CHASE CORP
Form 10-Q
January 09, 2018

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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 November 30, 2017

Commission File Number: 1-9852

CHASE CORPORATION

(Exact name of registrant as specified in its charter)

Massachusetts	11-1797126
(State or other jurisdiction of incorporation of organization)	(I.R.S. Employer Identification No.)

295 University Avenue, Westwood, Massachusetts 02090

(Address of Principal Executive Offices, Including Zip Code)

(781) 332-0700

(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, 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.

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	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 7(a)(2)(B) of the Securities Act.

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

The number of shares of Common Stock outstanding as of December 31, 2017 was 9,374,840

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Cautionary Note Concerning Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward -looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements, including without limitation forward-looking statements made under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” involve risks and uncertainties. Any statements contained in this Quarterly Report that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements include, without limitation, statements as to our future operating results; seasonality expectations; plans for the development, utilization or disposal of manufacturing facilities; future economic conditions; our expectations as to legal proceedings; the effect of our market and product development efforts; and expectations or plans relating to the implementation or realization of our strategic goals and future growth, including through potential future acquisitions. Forward-looking statements may include, among other things, statements relating to future sales, earnings, cash flow, results of operations, use of cash and other measures of financial performance, as well as statements relating to future dividend payments. Other forward-looking statements may be identified through the use of words such as “believes,” “anticipates,” “may,” “should,” “will,” “plans,” “projects,” “expects,” “expectations,” “estimates,” “predicts,” “targets,” “forec and other words of similar meaning in connection with the discussion of future operating or financial performance. These statements are based on current expectations, estimates and projections about the industries in which we operate, and the beliefs and assumptions made by management. Because forward-looking statements relate to the future, they are subject to inherent risks, uncertainties and changes in circumstances that are difficult to predict. Accordingly, the Company’s actual results may differ materially from those contemplated by the forward-looking statements. Investors, therefore, are cautioned against relying on any of these forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. Readers should refer to the discussions under “Risk Factors” contained in our Annual Report on Form 10-K for the fiscal year ended August 31, 2017 concerning certain factors that could cause our actual results to differ materially from the results anticipated in such forward-looking statements. These Risk Factors are hereby incorporated by reference into this Quarterly Report.

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Item 1 — Unaudited Condensed Consolidated Financial Statements

CHASE CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

In thousands, except share and per share amounts

	November 30, 2017	August 31, 2017
ASSETS		
Current Assets		
Cash and cash equivalents	$ 54,262	$ 47,354
Accounts receivable, less allowance for doubtful accounts of $333 and $456	34,976	38,051
Inventory	27,331	25,618
Prepaid expenses and other current assets	3,847	3,098
Due from sale of business	400	—
Assets held for sale	14	14
Prepaid income taxes	641	—
Total current assets	121,471	114,135
Property, plant and equipment, less accumulated depreciation of $45,614 and $44,277	34,430	34,760
Other Assets		
Goodwill	50,911	50,784
Intangible assets, less accumulated amortization of $44,817 and $42,206	44,607	46,846
Cash surrender value of life insurance, less current portion	4,530	4,530
Restricted investments	1,057	964
Funded pension plan	549	566
Deferred income taxes	1,570	1,614
Other assets	129	539
Total assets	$ 259,254	$ 254,738
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	$ 13,114	$ 14,455
Accrued payroll and other compensation	4,404	6,500
Accrued expenses	3,826	4,052
Dividend payable	7,498	—

Accrued income taxes	—	2,333
Total current liabilities	28,842	27,340
Deferred compensation	1,071	979
Accumulated pension obligation	12,368	12,666
Other liabilities	1,612	1,567
Accrued income taxes	1,257	1,257
Commitments and Contingencies (Note 10)		
Equity		
First Serial Preferred Stock, $1.00 par value: Authorized 100,000 shares; none issued	—	—
Common stock, $.10 par value: Authorized 20,000,000 shares; 9,374,840 shares at November 30, 2017 and 9,354,136 shares at August 31, 2017 issued and outstanding	937	935
Additional paid-in capital	14,734	14,060
Accumulated other comprehensive loss	(11,788)	(13,469)
Retained earnings	210,221	209,403
Total equity	214,104	210,929
Total liabilities and equity	$ 259,254	$ 254,738

See accompanying notes to the condensed consolidated financial statements

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CHASE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

