

GRAPHIC PACKAGING HOLDING CO  
Form 10-Q  
April 25, 2018  
Table of Contents

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  
p 1934

For the quarterly period ended March 31, 2018

or

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

For the transition period from to

COMMISSION FILE NUMBER: 001-33988

Graphic Packaging Holding Company

(Exact name of registrant as specified in its charter)

Delaware	26-0405422
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)

1500 Riveredge Parkway, Suite 100	
Atlanta, Georgia	30328
(Address of principal executive offices)	(Zip Code)

(770) 240-7200  
(Registrant's telephone number, including area code)

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

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

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

Large accelerated reporting filer     
 Smaller reporting company

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

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

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

As of April 23, 2018, there were 310,284,165 shares of the registrant's Common Stock, par value \$0.01 per share, outstanding.

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Table of Contents

Information Concerning Forward-Looking Statements

Certain statements regarding the expectations of Graphic Packaging Holding Company (“GPHC” and, together with its subsidiaries, the “Company”), including, but not limited to, the availability of net operating losses to offset U.S. federal income taxes and the timing related to the Company's future U.S. federal income tax payments, capital investment, depreciation and amortization, interest expense, pension plan contributions and postretirement health care benefit payments, in this report constitute “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. Such statements are based on currently available operating, financial and competitive information and are subject to various risks and uncertainties that could cause actual results to differ materially from the Company’s historical experience and its present expectations. These risks and uncertainties include, but are not limited to, inflation of and volatility in raw material and energy costs, changes in consumer buying habits and product preferences, competition with other paperboard manufacturers and product substitution, the Company’s ability to implement its business strategies, including strategic acquisitions, productivity initiatives and cost reduction plans, the Company's ability to successfully integrate acquisitions, including the North America Consumer Packaging business of International Paper Company (“NACP Combination”), the Company’s debt level, currency movements and other risks of conducting business internationally, and the impact of regulatory and litigation matters, including those that could impact the Company’s ability to utilize its net operating losses to offset taxable income and those that impact the Company's ability to protect and use its intellectual property. Undue reliance should not be placed on such forward-looking statements, as such statements speak only as of the date on which they are made and the Company undertakes no obligation to update such statements, except as may be required by law. Additional information regarding these and other risks is contained in Part I, “Item 1A., Risk Factors” of the Company’s 2017 Annual Report on Form 10-K, and in other filings with the Securities and Exchange Commission.

Table of Contents

TABLE OF CONTENTS

<u>PART I — FINANCIAL INFORMATION</u>	<u>4</u>
<u>ITEM 1. FINANCIAL STATEMENTS</u>	<u>4</u>
<u>ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>23</u>
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK</u>	<u>31</u>
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	<u>31</u>
<u>PART II — OTHER INFORMATION</u>	<u>32</u>
<u>ITEM 1. LEGAL PROCEEDINGS</u>	<u>32</u>
<u>ITEM 1A. RISK FACTORS</u>	<u>32</u>
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>32</u>
<u>ITEM 4. MINE SAFETY DISCLOSURES</u>	<u>32</u>
<u>ITEM 6. EXHIBITS</u>	<u>32</u>
<u>SIGNATURES</u>	<u>33</u>
EX-31.1	
EX-31.2	
EX-32.1	
EX-32.2	
XBRL Content	

Table of Contents

## PART I — FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

GRAPHIC PACKAGING HOLDING COMPANY  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (Unaudited)

In millions, except per share amounts	Three Months Ended March 31,	
	2018	2017
Net Sales	\$1,476.0	\$1,061.5
Cost of Sales	1,253.5	889.6
Selling, General and Administrative	121.3	91.9
Other Expense (Income), Net	0.9	(0.2 )
Business Combinations and Shutdown and Other Special Charges, Net	26.3	8.6
Income from Operations	74.0	71.6
Nonoperating Pension and Postretirement Benefit Income	4.2	3.9
Interest Expense, Net	(28.8 )	(21.3 )
Loss on Modification or Extinguishment of Debt	(1.9 )	—
Income before Income Taxes and Equity Income of Unconsolidated Entity	47.5	54.2
Income Tax Expense	(5.1 )	(17.6 )
Income before Equity Income of Unconsolidated Entity	42.4	36.6
Equity Income of Unconsolidated Entity	0.3	0.4
Net Income	42.7	37.0
Net Income Attributable to Noncontrolling Interest	(12.8 )	—
Net Income Attributable to Graphic Packaging Holding Company	\$29.9	\$37.0
Net Income Per Share Attributable to Graphic Packaging Holding Company — Basic	\$0.10	\$0.12
Net Income Per Share Attributable to Graphic Packaging Holding Company — Diluted	\$0.10	\$0.12
Cash Dividends Declared Per Share	\$0.075	\$0.075

