

OMNOVA SOLUTIONS INC

Form 10-Q

September 26, 2018

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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Form

10-Q

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

For the Quarter Ended August 31, 2018

Commission File Number 1-15147

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OMNOVA Solutions Inc.

(Exact name of registrant as specified in its charter)

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Ohio 34-1897652

(State of Incorporation) (I.R.S. Employer Identification No.)

25435 Harvard Road, Beachwood, Ohio 44122-6201

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (216) 682-7000

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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 and 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 website, if any, 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 or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer ☐ Accelerated filer ☒

Non-accelerated filer ☐ Smaller reporting company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. YES ☐ NO ☒

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

At August 31, 2018, there were 44,878,732 outstanding shares of OMNOVA Solutions' Common Stock, par value \$0.10.

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## Part I. Financial Information

## Item 1. Financial Statements

OMNOVA SOLUTIONS INC.  
Consolidated Statements of Operations  
(Unaudited)

|                                                | Three Months<br>Ended August<br>31,<br>2018  |         | Nine Months<br>Ended August<br>31,<br>2018 |         |
|------------------------------------------------|----------------------------------------------|---------|--------------------------------------------|---------|
|                                                | 2017                                         |         | 2017                                       |         |
|                                                | (Dollars in millions, except per share data) |         |                                            |         |
| Net sales                                      | \$193.6                                      | \$200.9 | \$578.5                                    | \$596.8 |
| Cost of goods sold (exclusive of depreciation) | 144.5                                        | 143.1   | 431.3                                      | 441.9   |
| Gross profit                                   | 49.1                                         | 57.8    | 147.2                                      | 154.9   |
| Other costs and expenses:                      |                                              |         |                                            |         |
| Selling, general and administrative            | 25.9                                         | 28.9    | 82.0                                       | 88.2    |
| Depreciation and amortization                  | 7.8                                          | 7.1     | 22.3                                       | 20.7    |
| Asset impairments                              | 9.2                                          | .4      | 9.6                                        | 13.3    |
| Restructuring and severance                    | .4                                           | .4      | 1.8                                        | 5.1     |
| Interest expense                               | 4.7                                          | 5.5     | 14.4                                       | 16.0    |
| Debt issuance costs write-off                  | —                                            | —       | .8                                         | —       |
| Acquisition and integration related expense    | (.3 )                                        | .2      | .7                                         | .2      |
| Other (income) loss, net                       | 1.0                                          | 1.3     | 2.2                                        | (.7 )   |
| Total other costs and expenses                 | 48.7                                         | 43.8    | 133.8                                      | 142.8   |
| Income (loss) before income taxes              | .4                                           | 14.0    | 13.4                                       | 12.1    |
| Income tax (benefit) expense                   | 2.3                                          | 6.1     | (.3 )                                      | 7.0     |
| Net income (loss)                              | \$(1.9 )                                     | \$7.9   | \$13.7                                     | \$5.1   |
| Net income (loss) per share - Basic            | \$(.04 )                                     | \$ .18  | \$ .31                                     | \$ .12  |
| Net income (loss) per share - Diluted          | \$(.04 )                                     | \$ .18  | \$ .31                                     | \$ .11  |
| Weighted average shares outstanding - Basic    | 44.5                                         | 44.4    | 44.6                                       | 44.3    |
| Weighted average shares outstanding - Diluted  | 44.5                                         | 44.7    | 44.8                                       | 44.7    |

See notes to unaudited interim consolidated financial statements.

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## OMNOVA SOLUTIONS INC.

Consolidated Statements of Comprehensive Income (Loss)  
(Unaudited)

|                                                                      | Three<br>Months<br>Ended<br>August 31,<br>2018 |        | Nine Months<br>Ended August<br>31,<br>2017 |        |
|----------------------------------------------------------------------|------------------------------------------------|--------|--------------------------------------------|--------|
|                                                                      | 2018                                           | 2017   | 2018                                       | 2017   |
|                                                                      | (Dollars in millions)                          |        |                                            |        |
| Net income (loss)                                                    | \$(1.9)                                        | \$7.9  | \$13.7                                     | \$5.1  |
| Components of other comprehensive income (loss):                     |                                                |        |                                            |        |
| Foreign currency translations:                                       |                                                |        |                                            |        |
| Realized net change during the period                                | —                                              | (6.3 ) | —                                          | (6.3 ) |
| Unrealized net change during the period                              | (5.4 )                                         | 5.3    | (4.4 )                                     | 10.2   |
| Unrealized net change on intercompany foreign debt during the period | (.1 )                                          | 3.1    | (.4 )                                      | 4.9    |
| Tax effect                                                           | —                                              | (1.1 ) | (.1 )                                      | (2.3 ) |
| Foreign currency translations, net of tax                            | (5.5 )                                         | 1.0    | (4.9 )                                     | 6.5    |
| Post retirement benefit plans:                                       |                                                |        |                                            |        |
| Actuarial net (gain) loss:                                           |                                                |        |                                            |        |
| Net (gain) loss arising during the period                            | —                                              | (.2 )  | —                                          | (.2 )  |
| Amortization of net loss included in net periodic benefit cost       | 1.2                                            | .8     | 3.4                                        | 2.7    |
| Settlement charge                                                    | —                                              | .4     | —                                          | .4     |
| Tax effect                                                           | —                                              | (.3 )  | —                                          | (1.1 ) |
| Post-retirement benefit plans, net of tax                            | 1.2                                            | .7     | 3.4                                        | 1.8    |
| Other comprehensive income (loss), net of tax                        | (4.3 )                                         | 1.7    | (1.5 )                                     | 8.3    |
| Comprehensive income (loss)                                          | \$(6.2)                                        | \$9.6  | \$12.2                                     | \$13.4 |

See notes to unaudited interim consolidated financial statements.

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Consolidated Balance Sheets

|                                                                                                                                                                                                       | August 31,<br>2018<br>(Unaudited)              | November 30,<br>2017<br>(Audited) |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|-----------------------------------|
|                                                                                                                                                                                                       | (Dollars in millions,<br>except share amounts) |                                   |
| <b>ASSETS:</b>                                                                                                                                                                                        |                                                |                                   |
| Current Assets                                                                                                                                                                                        |                                                |                                   |
| Cash and cash equivalents                                                                                                                                                                             | \$66.2                                         | \$ 88.0                           |
| Accounts receivable, net                                                                                                                                                                              | 101.7                                          | 99.0                              |
| Inventories, net                                                                                                                                                                                      | 77.7                                           | 76.5                              |
| Prepaid expenses and other                                                                                                                                                                            | 7.2                                            | 12.5                              |
| Total Current Assets                                                                                                                                                                                  | 252.8                                          | 276.0                             |
| Property, plant and equipment, net                                                                                                                                                                    | 192.3                                          | 208.9                             |
| Intangible assets, net                                                                                                                                                                                | 52.9                                           | 56.0                              |
| Goodwill                                                                                                                                                                                              | 65.7                                           | 66.3                              |
| Other non-current assets                                                                                                                                                                              | 5.6                                            | 5.6                               |
| Total Assets                                                                                                                                                                                          | \$569.3                                        | \$ 612.8                          |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>                                                                                                                                                          |                                                |                                   |
| Current Liabilities                                                                                                                                                                                   |                                                |                                   |
| Amounts due banks                                                                                                                                                                                     | \$4.2                                          | \$ 4.2                            |
| Accounts payable                                                                                                                                                                                      | 89.8                                           | 78.3                              |
| Accrued payroll and personal property taxes                                                                                                                                                           | 16.9                                           | 26.1                              |
| Employee benefits                                                                                                                                                                                     | 3.4                                            | 2.9                               |
| Other current liabilities                                                                                                                                                                             | 8.0                                            | 5.1                               |
| Total Current Liabilities                                                                                                                                                                             | 122.3                                          | 116.6                             |
| Long-term debt                                                                                                                                                                                        | 307.4                                          | 349.8                             |
| Post-retirement benefits other than pensions                                                                                                                                                          | 5.8                                            | 6.3                               |
| Pension liabilities                                                                                                                                                                                   | 61.1                                           | 70.5                              |
| Deferred income taxes                                                                                                                                                                                 | 18.4                                           | 23.4                              |
| Other non-current liabilities                                                                                                                                                                         | 8.9                                            | 8.0                               |
| Total Liabilities                                                                                                                                                                                     | 523.9                                          | 574.6                             |
| Shareholders' Equity                                                                                                                                                                                  |                                                |                                   |
| Preferred stock - \$1.00 par value; 15 million shares authorized; none outstanding                                                                                                                    | —                                              | —                                 |
| Common stock - \$0.10 par value; 135 million shares authorized; 48.3 million shares issued; 44.9 million and 44.8 million shares outstanding as of August 31, 2018 and November 30, 2017 respectively | 4.8                                            | 4.8                               |
| Additional contributed capital                                                                                                                                                                        | 345.7                                          | 343.4                             |
| Retained deficit                                                                                                                                                                                      | (152.3 )                                       | (159.2 )                          |
| Treasury stock at cost - 3.4 million and 3.5 million shares as of August 31, 2018 and November 30, 2017 respectively                                                                                  | (26.0 )                                        | (25.5 )                           |
| Accumulated other comprehensive loss                                                                                                                                                                  | (126.8 )                                       | (125.3 )                          |
| Total Shareholders' Equity                                                                                                                                                                            | 45.4                                           | 38.2                              |

|                                            |         |          |
|--------------------------------------------|---------|----------|
| Total Liabilities and Shareholders' Equity | \$569.3 | \$ 612.8 |
|--------------------------------------------|---------|----------|

See notes to unaudited interim consolidated financial statements.

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OMNOVA SOLUTIONS INC.  
Consolidated Statements of Cash Flows  
(Unaudited)

|                                                                                                              | Nine Months<br>Ended August<br>31,<br>2018 2017<br>(Dollars in<br>Millions) |         |
|--------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|---------|
| Operating Activities:                                                                                        |                                                                             |         |
| Net income (loss)                                                                                            | \$ 13.7                                                                     | \$ 5.1  |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:           |                                                                             |         |
| Depreciation and amortization                                                                                | 22.3                                                                        | 20.7    |
| Impairment of long-lived assets                                                                              | 9.6                                                                         | 12.9    |
| Amortization and write-off of deferred financing fees                                                        | 1.8                                                                         | 1.1     |
| Non-cash stock compensation expense                                                                          | 2.1                                                                         | 1.6     |
| Provision for doubtful accounts                                                                              | .4                                                                          | —       |
| Provision for obsolete inventories                                                                           | 1.3                                                                         | .3      |
| Deferred income taxes                                                                                        | (6.6 )                                                                      | —       |
| Other                                                                                                        | —                                                                           | (.4 )   |
| Changes in operating assets and liabilities, net of effect from acquisitions and divestitures of businesses: |                                                                             |         |
| Accounts receivable                                                                                          | (3.8 )                                                                      | (18.7 ) |
| Inventories                                                                                                  | (3.1 )                                                                      | (1.0 )  |
| Other current assets                                                                                         | 5.3                                                                         | 9.8     |
| Current liabilities                                                                                          | 1.4                                                                         | (.9 )   |
| Other non-current assets                                                                                     | 1.2                                                                         | 7.3     |
| Other non-current liabilities                                                                                | (2.5 )                                                                      | (2.3 )  |
| Contributions to defined benefit plan                                                                        | (6.0 )                                                                      | (7.3 )  |
| Net Cash Provided By (Used In) Operating Activities                                                          | 37.1                                                                        | 28.2    |
| Investing Activities:                                                                                        |                                                                             |         |
| Capital expenditures                                                                                         | (12.8 )                                                                     | (17.0 ) |
| Proceeds from notes receivable                                                                               | —                                                                           | 3.8     |
| Business acquisitions and disposals                                                                          | (.5 )                                                                       | (7.3 )  |
| Net Cash Provided By (Used In) Investing Activities                                                          | (13.3 )                                                                     | (20.5 ) |
| Financing Activities:                                                                                        |                                                                             |         |
| Proceeds from borrowings                                                                                     | 2.3                                                                         | —       |
| Repayment of debt obligations                                                                                | (45.4 )                                                                     | (3.3 )  |
| Payments for debt refinancing                                                                                | (1.0 )                                                                      | —       |
| Employee tax withholdings related to redemption of common shares                                             | (.5 )                                                                       | (2.2 )  |
| Net Cash Provided By (Used In) Financing Activities                                                          | (44.6 )                                                                     | (5.5 )  |
| Effect of exchange rate changes on cash and cash equivalents                                                 | (1.0 )                                                                      | .4      |
| Net Increase (Decrease) In Cash And Cash Equivalents                                                         | (21.8 )                                                                     | 2.6     |
| Cash and cash equivalents at beginning of period                                                             | 88.0                                                                        | 72.0    |
| Cash and Cash Equivalents at End of Period                                                                   | \$66.2                                                                      | \$74.6  |

## Supplemental Cash Flow Information:

Cash paid for:

Interest

\$13.2 \$14.3

Income taxes

\$5.7 \$3.0

See notes to unaudited interim consolidated financial statements.

