

VALHI INC /DE/
Form 10-Q
August 08, 2018

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 quarter ended June 30, 2018

Commission file number 1-5467 ONL

VALHI, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

87-0110150
(IRS Employer
Identification No.)

5430 LBJ Freeway, Suite 1700, Dallas, Texas
(Address of principal executive offices)

75240-2620
(Zip Code)

Registrant's telephone number, including area code: (972) 233-1700

Indicate by check mark:

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

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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 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 checkmark whether the Registrant is a large accelerated filer, an accelerated filer, non-accelerated filer, smaller reporting company or emerging growth company. See definitions of “large accelerated filer”, “accelerated filer,” smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (don't check if 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 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 Act). Yes No

Number of shares of the Registrant's common stock outstanding on August 3, 2018: 339,185,449

VALHI, INC. AND SUBSIDIARIES

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VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)

	December 31, 2017	June 30, 2018 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 435.7	\$ 554.5
Restricted cash equivalents	16.1	14.4
Marketable securities	3.0	1.6
Accounts and other receivables, net	365.8	411.6
Land held for development	16.5	15.1
Inventories, net	398.4	429.4
Other current assets	15.5	16.6
Current assets of discontinued operations	11.2	—
Total current assets	1,262.2	1,443.2
Other assets:		
Marketable securities	255.7	256.8
Investment in TiO ₂ manufacturing joint venture	86.5	80.3
Goodwill	379.7	379.7
Deferred income taxes	119.8	98.6
Other assets	174.1	175.5
Noncurrent assets of discontinued operations	40.8	—
Total other assets	1,056.6	990.9
Property and equipment:		
Land	47.0	46.6
Buildings	261.6	253.7
Equipment	1,150.8	1,155.7
Mining properties	35.0	31.8
Construction in progress	58.3	37.9
	1,552.7	1,525.7
Less accumulated depreciation	964.0	958.9
Net property and equipment	588.7	566.8
Total assets	\$ 2,907.5	\$ 3,000.9

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In millions)

	December 31, 2017	June 30, 2018 (unaudited)
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 1.6	\$ 1.6
Accounts payable and accrual liabilities	257.1	337.1
Income taxes	25.1	44.9
Current liabilities of discontinued operations	47.3	—
Total current liabilities	331.1	383.6
Noncurrent liabilities:		
Long-term debt	1,041.5	1,061.7
Deferred income taxes	183.2	157.6
Payable to affiliates	70.1	64.0
Accrued pension costs	266.4	257.5
Accrued environmental remediation and related costs	110.7	101.3
Accrued postretirement benefits costs	11.3	10.7
Other liabilities	73.6	94.1
Noncurrent liabilities of discontinued operations	52.9	—
Total noncurrent liabilities	1,809.7	1,746.9
Equity:		
Valhi stockholders' equity:		
Preferred stock	667.3	667.3
Common stock	3.6	3.6
Additional paid-in capital	—	—
Retained earnings (deficit)	(17.9)	72.6
Accumulated other comprehensive loss	(179.0)	(185.2)
Treasury stock, at cost	(49.6)	(49.6)
Total Valhi stockholders' equity	424.4	508.7
Noncontrolling interest in subsidiaries	342.3	361.7
Total equity	766.7	870.4
Total liabilities and equity	\$ 2,907.5	\$ 3,000.9

Commitments and contingencies (Notes 14 and 17)

See accompanying Notes to Condensed Consolidated Financial Statements.

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share data)