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

Table of Contents

GRAPHIC PACKAGING HOLDING COMPANY  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited)

In millions	Three Months Ended			Total	Three
	March 31,				Months
	2018			March 31,	Ended
	Graphic	Noncontrolling	Redeemable	2017	Graphic
	Packaging	Interest	Noncontrolling	Graphic	Packaging
	Holding		Interest	Holding	Company
	Company			Company	
Net Income	\$29.9	\$ 9.9	\$ 2.9	\$42.7	\$ 37.0
Other Comprehensive (Loss) Income, Net of Tax:					
Derivative Instruments	(0.6 )	(0.2 )	—	(0.8 )	(1.9 )
Pension and Postretirement Benefit Plans	0.5	0.1	0.1	0.7	0.7
Currency Translation Adjustment	16.0	3.2	0.9	20.1	18.9
Total Other Comprehensive Income, Net of Tax	15.9	3.1	1.0	20.0	17.7
Total Comprehensive Income	\$45.8	\$ 13.0	\$ 3.9	\$62.7	\$ 54.7

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

Table of Contents

GRAPHIC PACKAGING HOLDING COMPANY  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Unaudited)

In millions, except share and per share amounts	March 31, 2018	December 31, 2017
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 52.5	\$ 67.4
Receivables, Net	742.7	422.8
Inventories, Net	964.4	634.0
Other Current Assets	65.5	45.7
Total Current Assets	1,825.1	1,169.9
Property, Plant and Equipment, Net	3,104.1	1,867.2
Goodwill	1,607.2	1,323.0
Intangible Assets, Net	514.9	436.5
Other Assets	79.0	66.4
Total Assets	\$7,130.3	\$ 4,863.0
<b>LIABILITIES</b>		
Current Liabilities:		
Short-Term Debt and Current Portion of Long-Term Debt	\$ 55.6	\$ 61.3
Accounts Payable	613.6	516.5
Compensation and Employee Benefits	147.0	113.4
Other Accrued Liabilities	187.1	160.2
Total Current Liabilities	1,003.3	851.4
Long-Term Debt	3,043.5	2,213.2
Deferred Income Tax Liabilities	437.4	321.8
Accrued Pension and Postretirement Benefits	78.1	80.0
Other Noncurrent Liabilities	125.1	104.7
Redeemable Noncontrolling Interest (Note 12)	285.1	—
<b>SHAREHOLDERS' EQUITY</b>		
Preferred Stock, par value \$.01 per share; 100,000,000 shares authorized; no shares issued or outstanding	—	—
Common Stock, par value \$.01 per share; 1,000,000,000 shares authorized; 310,279,527 and 309,715,624 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	3.1	3.1
Capital in Excess of Par Value	2,077.8	1,683.6
Accumulated Deficit	(49.4	) (56.0
Accumulated Other Comprehensive Loss	(322.9	) (338.8
Total Graphic Packaging Holding Company Shareholders' Equity	1,708.6	1,291.9
Noncontrolling Interest	449.2	—

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Total Equity	2,157.8	1,291.9
Total Liabilities and Shareholders' Equity	\$7,130.3	\$ 4,863.0

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

6

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Table of Contents

GRAPHIC PACKAGING HOLDING COMPANY  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)

In millions	Three Months Ended March 31,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$42.7	\$37.0
Non-cash Items Included in Net Income:		
Depreciation and Amortization	109.8	75.0
Deferred Income Taxes	(3.1	) 11.9
Amount of Postretirement Expense Less Than Funding Other, Net	(1.2	) (11.9 )
Changes in Operating Assets and Liabilities	7.4	4.1
Net Cash Used in Operating Activities	(345.7	) (207.8 )
	(190.1	) (91.7 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital Spending	(88.9	) (69.2 )
Packaging Machinery Spending	(3.2	) (6.9 )
Acquisition of Businesses, Net of Cash Acquired	(3.5	) —
Beneficial Interest on Sold Receivables	282.6	130.2
Beneficial Interest Obtained in Exchange for Proceeds	(138.0	) (10.1 )
Other, Net	(2.3	) (1.2 )
Net Cash Provided by Investing Activities	46.7	42.8
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repurchase of Common Stock	—	(40.1 )
Payments on Debt	(125.0	) (6.3 )
Borrowings under Revolving Credit Facilities	610.9	310.1
Payments on Revolving Credit Facilities	(323.5	) (206.4 )
Repurchase of Common Stock related to Share-Based Payments	(4.0	) (10.0 )
Debt Issuance Costs	(7.9	) —
Dividends Paid	(23.2	) (23.6 )
Other, Net	—	2.2
Net Cash Provided by Financing Activities	127.3	25.9
Effect of Exchange Rate Changes on Cash	1.2	1.3
Net Decrease in Cash and Cash Equivalents	(14.9	) (21.7 )
Cash and Cash Equivalents at Beginning of Period	67.4	59.1
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$52.5</b>	<b>\$37.4</b>
Non-cash Investing Activities:		
Beneficial Interest Obtained in Exchange for Trade Receivables	\$287.5	\$123.6
Non-cash Investment in NACP Combination	1,235.7	—
Non-cash Investing Activities	\$1,523.2	\$123.6

