | \$64.2 | \$ (5.7) | \$ 58.5 |
| Trade names | 59.1 | (12.6) | 46.5 | 60.6 | (10.8) | 49.8 |
| Acquired technology | 24.2 | (5.0) | 19.2 | 25.2 | (3.6) | 21.6 |
| Total intangible assets | \$145.4 | \$ (25.9) | \$ 119.5 | \$150.0 | \$ (20.1) | \$ 129.9 |

The Company recorded amortization expense of \$2.2 million and \$2.5 million for the three months ended December 31, 2018 and 2017, respectively. The Company recorded amortization expense of \$6.8 million and \$7.3 million for the nine months ended December 31, 2018 and 2017, respectively. The Company estimates that it will record \$2.3 million of amortization expense during the remainder of fiscal 2019, \$9.0 million of amortization expense in fiscal 2020 and approximately \$8.0 million of annual amortization expense in fiscal 2021 through 2024.

Note 14: Product Warranties

Changes in accrued warranty costs were as follows:

| | Three months ended December 31, | |
|--|---------------------------------|--------|
| | 2018 | 2017 |
| Beginning balance | \$ 8.3 | \$ 9.4 |
| Warranties recorded at time of sale | 1.3 | 2.0 |
| Adjustments to pre-existing warranties | 0.1 | 0.2 |
| Settlements | (1.5) | (2.1) |
| Effect of exchange rate changes | - | 0.1 |
| Ending balance | \$ 8.2 | \$ 9.6 |

| | Nine months ended December 31, | |
|--|--------------------------------|---------|
| | 2018 | 2017 |
| Beginning balance | \$ 9.3 | \$ 10.0 |
| Warranties recorded at time of sale | 4.0 | 4.7 |
| Adjustments to pre-existing warranties | (0.1) | - |
| Settlements | (4.6) | (4.6) |
| Adjustments due to acquisition (a) | - | (1.0) |
| Effect of exchange rate changes | (0.4) | 0.5 |
| Ending balance | \$ 8.2 | \$ 9.6 |

During fiscal 2018, the Company decreased its liability for product warranties by \$1.0 million as a result of (a) measurement period adjustments made in connection with purchase accounting for the November 2016 acquisition of the Luvata Heat Transfer Solutions business.

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Note 15: Indebtedness

Long-term debt consisted of the following:

| | Fiscal year of maturity | December 31, 2018 | March 31, 2018 |
|---------------------------------------|----------------------------|-------------------|----------------|
| Term loans | 2022 | \$ 244.8 | \$ 267.8 |
| 6.8% Senior Notes | 2021 | 89.0 | 101.0 |
| 5.8% Senior Notes | 2027 | 50.0 | 50.0 |
| Other (a) | 2034 | 20.4 | 12.8 |
| | | 404.2 | 431.6 |
| Less: current portion | | (45.7) | (39.9) |
| Less: unamortized debt issuance costs | | (4.3) | (5.4) |
| Total long-term debt | | \$ 354.2 | \$ 386.3 |

(a) Other long-term debt includes borrowings by foreign subsidiaries, capital lease obligations and other financing-type obligations.

As of December 31, 2018 and March 31, 2018, the Company had \$43.9 million and \$21.3 million, respectively, of short-term borrowings under its \$175.0 million multi-currency revolving credit facility, which expires in November 2021. As of December 31, 2018, domestic letters of credit totaled \$4.3 million, resulting in available capacity under the Company's revolving credit facility of \$126.8 million. The Company also maintains credit agreements for its foreign subsidiaries, with outstanding short-term borrowings as of December 31, 2018 and March 31, 2018 of \$23.6 million and \$31.9 million, respectively. As of December 31, 2018, the Company's foreign unused lines of credit totaled \$1.1 million. In aggregate, the Company had total available lines of credit of \$127.9 million as of December 31, 2018.

Provisions in the Company's amended and restated credit agreement, Senior Note agreements, and various foreign credit agreements require the Company to maintain compliance with various covenants and include certain cross-default clauses. Under its primary debt agreements in the U.S., the Company has provided liens on substantially all domestic assets. In addition, the term loans require prepayments, as defined in the credit agreement, in the event the Company's annual excess cash flow exceeds defined levels or in the event of certain asset sales. The Company is also subject to leverage ratio covenants, the most restrictive of which requires the Company to limit its consolidated indebtedness, less a portion of its cash balance, both as defined by the credit agreements, to no more than three and one-quarter times consolidated net earnings before interest, taxes, depreciation, amortization, and certain other adjustments ("Adjusted EBITDA"). The Company is also subject to an interest expense coverage ratio covenant, which requires the Company to maintain Adjusted EBITDA of at least three times consolidated interest expense. The Company was in compliance with its debt covenants as of December 31, 2018.

The Company estimates the fair value of long-term debt using discounted future cash flows at rates offered to the Company for similar debt instruments of comparable maturities. As of December 31, 2018 and March 31, 2018, the carrying value of the Company's long-term debt approximated fair value, with the exception of the Senior Notes, which had an aggregate fair value of approximately \$139.9 million and \$153.1 million, respectively. The fair value of

the Company's long-term debt is categorized as Level 2 within the fair value hierarchy. Refer to Note 3 for the definition of a Level 2 fair value measurement.

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Note 16: Contingencies and Litigation

Environmental

The Company has recorded environmental investigation and remediation accruals related to soil and groundwater contamination at manufacturing facilities in the United States, one of which the Company currently owns and operates, and at its former manufacturing facility in the Netherlands, along with accruals for lesser environmental matters at certain other facilities in the United States and Brazil. These accruals generally relate to facilities where past operations followed practices and procedures that were considered acceptable under then-existing regulations, or where the Company is a successor to the obligations of prior owners, and current laws and regulations require investigative and/or remedial work to ensure sufficient environmental compliance. The accruals for these environmental matters totaled \$18.1 million and \$16.7 million as of December 31, 2018 and March 31, 2018, respectively. As additional information becomes available, the Company will re-assess the liabilities related to these matters and revise the estimated accruals, if necessary. Based upon currently available information, the Company believes the ultimate outcome of these matters, individually and in the aggregate, will not have a material adverse effect on its financial position. However, these matters are subject to inherent uncertainties, and unfavorable outcomes could occur, including significant monetary damages.

