

FERRO CORP
Form 10-Q
July 25, 2018
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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 June 30, 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 1-584

FERRO CORPORATION

(Exact name of registrant as specified in its charter)

Ohio 34-0217820
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

6060 Parkland Boulevard 44124
Suite 250 (Zip Code)

Mayfield Heights, OH
(Address of principal executive offices)

216-875-5600
(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

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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.

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

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

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

At June 30, 2018, there were 84,137,477 shares of Ferro Common Stock, par value \$1.00, outstanding.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Ferro Corporation and Subsidiaries

Condensed Consolidated Statements of Operations

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(Dollars in thousands, except per share amounts)			
Net sales	\$ 416,239	\$ 348,632	\$ 821,771	\$ 669,187
Cost of sales	289,594	240,290	576,440	462,051
Gross profit	126,645	108,342	245,331	207,136
Selling, general and administrative expenses	70,124	62,981	143,216	122,427
Restructuring and impairment charges	3,768	3,224	7,874	6,242
Other expense (income):				
Interest expense	8,200	6,449	16,162	12,673
Interest earned	(186)	(175)	(387)	(355)
Foreign currency losses, net	2,660	4,868	4,500	4,554
Loss on extinguishment of debt	3,226	—	3,226	3,905
Miscellaneous (income) expense, net	(1,372)	1,071	(597)	(1,493)
Income before income taxes	40,225	29,924	71,337	59,183
Income tax expense	10,364	8,695	17,878	15,833
Net income	29,861	21,229	53,459	43,350
Less: Net income attributable to noncontrolling interests	193	204	400	427
Net income attributable to Ferro Corporation common shareholders	\$ 29,668	\$ 21,025	\$ 53,059	\$ 42,923
Earnings per share attributable to Ferro Corporation common shareholders:				
Basic earnings per share	\$ 0.35	\$ 0.25	\$ 0.63	\$ 0.51
Diluted earnings per share	\$ 0.35	\$ 0.25	\$ 0.62	\$ 0.50

See accompanying notes to condensed consolidated financial statements.

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Ferro Corporation and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(Dollars in thousands)			
Net income	\$ 29,861	\$ 21,229	\$ 53,459	\$ 43,350
Other comprehensive income, net of income tax:				
Foreign currency translation (loss) income	(30,315)	13,866	(24,528)	21,077
Cash flow hedging instruments, unrealized (loss) gain	(1,336)	—	(22)	—
Postretirement benefit liabilities (loss) gain	10	16	17	12
Other comprehensive (loss) income, net of income tax	(31,641)	13,882	(24,533)	21,089
Total comprehensive (loss) income	(1,780)	35,111	28,926	64,439
Less: Comprehensive (loss) income attributable to noncontrolling interests	(114)	280	221	543
Comprehensive (loss) income attributable to Ferro Corporation	\$ (1,666)	\$ 34,831	\$ 28,705	\$ 63,896

See accompanying notes to condensed consolidated financial statements.

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Ferro Corporation and Subsidiaries

Condensed Consolidated Balance Sheets

	June 30, 2018	December 31, 2017
	(Dollars in thousands)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 44,886	\$ 63,551
Accounts receivable, net	395,858	354,416
Inventories	381,763	324,180
Other receivables	66,519	67,137
Other current assets	25,765	16,448
Total current assets	914,791	825,732
Other assets		
Property, plant and equipment, net	334,997	321,742
Goodwill	199,172	195,369
Intangible assets, net	179,154	187,616
Deferred income taxes	109,404	108,025
Other non-current assets	36,294	43,718
Total assets	\$ 1,773,812	\$ 1,682,202
LIABILITIES AND EQUITY		
Current liabilities		
Loans payable and current portion of long-term debt	\$ 25,739	\$ 25,136
Accounts payable	201,380	211,711
Accrued payrolls	39,904	48,201
Accrued expenses and other current liabilities	75,114	70,151
Total current liabilities	342,137	355,199
Other liabilities		
Long-term debt, less current portion	815,015	726,491
Postretirement and pension liabilities	161,179	166,680
Other non-current liabilities	71,769	77,152
Total liabilities	1,390,100	1,325,522
Equity		
Ferro Corporation shareholders' equity:		
Common stock, par value \$1 per share; 300.0 million shares authorized; 93.4 million shares issued; 84.1 million and 84.0 million shares outstanding at June 30, 2018, and December 31, 2017, respectively	93,436	93,436
Paid-in capital	296,242	302,158
Retained earnings	228,944	171,744
Accumulated other comprehensive loss	(99,822)	(75,468)

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Common shares in treasury, at cost	(144,172)	(147,056)
Total Ferro Corporation shareholders' equity	374,628	344,814
Noncontrolling interests	9,084	11,866
Total equity	383,712	356,680
Total liabilities and equity	\$ 1,773,812	\$ 1,682,202

See accompanying notes to condensed consolidated financial statements.

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Ferro Corporation and Subsidiaries

Condensed Consolidated Statements of Equity

	Ferro Corporation Shareholders Common Shares in Treasury		Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)	Non- controlling Interests	Total Equity
	Shares (In thousands)	Amount						
Balances at December 31, 2016	9,996	\$ (160,936)	\$ 93,436	\$ 306,566	\$ 114,690	\$ (106,643)	\$ 7,919	\$ 255,032
Net income	—	—	—	—	42,923	—	427	43,350
Other comprehensive income	—	—	—	—	—	20,973	116	21,089
Stock-based compensation transactions	(255)	6,656	—	(2,761)	—	—	—	3,895
Distributions to noncontrolling interests	—	—	—	—	—	—	(474)	(474)
Balances at June 30, 2017	9,741	(154,280)	93,436	303,805	157,613	(85,670)	7,988	322,892
Balances at December 31, 2017	9,386	(147,056)	93,436	302,158	171,744	(75,468)	11,866	356,680
Net income	—	—	—	—	53,059	—	400	53,459
Other comprehensive loss	—	—	—	—	—	(24,354)	(179)	(24,533)
Purchase of treasury stock	287	(6,014)	—	—	—	—	—	(6,014)
Stock-based compensation transactions	(376)	8,898	—	(6,705)	—	—	—	2,193
Change in ownership interest	—	—	—	789	—	—	(2,228)	(1,439)
Distributions to noncontrolling	—	—	—	—	—	—	(775)	(775)

interests								
Adjustment for accounting standards update 2016-16	—	—	—	—	4,141	—	—	4,141
Balances at June 30, 2018	9,297	\$ (144,172)	\$ 93,436	\$ 296,242	\$ 228,944	\$ (99,822)	\$ 9,084	\$ 383,712

See accompanying notes to condensed consolidated financial statements.

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Ferro Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows

	Six Months Ended	
	June 30,	
	2018	2017
	(Dollars in thousands)	
Cash flows from operating activities		
Net cash (used in) provided by operating activities	\$ (37,675)	\$ 14,705
Cash flows from investing activities		
Capital expenditures for property, plant and equipment and other long lived assets	(43,569)	(16,894)
Business acquisitions, net of cash acquired	(4,920)	(14,752)
Other investing activities	31	145
Net cash used in investing activities	(48,458)	(31,501)
Cash flows from financing activities		
Net (repayments) under loans payable	(1,828)	(5,645)
Proceeds from revolving credit facility - 2014 Credit Facility	—	15,628
Principal payments on revolving credit facility - 2014 Credit Facility	—	(327,183)
Proceeds from term loan facility - Credit Facility	—	