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OMNOVA SOLUTIONS INC.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of August 31, 2018

(Dollars In Millions, Except Share Data)

Note A – Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the OMNOVA Solutions Inc. (“OMNOVA Solutions” or the “Company”) Annual Report on Form 10-K for the year ended November 30, 2017, previously filed with the Securities and Exchange Commission (“SEC”).

The consolidated financial statements as of August 31, 2018 have been derived from the unaudited interim consolidated financial statements at that date and do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

These interim consolidated financial statements reflect all adjustments that are, in the opinion of Management, necessary for a fair presentation of the results for the interim period and all such adjustments are of a normal recurring nature except as disclosed herein. The results of operations for the interim period are not necessarily indicative, if annualized, of those to be expected for the full year.

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires Management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could materially differ from those estimates. The consolidation method is followed to report investments in subsidiaries. The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Inter-company accounts and transactions are eliminated during the consolidation process of these accounts.

A detailed description of the Company’s significant accounting policies and Management judgments is located in the audited consolidated financial statements for the year ended November 30, 2017, included in the Company’s Form 10-K filed with the SEC.

Description of Business – The Company is an innovator of emulsion polymers, specialty chemicals and engineered surfaces for a variety of commercial, industrial and residential end uses. The Company's products provide a variety of important functional and aesthetic benefits to hundreds of products that people use daily. The Company holds leading positions in key market categories, which have been built through innovative products, customized product solutions, strong technical expertise, well-established distribution channels, recognized brands, and long-standing customer relationships. The Company utilizes strategically-located manufacturing, technical and other facilities in North America, Europe, China, and Thailand to service a broad customer base. The Company has two business segments: Specialty Solutions, which is focused on the Company's higher growth specialty businesses, and Performance Materials, which is focused on the Company’s more mature businesses.

Specialty Solutions – The Specialty Solutions segment develops, designs, produces, and markets a broad line of specialty polymers for use in coatings, adhesives, sealants, elastomers, nonwovens, and oil & gas products, as well as laminates and films. These products are used in numerous applications, including architectural and industrial coatings; nonwovens used in hygiene products, filtration and construction; drilling additives for oil and gas exploration and production; elastomeric modification of plastic casings and hoses used in household and industrial products and automobiles; tapes and adhesives; sports surfaces; textile finishes; commercial building refurbishment; new construction; residential cabinets; flooring; ceiling tile; furnishings; manufactured housing; health care patient and common area furniture; and a variety of industrial films applications. The segment's products enhance our customers’ products performance, including stain, rust and aging resistance; surface modification; gloss; softness or hardness; dimensional stability; high heat and pressure tolerance; and binding and barrier (e.g. moisture, oil) properties. The Specialty Solutions segment consists of Specialty Coatings & Ingredients, Oil & Gas, and Laminates & Films. The Specialty Coatings & Ingredients business line encompasses products that have applications for specialty

coatings, nonwovens (such as disposable hygiene products, engine filters, roofing mat, and scrub pads), construction, adhesives, sealants, tape, floor care, textiles, graphic arts, and various other specialty applications. Oil & Gas applications include drilling fluid additives, which provide fluid loss control and sealing to enhance wellbore integrity, as well as cement additives for gas migration and fluid loss. The Laminates & Films product line applications include kitchen and bath cabinets, wall surfacing, manufactured

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housing and recreational vehicle interiors, flooring, commercial and residential furniture, retail display fixtures, home furnishings, commercial appliances, and a variety of industrial film applications.

**Performance Materials** – The Performance Materials segment serves mature markets with a broad range of emulsion polymers based primarily on styrene butadiene (SB), styrene butadiene acrylonitrile (SBA), styrene butadiene vinyl pyridine, high styrene pigments, polyvinyl acetate, acrylic, styrene acrylic, calcium stearate, glyoxal, and bio-based chemistries. Performance Materials' custom-formulated products are tailored latexes, resins, binders, antioxidants, hollow plastic pigment, coated fabrics, and rubber reinforcing which are used in tire cord, polymer stabilization, industrial rubbers, carpet binders, paper coatings, and various other applications. Its products provide a variety of functional properties to enhance the Company's customers' products, including greater strength, adhesion, dimensional stability, ultraviolet resistance, improved processability, and enhanced appearance.

The Performance Materials segment encompasses performance additives, paper coatings, carpet binders, and coated fabrics. This segment includes products that have applications in the paper coatings, paperboard, carpet binders, polymer stabilization, industrial rubbers, and tire cord industries. Paper and paperboard coatings are used in magazines, catalogs, direct mail advertising, brochures, printed reports, food cartons, household, and other consumer and industrial packaging. Carpet binders are used to secure carpet fibers to carpet backing and meet stringent manufacturing, environmental, odor, flammability, and flexible installation requirements. Tire cord is used in automotive tires. The Coated Fabrics product line applications include upholstery used in refurbishment and new construction for the commercial office, hospitality, health care, retail, education and restaurant markets, marine and transportation seating, commercial and residential furniture, automotive soft tops, and automotive after-market applications.

### Accounting Standards Adopted in 2018

In October 2016, the FASB issued ASU 2016-16, Intra-Entity Transfers of Assets Other Than Inventory, which removes the prohibition against the immediate recognition of the current and deferred income tax effects of intra-entity transfers other than inventory. The guidance was effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2017 with early adoption permitted as of the beginning of the annual reporting period in which the ASU was issued. ASU 2016-16 was adopted by the Company effective December 1, 2017 on a modified retrospective basis, resulting in a \$6.9 million adjustment to retained earnings and a reduction in prepaid assets.

### Accounting Standards Not Yet Adopted

In February 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (Loss), which allow a reclassification from accumulated other comprehensive income (loss) to retained earnings for standard tax effects resulting from the Tax Cuts and Jobs Act. ASU 2018-02 must be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. This guidance is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2018 with early adoption permitted in any interim period. The Company is currently evaluating the potential impact on its consolidated financial statements and related disclosures.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging, which applies targeted improvements to the hedge accounting guidance, including removing the requirement to run the ineffective portion of a hedging instrument through current period income. The guidance is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2018 with early adoption permitted in any interim period. Amendments from this ASU are to be applied prospectively, with a cumulative effect adjustment recorded to retained earnings. The Company is currently evaluating the potential impact on its consolidated financial statements and related disclosures.

In March 2017, the FASB issued ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The amendments in this Update also allow only the service cost component to be eligible for capitalization when applicable. ASU 2017-07 must be applied retrospectively for the presentation of the service cost component and

the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic post-retirement benefit in assets. This guidance is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2017 with early adoption permitted. The Company is currently evaluating the potential impact on its consolidated financial statements and related disclosures. In January 2017, the FASB issued ASU No. 2017-01, Clarifying the Definition of a Business, which clarified existing guidance on the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The guidance is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2017 with early adoption

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permitted. The Company does not expect the adoption of this guidance to have a material impact on its consolidated results of operations, balance sheets, or cash flows.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments, which clarifies existing guidance related to accounting for cash receipts and cash payments and classification on the statement of cash flows. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, and early adoption is permitted. The adoption of this ASU will not have an impact on the Company's balance sheets, results of operations, or cash flows.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires a lessee to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases with a lease term of more than twelve months. Leases will continue to be classified as either financing or operating, with classification affecting the recognition, measurement and presentation of expenses and cash flows arising from a lease. The new guidance is effective for the Company's fiscal year that begins on December 1, 2019 and requires a modified retrospective approach to the adoption for lessees related to capital and operating leases existing at, or entered into after, the earliest comparative period presented in the financial statements, with certain practical expedients available. Early adoption is permitted. The Company is currently evaluating the potential impact on its consolidated financial statements and related disclosures.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10: Recognition and Measurement of Financial Assets and Financial Liabilities), which revised entities' accounting related to: (i) the classification and measurement of investments in equity securities; and (ii) the presentation of certain fair value changes for financial liabilities measured at fair value. The ASU also amends certain disclosure requirements associated with the fair value of financial instruments. The new guidance is effective for the Company's fiscal year that begins on December 1, 2018 and requires a modified retrospective approach to adoption. Early adoption is only permitted for the provision related to instrument-specific credit risk. The Company is currently evaluating the potential impact on its consolidated financial statements and related disclosures.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which clarifies existing accounting literature relating to how and when a company recognizes revenue. This standard prescribes a five-step model for recognizing revenue, the application of which will require a certain amount of judgment. The provisions of this ASU may be applied retroactively or on a modified retrospective (cumulative effect) basis. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which defers the effective date of ASU 2014-09 to fiscal 2019. The standard will require additional disclosures in the notes to the consolidated financial statements, including qualitative and quantitative disclosures identifying the nature, amount, timing and significant judgments impacting revenue from contracts with customers.

The Company will adopt ASU 2014-09 during the first quarter of fiscal year 2019 and will utilize the modified retrospective approach and record a cumulative effect adjustment to retained earnings, to the extent necessary, for the impact of any current contracts then meeting the standards' criteria for revenue recognition as of December 1, 2018. The Company is implementing controls to support recognition and disclosure under the new standard. The Company has drafted an updated revenue recognition accounting policy. The Company has completed its contract evaluations to document the various sales terms the Company uses in its sales contracts. The Company has drafted its initial assessment of its current revenue streams which is also being confirmed by various Company personnel. Once this assessment is complete, the Company will be able to determine the impact, if any, on its consolidated financial statements and related disclosures.

### Note B – Financial Instruments and Fair Value Measurements

#### Financial Risk Management Objectives and Policies

The Company is exposed primarily to credit, interest rate, and foreign currency rate risks, which arise in the normal course of business.

#### Credit Risk

Credit risk is the potential financial loss resulting from the failure of a customer or counterparty to settle its financial and contractual obligations with the Company as and when they fall due. The primary credit risk for the Company is its accounts receivable, which are generally unsecured. The Company has established credit limits for customers and

monitors their balances to mitigate its risk of loss. Concentrations of credit risk with respect to accounts receivable are generally limited due to the wide variety of customers and markets using the Company's products. There was no single customer that represented more than 10% of the Company's consolidated net sales during the three and nine month periods ending August 31, 2018, and there was one Performance Materials customer, whose sales were more than 10% of consolidated net sales during the three and nine month periods ending August 31, 2017. There was no single customer who represented more than 10% of the Company's net trade receivables at August 31, 2018 or November 30, 2017.

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### Interest Rate Risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's \$350.0 million Term Loan B (balance of \$303.0 million at August 31, 2018) and various foreign subsidiary borrowings, which bear interest at variable rates, approximating market interest rates.

### Foreign Currency Rate Risk

The Company incurs foreign currency rate risk on sales and purchases denominated in other than the functional currency. The currencies giving rise to this risk are primarily the Euro, Great Britain Pound Sterling, Renminbi, and Thai Baht.

Foreign currency exchange contracts are used by the Company to manage risks from the change in market exchange rates on cash payments by the Company's foreign subsidiaries and U.S. Dollar cash holdings in foreign locations. These forward contracts are used on a continuing basis for periods of approximately 30 days, consistent with the underlying hedged transactions. Hedging intends to offset the impact of foreign exchange rate movements on the Company's operating results. The counterparties to these instruments are investment grade financial institutions and the Company does not anticipate any non-performance. The Company maintains control over the size of positions entered into with any one counterparty and regularly monitors the credit rating of these institutions. Such instruments are not purchased or sold for trading purposes. These contracts are not designated as hedging instruments and changes in fair value of these instruments are recognized in earnings immediately. Foreign currency transaction gains and losses, including the impact of foreign currency contracts, that were recorded in the Consolidated Statements of Operations, as a component of other income (loss), were gains of \$0.2 million and \$0.3 million for the nine-month periods ending August 31, 2018 and 2017, respectively.