Other Litigation

In the normal course of business, the Company and its subsidiaries are named as defendants in various lawsuits and enforcement proceedings by private parties, governmental agencies and/or others in which claims are asserted against Modine. In the opinion of management, the liabilities, if any, which may ultimately result from such lawsuits or proceedings are not expected to have a material adverse effect on the Company's financial position.

Note 17: Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive loss were as follows:

| | Three months ended December 31, 2018 | | | | Nine months ended December 31, 2018 | | | |
|--|--------------------------------------|-----------------------------|------------------------|-------------|-------------------------------------|-----------------------------|------------------------|-------------|
| | Foreign Currency Translation | Defined Benefit Plans | Cash Flow Hedges | Total | Foreign Currency Translation | Defined Benefit Plans | Cash Flow Hedges | Total |
| Beginning balance | \$ (35.5) | \$ (132.9) | \$ - | \$ (168.4) | \$ (5.5) | \$ (134.9) | \$ 0.1 | \$ (140.3) |
| Other comprehensive loss before reclassifications | (2.1) | - | (1.1) | (3.2) | (32.9) | - | (1.3) | (34.2) |
| Reclassifications: | | | | | | | | |
| Amortization of unrecognized net loss (a) | - | 1.3 | - | 1.3 | - | 3.9 | - | 3.9 |
| Foreign currency translation losses (b) | - | - | - | - | 0.8 | - | - | 0.8 |
| Income taxes | - | (0.3) | 0.2 | (0.1) | - | (0.9) | 0.3 | (0.6) |
| Total other comprehensive income (loss) | (2.1) | 1.0 | (0.9) | (2.0) | (32.1) | 3.0 | (1.0) | (30.1) |
| Ending balance | \$ (37.6) | \$ (131.9) | \$ (0.9) | \$ (170.4) | \$ (37.6) | \$ (131.9) | \$ (0.9) | \$ (170.4) |

| | Three months ended December 31, 2017 | | | | Nine months ended December 31, 2017 | | | |
|---|--------------------------------------|-----------------------------|------------------------|------------|-------------------------------------|-----------------------------|------------------------|------------|
| | Foreign Currency Translation | Defined Benefit Plans | Cash Flow Hedges | Total | Foreign Currency Translation | Defined Benefit Plans | Cash Flow Hedges | Total |
| Beginning balance | \$(19.0) | \$(133.3) | \$ - | \$(152.3) | \$(46.8) | \$(135.0) | \$ - | \$(181.8) |
| Other comprehensive income before reclassifications | 4.6 | - | 0.6 | 5.2 | 32.4 | - | 0.6 | 33.0 |
| Reclassifications for amortization of unrecognized net loss (a) | - | 1.3 | - | 1.3 | - | 3.9 | - | 3.9 |
| Income taxes | - | (0.4) | (0.2) | (0.6) | - | (1.3) | (0.2) | (1.5) |
| Total other comprehensive income | 4.6 | 0.9 | 0.4 | 5.9 | 32.4 | 2.6 | 0.4 | 35.4 |
| Ending balance | \$(14.4) | \$(132.4) | \$ 0.4 | \$(146.4) | \$(14.4) | \$(132.4) | \$ 0.4 | \$(146.4) |

Amounts are included in the calculation of net periodic benefit cost for the Company's defined benefit plans, which (a) include pension and other postretirement plans. See Note 4 for additional information about the Company's pension plans.

As a result of the sale of a business in South Africa during the second quarter of fiscal 2019, the Company (b) wrote-off \$0.8 million of accumulated foreign currency translation losses. See Note 1 for additional information about this transaction.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS(In millions, except per share amounts)
(unaudited)

Note 18: Segment Information

Effective April 1, 2018, the Company formed the VTS segment by combining its Americas, Europe, and Asia operations to enable it to operate as a more global, product-based organization. The Company also merged its Americas coils business into the CIS segment to accelerate operational improvements and organizational efficiencies. The Company began reporting financial results for its new segments beginning in fiscal 2019. Segment financial information for fiscal 2018 has been recast to conform to the fiscal 2019 presentation.

The following is a summary of net sales, gross profit, operating income, and total assets by segment:

| | Three months ended December 31, | | | | | |
|-------------------------------------|---------------------------------|---------------------|---------|----------------|---------------------|---------|
| | 2018 | | | 2017 | | |
| | External Sales | Inter-segment Sales | Total | External Sales | Inter-segment Sales | Total |
| Net sales: | | | | | | |
| Vehicular Thermal Solutions | \$311.5 | \$ 11.8 | \$323.3 | \$298.6 | \$ 14.4 | \$313.0 |
| Commercial and Industrial Solutions | 166.1 | 0.9 | 167.0 | 158.7 | 0.3 | 159.0 |
| Building HVAC Systems | 63.4 | 0.8 | 64.2 | 55.4 | 0.7 | 56.1 |
| Segment total | 541.0 | 13.5 | 554.5 | 512.7 | 15.4 | 528.1 |
| Corporate and eliminations | - | (13.5) | (13.5) | - | (15.4) | (15.4) |
| Net sales | \$541.0 | \$ - | \$541.0 | \$512.7 | \$ - | \$512.7 |

| | Nine months ended December 31, | | | | | |
|-------------------------------------|--------------------------------|---------------------|-----------|----------------|---------------------|-----------|
| | 2018 | | | 2017 | | |
| | External Sales | Inter-segment Sales | Total | External Sales | Inter-segment Sales | Total |
| Net sales: | | | | | | |
| Vehicular Thermal Solutions | \$971.3 | \$ 40.4 | \$1,011.7 | \$896.4 | \$ 42.5 | \$938.9 |
| Commercial and Industrial Solutions | 527.0 | 2.1 | 529.1 | 493.4 | 0.8 | 494.2 |
| Building HVAC Systems | 157.7 | 2.2 | 159.9 | 146.7 | 1.2 | 147.9 |
| Segment total | 1,656.0 | 44.7 | 1,700.7 | 1,536.5 | 44.5 | 1,581.0 |
| Corporate and eliminations | - | (44.7) | (44.7) | - | (44.5) | (44.5) |
| Net sales | \$1,656.0 | \$ - | \$1,656.0 | \$1,536.5 | \$ - | \$1,536.5 |

