

ARMSTRONG WORLD INDUSTRIES INC
Form 10-Q
October 30, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017

OR

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

For the transition period from _____ to _____

Commission File Number 1-2116

ARMSTRONG WORLD INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

23-0366390
(I.R.S. Employer
Identification No.)

2500 Columbia Avenue, Lancaster, Pennsylvania
(Address of principal executive offices)

17603
(Zip Code)

Registrant's telephone number, including area code (717) 397-0611

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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 time 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:

Large accelerated filer Accelerated filer Non-accelerated filer
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

Number of shares of Armstrong World Industries, Inc.’s common stock outstanding as of October 24, 2017 – 52,795,753.

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When we refer to “AWI,” the “Company,” “we,” “our” or “us,” we are referring to Armstrong World Industries, Inc. and its subsidiaries.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q and the documents incorporated by reference herein may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Those forward-looking statements are subject to various risks and uncertainties and include all statements that are not historical statements of fact and those regarding our intent, belief or expectations, including, but not limited to, our expectations concerning our residential and commercial markets and their effect on our operating results; our expectations regarding the payment of dividends; and our ability to increase revenues, earnings and EBITDA (as such terms are defined by documents incorporated by reference herein). Words such as “anticipate,” “expect,” “intend,” “plan,” “target,” “project,” “predict,” “believe,” “may,” “will,” “would,” “could,” “should,” “seek,” “estimate” and similar expressions identify such forward-looking statements. These statements are based on management’s current expectations and beliefs and are subject to a number of factors that could lead to actual results materially different from those described in the forward-looking statements. Although we believe that the assumptions underlying the forward-looking statements are reasonable, we can give no assurance that our expectations will be attained. Factors that could have a material adverse effect on our financial condition, liquidity, results of operations or future prospects or which could cause actual results to differ materially from our expectations include, but are not limited to:

- global and domestic economic conditions;
- construction activity;
- the tax consequences of the separation of the flooring business from our ceilings (building products) business;
- competition;
- key customers;
- availability and costs of raw materials and energy;
- international operations;
- Worthington Armstrong Venture (“WAVE”), our joint venture with Worthington Industries, Inc.;
- environmental matters;
- covenants in our debt agreements;
- our indebtedness;
- our liquidity;
- strategic transactions;
- negative tax consequences;
- defined benefit plan obligations;
- claims and litigation;
- labor;
- intellectual property rights;
- cost savings and productivity initiatives; and
- other risks detailed from time to time in our filings with the Securities and Exchange Commission (the “SEC”), press releases and other communications, including those set forth under “Risk Factors” included in our Annual Report on Form 10-K and in the documents incorporated by reference.

Such forward-looking statements speak only as of the date they are made. We expressly disclaim any obligation to release publicly any updates or revisions to any forward-looking statements to reflect any change in our expectations with regard thereto or change in events, conditions or circumstances on which any forward-looking statement is based.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Armstrong World Industries, Inc., and Subsidiaries

Condensed Consolidated Statements of Earnings and Comprehensive Income

(amounts in millions, except per share data)

Unaudited

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Net sales	\$ 351.9	\$ 334.9	\$ 998.1	\$ 936.6
Cost of goods sold	241.0	225.2	676.8	651.1
Gross profit	110.9	109.7	321.3	285.5
Selling, general and administrative expenses	55.8	55.7	162.8	165.2
Separation costs	-	2.0	-	33.0
Equity earnings from joint venture	(13.9)	(19.0)	(51.9)	(57.0)
Operating income	69.0	71.0	210.4	144.3
Interest expense	9.1	9.0	27.5	43.4
Other non-operating expense	1.7	-	3.6	-
Other non-operating (income)	(3.0)	(1.6)	(7.4)	(8.9)
Earnings from continuing operations before income taxes	61.2	63.6	186.7	109.8
Income tax expense	17.7	7.7	70.9	44.4
Earnings from continuing operations	43.5	55.9	115.8	65.4
Net (loss) from discontinued operations, net of tax expense				
of \$ -, \$-, \$- and \$ 0.1	-	-	-	(4.5)
Gain from disposal of discontinued business, net of tax				
(benefit) of (\$5.9), (\$14.7), (\$5.4) and (\$16.6)	5.9	14.7	5.3	16.7
Net gain from discontinued operations	5.9	14.7	5.3	12.2
Net earnings	\$ 49.4	\$ 70.6	\$ 121.1	\$ 77.6
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	7.0	(2.0)	20.9	(13.8)
Derivative (loss) gain	(0.3)	1.7	(2.0)	1.2
Pension and postretirement adjustments	14.3	6.9	18.8	23.9
Total other comprehensive income	21.0	6.6	37.7	11.3
Total comprehensive income	\$ 70.4	\$ 77.2	\$ 158.8	\$ 88.9
Earnings per share of common stock, continuing operations:				
Basic	\$ 0.82	\$ 1.00	\$ 2.16	\$ 1.17
Diluted	\$ 0.81	\$ 0.99	\$ 2.14	\$ 1.16

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Earnings per share of common stock, discontinued operations:				
Basic	\$ 0.11	\$ 0.26	\$ 0.10	\$ 0.22
Diluted	\$ 0.11	\$ 0.26	\$ 0.10	\$ 0.22
Net earnings per share of common stock:				
Basic	\$ 0.93	\$ 1.27	\$ 2.26	\$ 1.39
Diluted	\$ 0.92	\$ 1.26	\$ 2.24	\$ 1.38
Average number of common shares outstanding:				
Basic	53.0	55.5	53.5	55.6
Diluted	53.5	56.0	53.9	56.0

See accompanying notes to Condensed Consolidated Financial Statements beginning on page 8.