### Derivative Instruments

The Company recognizes the fair value of qualifying derivative instruments as either an asset or a liability within its Consolidated Balance Sheets. For derivative instruments not designated as hedges, the change in fair value of the derivative is recognized in earnings each reporting period. The Company defines fair value as the price that would be received to transfer an asset or that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company uses a hierarchy of valuation inputs to measure fair value.

The hierarchy prioritizes the inputs into three broad levels:

Level 1 inputs—Quoted market prices in active markets for identical assets or liabilities.

Level 2 inputs—Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 inputs—Unobservable inputs that are not corroborated by market data.

### Fair Value Measurements

The Company uses the market approach and the income approach to value assets and liabilities as appropriate. The following financial assets and liabilities are measured and presented at fair value on a recurring basis as of August 31, 2018 and November 30, 2017:

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|                                            | Notional<br>Amount | Fair<br>Value | Level 1 | Level 2 | Level 3 |
|--------------------------------------------|--------------------|---------------|---------|---------|---------|
| (Dollars in Millions)                      |                    |               |         |         |         |
| Fair value measurements - August 31, 2018: |                    |               |         |         |         |
| Financial assets                           |                    |               |         |         |         |
| Foreign currency exchange contracts        | \$14.0             | \$ .1         | \$ .1   | \$ —    | \$ —    |
| Total assets                               | \$14.0             | \$ .1         | \$ .1   | \$ —    | \$ —    |
| Financial liabilities                      |                    |               |         |         |         |
| Contingent consideration <sup>(1)</sup>    | \$—                | \$ .9         | \$ —    | \$ —    | \$ .9   |
| Total liabilities                          | \$—                | \$ .9         | \$ —    | \$ —    | \$ .9   |

## Fair value measurements - November 30, 2017:

|                                         |       |        |       |      |        |
|-----------------------------------------|-------|--------|-------|------|--------|
| Financial assets                        |       |        |       |      |        |
| Foreign currency exchange contracts     | \$9.8 | \$ .1  | \$ .1 | \$ — | \$ —   |
| Total assets                            | \$9.8 | \$ .1  | \$ .1 | \$ — | \$ —   |
| Financial liabilities                   |       |        |       |      |        |
| Contingent consideration <sup>(1)</sup> | \$—   | \$ 1.0 | \$ —  | \$ — | \$ 1.0 |
| Total liabilities                       | \$—   | \$ 1.0 | \$ —  | \$ — | \$ 1.0 |

<sup>(1)</sup> Contingent consideration obligations arise from business or product line acquisitions. The fair values are based on a probability weighted discounted cash flow analysis reflecting an estimated achievement of specified performance measures of the acquired product lines. Contingent consideration is classified in the consolidated balance sheets as other current liabilities or other non-current liabilities based on contractual payment dates.

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis during the first nine months of 2018 are summarized as follows:

|                              |                                                         |
|------------------------------|---------------------------------------------------------|
|                              | Contingent<br>Consideration<br>(Dollars in<br>Millions) |
| Balance at November 30, 2017 | \$ 1.0                                                  |
| Additions and adjustments    | (.1 )                                                   |
| Balance at August 31, 2018   | \$ .9                                                   |

There were no transfers into or out of Level 3 during the first nine months of 2018 or 2017.

The fair value of the Company's Term Loan B at August 31, 2018 approximated \$303.8 million, which is slightly more than its book value of \$303.0 million as a result of prevailing market rates on the Company's debt. The fair value of the Term Loan B is based on market price information and is measured using the last available trade of the instrument on a secondary market in each respective period and therefore is considered a Level 2 measurement. The fair value is not indicative of the amount that the Company would have to pay to redeem these instruments since they are infrequently traded and are not callable at this value. The fair value of the Company's capital lease obligation approximates its carrying amount based on estimated borrowing rates to discount the future cash flows to their present value.

## Note C - Restructuring and Severance

The following table is a summary of restructuring and severance charges for the three and nine months ended August 31, 2018 and 2017, respectively:

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|                                         | Three<br>Months<br>Ended<br>August<br>31,<br>2018 | Three<br>Months<br>Ended<br>August<br>31,<br>2017 | Nine<br>Months<br>Ended<br>August<br>31,<br>2018 | Nine<br>Months<br>Ended<br>August<br>31,<br>2017 |
|-----------------------------------------|---------------------------------------------------|---------------------------------------------------|--------------------------------------------------|--------------------------------------------------|
| (Dollars in Millions)                   |                                                   |                                                   |                                                  |                                                  |
| Severance Expense:                      |                                                   |                                                   |                                                  |                                                  |
| Specialty Solutions                     | \$—                                               | \$ —                                              | \$ .7                                            | \$ .6                                            |
| Performance Materials                   | .4                                                | .3                                                | .4                                               | 1.7                                              |
| Corporate                               | —                                                 | —                                                 | .7                                               | 2.6                                              |
| Total Severance Costs                   | \$ .4                                             | \$ .3                                             | \$ 1.8                                           | \$ 4.9                                           |
| Facility Closure Costs:                 |                                                   |                                                   |                                                  |                                                  |
| Specialty Solutions                     | \$—                                               | \$ —                                              | \$—                                              | \$—                                              |
| Performance Materials                   | —                                                 | .1                                                | —                                                | .2                                               |
| Total Facility Closure Costs            | \$—                                               | \$ .1                                             | \$—                                              | \$ .2                                            |
| Total Restructuring and Severance Costs | \$ .4                                             | \$ .4                                             | \$ 1.8                                           | \$ 5.1                                           |

## 2018 Restructuring Plan

During the third quarter of fiscal 2018, the Company announced its plan to close its styrene butadiene manufacturing facility in Green Bay, Wisconsin, moving production to its Mogadore, Ohio facility. The Company incurred \$0.4 million of restructuring and severance expenses in the third quarter of 2018 related to this plan. Total estimated restructuring and severance costs for this plan are expected to be between \$5.0 million to \$8.0 million. There have been no payments made as of August 31, 2018 for this plan. The plan is expected to be completed no later than the third quarter of 2019.

## 2017 Restructuring Plan

The Company incurred \$1.4 million of restructuring and severance expenses in the first nine months of 2018 related to the One OMNOVA initiative announced during the first quarter of 2017. This initiative is focused on improving functional excellence in marketing, sales, operations, supply chain and technology, as well as various corporate functions. The plan is designed to reduce complexity and drive consistency across the global enterprise through a standardized, integrated business system. Total estimated costs for this initiative are expected to be between \$5.0 million to \$7.0 million. Total expense incurred to date for this initiative is \$4.9 million, of which \$4.7 million has been paid as of August 31, 2018 and the remainder is expected to be incurred and paid by the end of 2018.

## 2016 Restructuring Plan

The Company initiated restructuring and severance activities in 2016 including continued cost reduction and efficiency improvement actions, as well as a change in the Company's CEO. As of August 31, 2018, \$8.9 million of restructuring and severance expenses has been incurred for this plan, all of which has been paid, and the plan is considered complete.

The following tables summarize the Company's liabilities related to restructuring and severance activities:

|                       | November 30,<br>2018 | August 31,<br>2017 |
|-----------------------|----------------------|--------------------|
| Provisions            | \$ 3.4               | \$ .6              |
| (Dollars in millions) |                      |                    |
| Total                 | \$ 3.4               | \$ .6              |

The Company may incur future costs related to its restructuring activities, as processes are continually evaluated to enhance the efficiency and cost effectiveness of its operations, and to ensure competitiveness across its businesses and across geographic areas. Future costs could include costs related to closed facilities and restructuring plan implementation costs and these will be recognized as incurred.

Note D – Income Taxes

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On December 22, 2017, U.S. federal tax legislation, commonly referred to as the Tax Cuts and Job Act (the “Tax Act”) was signed into law. The Securities and Exchange Commission Staff Accounting Bulletin No.118 (“SAB 118”), provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740, Income Taxes. In accordance with SAB 118 guidance, the Company estimated certain effects of the Tax Act and have recorded a provisional net tax benefit of approximately \$5.0 million related to the reduction of the U.S. federal corporate income tax rate and repeal of the Alternative Minimum Tax (“AMT”). These provisional amounts were recorded as discrete items in the first quarter 2018. Under SAB 118 guidance, the Company has adjusted its estimate related to the transition tax and now estimates minimal to zero income inclusion related to foreign earnings on which U.S. income taxes were previously deferred. The Company intends to utilize existing net operating loss carryforwards to offset any income inclusion, and therefore does not expect to pay cash taxes related to the transition tax. While the Company was able to make reasonable estimates of the items above, the ultimate impact may differ from these provisional amounts due to additional analysis, changes in interpretations and assumptions, additional regulatory guidance that may be issued and actions we may take as a result of the Tax Act. Adjustments to the provisional amounts recorded by the Company that are identified within a subsequent measurement period of up to one year from the enactment date will be included as an adjustment to income tax expense in the period the amounts are determined.

For each interim reporting period, the Company makes an estimate of the effective tax rate it expects to be applicable to the full fiscal year for its operations, adjusted each quarter for discrete items. This estimated effective tax rate is used in recording income taxes on a year-to-date basis. The Company recorded income tax expense of \$2.3 million and \$6.1 million for the three months ended August 31, 2018 and 2017, respectively, and an income tax benefit of \$0.3 million and income tax expense of \$7.0 million for the nine months ended August 31, 2018 and 2017, respectively. The Company’s effective tax rate for the third quarters of both 2018 and 2017 were different than the U.S. federal statutory tax rate primarily due to losses in jurisdictions in which no tax benefit was recognized. The Company’s effective tax rate for the first nine months of 2018 was different than its U.S. federal statutory rate primarily due to discrete items related to the Tax Act that were recorded in the first quarter of 2018. These items included a \$4.1 million income tax benefit related to the re-measurement of the U.S. deferred taxes as the U.S. federal tax rate was reduced from 35.0% to 21.0% and a \$0.9 million income tax benefit associated with the reversal of the valuation allowance against the existing AMT credit carryforward as it is refundable under the Tax Act. In addition, during the first quarter of 2018, the Company recognized a \$0.8 million income tax benefit related to the impact of a French tax rate change on the Company’s deferred tax liabilities. Based on recently enacted French tax legislation during the first quarter of 2018, the French tax rate will be reduced to 25.0% beginning in 2022 and the Company’s deferred tax liabilities were reduced to appropriately reflect this legislation as a current period tax benefit. These discrete tax benefits were partially offset by losses in jurisdictions in which no tax benefit was recognized. The Company’s effective tax rate for the first nine months of 2017 was different than its U.S. federal statutory rate primarily due to a foreign impairment for which no tax benefit was recognized.

As of November 30, 2017, the Company had \$91.3 million of U.S. federal net operating loss carryforwards (NOLCs), \$8.6 million of U.S. federal capital loss carryforwards, and \$86.8 million of state net operating loss carryforwards. As a result, cash tax payments in the U.S. are expected to be minimal for the foreseeable future. The Company utilized approximately \$7.6 million and \$15.6 million of federal net operating loss carryforward for the years ended November 30, 2017 and 2016, respectively. If not utilized, the majority of the federal, state and local NOLCs will otherwise expire in tax years 2023 through 2034 and the capital loss will expire beginning in tax year 2022. The Company has a valuation allowance against the U.S. federal and state NOLCs and the U.S. federal capital loss carryforward. As of November 30, 2017, the Company had approximately \$45.0 million of foreign NOLC's of which \$34.1 million have an indefinite carryforward period. The Company has a valuation allowance against the \$34.1 million foreign NOLC's which have an indefinite carryforward period as the Company does not anticipate utilizing these carryforwards. The Company operates in numerous taxing jurisdictions and is subject to regular examinations by various United States federal, state and local tax authorities, as well as by authorities in non-United States jurisdictions. With limited exceptions, the Company is no longer open to audit by the Internal Revenue Service and various states and foreign taxing jurisdictions for years prior to 2013.