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS(In millions, except per share amounts)
(unaudited)

| | Three months ended December 31, | | | | Nine months ended December 31, | | | |
|-------------------------------------|---------------------------------|------------|---------|------------|--------------------------------|------------|----------|------------|
| | 2018 | 2017 | | 2018 | 2017 | | | |
| | \$'s | % of sales | \$'s | % of sales | \$'s | % of sales | \$'s | % of sales |
| Gross profit: | | | | | | | | |
| Vehicular Thermal Solutions | \$ 41.4 | 12.8 % | \$ 46.5 | 14.9 % | \$ 140.0 | 13.8 % | \$ 144.4 | 15.4 % |
| Commercial and Industrial Solutions | 28.2 | 16.9 % | 20.0 | 12.6 % | 85.1 | 16.1 % | 70.7 | 14.3 % |
| Building HVAC Systems | 22.0 | 34.3 % | 19.0 | 33.8 % | 48.6 | 30.4 % | 45.0 | 30.4 % |
| Segment total | 91.6 | 16.5 % | 85.5 | 16.2 % | 273.7 | 16.1 % | 260.1 | 16.5 % |
| Corporate and eliminations | 0.1 | - | (0.1) | - | 0.2 | - | (0.1) | - |
| Gross profit | \$ 91.7 | 16.9 % | \$ 85.4 | 16.7 % | \$ 273.9 | 16.5 % | \$ 260.0 | 16.9 % |

| | Three months ended December 31, | | Nine months ended December 31, | |
|-------------------------------------|---------------------------------|---------|--------------------------------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| Operating income: | | | | |
| Vehicular Thermal Solutions | \$ 15.5 | \$ 18.7 | \$ 55.1 | \$ 59.8 |
| Commercial and Industrial Solutions | 13.1 | (3.9) | 39.2 | 16.5 |
| Building HVAC Systems | 13.0 | 9.2 | 21.0 | 18.6 |
| Segment total | 41.6 | 24.0 | 115.3 | 94.9 |
| Corporate and eliminations | (8.0) | (10.1) | (24.1) | (29.9) |
| Operating income | \$ 33.6 | \$ 13.9 | \$ 91.2 | \$ 65.0 |

| | December 31, 2018 | March 31, 2018 |
|-------------------------------------|-------------------|----------------|
| Total assets: | | |
| Vehicular Thermal Solutions | \$ 711.4 | \$ 754.8 |
| Commercial and Industrial Solutions | 617.2 | 630.2 |
| Building HVAC Systems | 89.2 | 88.1 |
| Corporate and eliminations | 94.9 | 100.3 |
| Total assets | \$ 1,512.7 | \$ 1,573.4 |

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

When we use the terms “Modine,” “we,” “us,” the “Company,” or “our” in this report, we are referring to Modine Manufacturing Company. Our fiscal year ends on March 31 and, accordingly, all references to quarters refer to our fiscal quarters. The quarter ended December 31, 2018 was the third quarter of fiscal 2019.

Third Quarter Highlights

Net sales in the third quarter of fiscal 2019 increased \$28.3 million, or 6 percent, from the third quarter of fiscal 2018, primarily due to higher sales in all of our operating segments. Gross profit increased \$6.3 million and gross margin improved 20 basis points to 16.9 percent, as the benefit from higher sales volume was partially offset by unfavorable material costs, including the direct and indirect impacts of tariffs, and temporary operating inefficiencies largely resulting from increased volumes and new program launches at certain manufacturing facilities. Selling, general and administrative (“SG&A”) expenses decreased \$3.6 million, or 130 basis points as a percentage of sales. Restructuring expenses decreased \$8.9 million, primarily due the closure of a manufacturing facility during the third quarter of the prior year. Operating income during the third quarter of fiscal 2019 increased \$19.7 million to \$33.6 million, primarily due to higher gross profit and lower restructuring and SG&A expenses. In addition, our income tax provision decreased \$26.6 million in the third quarter of fiscal 2019 compared with the prior-year period, primarily due to charges associated with the U.S. Tax Cuts and Jobs Act (the “Tax Act”) during the third quarter of fiscal 2018. As a result of the higher operating income and lower income tax provision, our net earnings of \$18.3 million in the third quarter improved \$46.2 million compared with the net loss of \$27.9 million in the third quarter of the prior year.

Year-to-date Highlights

Net sales in the first nine months of fiscal 2019 increased \$119.5 million, or 8 percent, from the same period in the prior year, primarily due to higher sales in all of our operating segments. Gross profit increased \$13.9 million, yet gross margin declined 40 basis points to 16.5 percent, as the benefit from higher sales volume was more than offset by unfavorable material costs and temporary operating inefficiencies largely related to increased volumes and new program launches. SG&A expenses decreased \$2.3 million, or 100 basis points as a percentage of sales, and restructuring expenses decreased \$10.8 million, primarily due to the closure of a manufacturing facility during fiscal 2018. Operating income during the first nine months of fiscal 2019 increased \$26.2 million to \$91.2 million, primarily due to the higher gross profit and lower restructuring expenses. The impacts of our accounting for the Tax Act significantly impacted our \$9.3 million income tax benefit in the first nine months of fiscal 2019, as compared with an income tax provision of \$37.4 million for the same period in the prior year. As a result of the higher operating income and the impact of income taxes, our net earnings of \$79.5 million in the first nine months of fiscal 2019 improved \$73.7 million compared with the same period in the prior year.

