

Edgar Filing: Neenah Inc - Form 10-Q

Neenah Inc
Form 10-Q
May 03, 2019

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2019

OR

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

For the transition period from _____ to _____

Commission File Number: 001-32240

(Exact name of registrant as specified in its charter)

Delaware 20-1308307

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

3460 Preston Ridge Road 30005
Alpharetta, Georgia

(Address of principal executive offices) (Zip Code)

(678) 566-6500

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company) Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

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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 x

As of May 2, 2019, there were approximately 16,866,725 shares of the Company's Common Stock outstanding.

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	Three Months Ended March 31,	
	2019	2018
Net sales	\$239.7	\$266.5
Cost of products sold	196.0	214.1
Gross profit	43.7	52.4
Selling, general and administrative expenses	25.3	26.8
SERP settlement loss (Note 7)	—	0.8
Other expense - net	1.0	0.7
Operating income	17.4	24.1
Interest expense - net	3.2	3.3
Income from continuing operations before income taxes	14.2	20.8
Provision for income taxes	2.4	4.6
Net income	\$11.8	\$16.2
 Earnings Per Common Share		
Basic	\$0.70	\$0.96
Diluted	\$0.69	\$0.95
 Weighted Average Common Shares Outstanding (in thousands)		
Basic	16,862	16,847
Diluted	16,921	17,006
 Cash Dividends Declared Per Share of Common Stock	\$0.45	\$0.41

See Notes to Condensed Consolidated Financial Statements

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NEENAH, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

	Three Months Ended March 31,	
	2019	2018
Net income	\$11.8	\$16.2
Unrealized foreign currency translation gain (loss)	(3.2)	5.5
Reclassification of amortization of adjustments to pension and other postretirement benefit liabilities recognized in net periodic benefit cost (Note 7)	1.7	1.6
Reclassification of SERP settlement loss (Note 7)	—	0.8
Net gain from pension and other postretirement benefit plans	—	0.4
Income (loss) from other comprehensive income items	(1.5)	8.3
Provision for income taxes	0.2	1.0
Other comprehensive income (loss)	(1.7)	7.3
Comprehensive income	\$10.1	\$23.5

See Notes to Condensed Consolidated Financial Statements

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NEENAH, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions)
(Unaudited)

	March 31, 2019	December 31, 2018
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 7.6	\$ 9.9
Accounts receivable (less allowances of \$1.4 million and \$1.3 million)	126.5	114.8
Inventories	135.3	131.6
Prepaid and other current assets	16.4	21.6
Total Current Assets	285.8	277.9
Property, Plant and Equipment		
Property, plant and equipment, at cost	838.8	840.2
Less accumulated depreciation	449.3	444.0
Property, Plant and Equipment—net	389.5	396.2
Lease Right-of-Use Assets (Note 11)	16.2	—
Deferred Income Taxes	15.6	16.4
Goodwill	83.1	84.0
Intangible Assets—net	69.6	70.7
Other Noncurrent Assets	16.1	16.0
TOTAL ASSETS	\$ 875.9	\$ 861.2
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Debt payable within one year	\$ 2.7	\$ 2.3
Lease liabilities payable within one year (Note 11)	3.1	—
Accounts payable	59.6	63.3
Accrued expenses	49.3	55.2
Total Current Liabilities	114.7	120.8
Long-term Debt	243.4	236.8
Deferred Income Taxes	14.1	14.4
Noncurrent Employee Benefits	91.5	92.9
Noncurrent Lease Liabilities (Note 11)	13.9	—
Other Noncurrent Obligations	4.1	6.1
TOTAL LIABILITIES	481.7	471.0
Contingencies and Legal Matters (Note 10)	—	—
TOTAL STOCKHOLDERS' EQUITY	394.2	390.2
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 875.9	\$ 861.2

See Notes to Condensed Consolidated Financial Statements

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NEENAH, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In millions, shares in thousands)
(Unaudited)

Three Months Ended March 31, 2019**Common Stock**

	Shares	Amount	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2018	18,597	\$ 0.2	\$(76.6)	\$ 328.5	\$ 243.2	\$ (105.1)	\$ 390.2
Net income	—	—	—	—	11.8	—	11.8
Other comprehensive loss, after income tax benefit	—	—	—	—	—	(1.7)	(1.7)
Dividends declared	—	—	—	—	(7.6)	—	(7.6)
Shares purchased (Note 9)	—	—	(0.3)	—	—	—	(0.3)
Stock options exercised	9	—	—	—	—	—	—
Restricted stock vesting (Note 9)	3	—	(0.1)	—	—	—	(0.1)
Stock-based compensation	—	—	—	1.9	—	—	1.9
Other/Currency	—	—	—	—	—	—	—
Balance, March 31, 2019	18,609	\$ 0.2	\$(77.0)	\$ 330.4	\$ 247.4	\$ (106.8)	\$ 394.2