In thousands, except share and per share amounts

	Three Months Ended November 30, 2017	2016
Revenue		
Sales	$ 60,577	$ 60,269
Royalties and commissions	1,340	1,088
	61,917	61,357
Costs and Expenses		
Cost of products and services sold	36,895	35,289
Selling, general and administrative expenses	12,059	11,752
Acquisition-related costs (Note 14)	—	584
Exit costs related to idle facility (Note 15)	—	27
Operating income	12,963	13,705
Interest expense	(45)	(246)
Gain on sale of real estate (Note 9)	—	792
Other income (expense)	(319)	399
Income before income taxes	12,599	14,650
Income taxes	4,284	4,287
Net income	$ 8,315	$ 10,363
Net income available to common shareholders, per common and common equivalent share (Note 4)		
Basic	$ 0.89	$ 1.11
Diluted	$ 0.88	$ 1.10
Weighted average shares outstanding		
Basic	9,281,877	9,228,338
Diluted	9,384,426	9,321,002

Annual cash dividends declared per share	$ 0.80	$ 0.70

See accompanying notes to the condensed consolidated financial statements

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CHASE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

In thousands, except share and per share amounts

	Three Months Ended November 30, 2017	2016
Net income	$ 8,315	$ 10,363
Other comprehensive income:		
Net unrealized gain (loss) on restricted investments, net of tax	31	13
Change in funded status of pension plans, net of tax	80	147
Foreign currency translation adjustment	1,570	(2,098)
Total other comprehensive income (loss)	1,681	(1,938)
Comprehensive income	$ 9,996	$ 8,425

See accompanying notes to the condensed consolidated financial statements

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CHASE CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF EQUITY

THREE MONTHS ENDED NOVEMBER 30, 2017

(UNAUDITED)

In thousands, except share and per share amounts

	Common Stock		Additional Paid-In	Accumulated Other Comprehensive Income	Retained	Total Stockholders'
	Shares	Amount	Capital	(Loss)	Earnings	Equity
Balance at August 31, 2017	9,354,136	$ 935	$ 14,060	$ (13,469)	$ 209,403	$ 210,929
Restricted stock grants, net of forfeitures	13,121	1	(1)			—
Amortization of restricted stock grants			421			421
Amortization of stock option grants			112			112
Exercise of stock options	10,859	1	448			449
Common stock received for payment of stock option exercises	(3,276)		(306)			(306)
Cash dividend accrued, $0.80 per share					(7,497)	(7,497)
Change in funded status of pension plan, net of tax $41				80		80
Foreign currency translation adjustment				1,570		1,570
Net unrealized gain on restricted investments, net of tax $15				31		31
Net income					8,315	8,315
Balance at November 30, 2017	9,374,840	$ 937	$ 14,734	$ (11,788)	$ 210,221	$ 214,104

See accompanying notes to the condensed consolidated financial statements

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CHASE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

In thousands, except share and per share amounts

	Three Months Ended November 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 8,315	$ 10,363
Adjustments to reconcile net income to net cash provided by operating activities		
Gain on sale of real estate	—	(792)
Depreciation	1,254	1,335
Amortization	2,314	2,176
Cost of sale of inventory step-up	—	190
Recovery of allowance for doubtful accounts	(126)	(5)
Stock-based compensation	533	528
Realized gain on restricted investments	(1)	(3)
Deferred taxes	—	10
Increase (decrease) from changes in assets and liabilities		
Accounts receivable	3,329	5
Inventory	(1,593)	(1,397)
Prepaid expenses and other assets	(725)	(535)
Accounts payable	(1,348)	(12)
Accrued compensation and other expenses	(2,397)	(2,755)
Accrued income taxes	(3,001)	(771)
Net cash provided by operating activities	6,554	8,337
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(851)	(652)
Cost to acquire intangible assets	(1)	(14)
Payments for acquisitions	—	(30,435)
Proceeds from sale of real estate	—	1,382
Net proceeds from sale of businesses	—	229
Increase in restricted investments	(46)	(47)
Proceeds from settlement of life insurance policies	—	1,504
Net cash used in investing activities	(898)	(28,033)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of principal on debt	—	(2,100)
Proceeds from exercise of common stock options	143	33

Payments of taxes on stock options and restricted stock	—	(993)
Net cash provided by (used in) financing activities	143	(3,060)
INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	5,799	(22,756)
Effect of foreign exchange rates on cash	1,109	(1,331)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	47,354	73,411
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 54,262	$ 49,324
Non-cash Investing and Financing Activities		
Common stock received for payment of stock option exercises	$ 306	$ 846
Property, plant and equipment additions included in accounts payable	$ 176	$ 47
Annual cash dividend declared	$ 7,497	$ 6,532

See accompanying notes to the condensed consolidated financial statements

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Note 1 — Basis of Financial Statement Presentation