Recent Event

On January 29, 2019, we announced that we are evaluating strategic alternatives for our automotive business within our Vehicular Thermal Solutions (“VTS”) segment. Our primary objectives include optimizing the VTS segment’s future profitability profile and prioritizing future capital investments in our other businesses. We expect to complete our evaluation over the next several quarters to determine what actions we may take as a result, if any.

Table of ContentsCONSOLIDATED RESULTS OF OPERATIONS

The following table presents our consolidated financial results on a comparative basis for the three and nine months ended December 31, 2018 and 2017:

| (in millions) | Three months ended December 31, | | | | Nine months ended December 31, | | | | | |
|--|---------------------------------|------------|-------------|------------|--------------------------------|------------|-------------|------------|---|--|
| | 2018 | | 2017 | | 2018 | | 2017 | | | |
| | \$'s | % of sales | \$'s | % of sales | \$'s | % of sales | \$'s | % of sales | | |
| Net sales | \$541.0 | 100.0 | % \$512.7 | 100.0 | % \$1,656.0 | 100.0 | % \$1,536.5 | 100.0 | % | |
| Cost of sales | 449.3 | 83.1 | % 427.3 | 83.3 | % 1,382.1 | 83.5 | % 1,276.5 | 83.1 | % | |
| Gross profit | 91.7 | 16.9 | % 85.4 | 16.7 | % 273.9 | 16.5 | % 260.0 | 16.9 | % | |
| Selling, general and administrative expenses | 57.2 | 10.6 | % 60.8 | 11.9 | % 179.9 | 10.9 | % 182.2 | 11.9 | % | |
| Restructuring expenses | 0.5 | 0.1 | % 9.4 | 1.8 | % 0.7 | - | 11.5 | 0.7 | % | |
| Impairment charges | 0.4 | 0.1 | % 1.3 | 0.3 | % 0.4 | - | 1.3 | 0.1 | % | |
| Loss on sale of assets | - | - | - | - | 1.7 | 0.1 | % - | - | | |
| Operating income | 33.6 | 6.2 | % 13.9 | 2.7 | % 91.2 | 5.5 | % 65.0 | 4.2 | % | |
| Interest expense | (6.2) | -1.1 | % (6.3) | -1.2 | % (18.9) | -1.1 | % (19.5) | -1.3 | % | |
| Other expense – net | (0.5) | -0.1 | % (0.3) | -0.1 | % (2.1) | -0.1 | % (2.3) | -0.1 | % | |
| Earnings before income taxes | 26.9 | 5.0 | % 7.3 | 1.4 | % 70.2 | 4.2 | % 43.2 | 2.8 | % | |
| (Provision) benefit for income taxes | (8.6) | -1.6 | % (35.2) | -6.9 | % 9.3 | 0.6 | % (37.4) | -2.4 | % | |
| Net earnings (loss) | \$18.3 | 3.4 | % \$(27.9) | -5.5 | % \$79.5 | 4.8 | % \$5.8 | 0.4 | % | |

Comparison of Three Months Ended December 31, 2018 and 2017

Third quarter net sales of \$541.0 million were \$28.3 million, or 6 percent, higher than the third quarter of the prior year, primarily due to higher sales in all of our operating segments, partially offset by a \$12.8 million unfavorable impact of foreign currency exchange rate changes.

Third quarter gross profit increased \$6.3 million and gross margin improved 20 basis points to 16.9 percent. The improvement in gross margin was primarily due to higher sales volume and was partially offset by unfavorable material costs, including the direct and indirect impacts of tariffs, and temporary operating inefficiencies largely related to increased volumes and multiple new program launches in our VTS segment. In addition, gross profit was unfavorably impacted by \$1.8 million from foreign currency exchange rate changes.

Third quarter SG&A expenses decreased \$3.6 million, or 130 basis points as a percentage of sales. The decrease in SG&A expenses was primarily due to a \$1.1 million environmental recovery in the VTS segment, lower integration costs associated with our November 2016 acquisition of the Luvata Heat Transfer Solutions (“Luvata HTS”) business, and lower compensation-related expenses. In addition, SG&A expenses were favorably impacted by \$1.2 million from foreign currency exchange rate changes.

Restructuring expenses of \$0.5 million in the third quarter of fiscal 2019 decreased \$8.9 million compared with the prior year, primarily due to lower severance-related expenses associated with the closure of an Austrian manufacturing facility within the Commercial and Industrial Solutions (“CIS”) segment during fiscal 2018.

During the third quarter of fiscal 2018, we recorded a \$1.3 million impairment charge associated with the closure of the Austrian CIS manufacturing facility. During the third quarter of fiscal 2019, we recorded an additional \$0.4

million impairment charge related to this facility.

Operating income of \$33.6 million in the third quarter of fiscal 2019 increased \$19.7 million compared with the third quarter of fiscal 2018, primarily due to higher earnings in the CIS and Building HVAC Systems (“BHVAC”) segments, partially offset by lower earnings in the VTS segment.

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The provision for income taxes was \$8.6 million and \$35.2 million in the third quarter of fiscal 2019 and 2018, respectively. The \$26.6 million decrease was primarily due to a decrease in income tax charges related to the Tax Act, which were \$32.6 million lower in the third quarter of fiscal 2019 compared with the same period in the prior year, partially offset by increased operating earnings in the current year and the absence of a \$2.2 million benefit from a development tax credit in Hungary recorded in the prior year. See Note 8 of the Notes to Condensed Consolidated Financial Statements for additional information.

Comparison of Nine Months Ended December 31, 2018 and 2017

Fiscal 2019 year-to-date net sales of \$1,656.0 million were \$119.5 million, or 8 percent, higher than the same period last year, primarily due to higher sales in all of our operating segments.

Fiscal 2019 year-to-date gross profit of \$273.9 million increased \$13.9 million from the same period last year, yet gross margin declined 40 basis points to 16.5 percent. The decline in gross margin was primarily due to unfavorable material costs and temporary operating inefficiencies, partially offset by higher sales volume.

