

GRAPHIC PACKAGING HOLDING CO  
Form 10-Q  
October 26, 2016  
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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 September 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: 001-33988

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 R No o

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 R No o

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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. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a 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

As of October 24, 2016, there were 317,574,918 shares of the registrant’s Common Stock, par value \$0.01 per share, outstanding.

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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, the deductibility of goodwill related to Metro Packaging and Imaging, Inc., capital investment, available cash and liquidity, depreciation and amortization, interest expense, reclassification of Accumulated Other Comprehensive Loss to earnings, 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 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 2015 Annual Report on Form 10-K, and in other filings with the Securities and Exchange Commission.

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## 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		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net Sales	\$1,103.7	\$1,070.0	\$3,240.9	\$3,135.3
Cost of Sales	912.4	868.1	2,637.1	2,545.8
Selling, General and Administrative	78.9	83.7	260.7	257.8
Other (Income) Expense, Net	(0.1	) 0.2	2.0	(7.9
Business Combinations and Other Special Charges	7.4	8.0	23.2	14.1
Income from Operations	105.1	110.0	317.9	325.5
Interest Expense, Net	(20.0	) (16.5	) (55.1	) (51.2
Income before Income Taxes and Equity Income of Unconsolidated Entity	85.1	93.5	262.8	274.3
Income Tax Expense	(28.0	) (33.6	) (71.3	) (102.3
Income before Equity Income of Unconsolidated Entity	57.1	59.9	191.5	172.0
Equity Income of Unconsolidated Entity	0.7	0.3	1.6	0.9
Net Income	\$57.8	\$60.2	\$193.1	\$172.9
Net Income Per Share — Basic and Diluted	\$0.18	\$0.18	\$0.60	\$0.52
Cash Dividends Declared Per Share	\$0.05	\$0.05	\$0.15	\$0.15

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

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

	Three Months		Nine Months	
	Ended		Ended	
In millions	September 30,		September 30,	
	2016	2015	2016	2015
Net Income	\$57.8	\$60.2	\$193.1	\$172.9
Other Comprehensive Income (Loss), Net of Tax:				
Derivative Instruments	2.1	(3.8 )	5.1	(1.4 )
Currency Translation Adjustment	(6.8 )	(16.2 )	(26.3 )	(25.9 )
Pension and Postretirement Benefit Plans	5.2	2.4	(15.5 )	24.4
Total Other Comprehensive Income (Loss), Net of Tax	0.5	(17.6 )	(36.7 )	(2.9 )
Total Comprehensive Income	\$58.3	\$42.6	\$156.4	\$170.0

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

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GRAPHIC PACKAGING HOLDING COMPANY  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Unaudited)

In millions, except share and per share amounts	September 30, 2016	December 31, 2015
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 45.7	\$ 54.9
Receivables, Net	500.9	423.9
Inventories, Net	591.9	557.1
Other Current Assets	40.0	30.9
Total Current Assets	1,178.5	1,066.8
Property, Plant and Equipment, Net	1,767.5	1,586.4
Goodwill	1,265.0	1,167.8
Intangible Assets, Net	462.4	386.7
Other Assets	48.7	48.4
Total Assets	\$ 4,722.1	\$ 4,256.1
<b>LIABILITIES</b>		
Current Liabilities:		
Short-Term Debt and Current Portion of Long-Term Debt	\$ 64.1	\$ 36.6
Accounts Payable	426.8	457.9
Compensation and Employee Benefits	98.2	119.7
Other Accrued Liabilities	142.9	118.0
Total Current Liabilities	732.0	732.2
Long-Term Debt	2,190.9	1,838.9
Deferred Income Tax Liabilities	370.5	266.7
Accrued Pension and Postretirement Benefits	248.1	247.3
Other Noncurrent Liabilities	72.6	69.3
<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; 318,037,318 and 324,688,717 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	3.2	3.2
Capital in Excess of Par Value	1,731.0	1,771.0
Accumulated Deficit	(243.8)	(326.8)
Accumulated Other Comprehensive Loss	(382.4)	(345.7)
Total Shareholders' Equity	1,108.0	1,101.7
Total Liabilities and Shareholders' Equity	\$ 4,722.1	\$ 4,256.1