Description of Business

Chase Corporation (the “Company,” “Chase,” “we,” or “us”), founded in 1946, is a leading manufacturer of protective materials for high-reliability applications. Our strategy is to maximize the performance of our core businesses and brands while seeking future opportunities through strategic acquisitions.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States of America generally accepted accounting principles (“US GAAP”) for interim financial reporting, and instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Therefore, they do not include all information and footnote disclosures necessary for a complete presentation of Chase Corporation’s financial position, results of operations and cash flows, in conformity with generally accepted accounting principles. Chase Corporation filed audited consolidated financial statements, which included all information and notes necessary for such a complete presentation, for the three years ended August 31, 2017, in conjunction with its 2017 Annual Report on Form 10-K. Certain immaterial reclassifications have been made to the prior year amounts to conform to the current year’s presentation.

The results of operations for the interim period ended November 30, 2017 are not necessarily indicative of the results to be expected for any future period or the entire fiscal year. These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended August 31, 2017, which are contained in the Company’s 2017 Annual Report on Form 10-K.

The accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring items) that are, in the opinion of management, necessary for a fair statement of the Company’s financial position as of November 30, 2017, the results of its operations, comprehensive income and cash flows for the interim periods ended November 30, 2017 and 2016, and changes in equity for the interim period ended November 30, 2017.

The financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. The Company uses the U.S. dollar as the reporting currency for financial reporting. The financial position and results of operations of the Company’s U.K.-based operations are measured using the British Pound Sterling as the functional currency. The financial position and results of operations of the Company's operations based in France are measured using the euro as the functional currency. The financial position and results of the Company's HumiSeal India Private Limited business are measured using the Indian rupee as the functional currency. The functional currency for all our other operations is the U.S. dollar. Foreign currency translation gains and losses are determined using current exchange rates for monetary items and historical exchange rates for other balance sheet items, and are recorded as a change in other comprehensive income. Transaction gains and losses generated from the remeasurement of assets and liabilities denominated in currencies other than the functional currency of each applicable operation are included in other income (expense) on the condensed consolidated statements of operations and were ($353) and $399 for the three-month periods ended November 30, 2017 and 2016, respectively.

Other Business Developments

On December 29, 2017, Chase entered an agreement to acquire Stewart Superabsorbents, LLC ("SSA, LLC"), an advanced superabsorbent polymer (SAP) formulator and solutions provider, with operations located in Hickory and McLeansville, NC. The transaction closed on December 31, 2017. In the most recently completed fiscal year, SSA, LLC, and its recently acquired ZappaTec business (collectively "Zappa Stewart"), had combined revenue in excess of $24,000. Chase expects this acquisition to be immediately accretive to its earnings. The business was acquired for a purchase price of $71,382, net of cash acquired, pending any working capital adjustments and excluding acquisition-related costs. As part of this transaction, Chase acquired all assets of the business, and entered multiyear leases at both locations. The purchase was funded from a combination of Chase's existing revolving credit facility and available cash on hand. Zappa Stewart's protective materials technology is complementary to Chase's current specialty chemical offerings. This acquisition is aligned with the Company's core strategies and extends its reach into growing medical, environmental and consumer applications. The Company is currently in the process of finalizing purchase accounting, and anticipates completion during fiscal 2018. Following the effective date of the acquisition (which occurred subsequent to November 30, 2017), the financial results of Zappa Stewart operations will be included in the Company's financial statements within the specialty chemical intermediates product line, contained within the Industrial Materials operating segment. See Note 19 to the Condensed Consolidated Financial Statements for additional information on the acquisition of Zappa Stewart.

On April 3, 2017, Chase executed an agreement with an unrelated third party to sell all inventory, machinery and equipment and intangible assets of the Company's fiber optic cable components product line for proceeds of $3,858, net of transaction costs and following certain working capital adjustments. The resulting pre-tax gain on sale of $2,013 was recognized in the third quarter of fiscal 2017 as gain on sale of businesses within the condensed consolidated statement of operations. Further, the purchaser entered a multiyear lease for a portion of the manufacturing space at the Company's Granite Falls, NC facility. Chase will provide ongoing manufacturing and administrative support to the purchaser for which the Company will receive additional consideration upon the performance of services. The Company's fiber optic cable components product line was formerly a part of the Company's Industrial Materials operating segment. See Note 8 to the condensed consolidated financial statements for additional information on the sale of the fiber optic cable components product line.