Fiscal 2019 year-to-date SG&A expenses decreased \$2.3 million, or 100 basis points as a percentage of sales, compared with the same period in the prior year. The decrease in SG&A expenses was primarily due to lower integration costs associated with our acquisition of Luvata HTS and lower third-party strategic advisory costs recorded at Corporate, partially offset by higher environmental charges within our VTS segment. During the first nine months of fiscal 2019, we recorded \$1.2 million of third-party consulting costs related to our ongoing evaluation of strategic alternatives for our automotive business within the VTS segment.

Fiscal 2019 year-to-date restructuring expenses and impairment charges decreased \$10.8 million and \$0.9 million, respectively, as compared with the same period in the prior year, primarily due to the closure of a CIS manufacturing facility during fiscal 2018.

During the second quarter of fiscal 2019, we sold our South African business within the BHVAC segment and, as a result, recorded a loss of \$1.7 million.

Operating income of \$91.2 million during the first nine months of fiscal 2019 increased \$26.2 million compared with the same period last year, primarily due to higher earnings in the CIS and BHVAC segments, partially offset by lower earnings in the VTS segment.

The benefit for income taxes was \$9.3 million during the first nine months of fiscal 2019, compared with a provision for income taxes of \$37.4 million during the same period in the prior year. The \$46.7 million change was primarily due to our accounting for the impacts of the Tax Act. As a result of the Tax Act, we recorded provisional income tax charges totaling \$35.7 million in the prior year, compared with income tax benefits totaling \$7.7 million in the current year. In addition, we recorded income tax benefits totaling \$17.0 million in the current year resulting from the recognition of tax assets for foreign tax credits and other attributes, partially offset by the absence of a \$7.9 million benefit from a development tax credit in Hungary recorded in the prior year and increased operating earnings in the current year. See Note 8 of the Notes to Condensed Consolidated Financial Statements for additional information.

SEGMENT RESULTS OF OPERATIONS

Effective April 1, 2018, we formed the VTS segment by combining our Americas, Europe, and Asia operations to enable us to operate as a more global, product-based organization. We also merged our Americas coils business into the CIS segment to accelerate operational improvements and organizational efficiencies. We began reporting financial results for our new segments beginning in fiscal 2019. Segment financial information for fiscal 2018 has been recast to conform to the fiscal 2019 presentation.

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The following is a discussion of our segment results of operations for the three and nine months ended December 31, 2018 and 2017:

Vehicular Thermal Solutions

| (in millions) | Three months ended December 31, | | | | Nine months ended December 31, | | | |
|--|---------------------------------|------------|---------|------------|--------------------------------|------------|---------|------------|
| | 2018 | | 2017 | | 2018 | | 2017 | |
| | \$'s | % of sales | \$'s | % of sales | \$'s | % of sales | \$'s | % of sales |
| Net sales | \$323.3 | 100.0 % | \$313.0 | 100.0 % | \$1,011.7 | 100.0 % | \$938.9 | 100.0 % |
| Cost of sales | 281.9 | 87.2 % | 266.5 | 85.1 % | 871.7 | 86.2 % | 794.5 | 84.6 % |
| Gross profit | 41.4 | 12.8 % | 46.5 | 14.9 % | 140.0 | 13.8 % | 144.4 | 15.4 % |
| Selling, general and administrative expenses | 25.5 | 7.9 % | 26.6 | 8.5 % | 84.4 | 8.3 % | 81.3 | 8.7 % |
| Restructuring expenses | 0.4 | 0.1 % | 1.2 | 0.4 % | 0.5 | 0.1 % | 3.3 | 0.3 % |
| Operating income | \$15.5 | 4.8 % | \$18.7 | 6.0 % | \$55.1 | 5.4 % | \$59.8 | 6.4 % |

Comparison of Three Months Ended December 31, 2018 and 2017

VTS net sales increased \$10.3 million, or 3 percent, from the third quarter of fiscal 2018 to the third quarter of fiscal 2019, primarily due to higher sales volume, including sales from new program launches, to automotive and commercial vehicle customers in North America and to off-highway customers in North America and Asia, partially offset by lower sales volume to customers in Europe. Foreign currency exchange rate changes had an unfavorable \$9.3 million impact on third quarter sales. Gross profit decreased \$5.1 million and gross margin declined 210 basis points to 12.8 percent. The decline in gross margin was primarily due to unfavorable material costs and temporary operating inefficiencies largely related to increased volumes and new program launches at certain manufacturing facilities, partially offset by higher sales volume. In addition, foreign currency exchange rate changes had an unfavorable \$1.2 million impact on gross profit. SG&A expenses decreased \$1.1 million, or 60 basis points as a percentage of sales, primarily due to a \$1.1 million recovery of environmental investigation costs from a prior owner of a closed manufacturing facility in the U.S. and a \$0.7 million favorable impact of foreign currency exchange rate changes, partially offset by higher compensation-related expenses. Restructuring expenses decreased \$0.8 million, primarily due to lower plant consolidation and severance expenses. Operating income decreased \$3.2 million to \$15.5 million during the third quarter, primarily due to lower gross profit.

Comparison of Nine Months Ended December 31, 2018 and 2017

VTS year-to-date net sales increased \$72.8 million, or 8 percent, from the same period last year, primarily due to higher sales volume to off-highway and automotive customers in North America and Asia, partially offset by lower sales volume to customers in Europe and a \$4.2 million unfavorable impact of foreign currency exchange rate changes. Gross profit decreased \$4.4 million and gross margin declined 160 basis points to 13.8 percent. The decline in gross margin was primarily due to unfavorable material costs and temporary operating inefficiencies largely related to increased volumes and new program launches at certain manufacturing facilities, partially offset by higher sales volume. SG&A expenses increased \$3.1 million, primarily due to higher compensation-related expenses and higher environmental charges related to previously-owned manufacturing facilities in the U.S., partially offset by a \$0.5 million favorable impact of foreign currency exchange rate changes. As a percentage of sales, SG&A expenses decreased 40 basis points to 8.3 percent. Restructuring expenses decreased \$2.8 million, primarily due to lower plant consolidation and severance expenses. Operating income decreased \$4.7 million to \$55.1 million, primarily due to lower gross profit and higher SG&A expenses, partially offset by lower restructuring expenses.