Three Months Ended March 31, 2018**Common Stock**

	Shares	Amount	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2017	18,458	\$ 0.2	\$(65.8)	\$ 323.9	\$ 235.7	\$ (94.1)	\$ 399.9
Net income	—	—	—	—	16.2	—	16.2
Other comprehensive income, after income tax benefit	—	—	—	—	—	7.3	7.3
Reclassification of the unrealized loss on "available-for-sale" securities	—	—	—	—	(0.3)	0.3	—
Reclassification of deferred income taxes on intra-entity asset transfers	—	—	—	—	(0.8)	—	(0.8)
Dividends declared	—	—	—	—	(7.0)	—	(7.0)
Shares purchased (Note 9)	—	—	(5.3)	—	—	—	(5.3)
Stock options exercised	20	—	—	0.1	—	—	0.1
Stock-based compensation	—	—	—	1.8	—	—	1.8
Other/Currency	—	—	—	—	—	—	—
Balance, March 31, 2018	18,478	\$ 0.2	\$(71.1)	\$ 325.8	\$ 243.8	\$ (86.5)	\$ 412.2

See Notes to Condensed Consolidated Financial Statements

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NEENAH, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Three Months Ended March 31,	
	2019	2018
OPERATING ACTIVITIES		
Net income	\$11.8	\$16.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8.8	9.4
Stock-based compensation	1.9	1.8
Deferred income tax provision	0.5	2.3
SERP settlement loss (Note 7)	—	0.8
Non-cash effects of changes in liabilities for uncertain income tax positions	(0.4)	0.1
Increase in working capital	(20.9)	(18.9)
Pension and other postretirement benefits	1.5	(3.5)
Other	(0.2)	(0.1)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3.0	8.1
INVESTING ACTIVITIES		
Capital expenditures	(4.3)	(7.6)
Purchase of marketable securities	(0.2)	—
Other	(0.2)	(0.3)
NET CASH USED IN INVESTING ACTIVITIES	(4.7)	(7.9)
FINANCING ACTIVITIES		
Long-term borrowings (Note 6)	62.9	104.2
Repayments of long-term debt (Note 6)	(55.5)	(90.5)
Debt issuance costs	(0.2)	—
Cash dividends paid	(7.6)	(7.0)
Shares purchased (Note 9)	(0.3)	(5.3)
Proceeds from exercise of stock options	—	0.1
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(0.7)	1.5
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	0.1	0.2
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2.3)	1.9
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	9.9	4.5
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$7.6	\$6.4
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during period for interest, net of interest expense capitalized	\$0.6	\$0.8
Cash paid during period for income taxes	\$4.3	\$2.4
Non-cash investing activities:		
Liability for equipment acquired	\$2.6	\$3.0

See Notes to Condensed Consolidated Financial Statements

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NEENAH, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Tabular amounts in millions, except as noted)

Note 1. Background and Basis of Presentation*Background*

Neenah, Inc. ("Neenah" or the "Company"), is a Delaware corporation incorporated in April 2004. The Company has two primary operations: its technical products business and its fine paper and packaging business. See Note 12, "Business Segment Information."

Basis of Consolidation and Presentation

These statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") and, in accordance with those rules and regulations, do not include all information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Management believes that the disclosures made are adequate for a fair presentation of the Company's results of operations, financial position and cash flows. In the opinion of management, the condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the results of operations, financial position and cash flows for the interim periods presented herein. The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make extensive use of estimates and assumptions that affect the reported amounts and disclosures. Actual results may vary from these estimates.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's most recent Annual Report on Form 10-K. The results of operations for any interim period are not necessarily indicative of the results of operations to be expected for the full year.

The condensed consolidated financial statements of Neenah and its subsidiaries included herein are unaudited. The condensed consolidated financial statements include the financial statements of the Company and its wholly owned and majority owned subsidiaries. Intercompany balances and transactions have been eliminated.

Earnings per Share ("EPS")

The following table presents the computation of basic and diluted EPS (dollars in millions except per share amounts, shares in thousands):

Earnings Per Basic Common Share

	Three Months Ended March 31, 2019 2018	
Income from continuing operations	\$ 11.8	\$ 16.2
Amounts attributable to participating securities	—	(0.1)
Net income available to common stockholders	\$ 11.8	\$ 16.1
Weighted-average basic shares outstanding	16,862,16,847	

Basic earnings per share	\$0.70	\$0.96
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Table of Contents**Earnings Per Diluted Common Share**

	Three Months Ended March 31,	
	2019	2018
Income from continuing operations	\$11.8	\$16.2
Amounts attributable to participating securities	—	(0.1)
Net income available to common stockholders	\$11.8	\$16.1
Weighted-average basic shares outstanding	16,86216,847	
Add: Assumed incremental shares under stock compensation plans (a)	59	159
Weighted-average diluted shares	16,92117,006	
Diluted earnings per share	\$0.69	\$0.95

(a) For the three months ended March 31, 2019 and 2018, there were 231,332 and 197,200 potentially dilutive options, respectively, excluded from the computation of dilutive common shares because the exercise price of such options exceeded the average market price of the Company's Common Stock.