	Three months ended June 30, 2017		Six months ended June 30, 2018	
	2017	2018	2017	2018
	(unaudited)			
Revenues and other income:				
Net sales	\$481.8	\$510.2	\$87.1	\$ 976.2
Other income, net	3.8	19.3	11.4	39.7
Total revenues and other income	485.6	529.5	898.5	1,015.9
Costs and expenses:				
Cost of sales	338.0	326.2	626.7	606.9
Selling, general and administrative	66.1	79.5	129.6	159.7
Litigation settlement expense, net	—	62.0	—	62.0
Other components of net periodic pension and OPEB expense	4.3	3.8	8.4	7.5
Interest	14.7	16.0	29.2	31.4
Total costs and expenses	423.1	487.5	793.9	867.5
Income from continuing operations before income taxes				
	62.5	42.0	104.6	148.4
Income tax expense (benefit)	(100.8)	22.0	(82.2)	58.2
Net income from continuing operations	163.3	20.0	186.8	90.2
Income (loss) from discontinued operations	(108.2)	.4	(109.9)	38.0
Net income	55.1	20.4	76.9	128.2
Noncontrolling interest in net income of subsidiaries	46.3	8.7	55.4	27.2
Net income attributable to Valhi stockholders	\$8.8	\$11.7	\$1.5	\$ 101.0
Amount attributable to Valhi stockholders:				
Income from continuing operations	\$117.0	\$11.3	\$31.4	63.0
Income (loss) from discontinued operations	(108.2)	.4	(109.9)	38.0
Net income attributable to Valhi stockholders	\$8.8	11.7	\$1.5	\$ 101.0
Basic and diluted net income per share:				
Income from continuing operations	\$.35	\$.03	\$.38	\$.18
Income (loss) from discontinued operations	(.32)	—	(.32)	.11
Net income attributable to Valhi stockholders	\$.03	\$.03	\$.06	\$.29
Cash dividends per share	\$.02	\$.02	\$.04	\$.04
Basic and diluted weighted average shares outstanding	342.0	342.0	342.0	342.0

See accompanying Notes to Condensed Consolidated Financial Statements.

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VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In millions)

	Three months ended June 30, 2017 2018 (unaudited)		Six months ended June 30, 2017 2018	
Net income	\$55.1	\$20.4	\$76.9	\$128.2
Other comprehensive income (loss), net of tax:				
Currency translation	12.6	(22.9)	20.1	(13.1)
Marketable securities	(.5)	—	(.8)	(.1)
Interest rate swap	(.4)	—	.1	—
Defined benefit pension plans	.8	2.5	3.6	5.1
Other postretirement benefit plans	(.2)	(.2)	(.4)	(.5)
Total other comprehensive income (loss), net	12.3	(20.6)	22.6	(8.6)
Comprehensive income (loss)	67.4	(.2)	99.5	119.6
Comprehensive income attributable to noncontrolling interest	49.2	3.2	61.0	24.9
Comprehensive income (loss) attributable to				
Valhi stockholders	\$18.2	\$(3.4)	\$38.5	\$94.7

See accompanying Notes to Condensed Consolidated Financial Statements.

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Six months ended June 30, 2017 2018 (unaudited)	
Cash flows from operating activities:		
Net income	\$76.9	\$128.2
Depreciation and amortization	33.2	28.9
Benefit plan expense greater than cash funding	4.6	3.4
Deferred income taxes	(183.9)	37.2
Gain on sale of WCS	—	(58.4)
Gain on land sales	—	(12.5)
Distributions from TiO ₂ manufacturing joint venture, net	8.4	4.8
Long-lived asset impairment	170.6	—
Other, net	1.5	6.6
Change in assets and liabilities:		
Accounts and other receivables, net	(77.8)	(64.5)
Inventories, net	22.6	(41.7)
Land held for development, net	3.1	(1.2)
Accounts payable and accrued liabilities	8.8	62.7
Accounts with affiliates	.3	25.4
Income taxes	5.8	20.1
Other, net	14.6	20.7
Net cash provided by operating activities	88.7	159.7
Cash flows from investing activities:		
Capital expenditures	(30.5)	(27.6)
Cash, cash equivalents and restricted cash and cash equivalents of discontinued operations		
at time of sale	—	(28.9)
Capitalized permit costs	(2.2)	—
Proceeds from sale of land	—	19.5
Purchases of marketable securities	(5.6)	(3.7)
Disposals of marketable securities	5.5	3.9
Other, net	—	.1
Net cash used in investing activities	(32.8)	(36.7)
Cash flows from financing activities:		
Indebtedness:		
Borrowings	175.7	—
Principal payments	(148.9)	(3.7)
Deferred financing costs paid	(.2)	—
Valhi cash dividends paid	(13.6)	(13.6)
Distributions to noncontrolling interest in subsidiaries	(7.0)	(7.9)
Net cash provided by (used in) financing activities	6.0	(25.2)

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Cash, cash equivalents and restricted cash and cash equivalents - net change from:		
Operating, investing and financing activities	61.9	97.8
Effect of exchange rates on cash	8.6	(9.3)
Balance at beginning of period	196.5	489.4
Balance at end of period	\$267.0	\$577.9
Supplemental disclosures:		
Cash paid for:		
Interest, net of capitalized interest	\$30.0	\$31.0
Income taxes, net	26.3	5.9
Noncash investing activities:		
Change in accruals for capital expenditures	4.0	1.0
Noncash financing activities:		
Trade payable to affiliate converted to indebtedness	—	36.3
Indebtedness borrowings paid directly to lender to settle refinanced indebtedness	9.3	—
Indebtedness principal payments paid directly by lender	(8.4)	—
Indebtedness borrowings paid directly to lender for debt issuance costs	(.9)	—
See accompanying Notes to Condensed Consolidated Financial Statements.		