Note E – Earnings (Loss) Per Share

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The following table sets forth the computation of earnings per common share and fully diluted earnings (loss) per common share:

|                                                                                                               | Three<br>Months<br>Ended<br>August 31,<br>2018          | Nine<br>Months<br>Ended<br>August 31,<br>2017 | Three<br>Months<br>Ended<br>August 31,<br>2018 | Nine<br>Months<br>Ended<br>August 31,<br>2017 |
|---------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|-----------------------------------------------|------------------------------------------------|-----------------------------------------------|
|                                                                                                               | (Dollars and shares in millions, except per share data) |                                               |                                                |                                               |
| Numerator                                                                                                     |                                                         |                                               |                                                |                                               |
| Net income (loss)                                                                                             | \$(1.9)                                                 | \$7.9                                         | \$13.7                                         | \$5.1                                         |
| Denominator                                                                                                   |                                                         |                                               |                                                |                                               |
| Denominator for basic earnings (loss) per share - weighted average shares outstanding                         | 44.5                                                    | 44.4                                          | 44.6                                           | 44.3                                          |
| Effect of dilutive securities                                                                                 | —                                                       | .3                                            | .2                                             | .4                                            |
| Denominator for dilutive earnings (loss) per share - adjusted weighted average shares and assumed conversions | 44.5                                                    | 44.7                                          | 44.8                                           | 44.7                                          |
| Net income (loss) per share - Basic                                                                           | \$(.04)                                                 | \$ .18                                        | \$ .31                                         | \$ .12                                        |
| Net income (loss) per share - Diluted                                                                         | \$(.04)                                                 | \$ .18                                        | \$ .31                                         | \$ .11                                        |

Anti-dilutive share equivalents related to share-based incentive compensation are excluded from the computation of dilutive weighted-average shares and were not material for all periods presented.

#### Note F – Accumulated Other Comprehensive Income (Loss)

The following tables reflect the changes in the components of accumulated other comprehensive income (loss), net of tax, for the three and nine months ended August 31, 2018 and 2017, respectively:

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| Three months ended August 31, 2018 and 2017                | Foreign<br>Currency<br>Items | Defined<br>Benefit<br>Plans | Accumulated<br>Other<br>Comprehensive<br>(Income) Loss |
|------------------------------------------------------------|------------------------------|-----------------------------|--------------------------------------------------------|
|                                                            | (Dollars in millions)        |                             |                                                        |
| Balance May 31, 2018                                       | \$(22.5)                     | \$(100.0)                   | \$ (122.5 )                                            |
| Other comprehensive income (loss) before reclassifications | (5.5 )                       | —                           | (5.5 )                                                 |
| Amounts reclassified to earnings <sup>(a)</sup>            | —                            | 1.2                         | 1.2                                                    |
| Balance August 31, 2018                                    | \$(28.0)                     | \$(98.8 )                   | \$ (126.8 )                                            |

|                                                            | Foreign<br>Currency<br>Items | Defined<br>Benefit<br>Plans | Accumulated<br>Other<br>Comprehensive<br>(Income) Loss |
|------------------------------------------------------------|------------------------------|-----------------------------|--------------------------------------------------------|
|                                                            | (Dollars in millions)        |                             |                                                        |
| Balance May 31, 2017                                       | \$(24.0)                     | \$(107.8)                   | \$ (131.8 )                                            |
| Other comprehensive income (loss) before reclassifications | 7.3                          | (.2 )                       | 7.1                                                    |
| Amounts reclassified to earnings <sup>(a)</sup>            | (6.3 )                       | .9                          | (5.4 )                                                 |
| Balance August 31, 2017                                    | \$(23.0)                     | \$(107.1)                   | \$ (130.1 )                                            |

| Nine months ended August 31, 2018 and 2017                 | Foreign<br>Currency<br>Items | Defined<br>Benefit<br>Plans | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|------------------------------------------------------------|------------------------------|-----------------------------|--------------------------------------------------------|
|                                                            | (Dollars in millions)        |                             |                                                        |
| Balance November 30, 2017                                  | \$(23.1)                     | \$(102.2)                   | \$ (125.3 )                                            |
| Other comprehensive income (loss) before reclassifications | (4.9 )                       | —                           | (4.9 )                                                 |
| Amounts reclassified to earnings <sup>(a)</sup>            | —                            | 3.4                         | 3.4                                                    |
| Balance August 31, 2018                                    | \$(28.0)                     | \$(98.8 )                   | \$ (126.8 )                                            |

|                                                            | Foreign<br>Currency<br>Items | Defined<br>Benefit<br>Plans | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|------------------------------------------------------------|------------------------------|-----------------------------|--------------------------------------------------------|
|                                                            | (Dollars in millions)        |                             |                                                        |
| Balance November 30, 2016                                  | \$(29.5)                     | \$(108.9)                   | \$ (138.4 )                                            |
| Other comprehensive income (loss) before reclassifications | 12.8                         | (.2 )                       | 12.6                                                   |
| Amounts reclassified to earnings <sup>(a)</sup>            | (6.3 )                       | 2.0                         | (4.3 )                                                 |
| Balance August 31, 2017                                    | \$(23.0)                     | \$(107.1)                   | \$ (130.1 )                                            |

<sup>(a)</sup> Amounts reclassified from accumulated other comprehensive income (loss) related to defined benefit plans were included in net periodic benefit expense.

#### Note G – Inventories

Inventories are stated at lower of cost or net realizable value. Certain U.S. inventories are valued using the last-in, first-out (“LIFO”) method and represented approximately \$50.4 million, or 49.2%, and \$50.7 million, or 52.1%, of gross inventories at August 31, 2018 and November 30, 2017, respectively. The remaining portion of inventories, which are primarily located outside of the U.S., are valued using costing methods that approximate the first-in, first-out (“FIFO”)

or average cost methods. Interim LIFO calculations are based on management's estimates of expected year-end inventory levels and costs and are subject to final year-end LIFO inventory valuations. Inventory costs include material, labor, and overhead. Inventories, net, consisted of the following:

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|                            | August 31, 2018       | November 30, 2017 |
|----------------------------|-----------------------|-------------------|
|                            | (Dollars in Millions) |                   |
| Raw materials and supplies | \$34.8                | \$ 30.6           |
| Work-in-process            | 5.2                   | 4.5               |
| Finished goods             | 62.5                  | 62.1              |
| Inventories, gross         | 102.5                 | 97.2              |
| LIFO reserve               | (17.5 )               | (14.3 )           |
| Obsolescence reserve       | (7.3 )                | (6.4 )            |
| Inventories, net           | \$77.7                | \$ 76.5           |

## Note H – Debt and Credit Lines

Debt obligations due within the next twelve months consist of the following:

|                                                                                         | August 31, 2018       | November 30, 2017 |
|-----------------------------------------------------------------------------------------|-----------------------|-------------------|
|                                                                                         | (Dollars in Millions) |                   |
| \$350 million Term Loan B – current portion (interest at 5.33% and 5.49%, respectively) | \$3.5                 | \$ 3.5            |
| Capital lease obligations                                                               | .7                    | .7                |
| Total                                                                                   | \$4.2                 | \$ 4.2            |

The Company's long-term debt consists of the following:

|                                              | August 31, 2018       | November 30, 2017 |
|----------------------------------------------|-----------------------|-------------------|
|                                              | (Dollars in millions) |                   |
| \$350 million Term Loan B                    | \$303.0               | \$ 345.6          |
| Capital lease obligations                    | 15.8                  | 16.2              |
| Gross debt                                   | 318.8                 | 361.8             |
| Less: current portion                        | (4.2 )                | (4.2 )            |
| Unamortized original issue discount          | (2.2 )                | (2.8 )            |
| Debt issuance costs                          | (5.0 )                | (5.0 )            |
| Total long-term debt, net of current portion | \$307.4               | \$ 349.8          |

The Company's U.S. debt facilities include a \$350.0 million Term Loan B ("Term Loan B") and a Senior Revolving Credit Facility ("Facility").

The weighted-average interest rate on the Company's debt was 5.27% and 5.38% during the third quarters of 2018 and 2017, respectively.

## Term Loan

The Company's Term Loan B matures on August 26, 2023 and is primarily secured by all real property, plant, and equipment of the Company's U.S. facilities and fully and unconditionally and jointly and severally guaranteed by the material U.S. subsidiaries of the Company. The Term Loan B contains affirmative and negative covenants, including a requirement to maintain a net debt leverage ratio of 5.0 to 1.0, limitations on additional debt, certain investments, and acquisitions outside of the Company's line of business. The Company is in compliance with term loan covenants as of August 31, 2018.

On March 2, 2018, the Company amended its Term Loan B Agreement. Primarily, the Term Loan Amendment (1) reduces the margins for borrowings under the Term Loan Agreement by 100 basis points to 3.25% for Eurodollar rate loans and 2.25% for base rate loans and (2) permits the Company to request additional term loans or incremental equivalent debt borrowings (the "Additional Term Loans") in a maximum aggregate amount equal to the greater of (a) \$120.0 million (an increase from \$85.0 million previously) and (b) an aggregate principal amount such that, on a pro forma basis (giving effect to any Additional Term Loans), the Company's senior secured net debt leverage ratio will not exceed 4.0 to 1.0.

Senior Revolving Credit Facility

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The Company also maintains a Senior Revolving Credit Facility (the "Facility") which matures on August 26, 2021. The Facility is secured by U.S. accounts receivable, inventory and intangible assets. The Facility contains affirmative and negative covenants, similar to the Term Loan B, including limitations on additional debt, certain investments and acquisitions outside of the Company's line of business. If the average excess availability of the Facility falls below \$25.0 million during any fiscal quarter, the Company must then maintain a fixed charge coverage ratio greater than 1.1 to 1.0 as defined in the agreement. The Company was in compliance with this requirement at August 31, 2018. At August 31, 2018 there were no amounts borrowed under the Facility and the amount available for borrowing under the Facility was \$73.2 million.

**Eurodollar Revolving Loan**

On May 31, 2018, the Company established a €16.0 million Eurodollar Revolving Loan ("Revolver") to provide additional liquidity and working capital flexibility in Europe. The terms of the Revolver are similar to the Company's U.S. Facility, including the maturity date of August 26, 2021. This facility contains a €9.0 million expansion feature the Company may exercise in the future to gain additional liquidity should secured collateral of accounts receivable increase. At August 31, 2018 there were no amounts borrowed under the Revolver and the amount available for borrowing under the Revolver was €15.7 million.

**Other Debt**

The Company maintains borrowing facilities at certain of its foreign subsidiaries, which consist of working capital credit lines and facilities for the issuance of letters of credit. Total borrowing capacity for foreign working capital credit lines and letters of credit facilities was \$7.1 million and \$7.0 million as of August 31, 2018 and November 30, 2017, respectively. These letters of credit support commitments made in the ordinary course of business.

**Capital Lease Obligations**

At August 31, 2018, the Company had net assets under capital leases totaling \$15.1 million, which are included in property, plant, and equipment in the accompanying Consolidated Balance Sheets.

The following is a schedule by year of future minimum lease payments under the Company's capital lease together with the present value of the net future minimum lease payments as of August 31, 2018:

| Year Ending November 30:                            | (Dollars<br>in<br>millions) |
|-----------------------------------------------------|-----------------------------|
| 2018                                                | \$ .4                       |
| 2019                                                | 1.5                         |
| 2020                                                | 1.5                         |
| 2021                                                | 1.4                         |
| 2022                                                | 1.4                         |
| Thereafter                                          | 16.6                        |
| Total minimum lease payments                        | 22.8                        |
| Less: Amount representing estimated executory costs | (.5 )                       |
| Net minimum lease payments                          | 22.3                        |
| Less: Amount representing interest                  | (6.5 )                      |
| Present value of minimum lease payments             | \$ 15.8                     |

**Debt Issuance Costs and Original Issue Discounts**

Debt issuance costs and original issue discounts incurred in connection with the issuance of the Company's debt are being amortized over the respective terms of the underlying debt, including any amendments. Total amortization expense of debt issuance costs and original issue discounts is included as a component of interest expense and was \$0.4 million for both the three months ended August 31, 2018 and 2017, and \$1.0 million and \$1.1 million for the nine months ended August 31, 2018 and 2017, respectively.

During the first quarter ended February 28, 2018, the Company made a \$40.0 million prepayment and determined that this constituted a partial extinguishment of debt and as such, wrote-off \$0.8 million of debt issuance costs and original

issue discounts.

On March 2, 2018, the Company amended its Term Loan B Agreement and incurred \$1.0 million of additional deferred financing fees which are being amortized over the remaining term of the loan.

Note I – Share-Based Employee Compensation

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The Company provides compensation benefits to employees under the OMNOVA Solutions 2017 Equity Incentive Plan (the "Plan"), which was approved by shareholders on March 22, 2017. The Plan permits the Company to grant to officers, key employees and non-employee directors of the Company incentives directly linked to the price of OMNOVA Solutions' common shares. The Plan authorizes the issuance of Company common shares in the aggregate for (a) awards of options rights to purchase Company common shares, (b) performance shares and performance units, (c) restricted shares, (d) restricted share units, or (e) appreciation rights. Shares granted under the Plan may be either newly issued shares or treasury shares or both. As of August 31, 2018, approximately 1.9 million Company common shares remained available for grants under the Plan. All options granted under the Plan are granted at exercise prices equal to the market value of the Company's common shares on the date of grant. Additionally, the Plan provides that the term of any option granted under the Plan may not exceed 10 years. Prior to March 22, 2017, the Company granted equity compensation under the OMNOVA Solutions Third Amended and Restated 1999 Equity and Performance Incentive Plan, which had substantially similar features.