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





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

In millions	Nine Months Ended September 30,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ 193.1	\$ 172.9
Non-cash Items Included in Net Income:		
Depreciation and Amortization	224.1	212.8
Deferred Income Taxes	55.1	90.1
Amount of Postretirement Expense Less Than Funding Other, Net	(24.3 )	(28.8 )
Changes in Operating Assets and Liabilities	(86.3 )	(117.1 )
Net Cash Provided by Operating Activities	394.3	351.0
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital Spending	(248.7 )	(173.0 )
Packaging Machinery Spending	(9.7 )	(8.7 )
Acquisition of Businesses, Net of Cash Acquired	(331.9 )	(113.6 )
Other, Net	(4.1 )	1.2
Net Cash Used in Investing Activities	(594.4 )	(294.1 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repurchase of Common Stock	(106.4 )	(23.0 )
Payments on Debt	(18.8 )	(18.7 )
Proceeds from Issuance of Debt	300.0	—
Borrowings under Revolving Credit Facilities	1,013.3	748.9
Payments on Revolving Credit Facilities	(933.3 )	(704.5 )
Repurchase of Common Stock related to Share-Based Payments	(10.6 )	(21.3 )
Debt Issuance Costs	(5.1 )	—
Dividends Paid	(48.5 )	(32.9 )
Other, Net	(0.5 )	(1.1 )
Net Cash Provided by (Used In) Financing Activities	190.1	(52.6 )
Effect of Exchange Rate Changes on Cash	0.8	(4.4 )
Net Decrease in Cash and Cash Equivalents	(9.2 )	(0.1 )
Cash and Cash Equivalents at Beginning of Period	54.9	81.6
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 45.7</b>	<b>\$ 81.5</b>

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



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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 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”) and coated-recycled paperboard (“CRB”).

The Company’s customers include many of the world’s most widely recognized companies and brands with prominent market positions in beverage, food 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 plants, its proprietary carton and packaging designs, and its commitment to quality and service.

GPHC conducts no significant business and has no independent assets or operations other than its ownership of all of Graphic Packaging International, Inc.’s (“GPII”) outstanding common stock.

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, 2015. 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, 2015.

Accounts Receivable and Allowances

The Company has entered into agreements for the purchasing and servicing of receivables to sell, on a revolving basis, certain trade accounts receivable balances to a third party financial institution. 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"). During the first nine months of 2016, the Company sold and derecognized approximately \$945 million of receivables, collected approximately \$878 million on behalf of the financial institution, and received funding of approximately \$95 million by the financial institution, resulting in deferred proceeds of approximately \$23 million as of September 30, 2016. During the same period of 2015, the Company sold and derecognized approximately \$799 million of receivables, collected approximately \$614 million on behalf of the financial institution, and received funding of approximately \$178 million by the financial institution, resulting in deferred proceeds of approximately \$40 million as of September 30, 2015. Cash proceeds related to the sales are included in cash from operating activities in the Condensed Consolidated Statements of Cash Flows in the Changes in Operating Assets and Liabilities line item. The loss on sale is not material and is included in Other (Income) Expense, Net line item on the Condensed Consolidated Statement of Operations.

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 nine months ended September 30, 2016 and 2015, the Company sold receivables of approximately \$33 million and \$114 million, respectively, related to these factoring arrangements.

Receivables sold under all programs subject to continuing involvement, which consist principally of collection services, at September 30, 2016 and December 31, 2015, were approximately \$347 million and \$282 million, respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

## Capital Allocation Plan

During the first nine months of 2016, the Company's board of directors declared a regular quarterly dividend of \$0.05 per share of common stock to shareholders of record as follows:

Date Declared	Record Date	Payment Date
February 25, 2016	March 15, 2016	April 5, 2016
May 25, 2016	June 15, 2016	July 5, 2016
July 29, 2016	September 15, 2016	October 5, 2016

On February 4, 2015, the Company's board of directors authorized a 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 Company repurchased 8,448,292, and 1,628,427 shares at an average price of \$12.74 and \$14.12 during the nine months ended September 30, 2016 and September 30, 2015, respectively. As of September 30, 2016, the Company has approximately \$79 million remaining under the current share repurchase program.