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Commercial and Industrial Solutions

| | Three months ended December 31, | | | | Nine months ended December 31, | | | |
|--|---------------------------------|------------|---------|------------|--------------------------------|------------|---------|------------|
| | 2018 | 2017 | | 2018 | 2017 | | | |
| (in millions) | \$'s | % of sales | \$'s | % of sales | \$'s | % of sales | \$'s | % of sales |
| Net sales | \$167.0 | 100.0 % | \$159.0 | 100.0 % | \$529.1 | 100.0 % | \$494.2 | 100.0 % |
| Cost of sales | 138.8 | 83.1 % | 139.0 | 87.4 % | 444.0 | 83.9 % | 423.5 | 85.7 % |
| Gross profit | 28.2 | 16.9 % | 20.0 | 12.6 % | 85.1 | 16.1 % | 70.7 | 14.3 % |
| Selling, general and administrative expenses | 14.6 | 8.8 % | 14.4 | 9.1 % | 45.3 | 8.6 % | 44.7 | 9.0 % |
| Restructuring expenses | 0.1 | 0.1 % | 8.2 | 5.1 % | 0.2 | - | 8.2 | 1.7 % |
| Impairment charges | 0.4 | 0.2 % | 1.3 | 0.8 % | 0.4 | 0.1 % | 1.3 | 0.3 % |
| Operating income (loss) | \$13.1 | 7.8 % | \$(3.9) | -2.4 % | \$39.2 | 7.4 % | \$16.5 | 3.3 % |

Comparison of Three Months Ended December 31, 2018 and 2017

CIS net sales increased \$8.0 million, or 5 percent, from the third quarter of fiscal 2018 to the third quarter of fiscal 2019, primarily due to higher sales volume to data center and commercial refrigeration customers, partially offset by a \$2.8 million unfavorable impact of foreign currency exchange rate changes and lower sales volume to industrial customers. Gross profit increased \$8.2 million and gross margin improved 430 basis points to 16.9 percent, primarily due to higher sales volume, favorable sales mix, and improved operating efficiencies. SG&A expenses increased \$0.2 million compared with the prior year, yet decreased 30 basis points as a percentage of sales. Restructuring expenses decreased \$8.1 million, primarily due to the absence of severance-related expenses recorded in the prior year related to the closure of a manufacturing facility in Austria. During the third quarter of fiscal 2018, we recorded a \$1.3 million impairment charge related to the Austrian facility. During the third quarter of fiscal 2019, we recorded an additional \$0.4 million impairment charge related to the closed facility. Operating income of \$13.1 million represents a \$17.0 million improvement compared with the third quarter of fiscal 2018, primarily due to higher gross profit and lower restructuring expenses.

Comparison of Nine Months Ended December 31, 2018 and 2017

CIS year-to-date net sales increased \$34.9 million, or 7 percent, from the same period last year, primarily due to higher sales volume to data center customers, partially offset by lower sales volume to industrial customers. Foreign currency exchange rate changes favorably impacted year-to-date sales by \$1.2 million. Gross profit increased \$14.4 million and gross margin improved 180 basis points to 16.1 percent, primarily due to higher sales volume and favorable sales mix. SG&A expenses increased \$0.6 million compared with the prior year, yet decreased 40 basis points as a percentage of sales. Restructuring expenses decreased \$8.0 million, primarily due to the closure of the Austrian facility during fiscal 2018. Operating income of \$39.2 million increased \$22.7 million, primarily due to higher gross profit and lower restructuring expenses.

Building HVAC Systems

| | Three months ended December 31, | | | | Nine months ended December 31, | | | |
|---------------|---------------------------------|------------|--------|------------|--------------------------------|------------|---------|------------|
| | 2018 | 2017 | | 2018 | 2017 | | | |
| (in millions) | \$'s | % of sales | \$'s | % of sales | \$'s | % of sales | \$'s | % of sales |
| Net sales | \$64.2 | 100.0 % | \$56.1 | 100.0 % | \$159.9 | 100.0 % | \$147.9 | 100.0 % |
| Cost of sales | 42.2 | 65.7 % | 37.1 | 66.2 % | 111.3 | 69.6 % | 102.9 | 69.6 % |
| Gross profit | 22.0 | 34.3 % | 19.0 | 33.8 % | 48.6 | 30.4 % | 45.0 | 30.4 % |

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| | | | | | | | | | | | | |
|--|---------|------|---|--------|------|---|---------|------|---|---------|------|---|
| Selling, general and administrative expenses | 9.0 | 14.0 | % | 9.8 | 17.4 | % | 25.9 | 16.2 | % | 26.4 | 17.8 | % |
| Loss on sale of assets | - | - | | - | - | | 1.7 | 1.1 | % | - | - | |
| Operating income | \$ 13.0 | 20.3 | % | \$ 9.2 | 16.5 | % | \$ 21.0 | 13.1 | % | \$ 18.6 | 12.6 | % |

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Comparison of Three Months Ended December 31, 2018 and 2017

BHVAC net sales increased \$8.1 million, or 14 percent, from the third quarter of fiscal 2018 to the third quarter of fiscal 2019, primarily due to higher sales of heating products in North America and air conditioning products in the U.K, partially offset by a \$0.7 million unfavorable impact of foreign currency exchange rate changes. Gross profit increased \$3.0 million and gross margin improved 50 basis points to 34.3 percent, primarily due to higher sales volume, favorable sales mix, and improved product pricing. SG&A expenses decreased \$0.8 million compared with the prior year and decreased 340 basis points as a percentage of sales, primarily due to cost-control initiatives. Operating income of \$13.0 million increased \$3.8 million, primarily due to higher gross profit.

