

GRAFTECH INTERNATIONAL LTD

Form 10-Q

May 07, 2018

Table of Contents

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 March 31, 2018

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: 1-13888

GRAFTECH INTERNATIONAL LTD.
(Exact name of registrant as specified in its charter)

Delaware 27-2496053
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)

982 Keynote Circle 44131
Brooklyn Heights, OH (Zip code)
(Address of principal executive offices)
Registrant's telephone number, including area code: (216) 676-2000

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 Accelerated Filer Emerging Growth Company

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.

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

As of April 16, 2018, 302,225,923 shares of common stock, par value \$.01 per share, were outstanding.

Table of Contents

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION:

Item 1. Financial Statements

<u>Condensed Consolidated Balance Sheets as of March 31, 2018 and December 31, 2017 (unaudited)</u>	<u>5</u>
---	----------

<u>Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the Three Months Ended March 31, 2018 and 2017 (unaudited)</u>	<u>6</u>
---	----------

<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2018 and 2017 (unaudited)</u>	<u>7</u>
---	----------

<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	<u>8</u>
---	----------

<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>24</u>
--	-----------

<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>36</u>
---	-----------

<u>Item 4. Controls and Procedures</u>	<u>37</u>
--	-----------

PART II. OTHER INFORMATION:

<u>Item 1. Legal Proceedings</u>	<u>38</u>
----------------------------------	-----------

<u>Item 1A. Risk Factors</u>	<u>38</u>
------------------------------	-----------

<u>Item 6. Exhibits</u>	<u>54</u>
-------------------------	-----------

<u>SIGNATURE</u>	<u>57</u>
------------------	-----------

Presentation of Financial, Market and Legal Data

We present our financial information on a consolidated basis. Unless otherwise noted, when we refer to dollars, we mean U.S. dollars.

Unless otherwise specifically noted, market and market share data in this Report are our own estimates or derived from sources described in our most recently filed Registration Statement on Form S-1. Our estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed under “Forward Looking Statements” and “Risk Factors” in this Report. We cannot guarantee the accuracy or completeness of this market and market share data and have not independently verified it. None of the sources has consented to the disclosure or use of data in this Report.

Forward Looking Statements

Some of the statements under “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and elsewhere in this report may contain forward looking statements that reflect our current views with respect to, among other things, future events and financial performance. You can identify these forward looking statements by the use of forward looking words such as “will,” “may,” “plan,” “estimate,” “project,” “believe,” “anticipate,” “intend,” “should,” “would,” “could,” “target,” “goal,” “continue to,” “positioned to” or the negative version of those words or comparable words. Any forward looking statements contained in this report are based upon our historical performance and on our current plans, estimates and expectations in light of information currently available to us. The inclusion of

this forward looking information should not be regarded as a representation by us that the future plans, estimates or expectations contemplated by us will be achieved. These forward looking statements are subject to various risks and uncertainties and assumptions relating to our operations, financial results, financial condition, business, prospects, growth strategy and liquidity. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements. We believe that these factors include, but are not limited to:

- our history of net losses and the possibility that we may not achieve or maintain profitability in the future;
- the possibility that we are unable to implement our business strategies, including our initiative to secure and maintain three to five year take or pay customer contracts, in an effective manner;

Table of Contents

- the possibility that new tax legislation could adversely affect us or our stockholders;
- the fact that pricing for graphite electrodes has historically been cyclical and, in the future, the price of graphite electrodes will likely decline from recent record highs;
- the sensitivity of our business and operating results to economic conditions;
- our dependence on the global steel industry generally and the EAF steel industry in particular;
- the possibility that global graphite electrode overcapacity may adversely affect graphite electrode prices;
- the competitiveness of the graphite electrode industry;
- our dependence on the supply of petroleum needle coke;
- our dependence on supplies of raw materials (in addition to petroleum needle coke) and energy;
- the legal, economic, social and political risks associated with our substantial operations in multiple countries;
- the possibility that fluctuation of foreign currency exchange rates could materially harm our financial results;
- the possibility that our results of operations could deteriorate if our manufacturing operations were substantially disrupted for an extended period, including as a result of equipment failure, climate change, natural disasters, public health crises, political crises or other catastrophic events;
- the possibility that plant capacity expansions may be delayed or may not achieve the expected benefits;
- our dependence on third parties for certain construction, maintenance, engineering, transportation, warehousing and logistics services;
 - the possibility that we are unable to recruit or retain key management and plant operating personnel or successfully negotiate with the representatives of our employees, including labor unions;
- the possibility that we may divest or acquire businesses, which could require significant management attention or disrupt our business;
- the sensitivity of goodwill on our balance sheet to changes in the market;
- the possibility that we are subject to information technology systems failures, cybersecurity attacks, network disruptions and breaches of data security;
- our dependence on protecting our intellectual property;
- the possibility that third parties may claim that our products or processes infringe their intellectual property rights;
- the possibility that our manufacturing operations are subject to hazards;
- changes in, or more stringent enforcement of, health, safety and environmental regulations applicable to our manufacturing operations and facilities;
- the possibility that significant changes in our jurisdictional earnings mix or in the tax laws of those jurisdictions could adversely affect our business;
- the possibility that our indebtedness could limit our financial and operating activities or that our cash flows may not be sufficient to service our indebtedness;
- the possibility that restrictive covenants in our financing agreements could restrict or limit our operations;
- the possibility that our cash flows are insufficient to service our indebtedness;