Non-cash Financing Activities:

Non-cash Financing of NACP Combination	\$660.0	\$—
Non-Cash Financing Activities	\$660.0	\$—

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

7

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Table of Contents

GRAPHIC PACKAGING HOLDING COMPANY  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

NOTE 1 — GENERAL INFORMATION

Nature of Business and Basis of Presentation

Graphic Packaging Holding Company (“GPHC” and, together with its subsidiaries, the “Company”) is committed to providing consumer packaging that makes a world of difference. The Company is a leading provider of paper-based packaging solutions for a wide variety of products to food, beverage, foodservice and other consumer products companies. The Company operates on a global basis and is one of the largest producers of folding cartons in the United States (“U.S.”) and holds leading market positions in coated unbleached kraft paperboard (“CUK”), coated-recycled paperboard (“CRB”) and solid bleach sulfate paperboard (“SBS”).

On January 1, 2018, GPHC, a Delaware corporation, International Paper Company, a New York corporation (“IP”), Graphic Packaging International Partners, LLC, a Delaware limited liability company formerly known as Gazelle Newco LLC and a wholly owned subsidiary of the Company (“GPIP”), and Graphic Packaging International, LLC, a Delaware limited liability company formerly known as Graphic Packaging International, Inc. and a wholly owned subsidiary of GPIP (“GPIL”), completed a series of transactions pursuant to an agreement dated October 23, 2017, among the foregoing parties (the “Transaction Agreement”). Pursuant to the Transaction Agreement (i) a wholly owned subsidiary of the Company transferred its ownership interest in GPIL to GPIP; (ii) IP transferred its North America Consumer Packaging business (“NACP”) to GPIP, which was then subsequently transferred to GPIL; (iii) GPIP issued membership interests to IP, and IP was admitted as a member of GPIP; and (iv) GPIL assumed certain indebtedness of IP (the “NACP Combination”).

GPI Holding III, LLC, an indirect wholly owned subsidiary of the Company (“GPI Holding”), is the managing member of GPIP.

At closing of the NACP Combination, GPIP issued 309,715,624 common units or 79.5% of the membership interests in GPIP to GPI Holding and 79,911,591 common units or 20.5% of the membership interests in GPIP to IP. Subject to certain restrictions, the common units held by IP are exchangeable into shares of common stock of GPHC or cash.

The following diagram illustrates the organization of the Company immediately subsequent to the transactions described above (not including subsidiaries of GPIL):

Table of Contents

GRAPHIC PACKAGING HOLDING COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The Company's customers include many of the world's most widely recognized companies and brands with prominent market positions in beverage, food, foodservice, and other consumer products. The Company strives to provide its customers with packaging solutions designed to deliver marketing and performance benefits at a competitive cost by capitalizing on its low-cost paperboard mills and converting facilities, its proprietary carton and packaging designs, and its commitment to quality and service.

GPHC, GPI Holding I, Inc., GPI Holding II, Inc. and GPI Holding III, LLC conduct no significant business operations and have no independent assets or operations other than intercompany transactions and their direct and indirect ownership of 79.5% of GPIIP's membership interests, except for deferred tax assets held by GPHC.

The Company's Condensed Consolidated Financial Statements include all subsidiaries in which the Company has the ability to exercise direct or indirect control over operating and financial policies. Intercompany transactions and balances are eliminated in consolidation.

In the Company's opinion, the accompanying Condensed Consolidated Financial Statements contain all normal recurring adjustments necessary to present fairly the financial position, results of operations and cash flows for the interim periods. The Company's year end Condensed Consolidated Balance Sheet data was derived from audited financial statements. The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with instructions to Form 10-Q and Rule 10-01 of Regulation S-X and do not include all the information required by accounting principles generally accepted in the United States of America ("U.S. GAAP") for complete financial statements. Therefore, these Condensed Consolidated Financial Statements should be read in conjunction with GPHC's Form 10-K for the year ended December 31, 2017. In addition, the preparation of the Condensed Consolidated Financial Statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates and changes in these estimates are recorded when known.