Comparison of Nine Months Ended December 31, 2018 and 2017

BHVAC year-to-date net sales increased \$12.0 million, or 8 percent, from the same period last year, primarily due to higher sales of heating products in North America and air conditioning products and parts and controls in the U.K. In addition, foreign currency exchange rate changes favorably impacted year-to-date sales by \$0.4 million. Gross profit increased \$3.6 million. Gross margin of 30.4 percent was consistent with the prior year, as the benefit from higher sales volume was largely offset by unfavorable material costs. SG&A expenses decreased \$0.5 million compared with the prior year and decreased 160 basis points as a percentage of sales. During the second quarter of fiscal 2019, we completed the sale of our business in South Africa and, as a result, recorded a loss of \$1.7 million. See Note 1 of the Notes to Condensed Consolidated Financial Statements for additional information on this transaction. Operating income of \$21.0 million increased \$2.4 million, primarily due to higher gross profit, partially offset by the \$1.7 million loss on sale of the South African business.

Liquidity and Capital Resources

Our primary sources of liquidity are cash flow from operating activities, our cash and cash equivalents as of December 31, 2018 of \$30.7 million, and an available borrowing capacity of \$127.9 million under lines of credit provided by banks in the United States and abroad. Given our extensive international operations, approximately \$23.0 million of our cash and cash equivalents are held by our non-U.S. subsidiaries. Amounts held by non-U.S. subsidiaries are available for general corporate use; however, these funds may be subject to foreign withholding taxes if repatriated. We have not encountered, and do not expect to encounter, any difficulty meeting the liquidity requirements of our global operations.

Net cash provided by operating activities for the nine months ended December 31, 2018 was \$67.4 million, which represents a \$38.6 million decrease compared with \$106.0 million of net cash provided by operating activities during the same period in the prior year. This decrease in operating cash flow was primarily due to unfavorable net changes in working capital, partially offset by the favorable impact of stronger earnings. The unfavorable changes in working capital during the first nine months of fiscal 2019, compared with the same period in the prior year, included higher inventory levels associated with higher sales levels, decreases in accounts payable resulting from the timing of payments to vendors, and higher incentive compensation and other employee benefit payments. Capital expenditures of \$58.7 million during the first nine months of fiscal 2019 increased \$3.7 million compared with the same period in the prior year.

Debt

Our debt agreements require us to maintain compliance with various covenants. The term loans require prepayments, as defined in the credit agreement, in the event our annual excess cash flow exceeds defined levels or in the event of certain asset sales. In addition, under our primary debt agreements in the U.S., we are subject to leverage ratio covenants, the most restrictive of which requires us to limit our consolidated indebtedness, less a portion of our cash balance, both as defined by the credit agreement, to no more than three and one-quarter times consolidated net

earnings before interest, taxes, depreciation, amortization, and certain other adjustments (“Adjusted EBITDA”). We are also subject to an interest expense coverage ratio covenant, which requires us to maintain Adjusted EBITDA of at least three times consolidated interest expense. As of December 31, 2018, our leverage ratio and interest coverage ratio were 2.2 and 9.0, respectively. We were in compliance with our debt covenants as of December 31, 2018 and expect to remain in compliance during the balance of fiscal 2019 and beyond.

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Shelf Registration Statement

We filed a shelf registration statement with the Securities and Exchange Commission, which was declared effective as of June 26, 2017. The shelf registration statement allows us to offer and sell, from time to time, shares of our common stock and certain other equity or debt securities in one or more offerings in amounts, at prices and on terms that we determine at the time of any such offering, with an aggregate initial offering price of up to \$200.0 million.

Share Repurchase Program

Effective October 30, 2018, our Board of Directors approved a two-year, \$50.0 million share repurchase program, which allows us to repurchase shares of our common stock through solicited and unsolicited transactions in the open market or in privately-negotiated or other transactions, at such times and prices and upon such other terms as our authorized officers deem appropriate. During the third quarter of fiscal 2019, we repurchased \$0.6 million of common stock under this program. Our decision whether and to what extent to repurchase additional shares under this program will depend on a number of factors, including business conditions, other cash priorities, and stock price.

Forward-Looking Statements

This report, including, but not limited to, the discussion under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, contains statements, including information about future financial performance, accompanied by phrases such as "believes," "estimates," "expects," "plans," "anticipates," "intends," and other similar "forward-looking" statements, as defined in the Private Securities Litigation Reform Act of 1995. Modine's actual results, performance or achievements may differ materially from those expressed or implied in these statements, because of certain risks and uncertainties, including, but not limited to, those described under "Risk Factors" in Item 1A. in Part I. of the Company's Annual Report on Form 10-K for the year ended March 31, 2018. Other risks and uncertainties include, but are not limited to, the following:

Market Risks:

Economic, social and political conditions, changes, challenges and unrest, particularly in the geographic, product and financial markets where we and our customers operate and compete, including, in particular, foreign currency exchange rate fluctuations, tariffs, inflation, changes in interest rates, recession and recovery therefrom, restrictions and uncertainty associated with cross-border trade, and the general uncertainties about the impact of regulatory and/or policy changes, including those related to tax and trade, that have been or may be implemented in the United States or by its trade partners, as well as continuing uncertainty regarding the short- and long-term implications of "Brexit";

The impact of potential price increases associated with raw materials and other purchased component inventory including, but not limited to, increases in the underlying material cost based upon the London Metal Exchange and related premiums or fabrication costs. These prices may be impacted by a variety of factors, including changes in trade laws and tariffs. This risk includes our ability to successfully manage our exposure, adjust product pricing in response to price increases, and/or pass increasing prices of aluminum, copper, steel and stainless steel (nickel) on to customers through contract provisions, as well as the inherent lag in timing of applicable pass-through arrangements; and

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- The impact of current and future environmental laws and regulations on our business and the businesses of our customers, including our ability to take advantage of opportunities to supply alternative new technologies to meet environmental and/or energy standards and objectives.