Table of Contents

- the fact that borrowings under certain of our existing financing agreements subjects us to interest rate risk;
- the possibility of a lowering or withdrawal of the ratings assigned to our debt;
- the possibility that disruptions in the capital and credit markets adversely affect our results of operations, cash flows and financial condition, or those of our customers and suppliers;
- the possibility that highly concentrated ownership of our common stock may prevent minority stockholders from influencing significant corporate decisions;
- the fact that certain of our stockholders have the right to engage or invest in the same or similar businesses as us;
- the fact that certain provisions of our Amended and Restated Certificate of Incorporation and our Amended and Restated By Laws could hinder, delay or prevent a change of control;
- the fact that the Court of Chancery of the State of Delaware will be the exclusive forum for substantially all disputes between us and our stockholders;
- our expectation to be a “controlled company” within the meaning of the NYSE corporate governance standards, which would allow us to qualify for exemptions from certain corporate governance requirements; and
- other risks described in the “Risk Factors” section of this report.

These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report. The forward looking statements made in this report relate only to events as of the date on which the statements are made. We do not undertake any obligation to publicly update or review any forward looking statement except as required by law, whether as a result of new information, future developments or otherwise.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, our actual results may vary materially from what we may have expressed or implied by these forward looking statements. We caution that you should not place undue reliance on any of our forward looking statements. You should specifically consider the factors identified in this report that could cause actual results to differ before making an investment decision to purchase our common stock. Furthermore, new risks and uncertainties arise from time to time, and it is impossible for us to predict those events or how they may affect us.

All subsequent written and oral forward looking statements by or attributable to us or persons acting on our behalf are expressly qualified in their entirety by these factors. Except as otherwise required to be disclosed in periodic reports required to be filed by public companies with the SEC pursuant to the SEC's rules, we have no duty to update these statements.

For a more complete discussion of these and other factors, see “Risk Factors” in Part II of this report.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

Unaudited

	As of March 31, 2018	As of December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 138,373	\$ 13,365
Accounts and notes receivable, net of allowance for doubtful accounts of \$994 as of March 31, 2018 and \$1,097 as of December 31, 2017	252,216	116,841
Inventories	202,518	174,151
Prepaid expenses and other current assets	35,563	44,872
Current assets of discontinued operations	2,406	5,313
Total current assets	631,076	354,542
Property, plant and equipment	662,004	642,651
Less: accumulated depreciation	143,862	129,810
Net property, plant and equipment	518,142	512,841
Deferred income taxes	19,678	30,768
Goodwill	171,117	171,117
Other assets	127,165	129,835
Total assets	\$ 1,467,178	\$ 1,199,103
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 79,178	\$ 69,110
Short-term debt	52,394	16,474
Accrued income and other taxes	22,451	9,737
Other accrued liabilities	32,508	53,226
Current liabilities of discontinued operations	2,849	3,412
Total current liabilities	189,380	151,959
Long-term debt	1,421,265	322,900
Other long-term obligations	80,176	68,907
Deferred income taxes	52,166	41,746
Long-term liabilities of discontinued operations	376	376
Contingencies – Note 9		
Stockholders' equity:		
Preferred stock, par value \$.01, 300,000,000 shares authorized, none issued	—	—
Common stock, par value \$.01, 3,000,000,000 shares authorized, 302,225,923 shares issued as of March 31, 2018 and December 31, 2017*	3,022	3,022
Additional paid-in capital	851,315	851,315
Accumulated other comprehensive income	19,216	20,289
Accumulated deficit	(1,149,738)	(261,411)
Total stockholders' (deficit) equity	(276,185)	613,215
Total liabilities and stockholders' equity	\$ 1,467,178	\$ 1,199,103

* See Notes 1 and 12

See accompanying Notes to Condensed Consolidated Financial Statements

5

Table of Contents

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(Dollars in thousands)
(Unaudited)

	For the Three Months Ended March 31,	
	2018	2017
CONSOLIDATED STATEMENTS OF OPERATIONS		
Net sales	\$451,899	\$ 104,739
Cost of sales	145,149	103,453
Gross profit	306,750	