On September 30, 2016, the Company acquired certain assets of Resin Designs, LLC ("Resin Designs"), an advanced adhesives and sealants manufacturer, with locations in Woburn, MA and Newark, CA. The business was acquired for a purchase price of $30,270, after final working capital adjustments and excluding acquisition-related costs. As part of this transaction, Chase acquired all working capital and fixed assets of the business, and entered multiyear leases at both locations. The Company expensed $584 of acquisition-related costs associated with this acquisition during the first quarter of fiscal 2017. The purchase was funded entirely with available cash on hand. Resin Designs is a formulator of customized adhesive and sealant systems used in high-reliability electronic applications. The acquisition broadens the Company's adhesives and sealants product offering and manufacturing capabilities, and expands its market reach. Since the effective date of the acquisition, the financial results of Resin Designs' operations have been included in the Company's financial statements within the electronic and industrial coatings product line, contained within the Industrial Materials operating segment. See Note 14 to the condensed consolidated financial statements for additional information on the acquisition of the assets and operations of Resin Designs.

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Note 2 — Recent Accounting Standards

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers," which will replace most of the existing revenue recognition guidance under U.S. GAAP. The core principle of the ASU is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. The ASU requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. In March, April and May 2016, the FASB issued ASU 2016-08 "Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," ASU 2016-10 "Identifying Performance Obligations and Licensing," and ASU 2016-12, "Revenue from Contracts with Customers (Topic 606), Narrow-Scope Improvements and Practical Expedients" all of which provide further clarification to be considered when implementing ASU 2014-09. The ASU will be effective for the Company beginning September 1, 2018 (fiscal 2019), including interim periods in its fiscal year 2019, and allows for either retrospective or modified retrospective methods of adoption. The Company expects to utilize the modified retrospective method of adoption. From a timing of revenue recognition standpoint (point in time versus over time), it is anticipated that certain specialized products will be more affected than other products sold. The Company continues to assess the full impact the adoption will have on its consolidated financial statements and disclosures thereto.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which represents the lessee's right to use, or control the use of, a specified asset for the lease term. Changes were made to align lessor accounting with the lessee accounting model and ASU No. 2014-09, "Revenue from Contracts with Customers." The ASU will be effective for the Company beginning September 1, 2019 (fiscal 2020). Early application is permitted. Lessees must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is currently evaluating the impact of the application of this ASU on our consolidated financial statements and disclosures thereto.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230)." This ASU provides guidance on the presentation and classification of specific cash flow items to improve consistency within the statement of cash flows. The effective date for adoption of this guidance will be our fiscal year beginning September 1, 2018 (fiscal 2019), with early adoption permitted. The Company is currently evaluating the effect that ASU No. 2016-15 will have on its financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business." The new guidance dictates that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, it should be treated as an acquisition or disposal of an asset. The guidance will be effective for the fiscal year beginning on September 1, 2018 (fiscal 2019), including interim periods within that year, with early adoption permitted.

In March 2017, the FASB issued ASU No. 2017-07, “Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.” This ASU applies to all employers that offer to their employees defined benefit pension plans, other postretirement benefit plans, or other types of benefits accounted for under Topic 715, Compensation — Retirement Benefits. The ASU requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. The ASU also allows only the service cost component to be eligible for capitalization when applicable (e.g., as a cost of internally

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manufactured inventory or a self-constructed asset). The required effective date for adoption of this guidance for the Company will be our fiscal year beginning September 1, 2018 (fiscal 2019), including interim periods within that annual period. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. The Company is currently evaluating the effect that ASU No. 2017-07 will have on its financial statements and related disclosures.

In May 2017, the FASB issued ASU No. 2017-09, "Scope of Modification Accounting." This ASU provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. ASU 2017-09 is effective for fiscal years beginning after December 15, 2017 (our fiscal year 2019), including interim periods within that reporting period. The Company is currently in the process of evaluating the impact of ASU 2017-09 on our financial position and result of operations.

Note 3 — Inventory

Inventory consisted of the following as of November 30, 2017 and August 31, 2017:

	November 30, 2017	August 31, 2017
Raw materials	$ 12,874	$ 11,636
Work in process	6,897	6,877
Finished goods	7,560	7,105
Total Inventory	$ 27,331	$ 25,618

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Note 4 — Net Income Per Share

The Company has unvested share-based payment awards with a right to receive nonforfeitable dividends which are considered participating securities under ASC Topic 260, “Earnings Per Share.” The Company allocates earnings to participating securities and computes earnings per share using the two-class method. The determination of earnings per share under the two-class method is as follows:

	Three Months Ended November 30, 2017	2016
Basic Earnings per Share		
Net income	$ 8,315	$ 10,363
Less: Allocated to participating securities	79	113
Net income available to common shareholders	$ 8,236	$ 10,250
Basic weighted average shares outstanding	9,281,877	