

WORTHINGTON INDUSTRIES INC
Form 10-Q
January 06, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended November 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 001-08399

WORTHINGTON INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Ohio

31-1189815

(State or other jurisdiction of incorporation or organization)

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

200 Old Wilson Bridge Road, Columbus, Ohio

43085

(Address of principal executive offices)

(Zip Code)

(614) 438-3210

(Registrant's telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

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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 Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

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

YES NO

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

Large accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the Issuer's classes of common stock, as of the latest practicable date. On December 30, 2016, the number of Common Shares, without par value, issued and outstanding was 63,673,654.

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SAFE HARBOR STATEMENT

Selected statements contained in this Quarterly Report on Form 10-Q, including, without limitation, in PART I Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, constitute forward-looking statements as that term is used in the Private Securities Litigation Reform Act of 1995 (the Act). Forward-looking statements reflect our current expectations, estimates or projections concerning future results or events. These statements are often identified by the use of forward-looking words or phrases such as believe, expect, anticipate, may, could, intend, estimate, plan, foresee, likely, will, should or other similar words or phrases. These forward-looking statements include, without limitation, statements relating to:

outlook, strategy or business plans;
the ability to correct performance issues at operations;
future or expected growth, forward momentum, performance, sales, volumes, cash flows, earnings, balance sheet strengths, debt, financial condition or other financial measures;
pricing trends for raw materials and finished goods and the impact of pricing changes;
demand trends for us or our markets;
additions to product lines and opportunities to participate in new markets;
expected benefits from Transformation efforts;
anticipated capital expenditures and asset sales;
anticipated improvements and efficiencies in costs, operations, sales, inventory management, sourcing and the supply chain and the results thereof;
projected profitability potential, capacity and working capital needs;
the ability to make acquisitions and the projected timing, results, benefits, costs, charges and expenditures related to acquisitions, newly-created joint ventures, headcount reductions and facility dispositions, shutdowns and consolidations;
the alignment of operations with demand;
the ability to operate profitably and generate cash in down markets;
the ability to maintain margins and capture and maintain market share and to develop or take advantage of future opportunities, customer initiatives, new businesses, new products and new markets;
expectations for Company and customer inventories, jobs and orders;
expectations for the economy and markets or improvements therein;
expectations for increasing volatility or improving and sustaining earnings, earnings potential, margins or shareholder value;
effects of judicial rulings; and
other non-historical matters.

Because they are based on beliefs, estimates and assumptions, forward-looking statements are inherently subject to risks and uncertainties that could cause actual results to differ materially from those projected. Any number of factors could affect actual results, including, without limitation, those that follow:

the effect of national, regional and global economic conditions generally and within major product markets, including a recurrent slowing global economy;
the effect of conditions in national and worldwide financial markets;
lower oil prices as a factor in demand for products;
product demand and pricing;
changes in product mix, product substitution and market acceptance of our products;
fluctuations in the pricing, quality or availability of raw materials (particularly steel), supplies, transportation, utilities and other items required by operations;
effects of facility closures and the consolidation of operations;
the effect of financial difficulties, consolidation and other changes within the steel, automotive, construction, oil and gas, and other industries in which we participate;
failure to maintain appropriate levels of inventories;
financial difficulties (including bankruptcy filings) of original equipment manufacturers, end-users and customers, suppliers, joint venture partners and others with whom we do business;
the ability to realize targeted expense reductions from headcount reductions, facility closures and other cost reduction efforts;
the ability to realize other cost savings and operational, sales and sourcing improvements and efficiencies, and other expected benefits from Transformation initiatives, on a timely basis;

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the overall success of, and the ability to integrate, newly-acquired businesses and joint ventures, maintain and develop their customers, and achieve synergies and other expected benefits and cost savings therefrom;
capacity levels and efficiencies, within facilities, within major product markets and within the industries in which we participate as a whole;
the effect of disruption in the business of suppliers, customers, facilities and shipping operations due to adverse weather, casualty events, equipment breakdowns, civil unrest, international conflicts or terrorist activities or other causes;
changes in customer demand, inventories, spending patterns, product choices, and supplier choices;
risks associated with doing business internationally, including economic, political and social instability, foreign currency exposure and the acceptance of our products in these markets;
the ability to improve and maintain processes and business practices to keep pace with the economic, competitive and technological environment;
the outcome of adverse claims experience with respect to workers' compensation, product recalls or product liability, casualty events or other matters;
deviation of actual results from estimates and/or assumptions used by us in the application of our significant accounting policies;
level of imports and import prices in our markets;
the impact of judicial rulings and governmental regulations, both in the United States and abroad, including those adopted by the United States Securities and Exchange Commission and other governmental agencies as contemplated by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010;
the effect of changes to healthcare laws in the United States, which may increase our healthcare and other costs and negatively impact our operations and financial results;
cyber security risks; and
other risks described from time to time in our filings with the United States Securities and Exchange Commission, including those described in PART I Item 1A. Risk Factors of our Annual Report on Form 10-K for the fiscal year ended May 31, 2016.