Fair Value of Financial Instruments

The Company measures the fair value of financial instruments in accordance with Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurements and Disclosures* ("ASC Topic 820") which establishes a framework for measuring fair value. ASC Topic 820 provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The following table presents the carrying value and the fair value of the Company's debt.

	March 31, 2019		December 31, 2018	
	Carrying Value	Fair Value (a)	Carrying Value	Fair Value (a)
2021 Senior Notes (5.25% fixed rate)	\$175.0	\$ 171.5	\$175.0	\$ 170.5
Global Revolving Credit Facilities (variable rates)	65.3	65.3	57.9	57.9
German loan agreement (2.45% fixed rate)	4.4	4.6	4.8	5.1
German loan agreement (1.45% fixed rate)	4.8	4.8	4.9	4.9
Total debt	\$249.5	\$ 246.2	\$242.6	\$ 238.4

(a) The fair value for all debt instruments was estimated from Level 2 measurements using rates currently available to the Company for debt of the same remaining maturities.

As of March 31, 2019, the Company had \$3.8 million in marketable securities in the U.S. classified as "Other Noncurrent Assets" on the Condensed Consolidated Balance Sheet. The cost of such marketable securities was \$4.3 million. Fair value for the Company's marketable securities was estimated from Level 1 inputs. The Company's marketable securities are designated for the payment of benefits under its supplemental employee retirement plan ("SERP"). As of March 31, 2019, Neenah Germany had investments of \$1.6 million that were restricted to the payment of certain post-retirement employee benefits of which \$0.5 million and \$1.1 million are classified as "Prepaid and other current assets" and "Other Noncurrent Assets", respectively, on the Condensed Consolidated Balance Sheet.

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Note 2. Accounting Standards Changes

In August 2018, the SEC issued Final Rule 33-10532 that amends certain of its disclosure requirements that have become redundant, overlapping or superseded, in light of other SEC disclosure requirements, GAAP or changes in the information environment. The final rule also included a requirement to present a statement of changes in stockholders' equity in interim period filings, effective with this Form 10-Q.

As of March 31, 2019, no other amendments to disclosure requirements of the SEC and no amendments to the ASC have been issued that will have or are reasonably likely to have a material effect on the Company's financial position, results of operations or cash flows.

Note 3. Revenue from Contracts with Customers

The Company recognizes sales revenue at a point in time following the transfer of control of the product to the customer, which typically occurs upon shipment or delivery depending on the terms of the underlying contracts. Sales are reported net of allowable discounts and estimated returns. Reserves for cash discounts, trade allowances and sales returns are estimated using historical experience. The Company accounts for shipping and handling activities related to contracts with customers as costs to fulfill our promise to transfer the associated products. Accordingly, the Company records customer payments of shipping and handling costs as a component of net sales and classifies such costs as a component of cost of sales. The Company excludes tax amounts assessed by governmental authorities that are both (i) imposed on and concurrent with a specific revenue-producing transaction and (ii) collected from customers from our measurement of transaction prices. Accordingly, such tax amounts are not included as a component of net sales or cost of sales.

The following tables represent a disaggregation of segment revenue from contracts with customers for the three months ended March 31, 2019 and 2018.

The technical products business is an international producer of fiber-formed, coated and/or saturated specialized media that delivers high performance benefits to customers. Included in this segment are transportation and other filtration media ("Filtration"), tape and abrasives backings products ("Backings"), and digital image transfer, durable label and other specialty substrate products ("Specialty"). Following the disposition of the Brattleboro mill which eliminated a significant portion of the products of the Other business segment, in January 2019 the Company realigned the remaining products manufactured in the Other business segment to be managed as part of the Technical Products business segment. As a result, the Company presented the net sales and operating income for the three months ended March 31, 2019 of this remaining portion of the Other business segment within the Technical Products business segment and recast the comparable 2018 information into Specialty products. Refer to Note 12, "Business Segment Information", for further discussion on the amount recast.

	Three Months Ended March 31, 2019		2018	
Filtration	42	%	42	%
Backings	25	%	28	%
Specialty	33	%	30	%
Total	100	%	100	%

The fine paper and packaging business is a leading supplier of premium printing and other high end specialty papers ("Graphic Imaging"), premium packaging ("Packaging") and specialty office papers ("Filing/Office") primarily in North America. With the sale of the Brattleboro mill in 2018 the Filing/Office category has been eliminated.

**Three
Months**

Ended
March 31,
2019 20