For a summary of the Company's significant accounting policies, please refer to GPHC's Form 10-K for the year ended December 31, 2017.

#### Revenue Recognition

The Company has two primary activities from which it generates revenue from contracts with customers and revenue is disaggregated primarily by geography and type of activity as further explained in "Note 10-Segments." All reportable segments and the Australia and Pacific Rim operating segments recognize revenue under the same method, allocate transaction price using similar methods, and have similar economic factors impacting the uncertainty of revenue and related cash flows.

Revenue is recognized on the Company's annual and multi-year supply contracts when the Company satisfies the performance obligation by transferring control over the product or service to a customer, which is generally based on shipping terms and passage of title under the point-in-time method of recognition. For the three months ended March

31, 2018 and 2017, the Company recognized \$1,470.8 million and \$1,056.4 million, respectively, of revenue from contracts with customers.

The transaction price allocated to each performance obligation consists of the stand alone selling price, estimates of rebates and other sales or contract renewal incentives, and cash discounts and sales returns ("Variable Consideration"). Estimates are made for Variable Consideration based on contract terms and historical experience of actual results and are applied to the performance obligations as they are settled. Purchases by the Company's principal customers are manufactured and shipped with minimal lead time, therefore performance obligations are generally settled shortly after manufacturing and shipment.

The Company's contract assets consist primarily of contract renewal incentive payments to customers which are amortized over the period in which performance obligations related to the contract renewal are satisfied. As of March 31, 2018 and December 31, 2017 contract assets were \$18.4 million and \$11.7 million, respectively. The Company's contract liabilities consist principally of rebates, and as of March 31, 2018 and December 31, 2017 were \$38.9 million and \$28.6 million, respectively.

The Company did not have a material amount relating to backlog orders at March 31, 2018 or December 31, 2017.

Table of ContentsGRAPHIC PACKAGING HOLDING COMPANY  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

## Accounts Receivable and Allowances

The Company has entered into agreements to sell, on a revolving basis, certain trade accounts receivable to third party financial institutions. Transfers under these agreements meet the requirements to be accounted for as sales in accordance with the Transfers and Servicing topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification (the "Codification"). The loss on sale is not material and is included in Other Expense (Income), Net on the Condensed Consolidated Statement of Operations. The following table summarizes the activity under these programs as of March 31, 2018 and March 31, 2017, respectively:

In millions	Three Months Ended March 31,	
	2018	2017
Receivables Sold and Derecognized	\$844.8	\$346.2
Proceeds Collected on Behalf of Financial Institutions	833.7	352.8
Proceeds Paid to Financial Institutions	128.7	9.1
Deferred Purchase Price	240.4	33.1

The Company has also entered into various factoring and supply chain financing arrangements, which also qualify for sale accounting in accordance with the Transfers and Servicing topic of the FASB Codification. For the three months ended March 31, 2018 and 2017, the Company sold receivables of approximately \$30 million and \$18 million, respectively, related to these factoring arrangements.

Receivables sold under all programs subject to continuing involvement, which consist principally of collection services, at March 31, 2018 and December 31, 2017, were approximately \$593 million and \$583 million, respectively.

## Capital Allocation Plan

On February 22, 2018, the Company's board of directors declared a regular quarterly dividend of \$0.075 per share of common stock paid on April 5, 2018 to shareholders of record as of March 15, 2018.

On January 10, 2017, the Company's board of directors authorized an additional share repurchase program to allow the Company to purchase up to \$250 million of the Company's issued and outstanding shares of common stock through open market purchases, privately negotiated transactions and Rule 10b5-1 plans (the "2017 share repurchase program"). The original \$250 million share repurchase program was authorized on February 4, 2015 (the "2015 share repurchase program"). During the first three months of 2018, the Company did not repurchase any shares of its common stock. The Company repurchased approximately 3 million shares at an average price of \$12.98 during the three months ended March 31, 2017, including approximately 1.4 million shares repurchased under the 2015 share repurchase program thereby completing that program. As of March 31, 2018, the Company has approximately \$210 million available for additional repurchases under the 2017 share repurchase program.

## Business Combinations and Shutdown and Other Special Charges, Net

The following table summarizes the transactions recorded in Business Combinations and Shutdown and Other Special Charges, Net in the Condensed Consolidated Statements of Operations:

In millions	Three Months Ended March 31,	
	2018	2017
Charges Associated with Business Combinations	\$27.0	\$3.9
Shutdown and Other Special Charges	0.8	4.7
Gain on Sale of Assets	(1.5 )	—
Total	\$26.3	