Armstrong World Industries, Inc., and Subsidiaries

Condensed Consolidated Balance Sheets

(amounts in millions, except share and per share data)

	Unaudited	
	September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 116.5	\$ 141.9
Accounts and notes receivable, net	142.5	108.3
Inventories, net	117.8	109.0
Income tax receivable	7.4	26.2
Other current assets	23.6	20.8
Total current assets	407.8	406.2
Property, plant, and equipment, less accumulated depreciation and amortization of \$497.5 and \$445.5, respectively	699.0	669.6
Prepaid pension costs	91.2	56.6
Investment in joint venture	105.4	106.2
Goodwill and intangible assets, net	450.3	434.5
Deferred income taxes	11.6	15.4
Income taxes receivable	-	5.7
Other non-current assets	64.4	63.8
Total assets	\$ 1,829.7	\$ 1,758.0
Liabilities and Shareholders' Equity		
Current liabilities:		
Current installments of long-term debt	\$ 32.5	\$ 25.0
Accounts payable and accrued expenses	169.8	197.1
Income tax payable	3.6	2.0
Total current liabilities	205.9	224.1
Long-term debt, less current installments	825.3	848.6
Postretirement benefit liabilities	80.2	84.8
Pension benefit liabilities	90.4	86.3
Other long-term liabilities	27.6	29.1
Income taxes payable	31.8	62.2
Deferred income taxes	202.3	156.5
Total non-current liabilities	1,257.6	1,267.5
Shareholders' equity:		
Common stock, \$0.01 par value per share, 200 million shares authorized, 60,719,298 shares issued and 52,792,644 shares outstanding as of September 30, 2017 and	0.6	0.6

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60,597,140 shares issued and 54,428,233 shares outstanding as of December 31, 2016		
Additional paid-in capital	512.6	504.9
Retained earnings	599.7	469.9
Treasury stock, at cost, 7,926,654 shares as of September 30, 2017 and 6,168,907 shares as of December 31, 2016	(380.6)	(305.2)
Accumulated other comprehensive (loss)	(366.1)	(403.8)
Total shareholders' equity	366.2	266.4
Total liabilities and shareholders' equity	\$ 1,829.7	\$ 1,758.0

See accompanying notes to Condensed Consolidated Financial Statements beginning on page 8.

Armstrong World Industries, Inc., and Subsidiaries

Condensed Consolidated Statements of Shareholders' Equity

(amounts in millions, except share data)

Unaudited

Nine Months Ended September 30, 2017

	Common Stock Shares	Additional Paid-In Amount Capital	Retained Earnings	Treasury Shares	Stock Amount	Accumulated Other Comprehensive (Loss)	Total
Balance at beginning of period	54,428,233	\$ 0.6	\$ 504.9	\$ 469.9	6,168,907	\$(305.2)	\$ (403.8) \$266.4
Cumulative effect impact of ASU 2016-09 adoption			8.7				8.7
Stock issuance	122,158						
Share-based employee compensation		6.8					6.8
Net earnings			121.1				121.1
Separation of Armstrong Flooring, Inc.		0.9					0.9
Other comprehensive income						37.7	37.7
Acquisition of treasury stock	(1,757,747)			1,757,747	(75.4)		(75.4)
Balance at end of period	52,792,644	\$ 0.6	\$ 512.6	\$ 599.7	7,926,654	\$(380.6)	\$ (366.1) \$366.2

Nine Months Ended September 30, 2016

	Common Stock Shares	Additional Paid-In Amount Capital	Retained Earnings	Treasury Shares	Stock Amount	Accumulated Other Comprehensive (Loss)	Total
Balance at beginning of period	55,359,064	\$ 0.6	\$ 1,151.8	\$ 365.2	5,057,382	\$(261.4)	\$ (487.4) \$768.8
Stock issuance	147,488						
Share-based employee compensation		13.1					13.1
Net earnings			77.6				77.6
Separation of Armstrong Flooring, Inc.		(660.7)				56.8	(603.9)
Other comprehensive income						11.3	11.3
	(187,331)			187,331	(7.8)		(7.8)

Acquisition of treasury
stock

Balance at end of period	55,319,221	\$ 0.6	\$ 504.2	\$ 442.8	5,244,713	\$(269.2)	\$ (419.3) \$259.1
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See accompanying notes to Condensed Consolidated Financial Statements beginning on page 8.

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Armstrong World Industries, Inc., and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(amounts in millions)

Unaudited

Nine
Months
Ended
September
30,
2017