Operational Risks:

The overall health and continually increasing price-down focus of our vehicular customers in light of economic and market-specific factors, and the potential impact on us from any deterioration in the stability or performance of any of our major customers;

Our ability to maintain current customer programs and compete effectively for new business, including our ability to offset or otherwise address increasing pricing pressures from competitors and price reduction and overall service pressures from customers, particularly in the face of macro-economic instability;

Unanticipated product or manufacturing difficulties or operating inefficiencies, including unanticipated program launch and product transfer challenges and warranty claims;

Unanticipated delays or modifications initiated by major customers with respect to program launches, product applications or requirements;

Unanticipated problems with suppliers meeting our time, quantity, quality and price demands, and the overall health of our suppliers, including their ability and willingness to supply our volume demands if their production capacity becomes constrained;

Our ability to realize cost and revenue synergies associated with our acquisition of Luvata HTS in accordance with our expectations, and to effectively manage any unanticipated risks that arise;

Our ability to consistently structure our operations in order to develop and maintain a competitive cost base with appropriately skilled and stable labor, while also positioning ourselves geographically, so that we can continue to support our customers with the technical expertise and market-leading products they demand and expect from Modine;

Our ability to effectively and efficiently complete restructuring activities and realize the anticipated benefits thereof;

Our ability to recruit and maintain talent, including personnel in managerial, leadership and administrative functions, in light of tightening global labor markets;

Our ability to protect our proprietary information and intellectual property from theft or attack by internal or external sources;

The impact of any substantial disruption or material breach of our information technology systems, and any related delays, problems or costs;

Costs and other effects of the investigation and remediation of environmental contamination; particularly when related to the actions or inactions of others and/or facilities over which we have no control;

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Increasingly complex and restrictive laws and regulations, including those associated with being a U.S. public company and others present in various jurisdictions in which we operate, and the costs associated with compliance therewith;

Work stoppages or interference at our facilities or those of our major customers and/or suppliers;

The constant and increasing pressures associated with healthcare and associated insurance costs; and

Costs and other effects of unanticipated litigation, claims, or other obligations.

Strategic Risks:

Our ability to successfully take advantage of our increased presence in the “industrial” markets, with our CIS and BHVAC businesses, while maintaining appropriate focus on the market opportunities presented by our VTS business;

- The success of our evaluation of strategic alternatives for our automotive business within our VTS segment in optimizing the segment’s future profitability;

Our ability to identify and execute additional growth and diversification opportunities in order to position us for long-term success; and

The potential expense, disruption or other impacts that could result from unanticipated actions by activist shareholders.

Financial Risks:

Our ability to fund our global liquidity requirements efficiently for Modine’s current operations and meet our long-term commitments in the event of an unexpected disruption in or tightening of the credit markets or extended recessionary conditions in the global economy;

The impact of potential increases in interest rates, particularly in LIBOR and EURIBOR in relation to our variable-rate debt obligations;

Our ability to maintain our leverage ratio (net debt divided by Adjusted EBITDA, as defined in our credit agreements) in our target range of 1.5 to 2.5 in an efficient manner;

The impact of foreign currency exchange rate fluctuations, particularly the value of the euro, Brazilian real, and British pound, relative to the U.S. dollar;

Our ability to effectively realize the benefits of deferred tax assets in various jurisdictions in which we operate.

Forward-looking statements are as of the date of this report; we do not assume any obligation to update any forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company’s quantitative and qualitative disclosures about market risk are incorporated by reference from Part II, Item 7A. of the Company’s Annual Report on Form 10-K for the year ended March 31, 2018. The Company’s market risks have not materially changed since the fiscal 2018 Form 10-K was filed.

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Item 4. Controls and Procedures.

Evaluation Regarding Disclosure Controls and Procedures

As of the end of the period covered by this quarterly report on Form 10-Q, management of the Company, at the direction of the General Counsel and under the supervision, and with the participation, of the Company's President and Chief Executive Officer and Vice President, Finance and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures, at a reasonable assurance level, as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon that evaluation, the President and Chief Executive Officer and Vice President, Finance and Chief Financial Officer have concluded that the design and operation of the Company's disclosure controls and procedures were effective, at a reasonable assurance level, as of December 31, 2018.

Changes in Internal Control Over Financial Reporting

There have been no changes in internal control over financial reporting during the third quarter of fiscal 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

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

ISSUER PURCHASES OF EQUITY SECURITIES

The following describes the Company's purchases of common stock during the third quarter of fiscal 2019:

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (a) |
|--------------------------------|----------------------------------|------------------------------|--|--|
| October 1 – October 31, 2018 | _____ | _____ | _____ | \$50,000,000 |
| November 1 – November 30, 2018 | _____ | _____ | _____ | \$50,000,000 |
| December 1 – December 31, 2018 | 50,000 | \$11.37 | 50,000 | \$49,431,509 |
| Total | 50,000 | \$11.37 | 50,000 | |

Effective October 30, 2018, the Board of Directors approved a two-year, \$50.0 million share repurchase program, (a) which allows the Company to repurchase Modine common stock through solicited and unsolicited transactions in the open market or in privately-negotiated or other transactions, at such times and prices and upon such other terms as the authorized officers of the Company deem appropriate.

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Item 6. Exhibits.

(a) Exhibits:

| Exhibit No. | Description | Incorporated Herein By Reference To | Filed Herewith |
|-------------|---|-------------------------------------|----------------|
| <u>31.1</u> | Rule 13a-14(a)/15d-14(a) Certification of Thomas A. Burke, President and Chief Executive Officer. | | X |
| <u>31.2</u> | Rule 13a-14(a)/15d-14(a) Certification of Michael B. Lucareli, Vice President, Finance and Chief Financial Officer. | | X |
| <u>32.1</u> | Section 1350 Certification of Thomas A. Burke, President and Chief Executive Officer. | | X |
| <u>32.2</u> | Section 1350 Certification of Michael B. Lucareli, Vice President, Finance and Chief Financial Officer. | | X |
| 101.INS | Instance Document | | X |
| 101.SCH | XBRL Taxonomy Extension Schema | | X |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document | | X |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document | | X |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document | | X |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document | | X |

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SIGNATURE

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

MODINE
MANUFACTURING
COMPANY
(Registrant)

By: /s/ Michael B. Lucareli
Michael B. Lucareli, Vice
President, Finance and
Chief Financial Officer*

Date: February 1, 2019

* Executing as both the principal financial officer and a duly authorized officer of the Company