During the nine months ended August 31, 2018, the Company granted Performance Share Units ("PSU's") to its executive officers. The PSU's provide recipients the right to receive the Company's common shares if specified performance goals, including a performance goal relative to peers, are met over a three fiscal year measurement period. Each grantee receives a target grant of PSU's, but may earn between 0% and 160% (or in the case of the Company's Chief Executive Officer, between 0% and 200%) of the target grant depending on the Company's performance against the stated performance goals.

Share-based compensation is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the requisite service period (generally the vesting period). The fair value of Restricted Share Awards ("RSA's"), Restricted Share Units ("RSU's"), and PSU's are determined based on the closing market price of the Company's ordinary shares at the date of grant. RSU's entitle the holder to receive one ordinary share for each RSU at vesting, generally over a three year period from the date of grant. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by employees who receive equity awards, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by the Company.

Compensation expense for all share-based payments included in general and administrative expense was \$2.1 million and \$1.6 million for the first nine months of 2018 and 2017 respectively.

As of August 31, 2018, there was \$4.1 million of unrecognized compensation cost related to non-vested share-based compensation arrangements.

A summary of the RSA, RSU and PSU activity for 2018 follows:

|                               | Share<br>Awards<br>& Units | Weighted-Average<br>Grant Date Fair<br>Value per Share |
|-------------------------------|----------------------------|--------------------------------------------------------|
| Nonvested at December 1, 2017 | 567,600                    | \$ 7.08                                                |
| Granted                       | 353,100                    | \$ 10.46                                               |
| Vested                        | (193,350)                  | \$ 7.32                                                |
| Canceled and Forfeited        | (27,918 )                  | \$ 7.32                                                |
| Nonvested at August 31, 2018  | 699,432                    | \$ 8.79                                                |

The Company also provides eligible employees the opportunity to purchase Company common shares through payroll deductions under the OMNOVA Solutions Employee Share Purchase Plan (the "ESPP"). The purchase price for common shares purchased from the Company will be 85% of the closing price of the common shares on the New York Stock Exchange ("NYSE") on the investment date. Participants may contribute funds to the ESPP, not to exceed twenty-five thousand dollars in any calendar year. If a participant terminates his or her employment with the Company or its subsidiaries, the participant's participation will immediately terminate, uninvested funds will be remitted to the participant and the participant's account will be converted to a regular brokerage account. As of August 31, 2018, there were approximately 25,000 shares held by eligible participants through the ESPP.

Note J – Employee Benefit Plans

The Company maintains a number of defined benefit and defined contribution plans to provide retirement benefits for employees. These plans are maintained and contributions are made in accordance with the Employee Retirement Income Security Act of 1974 ("ERISA"), local statutory law, or as determined by the Board of Directors. The plans generally provide benefits based upon years of service and compensation. Pension plans are funded except for a U.S. non-qualified pension plan for certain key employees and certain foreign plans. Future service benefits are frozen for all participants under the Company's U.S. defined benefit plan. All benefits earned by affected employees through the dates on which such benefits were frozen have

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become fully vested with the affected employees eligible to receive benefits upon retirement, as described in the Plan document.

Net periodic benefit cost (income) consisted of the following for the three and nine month periods ending August 31, 2018 and 2017:

|                                             | Pension<br>Plans      |        | Health Care<br>Plans |          |
|---------------------------------------------|-----------------------|--------|----------------------|----------|
|                                             | (Dollars in millions) |        |                      |          |
| Three months ended August 31, 2018 and 2017 | 2018                  | 2017   | 2018                 | 2017     |
| Service costs                               | \$ .6                 | \$ .7  | \$ —                 | \$ —     |
| Interest costs                              | 2.2                   | 2.3    | .1                   | .1       |
| Expected return on plan assets              | (3.9 )                | (3.8 ) | —                    | —        |
| Amortization of net actuarial (gain) loss   | 1.4                   | 1.2    | (.2 )                | (.3 )    |
| Settlement loss                             | —                     | .4     | —                    | —        |
| Net periodic cost (benefit)                 | \$ .3                 | \$ .8  | \$ (.1 )             | \$ (.2 ) |

|                                            | Pension Plans         |        | Health Care Plans |         |
|--------------------------------------------|-----------------------|--------|-------------------|---------|
|                                            | (Dollars in millions) |        |                   |         |
| Nine Months Ended August 31, 2018 and 2017 | 2018                  | 2017   | 2018              | 2017    |
| Service costs                              | \$1.9                 | \$2.1  | \$—               | \$—     |
| Interest costs                             | 6.7                   | 6.9    | .2                | .3      |
| Expected return on plan assets             | (11.7)                | (11.4) | —                 | —       |
| Amortization of net actuarial (gain) loss  | 4.1                   | 3.5    | (.7 )             | (.9 )   |
| Settlement loss                            | —                     | .4     | —                 | —       |
| Net periodic cost (benefit)                | \$1.0                 | \$1.5  | \$(.5 )           | \$(.6 ) |

The Company made approximately \$6.0 million of contributions to its pension plan trusts during the first nine months of fiscal 2018 and expects full year contributions of approximately \$6.4 million for fiscal 2018.

The Company also sponsors a defined contribution 401(k) plan. Participation in this plan is voluntary and is available to substantially all U.S. salaried employees and to certain groups of U.S. hourly employees. Company contributions to this plan are based on either a percentage of employee contributions or on a specified amount per hour based on the provisions of the applicable collective bargaining agreement. Company contributions are made in cash. Expense for this plan was \$0.7 million and \$0.6 million for the third quarter of 2018 and 2017, respectively, and \$2.1 million and \$2.2 million for the first nine months of 2018 and 2017, respectively.

#### Note K – Contingencies

From time to time, the Company is subject to various claims, proceedings, and lawsuits related to products, services, contracts, employment, environmental, safety, intellectual property, and other matters. The ultimate resolution of such claims, proceedings, and lawsuits is inherently unpredictable and, as a result, the Company's estimates of liability, if any, are subject to change. Actual results may materially differ from the Company's estimates and an unfavorable resolution of any matter could have a material adverse effect on the financial condition, results of operations, and/or cash flows of the Company. However, subject to the above and taking into account such amounts, if any, as are accrued from time to time on the Company's balance sheet, the Company does not believe, based on the information currently available to it, that the ultimate resolution of these matters will have a material effect on the consolidated financial condition, results of operations or cash flows of the Company.

#### Note L – Business Segment Information

The Company's two operating segments were determined based on products and services provided as defined under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 280, Segment Reporting. Accounting policies of the segments are the same as the Company's accounting policies. The Company's operating segments are strategic business units that offer different products and services. They are managed separately

based on certain differences in their operations, technology, and marketing strategies.

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Segment operating profit represents net sales less applicable costs, expenses and provisions for restructuring and severance costs, asset write-offs and work stoppage costs relating to operations. However, Management excludes restructuring and severance costs, asset write-offs and work stoppage costs when evaluating the results and allocating resources to the segments.

The following table sets forth a summary of operations by segment and a reconciliation of segment sales to consolidated sales and segment operating profit to consolidated income (loss) before income taxes:

|                                   | Three Months<br>Ended August<br>31,<br>2018 |         | Nine Months<br>Ended August<br>31,<br>2018 |         |
|-----------------------------------|---------------------------------------------|---------|--------------------------------------------|---------|
|                                   | 2017                                        |         | 2018                                       | 2017    |
| (Dollars in Millions)             |                                             |         |                                            |         |
| Net Sales:                        |                                             |         |                                            |         |
| Specialty Solutions               | \$122.1                                     | \$115.1 | \$360.0                                    | \$330.3 |
| Performance Materials             | 71.5                                        | 85.8    | 218.5                                      | 266.5   |
| Total Net Sales                   | \$193.6                                     | \$200.9 | \$578.5                                    | \$596.8 |
| Segment Operating Profit:         |                                             |         |                                            |         |
| Specialty Solutions               | \$19.5                                      | \$18.9  | \$55.0                                     | \$45.6  |
| Performance Materials             | (7.9)                                       | 8.3     | (5.6)                                      | 5.8     |
| Total segment operating profit    | 11.6                                        | 27.2    | 49.4                                       | 51.4    |
| Interest expense                  | (4.7)                                       | (5.5)   | (14.4)                                     | (16.0)  |
| Corporate expenses                | (6.5)                                       | (7.7)   | (21.6)                                     | (23.3)  |
| Income (Loss) Before Income Taxes | \$4                                         | \$14.0  | \$13.4                                     | \$12.1  |

## Note M - Asset Impairment

On June 25, 2018, the Company's Board of Directors approved a plan close the Green Bay, Wisconsin plant shifting styrene butadiene manufacturing to its production plant in Mogadore, Ohio. The Company expects to complete the plant closure during the third quarter of 2019. As a result, the Company determined that certain plant and equipment were impaired and recognized an impairment charge of \$9.2 million, primarily in the Performance Materials segment, to write-down the asset group to fair value based on the market approach analysis. The asset groups' remaining fair value of \$2.5 million will be depreciated over the remaining estimated useful life of one year, which will be included in the Performance Materials segment operating results.

In May of 2017, Management approved a plan for the Company to sell its China coated fabrics manufacturing operations. As a result, the Company determined that the disposal group was impaired and recognized an impairment charge of \$12.9 million, which is included in the results of the Performance Materials segment. Included in the impairment charge is the recognition of deferred foreign currency translation gains of \$6.1 million, which was previously recorded in accumulated other comprehensive income (loss) ("AOCI"). The Company continues to manufacture and sell coated fabric products in the Asian region. Management considered other qualitative and quantitative factors and concluded this did not represent a strategic shift in business.

## Note N - Subsequent Events

On September 25, 2018, the Company completed the acquisition of Resiquimica S.A. and certain related entities ("Resiquimica") from Socer - Imobiliária e Investimentos, S.A. Resiquimica is a Portugal-based producer of polymers and resins for coatings and construction applications in Europe, Middle East and Africa ("EMEA"). Resiquimica, with approximately €56.0 million in annual sales, brings new technology, expanded product portfolio and a manufacturing base in Sintra, Portugal, which will provide production flexibility in the EMEA region. The total purchase price for Resiquimica was €22.4 million, net of cash received and debt assumed, which will be funded with cash on hand. The

purchase price will be preliminarily allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition and is subject to change as we complete our analysis of their fair values during the measurement period not to exceed one year as permitted under FASB ASC 805, Business Combinations. Due to the transaction closing subsequent to our August 31, 2018 balance sheet date, we will complete the preliminary purchase price allocation and disclose it in the 2018 Annual Report on Form 10-K. Resiquimica's results will be included within the Specialty Solutions segment. The purchase price is subject to a working capital adjustment.

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On September 25, 2018, the Company's Board of Directors authorized the repurchase of up to \$20.0 million of the Company's common stock. The Company may use various methods to make the repurchases, including open market repurchases, negotiated block transactions, or open market solicitations for shares, all or some of which may be effected through Rule 10b5-1 plans. The timing of repurchases will depend upon several factors including market and business conditions, and repurchases may be discontinued at any time.

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

### Overview

The Company has two operating segments: one focused on its specialty businesses and one focused on the Company's more mature businesses. Product lines are grouped within these segments because they share similar end market characteristics and executional strategies.

**Specialty Solutions** – The Specialty Solutions segment develops, designs, produces, and markets a broad line of specialty polymers for use in coatings, adhesives, sealants, elastomers, nonwovens, and oil & gas products, as well as laminates and films. These products are used in numerous applications, including architectural and industrial coatings; nonwovens used in hygiene products, filtration and construction; drilling additives for oil and gas exploration and production; elastomeric modification of plastic casings and hoses used in household and industrial products and automobiles; tapes and adhesives; sports surfaces; textile finishes; commercial building refurbishment; new construction; residential cabinets; flooring; ceiling tile; furnishings; manufactured housing; health care patient and common area furniture; and a variety of industrial films applications. The segment's products are functional ingredients or compounds that improve the performance of customers' products, including stain, rust and aging resistance; surface modification; gloss; softness or hardness; dimensional stability; high heat and pressure tolerance; and binding and barrier (e.g. moisture, oil) properties.