We note these factors for investors as contemplated by the Act. It is impossible to predict or identify all potential risk factors. Consequently, you should not consider the foregoing list to be a complete set of all potential risks and uncertainties. Any forward-looking statements in this Quarterly Report on Form 10-Q are based on current information as of the date of this Quarterly Report on Form 10-Q, and we assume no obligation to correct or update any such statements in the future, except as required by applicable law.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****WORTHINGTON INDUSTRIES, INC.****CONSOLIDATED BALANCE SHEETS****(In thousands)****(Unaudited)**

	November 30, 2016	May 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 175,180	\$ 84,188
Receivables, less allowances of \$3,499 and \$4,579 at November 30, 2016 and May 31, 2016, respectively	429,011	439,688
Inventories:		
Raw materials	168,586	162,427
Work in process	85,933	86,892
Finished products	83,339	70,016
Total inventories	337,858	319,335
Income taxes receivable	7,997	10,535
Assets held for sale	10,050	10,079
Prepaid expenses and other current assets	47,385	51,290
Total current assets	1,007,481	915,115
Investments in unconsolidated affiliates	203,508	191,826
Goodwill	243,918	246,067
Other intangible assets, net of accumulated amortization of \$56,220 and \$49,532 at November 30, 2016 and May 31, 2016, respectively	88,588	96,164
Other assets	27,914	29,254
Property, plant and equipment:		
Land	18,397	18,537
Buildings and improvements	257,950	256,973
Machinery and equipment	973,941	945,951
Construction in progress	34,732	48,156
Total property, plant and equipment	1,285,020	1,269,617
Less: accumulated depreciation	713,705	686,779

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Total property, plant and equipment, net	571,315	582,838
Total assets	\$ 2,142,724	\$ 2,061,264
Liabilities and equity		
Current liabilities:		
Accounts payable	\$ 278,192	\$ 290,432
Short-term borrowings	497	2,651
Accrued compensation, contributions to employee benefit plans and related taxes	65,308	75,105
Dividends payable	14,182	13,471
Other accrued items	41,815	45,056
Income taxes payable	3,364	2,501
Current maturities of long-term debt	873	862
Total current liabilities	404,231	430,078
Other liabilities	63,910	63,487
Distributions in excess of investment in unconsolidated affiliate	67,516	52,983
Long-term debt	576,038	577,491
Deferred income taxes, net	20,267	17,379
Total liabilities	1,131,962	1,141,418
Shareholders' equity controlling interest	884,940	793,371
Noncontrolling interests	125,822	126,475
Total equity	1,010,762	919,846
Total liabilities and equity	\$ 2,142,724	\$ 2,061,264

See notes to consolidated financial statements.

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	Three Months Ended November 30,		Six Months Ended November 30,	
	2016	2015	2016	2015
Net sales	\$ 727,780	\$ 699,816	\$ 1,465,329	\$ 1,457,963
Cost of goods sold	604,977	590,637	1,195,244	1,235,768
Gross margin	122,803	109,179	270,085	222,195
Selling, general and administrative expense	76,487	72,722	157,543	148,673
Impairment of long-lived assets		22,962		25,962
Restructuring and other expense	3,272	1,523	4,600	4,592
Operating income	43,044	11,972	107,942	42,968
Other income (expense):				
Miscellaneous income, net	872	996	1,735	418
Interest expense	(7,658)	(7,799)	(15,528)	(15,653)
Equity in net income of unconsolidated affiliates	27,124	29,247	61,668	55,828
Earnings before income taxes	63,382	34,416	155,817	83,561
Income tax expense	13,515	8,665	37,414	22,815
Net earnings	49,867	25,751	118,403	60,746
Net earnings attributable to noncontrolling interests	3,302	2,375	6,271	5,402
Net earnings attributable to controlling interest	\$ 46,565	\$ 23,376	\$ 112,132	\$ 55,344
Basic				
Average common shares outstanding	62,348	62,676	62,115	63,338
Earnings per share attributable to controlling interest	\$ 0.75	\$ 0.37	\$ 1.81	\$ 0.87
Diluted				
Average common shares outstanding	64,725	64,663	64,599	65,350
Earnings per share attributable to controlling interest	\$ 0.72	\$ 0.36	\$ 1.74	\$ 0.85

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Common shares outstanding at end of period	62,562	62,101	62,562	62,101
Cash dividends declared per share	\$ 0.20	\$ 0.19	\$ 0.40	\$ 0.38

See notes to consolidated financial statements.

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WORTHINGTON INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)