

STANDARD MOTOR PRODUCTS INC

Form 10-K

February 21, 2017

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10 K

(Mark One)

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

For the fiscal year ended December 31, 2016

or

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

For the transaction period from \_\_\_\_ to \_\_\_\_

Commission file number: 1 4743

Standard Motor Products, Inc.

(Exact name of registrant as specified in its charter)

New York

(State or other jurisdiction of incorporation or organization)

11-1362020

(I.R.S. Employer Identification No.)

37-18 Northern Blvd., Long Island City, N.Y.

(Address of principal executive offices)

11101

(Zip Code)

Registrant's telephone number, including area code:

(718) 392-0200

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common Stock, par value \$2.00 per share

Name of each exchange on which registered

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer Accelerated Filer  
Non-Accelerated Filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting common stock based on the closing price on the New York Stock Exchange on June 30, 2016 (the last business day of registrant's most recently completed second fiscal quarter) of \$39.78 per share held by non-affiliates of the registrant was \$803,336,566. For purposes of the foregoing calculation only, all directors and officers have been deemed to be affiliates, but the registrant disclaims that any of such are affiliates.

As of February 16, 2017, there were 22,836,471 outstanding shares of the registrant's common stock, par value \$2.00 per share.

#### DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Report is incorporated herein by reference from the registrant's definitive proxy statement relating to its annual meeting of stockholders to be held on May 18, 2017.

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Business Strategy

Our goal is to grow revenues and earnings and deliver returns in excess of our cost of capital by being the best-in-class, full-line, full-service supplier of premium products to the engine management and temperature control markets. The key elements of our strategy are as follows:

**Maintain Our Strong Competitive Position in the Engine Management and Temperature Control Businesses.** We are one of the leading independent manufacturers and distributors serving North America and other geographic areas in our core businesses of Engine Management and Temperature Control. We believe that our success is attributable to our emphasis on product quality, the breadth and depth of our product lines for both domestic and import vehicles, and our reputation for outstanding value-added services.

To maintain our strong competitive position in our markets, we remain committed to the following:

- providing our customers with full-line coverage of high quality engine management and temperature control products, supported by the highest level of value-added services;
- continuing to maximize our production, supply chain and distribution efficiencies;
- continuing to improve our cost position through increased global sourcing and increased manufacturing at our low-cost plants; and
- focusing on our engineering development efforts including a focus on bringing more product manufacturing in house.

**Provide Superior Value-Added Services, Product Availability and Technical Support.** Our goal is to increase sales to existing and new customers by leveraging our skills in rapidly filling orders, maintaining high levels of product availability, providing insightful customer category management, and providing technical support in a cost effective manner. In addition, our category management and technically skilled sales force professionals provide product selection, assortment and application support to our customers.

**Expand Our Product Lines.** We intend to increase our sales by continuing to develop internally, or through acquisitions, the range of Engine Management and Temperature Control products that we offer to our customers. We are committed to investing the resources necessary to maintain and expand our technical capability to manufacture multiple product lines that incorporate the latest technologies.

**Broaden Our Customer Base.** Our goal is to increase our customer base by (a) continuing to leverage our manufacturing capabilities to secure additional original equipment business globally with automotive, industrial, marine, military and heavy duty vehicle and equipment manufacturers and their service part operations as well as our existing customer base including traditional warehouse distributors, large retailers, other manufacturers and export customers, and (b) supporting the service part operations of vehicle and equipment manufacturers with value-added services and product support for the life of the part.

**Improve Operating Efficiency and Cost Position.** Our management places significant emphasis on improving our financial performance by achieving operating efficiencies and improving asset utilization, while maintaining product quality and high customer order fill rates. We intend to continue to improve our operating efficiency and cost position by:

- increasing cost effective vertical integration in key product lines through internal development;
- focusing on integrated supply chain management, customer collaboration and vendor managed inventory initiatives;
- evaluating additional opportunities to relocate manufacturing to our low-cost plants;

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- maintaining and improving our cost effectiveness and competitive responsiveness to better serve our customer base, including sourcing certain materials and products from low cost regions such as those in Asia without compromising product quality;
- enhancing company wide programs geared toward manufacturing and distribution efficiency; and
- focusing on company wide overhead and operating expense cost reduction programs.

Cash Utilization. We intend to apply any excess cash flow from operations and the management of working capital primarily to reduce our outstanding indebtedness, pay dividends to our shareholders, repurchase shares of our common stock, expand our product lines and grow revenues through acquisitions.

The Automotive Aftermarket

The automotive aftermarket industry is comprised of a large number of diverse manufacturers varying in product specialization and size. In addition to manufacturing, aftermarket companies allocate resources towards an efficient distribution process and product engineering in order to maintain the flexibility and responsiveness on which their customers depend. Aftermarket manufacturers must be efficient producers of small lot sizes and do not have to provide systems engineering support. Aftermarket manufacturers also must distribute, with rapid turnaround times, products for a full range of domestic and import vehicles on the road. The primary customers of the automotive aftermarket manufacturers are national and regional warehouse distributors, large retail chains, automotive repair chains and the dealer service networks of original equipment manufacturers (“OEMs”).

The automotive aftermarket industry differs substantially from the OEM supply business. Unlike the OEM supply business that primarily follows trends in new car production, the automotive aftermarket industry’s performance primarily tends to follow different trends, such as:

- growth in number of vehicles on the road;
- increase in average vehicle age;
- change in total miles driven per year;
- new or modified environmental and vehicle safety regulations, including fuel-efficiency and emissions reduction standards;
- increase in pricing of new cars;
- economic and financial market conditions;
- new car quality and related warranties;
- changes in automotive technologies;
- change in vehicle scrap rates; and
- change in average fuel prices.

Traditionally, the parts manufacturers of OEMs and the independent manufacturers who supply the original equipment (“OE”) part applications have supplied a majority of the business to new car dealer networks. However, certain parts manufacturers have become more independent and are no longer affiliated with OEMs, which has provided, and may continue to provide, opportunities for us to supply replacement parts to the dealer service networks of the OEMs, both for warranty and out of warranty repairs.



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## Financial Information about our Operating Segments

The table below shows our consolidated net sales by operating segment and by major product group within each segment for the three years ended December 31, 2016. Our two major reportable operating segments are Engine Management and Temperature Control.

	Year Ended December 31, 2016		2015		2014	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
(Dollars in thousands)						
Engine Management:						
Ignition, Emission and Fuel System						
Parts	\$616,523	58.2	% \$598,161	61.6	% \$600,867	61.3
Wires and Cables	149,016	14.1	% 99,860	10.3	% 108,396	11.0
Total Engine Management	765,539	72.3	% 698,021	71.9	% 709,263	72.3
Temperature Control:						
Compressors	148,623	14	% 127,861	13.2	% 124,238	12.7
Other Climate Control						
Parts	135,117	12.8	% 136,617	14.1	% 134,827	13.8
Total Temperature Control	283,740	26.8	% 264,478	27.3	% 259,065	26.5
All Other	9,203	0.9	% 9,476	0.8	% 12,064	1.2
Total	\$1,058,482	100				