The Specialty Solutions segment consists of Specialty Coatings & Ingredients, Oil & Gas, and Laminates & Films. The Specialty Coatings & Ingredients business line encompasses products that have applications for specialty coatings, nonwovens (such as disposable hygiene products, engine filters, roofing mat, and scrub pads), construction, adhesives, sealants, tape, floor care, textiles, graphic arts, and various other specialty applications. Oil & Gas applications include drilling fluid additives, which provide fluid loss control and sealing to enhance wellbore integrity, as well as cement additives for gas migration and fluid loss. The Laminates & Films product line applications include kitchen and bath cabinets, wall surfacing, manufactured housing and recreational vehicle interiors, flooring, commercial and residential furniture, retail display fixtures, home furnishings, commercial appliances, and a variety of industrial film applications.

**Performance Materials** – The Performance Materials segment serves mature markets with a broad range of emulsion polymers based primarily on styrene butadiene (SB), styrene butadiene acrylonitrile (SBA), styrene butadiene vinyl pyridine, high styrene pigments, polyvinyl acetate, acrylic, styrene acrylic, calcium stearate, glyoxal, and bio-based chemistries. Performance Materials' custom-formulated products are tailored latexes, resins, binders, antioxidants, hollow plastic pigment, coated fabrics, and rubber reinforcing which are used in tire cord, polymer stabilization, industrial rubbers, carpet binders, paper coatings, and various other applications. Its products provide a variety of functional properties to enhance the Company's customers' products, including greater strength, adhesion, dimensional stability, ultraviolet resistance, improved processibility, and enhanced appearance.

The Performance Materials segment encompasses performance additives, paper coatings, carpet binders, and coated fabrics. This segment includes products that have applications in the paper coatings, paperboard, carpet binders, polymer stabilization, industrial rubbers, and tire cord industries. Paper and paperboard coatings are used in magazines, catalogs, direct mail advertising, brochures, printed reports, food cartons, household, and other consumer and industrial packaging. Carpet binders are used to secure carpet fibers to carpet backing and meet stringent manufacturing, environmental, odor, flammability, and flexible installation requirements. Tire cord is used in automotive tires. The Coated Fabrics product line applications include upholstery used in refurbishment and new construction for the commercial office, hospitality, health care, retail, education and restaurant markets, marine and

transportation seating, commercial and residential furniture, automotive soft tops, and automotive after-market applications.

The Company primarily sells its products directly to manufacturers, and has manufacturing facilities in the United States, France, China, and Thailand. For additional information about the Company's business (other than the description of the Company's reporting segments), please refer to Item 1 Business of the Company's 2017 Annual Report on Form 10-K.

The Company has historically experienced stronger sales and income in its second, third, and fourth quarters, comprised of the three-month periods ending May 31, August 31, and November 30. Performance in the first quarter (December through February) has historically been affected by generally lower levels of customer manufacturing, construction, and refurbishment activities during the holidays and cold weather months.

The Company's chief operating decision maker ("CODM"), its CEO, evaluates performance and allocates resources by operating segment. Segment information has been prepared in accordance with authoritative guidance promulgated by the Financial Accounting Standards Board ("FASB"). The Company's two operating segments were determined based on the products and services provided. Accounting policies of the segments are the same as those described in Note A of the Company's Unaudited Interim Consolidated Financial Statements. For a reconciliation of the Company's segment operating

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performance information, please refer to the Business Segment Information footnote of the Company's Unaudited Interim Consolidated Financial Statements.

## Raw Materials

A majority of the Company's raw materials are derived from petrochemicals and chemical feedstocks, where prices can be cyclical and volatile. Styrene, a key raw material component, is generally available worldwide, and OMNOVA has supply contracts with several producers. OMNOVA believes there is adequate global capacity to serve demand. OMNOVA's styrene purchases for 2017 and estimated purchases for 2018 and an estimated range of market prices are as follows:

|                  | Pounds Purchased<br>(in Millions) | Market Price Range<br>Per Pound |
|------------------|-----------------------------------|---------------------------------|
| 2018 (estimated) | 112                               | \$0.55 - \$0.70                 |
| 2017             | 129                               | \$0.48 - \$0.72                 |

Butadiene, a key raw material component, is generally available worldwide. OMNOVA has supply contracts with several producers. At times, when the demand of butadiene exceeds supply, it is sold on an allocated basis.

OMNOVA's butadiene purchases for 2017 and estimated purchases for 2018 and an estimated range of market prices are as follows:

|                  | Pounds Purchased<br>(in Millions) | Market Price Range<br>Per Pound |
|------------------|-----------------------------------|---------------------------------|
| 2018 (estimated) | 88                                | \$0.36 - \$0.86                 |
| 2017             | 103                               | \$0.39 - \$1.42                 |

OMNOVA had sales price index contracts related to approximately 25% of its sales in the first nine months of 2018. These contract indexes are generally comprised of several components: a negotiated fixed amount per pound, and the market price of key raw materials (i.e., styrene and butadiene). The indexed contracts provide that OMNOVA will pass-through the increases or decreases of key raw materials, generally within a 30 to 60 day period. Indexed contracts vary in length, generally from 12 to 36 months.

The majority of OMNOVA's customers do not maintain indexed contracts. Instead, the Company negotiates pricing with each customer based on the cost of the raw material components of the products being purchased and the value-added performance attributes of those products. The Company's pricing objective, which may or may not be met, is to recover raw material price increases for these non-indexed contracts within three months.

## Key Indicators

Key economic measures relevant to the Company include global economic growth rates, discretionary spending for durable goods, oil and gas consumption and drilling levels, U.S. commercial real estate occupancy rates, U.S. office furniture sales, manufactured housing shipments (including recreational vehicles), housing starts and sales of existing homes, and forecasts of raw material pricing for certain petrochemical feed stocks. Key Original Equipment Manufacturer ("OEM") industries, which provide a general indication of demand drivers to the Company, include commercial and residential construction and refurbishment, automotive and tire production, furniture, flooring, and ABS manufacturing. These measures provide general information on trends relevant to the demand for the Company's products, but the trend information does not necessarily directly correlate with demand levels in the markets which ultimately use the Company's products in part because the Company's market share is relatively small in a number of specialty markets.

Key operating measures utilized by the business segments include: orders; sales and pricing; working capital days; inventory; productivity; plant utilization; new product vitality; cost of quality; order fill-rates, which provide key indicators of business trends; and safety and other internal metrics. These measures are reported on various cycles

including daily, weekly and monthly, depending on the needs established by operating management.

Key financial measures utilized by Management to evaluate the results of its businesses and to understand the key variables impacting the current and future results of the Company include sales and pricing; gross profit; selling, general, and administrative expenses; adjusted operating profit (loss); adjusted net income (loss); consolidated earnings (loss) before interest, taxes, depreciation, and amortization (“EBITDA”) as set forth in the Net Leverage Ratio in the Company’s \$350,000,000 Term Loan Credit Agreement; Adjusted EBITDA, working capital; operating cash flows; capital expenditures;

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cash interest expense; adjusted earnings per share; and applicable ratios, such as inventory turnover; working capital turnover; return on sales and assets; and leverage ratios. These measures, as well as objectives established by the Company's Board of Directors, are reviewed at monthly, quarterly, and annual intervals and compared with historical periods.

### Results of Operations for the Three months ended August 31, 2018 Compared to the Three months ended August 31, 2017

The Company's net sales in the third quarter of 2018 were \$193.6 million compared to \$200.9 million in the third quarter of 2017. China Coated Fabrics (CCF), which was sold in July 2017, accounted for \$0.7 million in sales during the third quarter of 2017. Excluding the effect of CCF, sales decreased 3.3%. Specialty Solutions sales increased \$7.0 million, or 6.1%, and Performance Materials sales decreased \$13.6 million, or 16.0%. Contributing to the Company's net sales decrease in 2018 was lower volume of \$12.2 million, mainly in Performance Materials, which was partially offset by favorable price/mix of \$4.1 million and favorable foreign exchange of \$1.5 million.

Gross profit in the third quarter of 2018 was \$49.1 million with a gross profit margin of 25.4%, compared to gross profit of \$57.8 million and a gross profit margin of 28.8% in the third quarter of 2017. The decrease in gross profit dollars resulted from lower volumes, primarily within Performance Materials. Volume decreased primarily due to the Company's continued strategic transition away from the commodity paper coatings market, which was partially offset by improved volume in coatings and antioxidants.

Selling, general and administrative expense in the third quarter of 2018 was \$25.9 million, compared to \$28.9 million in the third quarter of 2017. The \$3.0 million, or 10.4%, decrease reflects reduced incentive compensation and the One OMNOVA cost reduction initiatives.

Interest expense in the third quarter of 2018 was \$4.7 million, compared to \$5.5 million in the third quarter of 2017. The decrease of \$0.8 million, or 14.5%, was primarily attributed to a lower outstanding debt balance resulting from a \$40.0 million debt prepayment in December 2017.

The Company recorded income tax expense of \$2.3 million and \$6.1 million for the three months ended August 31, 2018 and 2017, respectively. The Company's effective tax rate for the third quarter of 2018 and 2017 was different than the U.S. federal statutory rate primarily due to losses in jurisdictions in which no tax benefit was recognized.

Net loss for the third quarter of 2018 was \$1.9 million, or \$0.04 per diluted share, compared to net income of \$7.9 million, or \$0.18 per basic share, during the same quarter in the prior year.

### Segment Discussion

The following Segment Discussion presents information used by the Company in assessing the results of operations by business segment. The Company believes that this presentation is useful for providing the investor with an understanding of the Company's business and operating performance because these measures are used by the CODM in evaluating performance and allocating resources.

The following table reconciles segment sales to consolidated net sales and segment operating profit to consolidated income (loss) before income taxes:

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|                                                | Three Months<br>Ended August<br>31,<br>2018      2017<br>(Dollars in<br>millions) |         |
|------------------------------------------------|-----------------------------------------------------------------------------------|---------|
| Net Sales:                                     |                                                                                   |         |
| Specialty Solutions                            | \$122.1                                                                           | \$115.1 |
| Performance Materials                          | 71.5                                                                              | 85.8    |
| Consolidated Net Sales                         | \$193.6                                                                           | \$200.9 |
| Segment Operating Profit:                      |                                                                                   |         |
| Specialty Solutions                            | \$19.5                                                                            | \$18.9  |
| Performance Materials                          | (7.9 )                                                                            | 8.3     |
| Total Segment Operating Profit                 | 11.6                                                                              | 27.2    |
| Interest expense                               | (4.7 )                                                                            | (5.5 )  |
| Corporate expense                              | (6.5 )                                                                            | (7.7 )  |
| Consolidated Income (Loss) Before Income Taxes | \$0.4                                                                             | \$14.0  |

## Specialty Solutions

Specialty Solutions' net sales increased \$7.0 million, or 6.1%, to \$122.1 million in the third quarter of 2018 from \$115.1 million in the third quarter of 2017. The improvement was primarily driven by favorable price/mix of \$4.2 million, volume of \$2.0 million and foreign exchange of \$0.8 million, compared to the same quarter last year. Volumes were strong in coatings, adhesives, sealants, films, elastomeric modifiers and home & personal care but down in decorative laminates, oil & gas and nonwovens compared to the same quarter last year. Foreign exchange had a favorable impact across all markets.

Segment operating profit was \$19.5 million for the third quarter of 2018 compared to \$18.9 million for the third quarter of 2017. The increase of \$0.6 million or 3.2% for the third quarter of 2018, compared to the same quarter last year, was due to improved volumes and mix, and SG&A savings resulting from cost reduction initiatives. Segment operating profit also includes items which management excludes when evaluating the results of the Company's segments. Those items for the third quarter of 2018 were \$0.1 million of asset impairment charges, and a favorable adjustment of \$0.5 million related to acquisition and integration expenses. There were no adjustments during the third quarter of 2017.

## Performance Materials

Performance Materials net sales decreased \$14.3 million, or 16.7%, to \$71.5 million during the third quarter of 2018, compared to \$85.8 million during the third quarter of 2017. The divestiture of the Company's CCF operations in July 2017 resulted in a reduction in net sales of \$0.7 million. Excluding CCF, sales decreased \$13.6 million, or 16.0%. While volumes improved in anti-oxidants and tire cord, volumes and price in paper coatings were unfavorable, due to the Company's continued strategic transition away from the commodity paper coatings market.