## Business Combinations and Other Special Charges

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
In millions	2016	2015	2016	2015
Charges Associated with Business Combinations	\$5.0	\$5.7	\$15.4	\$10.1
Other Special Charges	2.4	0.6	7.8	2.3
Loss on Sale of Assets	—	1.7	—	1.7
Total	\$7.4	\$8.0	\$23.2	\$14.1

On April 29, 2016, the Company completed the previously announced acquisition of Colorpak Limited ("Colorpak"), a leading folding carton supplier in Australia and New Zealand. Colorpak operates three folding carton facilities that convert paperboard into folding cartons for the food, beverage and consumer product markets. The folding carton facilities are located in Melbourne, Australia, Sydney, Australia and Auckland, New Zealand.

On March 31, 2016, the Company acquired substantially all of the assets of Metro Packaging & Imaging, Inc. ("Metro"), a single converting facility located in Wayne, New Jersey.

On February 16, 2016, the Company acquired Walter G. Anderson, Inc., ("WG Anderson") a premier folding carton manufacturer with a focus on store branded food and consumer product markets. WG Anderson operates two world-class sheet-fed folding carton converting facilities located in Hamel, Minnesota and Newton, Iowa.

On January 5, 2016, the Company acquired G-Box, S.A. de C.V., ("G-Box"). The acquisition includes two folding carton converting facilities located in Monterrey, Mexico and Tijuana, Mexico that service the food, beverage, and consumer products markets.

On October 1, 2015, the Company acquired the converting assets of Staunton, VA-based Carded Graphics, LLC, ("Carded"), an award winning folding carton producer with a strong regional presence in food, craft beer and other consumer product markets.

On February 4, 2015, the Company completed its acquisition of certain assets of Cascades Norampac Division ("Cascades").

On January 2, 2015, the Company completed its acquisition of Rose City Printing and Packaging, Inc. ("Rose City").

Charges associated with these acquisitions are reflected in Charges Associated with Business Combinations in the above table.

For more information regarding the above acquisitions see Note 3 - Acquisitions.

#### Adoption of New Accounting Standards

Effective January 1, 2016, the Company adopted Accounting Standards Update ("ASU") No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. The amendments in this ASU eliminated the requirement to

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

retrospectively account for provisional amounts recognized in a business combination. The adoption did not have any impact on the Company's disclosure for business combinations and financial position.

Effective January 1, 2016 the Company adopted ASU No. 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The amendments in the ASU clarify the proper method of accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The adoption had no impact on the Company's financial position, results of operations and cash flows.

Accounting Standards Not Yet Adopted

In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments. This ASU provides guidance to clarify how certain cash receipts and payments should be presented in the statement of cash flows. The guidance is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted in any annual or interim period. The updated guidance requires a modified retrospective adoption. The Company is evaluating the impact of adoption on the Company's financial position, results of operations and cash flow.

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718); Improvements to Employees Share-Based Payment Accounting. The amendments in this ASU are part of the simplification initiative by the FASB and involve several aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards as equity or liabilities, forfeitures, and classification on the statement of cash flows. The amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted in any annual or interim period. Depending on the amendment, methods used to apply the requirements of the amendment include modified retrospective, retrospective, and prospective. The Company is evaluating the impact of adoption on the Company's financial position, results of operations and cash flow.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The amendments in this ASU require an entity to recognize a right-of-use asset and lease liability for all leases with terms of more than 12 months. Recognition, measurement and presentation of expenses will depend on classification as a finance or operating lease. The amendments also require certain quantitative and qualitative disclosures about leasing arrangements. The amendments are ef