Segment operating loss was \$7.9 million for the third quarter of 2018 compared to an operating profit of \$8.3 million in the third quarter of 2017, a decrease of \$16.2 million. The third quarter of 2017 included the impact of significant recovery of raw material cost increases incurred by the Company in the first half of 2017 and favorable raw material costs. Operating loss included items that management excludes when evaluating the results of the Company's segments. Those items for the third quarter of 2018 were \$9.6 million of asset impairment charges, facility closure costs and other, \$0.5 million of accelerated depreciation, and \$0.3 million of restructuring and severance. Those items for 2017 included \$0.4 million of restructuring and severance charges, \$0.3 million increase to environmental reserves

and a favorable adjustment of \$0.6 million to asset impairment, facility closure costs and other. The operating loss resulted primarily from unfavorable volume and lower price/mix, which was partially offset by favorable SG&A.

#### Corporate

Corporate expenses were \$6.5 million in the third quarter of 2018, compared to \$7.7 million in the third quarter of 2017. SG&A expenses were lower during the current year resulting from reduced incentive compensation expense and prior year restructuring activities associated with the implementation of the One OMNOVA corporate support structure.

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### Results of Operations for the Nine Months Ended August 31, 2018 Compared to the Nine Months Ended August 31, 2017

The Company's net sales in the first nine months of 2018 were \$578.5 million, compared to \$596.8 million in the first nine months of 2017. CCF, which was sold in July 2017, accounted for \$10.4 million in sales during the first nine months of 2017. Excluding the effect of CCF, net sales decreased \$7.9 million, or 1.3%, during the first nine months of 2018. The Specialty Solutions business segment sales increased \$29.7 million, or 9.0%, and Performance Materials business segment sales decreased by \$37.6 million, or 14.7%, excluding the CCF sales. Contributing to the net sales decrease in 2018 were lower volumes of \$15.4 million, primarily in paper, and unfavorable price/mix of \$8.0 million, partially offset by favorable foreign exchange of \$15.5 million.

Gross profit in the first nine months of 2018 was \$147.2 million with a gross profit margin of 25.4%, compared to \$154.9 million and 26.0% in the first nine months of 2017. The decrease from the comparable first nine months period resulted from unfavorable foreign exchange for both Specialty Solutions and Performance Materials, unfavorable price and volume for Performance Materials, which were partially offset by favorable volume and pricing within Specialty Solutions.

Selling, general, and administrative expense in the first nine months of 2018 was \$82.0 million, or 14.2% of net sales, compared to \$88.2 million, or 14.8% of net sales, in the first nine months of 2017. The \$6.2 million decrease in expense for the first nine months of 2018 reflects the sale of CCF, reduced incentive compensation, outside services and the One OMNOVA cost reduction initiatives.

Interest expense was \$14.4 million in the first nine months of 2018, compared to \$16.0 million for the first nine months of 2017. The decrease in the current year is primarily due to a lower outstanding debt balance resulting from a \$40.0 million debt prepayment in December 2017.

On December 22, 2017, U.S. federal tax legislation, commonly referred to as the Tax Cuts and Job Act (the "Tax Act") was signed into law. The Tax Act makes broad and complex changes to the U.S. tax code that will affect the Company's fiscal year ending November 30, 2018, including, but not limited to, reduction of the federal corporate rate from 35% to 21% effective January 1, 2018, creating a participation exemption regime for future distributions of foreign earnings, imposing a one-time transition tax on a taxpayer's foreign subsidiaries earnings not previously subject to U.S. taxation and allowing bonus depreciation for full expensing of qualified property. The decrease in the U.S. federal corporate tax rate from 35% to 21%, which is effective as of January 1, 2018, results in a blended statutory tax rate of 22.2% for the fiscal year ending November 30, 2018.

The Tax Act also establishes new tax laws that may affect the Company's fiscal year 2019 and forward, including, but not limited to, reduction of the U.S. federal corporate tax rate as mentioned above, repeal of the corporate alternative minimum tax (AMT), a new limitation on deductible interest expense, limitations on the deductibility of certain executive compensation and new taxes on certain foreign-sourced earnings.

The Company recorded income tax benefit of \$0.3 million and income tax expense of \$7.0 million for the nine months ended August 31, 2018 and 2017, respectively. The Company's effective tax rate for the first nine months of 2018 was different than its U.S. federal statutory rate primarily due to discrete items related to the Tax Act that were recorded in the first quarter 2018. These items included a \$4.1 million income tax benefit related to the re-measurement of the U.S. deferred taxes as the U.S. federal tax rate was reduced from 35% to 21% and a \$0.9 million income tax benefit associated with the reversal of the valuation allowance against the existing AMT credit carryforward as it is refundable under the Tax Act. In addition, during the first quarter of 2018, the Company recognized a \$0.8 million income tax benefit related to the impact of a French tax rate change on the Company's deferred tax liabilities. Based on the recently enacted French tax legislation during the first quarter of 2018, the French tax rate was reduced to 25.0% beginning in 2022 and the Company's deferred tax liabilities were reduced to appropriately reflect this legislation as a current period tax benefit. These discrete tax benefits were partially offset by losses in jurisdictions in which no tax benefit was recognized. The Company's effective tax rate for the first nine months of 2017 was different than its U.S. federal statutory rate primarily due to the CCF impairment for which no tax benefit was recognized.

The Company generated net income of \$13.7 million, or \$0.31 per diluted share, in the first nine months of 2018, compared to net income of \$5.1 million, or \$0.11 per diluted share, in the first nine months of 2017.

Segment Discussion

The following table reconciles segment sales to consolidated net sales and segment operating profit to consolidated income (loss) before income taxes:

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|                                                | Nine Months<br>Ended August<br>31,<br>2018      2017<br>(Dollars in<br>millions) |         |
|------------------------------------------------|----------------------------------------------------------------------------------|---------|
| Net Sales:                                     |                                                                                  |         |
| Specialty Solutions                            | \$360.0                                                                          | \$330.3 |
| Performance Materials                          | 218.5                                                                            | 266.5   |
| Consolidated Net Sales                         | \$578.5                                                                          | \$596.8 |
| Segment Operating Profit:                      |                                                                                  |         |
| Specialty Solutions                            | \$55.0                                                                           | 45.6    |
| Performance Materials                          | (5.6 )                                                                           | 5.8     |
| Total Segment Operating Profit                 | 49.4                                                                             | 51.4    |
| Interest expense                               | (14.4 )                                                                          | (16.0 ) |
| Corporate expense                              | (21.6 )                                                                          | (23.3 ) |
| Consolidated Income (Loss) Before Income Taxes | \$13.4                                                                           | \$12.1  |

**Specialty Solutions**

Specialty Solutions net sales increased \$29.7 million, or 9.0%, to \$360.0 million in the first nine months of 2018 from \$330.3 million in the first nine months of 2017. The improvement was driven by increased volume of \$17.7 million, favorable foreign exchange of \$9.6 million, and price/mix of \$2.4 compared to the first nine months of 2017. Volumes were strong in oil & gas, coatings, home & personal care, and laminates & films but down in nonwovens, compared to the first nine months of 2017. Foreign exchange had a favorable impact across all markets.

Segment operating profit was \$55.0 million for the first nine months of 2018, compared to \$45.6 million for the first nine months of 2017. Segment operating profit increased \$9.4 million or 20.6% in the first nine months of 2018 as a result of improved volumes and price/mix, foreign exchange and SG&A savings resulting from cost reduction initiatives, which were partially offset by unfavorable raw material costs. Segment operating profit also includes items which management excludes when evaluating the results of the Company's segments. Those items for the first nine months of 2018 were primarily \$0.7 million of restructuring and severance charges and \$0.9 million of asset impairment charges. Those items for 2017 included \$0.6 million of restructuring and severance costs.

**Performance Materials**

Performance Materials' net sales decreased \$48.0 million, or 18.0%, to \$218.5 million during the first nine months of 2018, compared to \$266.5 million during the first nine months of 2017. The divestiture of the Company's CCF operations in July 2017 resulted in a reduction in net sales of \$10.4 million. Excluding CCF, sales decreased \$37.6 million, or 14.7%, primarily from lower volumes in paper coatings resulting from the Company's continued strategic transition away from the commodity paper coatings market, partially offset by stronger volumes in carpet.

This segment generated an operating loss of \$5.6 million in the first nine months of 2018 compared to operating profit of \$5.8 million in the first nine months of 2017. Segment operating profit also includes items which management excludes when evaluating the results of the Company's segments. Those items for the first nine months of 2018 were primarily \$10.0 million of asset impairment charges, facility closure costs and other, \$0.4 million of restructuring and severance, \$0.4 million of accelerated depreciation, and \$0.2 million of environmental costs, partially offset by a favorable adjustments of \$0.3 million for acquisition and integration related expense and financing. Those items for the first nine months of 2017 included \$12.3 million of asset impairment charges, facility closure costs and other, \$1.7 million of restructuring and severance, partially offset by a \$2.2 million favorable environmental reserve adjustment. Operating profit in 2018 decreased \$11.4 million compared to 2017, driven primarily by lower price and volumes, which were partially offset by lower SG&A, mix and foreign exchange.

**Corporate**

Corporate expenses were \$21.6 million in the first nine months of 2018, compared to \$23.3 million in the first nine months of 2017. The decrease in operating expenses of \$1.7 million resulted from lower SG&A expenses from reduced incentive compensation expense and prior year restructuring activities associated with the implementation of the One OMNOVA plan.

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## Financial Resources

|                                                      | Nine Months Ended<br>August 31, |          |          |
|------------------------------------------------------|---------------------------------|----------|----------|
|                                                      | 2018                            | 2017     | Change   |
|                                                      | (Dollars in millions)           |          |          |
| Net cash provided by (used in) operating activities  | \$37.1                          | \$28.2   | \$8.9    |
| Net cash provided by (used in) investing activities  | \$(13.3)                        | \$(20.5) | \$7.2    |
| Net cash provided by (used in) financing activities  | \$(44.6)                        | \$(5.5)  | \$(39.1) |
| Net increase (decrease) in cash and cash equivalents | \$(21.8)                        | \$2.6    | \$(24.4) |

Cash provided by operating activities was \$37.1 million during the first nine months of 2018 compared to \$28.2 million for the first nine months of 2017, which was primarily due to higher net income in 2018. Cash provided by operations was favorably impacted by improved working capital, which was 50.8 days at August 31, 2018 compared to 55.8 days at August 31, 2017.

Cash used in investing activities was \$13.3 million during the first nine months of 2018 compared to \$20.5 million in the first nine months of 2017. Cash used in 2018 was primarily for routine ongoing capital expenditures. Cash used in 2017 was for routine capital expenditures, and business acquisitions, which was partially offset by the collection of a \$3.8 million note receivable. The Company expects approximately \$25.0 million of capital expenditures during 2018. Capital expenditures are planned principally for asset replacement, new product capability, cost reduction, safety and productivity improvements and environmental protection. The Company expects to fund remaining capital expenditures with cash flow generated from operations.

Cash used in financing activities was \$44.6 million during the first nine months of 2018 compared to \$5.5 million during the first nine months of 2017. Included in the first nine months of 2018 was a \$2.3 million ABL borrowing, \$40.0 million debt prepayment on the Term Loan B, scheduled debt payments of \$3.1 million, ABL draw repayment of \$2.3 million, debt refinancing cost of \$1.0 million and employee withholding taxes on the Company's share-based compensation programs expense of \$0.5 million. Financing activities for the first nine months of 2017 included debt repayments of \$3.3 million and \$2.2 million for employee withholding taxes on the Company's share-based compensation programs, primarily related to the Company's CEO transition.

The Company's cash balance of \$66.2 million as of August 31, 2018 consists of \$32.5 million in the U.S., \$14.9 million in Asia and \$18.8 million in Europe. The Company is not aware of any restrictions regarding the repatriation of its non-U.S. cash, however, repatriation of cash from certain countries may require certain tax considerations if repatriated and may not be able to be completed in a timely manner.

The Company believes that its cash flows from operations, together with existing credit facilities and cash on hand will be adequate to fund its cash requirements for at least the next twelve months.

## Share Repurchase Program

On September 24, 2018, the Company's Board of Directors authorized the repurchase of up to \$20.0 million of the Company's common stock. The Company may use various methods to make the repurchases, including open market repurchases, negotiated block transactions, or open market solicitations for shares, all or some of which may be effected through Rule 10b5-1 plans. The timing of repurchases will depend upon several factors including market and business conditions, and repurchases may be discontinued at any time.

## Debt

Gross debt was \$318.8 million as of August 31, 2018, which includes \$303.0 million for the Term Loan B and \$15.8 million for capital lease obligations, compared to \$361.8 million as of November 30, 2017. Additional information regarding the Company's debt is disclosed in the Debt and Credit Lines footnote to the Company's Unaudited Interim

Consolidated Financial Statements.

Significant Accounting Policies and Management Judgments

The Company's discussion and analysis of its results of operations, financial condition, and liquidity are based upon the Company's consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires the Company to make estimates and judgments that affect the amounts of assets and liabilities, revenues, and expenses and disclosure of contingent assets and liabilities as of the date of the financial statements. The Company periodically reviews its estimates and judgments including those related to

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product returns, accounts receivable, inventories, litigation and environmental reserves, pensions, and income taxes. The Company bases its estimates and judgments on historical experience and on various assumptions that it believes to be reasonable under the circumstances. Actual results may differ materially from these estimates and judgments under different assumptions.

Information with respect to the Company's significant accounting policies and management judgments which the Company believes could have the most significant effect on the Company's reported results and require subjective or complex judgments by management is contained in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended November 30, 2017, as filed with the SEC. The Company has not made any changes in estimates or judgments that have had a significant effect on the reported amounts.

### Environmental Matters

The Company's policy is to conduct its businesses with due regard for the preservation and protection of the environment. The Company devotes significant resources and management attention to comply with environmental laws and regulations. The Company's Consolidated Balance Sheet as of August 31, 2018 reflects reserves for environmental remediation of \$1.5 million. The Company's estimates are subject to change and actual results may materially differ from the Company's estimates. Management believes, on the basis of presently available information, that resolution of known environmental matters will not materially affect liquidity, capital resources, or the consolidated financial condition of the Company.

### Employee Matters

At August 31, 2018, the Company employed approximately 1,800 employees globally. Approximately 11% of the Company's U.S. employees are covered by collective bargaining agreements in the United States. In addition, certain of our foreign employees are also covered by collective bargaining agreements.

### New Accounting Pronouncements

New accounting pronouncements impacting the Company are disclosed in the Basis of Presentation note to the Company's Unaudited Consolidated Financial Statements.

### Forward-Looking Statements

This quarterly report on Form 10-Q includes descriptions of our current business, operations, assets and other matters affecting the Company as well as "forward-looking statements" as defined by federal securities laws. All forward-looking statements by the Company, including verbal statements, are intended to qualify for the protections afforded forward-looking statements under the Private Securities Litigation Reform Act of 1995. Forward-looking statements reflect management's current expectation, judgment, belief, assumption, estimate or forecast about future events, circumstances or results and may address business conditions and prospects, strategy, capital structure, debt and cash levels, sales, profits, earnings, markets, products, technology, operations, customers, raw materials, claims and litigation, financial condition, and accounting policies among other matters. Words such as, but not limited to, "will," "may," "should," "projects," "forecasts," "seeks," "believes," "expects," "anticipates," "estimates," "intends," "plans," "likely," "would," "could," "committed," and similar expressions or phrases identify forward-looking statements.

All descriptions of our business, operations and assets, as well as all forward-looking statements, involve risks and uncertainties. Many risks and uncertainties are inherent in business generally and the markets in which the Company operates or proposes to operate. Other risks and uncertainties are more specific to the Company's businesses including businesses the Company acquires. There also may be risks and uncertainties not currently known to us. The

occurrence of any such risks and uncertainties and the impact of such occurrences is often not predictable or within the Company's control. Such impacts could adversely affect the Company's business, operations or assets as well as the Company's results and the value of your investment in OMNOVA and, in some cases, such effect could be material. Certain risks and uncertainties facing the Company are described below or elsewhere in this Form 10-Q.

All written and verbal descriptions of our business, operations and assets and all forward-looking statements attributable to the Company or any person acting on the Company's behalf are expressly qualified in their entirety by the risks, uncertainties, and cautionary statements contained and referenced herein.

All such descriptions and any forward-looking statement speak only as of the date on which such description or statement is made, and the Company undertakes no obligation, and specifically declines any obligation, other than that imposed by law, to

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publicly update or revise any such description or forward-looking statements whether as a result of new information, future events or otherwise.

Risks and uncertainties that may adversely affect our business, operations, assets, or other matters affecting the Company and may cause actual results and the value of your investment in OMNOVA to materially differ from expectations include, but are not limited to: 1) the Company's exposure to general economic, business, and industry conditions; (2) the risk of doing business in foreign countries and markets; (3) changes in raw material prices and availability; (4) the highly competitive markets the Company serves and continued consolidations among its competitors and customer base; (5) extraordinary events such as natural disasters, political disruptions, terrorist attacks and acts of war; (6) extensive and increasing governmental regulation, including environmental, health and safety regulations; (7) the Company's failure to protect its intellectual property or defend itself from intellectual property claims; (8) claims and litigation; (9) changes in accounting policies, standards, and interpretations; (10) the actions of activist shareholders; (11) the Company's inability to achieve or achieve in a timely manner the objectives and benefits of cost reduction initiatives; (12) the Company's ability to develop and commercialize new products at competitive prices; (13) the Company's use of purchase orders rather than long-term contracts for most of its business; (14) the disproportionate impact of certain product lines on the Company's operating profitability; (15) customer credit risk; (16) the Company's ability to identify and complete strategic transactions; (17) the Company's ability to successfully integrate acquired companies; (18) unanticipated capital expenditures; (19) risks associated with the use, production, storage, and transportation of chemicals; (20) information system failures and breaches in security; (21) continued increases in healthcare costs; (22) the Company's ability retain or attract key employees; (23) the Company's ability to renew collective bargaining agreements with employees on acceptable terms and the risk of work stoppages; (24) the Company's contribution obligations under its U.S. pension plan; (25) the Company's reliance on foreign financial institutions to hold some of its funds; (26) the effect of goodwill impairment charges; (27) the volatility in the market price of the Company's common shares; (28) the Company's substantial debt position; (29) a decision to incur additional debt; (30) the operational and financial restrictions contained in the Company's debt agreements; (31) the effects of a default under the Company's term loan or revolving credit facility; (32) the Company's ability to generate sufficient cash to service its outstanding debt; and (33) the Company's subsidiaries' ability to provide the Company with cash.

We provide greater detail regarding these risks and uncertainties in our 2017 Form 10-K and subsequent filings, which are available online at [www.omnova.com](http://www.omnova.com) and [www.sec.gov](http://www.sec.gov).

### Item 3. Quantitative and Qualitative Disclosure About Market Risk

#### Quantitative and Qualitative Disclosure About Market Risk

The Company is exposed to market risk from changes in interest rates on its long-term debt obligations. As described in the Debt and Credit Lines note to the Unaudited Consolidated Financial Statements, the Company's debt bears interest at variable rates. Total borrowings for the Company's debt were \$303.0 million as of August 31, 2018. The weighted average effective interest rate of the Company's outstanding debt was 5.27% as of August 31, 2018. A hypothetical increase or decrease of 100 basis points would impact the Company's interest expense on its variable rate debt by \$3.0 million annually.

The Company is subject to foreign currency exchange rate risk. The Company has an accumulated currency translation loss of \$28.0 million as of August 31, 2018, which is included in accumulated other comprehensive loss.

The Company does not enter into derivatives or other financial instruments for trading or speculative purposes.



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Item 4. Controls and Procedures

Controls and Procedures

Management of the Company, including the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934) as of August 31, 2018 and based on this evaluation, has determined that the Company's disclosure controls and procedures are effective as of such date. There were no changes in the Company's internal control over financial reporting during the quarter ended August 31, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

From time to time, the Company is subject to various claims, proceedings and lawsuits related to products, services, contracts, employment, environmental, safety, intellectual property, and other matters. The ultimate resolution of such claims, proceedings, and lawsuits is inherently unpredictable and, as a result, the Company's estimates of liability, if any, are subject to change. Actual results may materially differ from the Company's estimates and an unfavorable resolution of any matter could have a material adverse effect on the financial condition, results of operations, and/or cash flows of the Company. However, subject to the above and taking into account such amounts, if any, as are accrued from time to time on the Company's balance sheet, the Company does not believe, based on the information currently available to it, that the ultimate resolution of these matters will have a material effect on the consolidated financial condition, results of operations, or cash flows of the Company.

Item 1A. Risk Factors

There have been no material changes to the risk factors previously disclosed in Item 1A of the Company's Annual Report on Form 10-K for the year ended November 30, 2017. Those risk factors, in addition to the other information set forth in this report, could materially affect the Company's consolidated financial condition, results of operations, or cash flows. Additional unrecognized risks and uncertainties may materially adversely affect the Company's consolidated financial condition, results of operations, or cash flows.

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

From time to time, the Company may seek to retire, repurchase, or exchange its outstanding debt or capital securities through various methods including open market repurchases, negotiated block transactions, or open market solicitations for shares, all or some of which may be effected through Rule 10b5-1 plans. Such transactions, if any, depend on prevailing market conditions, our liquidity and capital requirements, contractual restrictions, and other factors, and may involve material amounts.

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The following table summarizes the Company's activity related to its common shares for the three months ended August 31, 2018.

| Month       | Total Number<br>of shares<br>repurchased <sup>(a)</sup> | Average price paid per share | Total<br>number of<br>shares<br>purchased<br>as part of<br>publicly<br>announced<br>plans or<br>programs | Maximum<br>dollar<br>value of<br>shares that<br>may yet be<br>purchased<br>under the<br>plans or<br>programs |
|-------------|---------------------------------------------------------|------------------------------|----------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|
| June 1-30   | 17,946                                                  | \$10.15                      | —                                                                                                        | —                                                                                                            |
| July 1-31   | —                                                       | \$—                          | —                                                                                                        | —                                                                                                            |
| August 1-31 | —                                                       | \$—                          | —                                                                                                        | —                                                                                                            |
| Total       | 17,946                                                  | \$10.15                      | —                                                                                                        | —                                                                                                            |

(a) Share repurchases resulted from common shares deemed surrendered by employees in connection with the Company's stock compensation and benefit plans to satisfy tax obligations.

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Item 6. Exhibits

12.1 Ratio of Earnings to fixed charges.(x)

31.1 Rule 13a-14(a) Certification of the Company's Chief Executive Officer.(x)

31.2 Rule 13a-14(a) Certification of the Company's Chief Financial Officer.(x)

32.1 Section 1350 Certification of the Company's Chief Executive Officer and Chief Financial Officer.(x)

The following financial information from our Quarterly Report on Form 10-Q for the third quarter of 2018, filed with the SEC on September 26, 2018, formatted in XBRL: (i) the Condensed Consolidated Statements of Operations for the three and nine months ended August 31, 2018 and 2017; (ii) the Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended August 31, 2018 and 2017; (iii) the Consolidated Balance Sheets at August 31, 2018 and November 30, 2017; (iv) the Consolidated Statements of Cash Flows for the nine months ended August 31, 2018 and 2017; and (v) the Notes to the Unaudited Interim Consolidated Financial Statements.

(x) Filed herewith.

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SIGNATURES

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.

OMNOVA Solutions Inc.

Date: September 26, 2018 By /s/ Anne P. Noonan  
Anne P. Noonan  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: September 26, 2018 By /s/ Paul F. DeSantis  
Paul F. DeSantis  
Senior Vice President and Chief Financial Officer; Treasurer  
(Principal Financial Officer)

Date: September 26, 2018 By /s/ Donald B. McMillan  
Donald B. McMillan  
Vice President, Chief Accounting Officer  
(Principal Accounting Officer)

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INDEX TO EXHIBITS

| Exhibit<br>Number | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>12.1</u>       | Ratio of Earnings to fixed charges.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <u>31.1</u>       | Principal Executive Officer's Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <u>31.2</u>       | Principal Financial Officer's Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <u>32.1</u>       | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 101               | The following financial information from our Quarterly Report on Form 10-Q for the third quarter of 2018, filed with the SEC on September 26, 2018, formatted in XBRL: (i) the Condensed Consolidated Statements of Operations for the three and nine months ended August 31, 2018 and 2017; (ii) the Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended May 31, 2018 and 2017; (iii) the Consolidated Balance Sheets at August 31, 2018 and November 30, 2017; (iv) the Consolidated Statements of Cash Flows for the nine months ended August 31, 2018 and 2017; and (v) the Notes to the Unaudited Interim Consolidated Financial Statements. |