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF EQUITY

Six months ended June 30, 2018

(In millions)

(unaudited)

	Valhi Stockholders' Equity				Accumulated		Non-controlling interest	Total equity
	Preferred stock	Common stock	Additional paid-in capital	Retained earnings (deficit)	other comprehensive loss	Treasury stock		
Balance at December 31, 2017	\$667.3	\$ 3.6	\$ --	\$ (17.9)	\$ (179.0)	\$ (49.6)	\$ 342.3	\$766.7
Change in accounting principle – ASU 2014-09	--	--	--	2.7	--	--	2.3	5.0
Balance at January 1, 2018, as adjusted	667.3	3.6	--	(15.2)	(179.0)	(49.6)	344.6	771.7
Net income	--	--	--	101.0	--	--	27.2	128.2
Other comprehensive loss, net	--	--	--	--	(6.2)	--	(2.4)	(8.6)
Cash dividends	--	--	(.4)	(13.2)	--	--	(7.9)	(21.5)
Other, net	--	--	.4	--	--	--	.2	.6
Balance at June 30, 2018	\$667.3	\$ 3.6	\$ --	\$ 72.6	\$ (185.2)	\$ (49.6)	\$ 361.7	\$870.4

See accompanying Notes to Condensed Consolidated Financial Statements.

VALHI, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018

(unaudited)

Note 1—Organization and basis of presentation:

Organization— We are majority owned by a wholly-owned subsidiary of Contran Corporation (“Contran”), which owns approximately 92% of our outstanding common stock at June 30, 2018. All of Contran's outstanding voting stock is held by a family trust established for the benefit of Lisa K. Simmons and Serena Simmons Connelly and their children, for which Ms. Simmons and Ms. Connelly are co-trustees, or is held directly by Ms. Simmons and Ms. Connelly or entities related to them. Consequently, Ms. Simmons and Ms. Connelly may be deemed to control Contran and us.

Basis of Presentation—Consolidated in this Quarterly Report are the results of our majority-owned and wholly-owned subsidiaries, including NL Industries, Inc., Kronos Worldwide, Inc., CompX International Inc., Tremont LLC, Basic Management, Inc. (“BMI”) and The LandWell Company (“LandWell”). Kronos (NYSE: KRO), NL (NYSE: NL), and CompX (NYSE American: CIX) each file periodic reports with the Securities and Exchange Commission (“SEC”). In January 2018, we sold Waste Control Specialists LLC (“WCS”). See Note 3.

The unaudited Condensed Consolidated Financial Statements contained in this Quarterly Report have been prepared on the same basis as the audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2017 that we filed with the SEC on March 15, 2018 (the “2017 Annual Report”). In our opinion, we have made all necessary adjustments (which include only normal recurring adjustments, other than the gain on the sale of WCS recognized in the first quarter of 2018 as discussed in Note 3), in order to state fairly, in all material respects, our consolidated financial position, results of operations and cash flows as of the dates and for the periods presented. We have condensed the Consolidated Balance Sheet at December 31, 2017 contained in this Quarterly Report as compared to our audited Consolidated Financial Statements at that date, and we have omitted certain information and footnote disclosures (including those related to the Consolidated Balance Sheet at December 31, 2017) normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Our results of operations for the interim periods ended June 30, 2018 may not be indicative of our operating results for the full year. The Condensed Consolidated Financial Statements contained in this Quarterly Report should be read in conjunction with our 2017 Consolidated Financial Statements contained in our 2017 Annual Report.

Unless otherwise indicated, references in this report to “we,” “us” or “our” refer to Valhi, Inc. and its subsidiaries (NYSE: VHI), taken as a whole.

Note 2—Business segment information:

Business segment	Entity	% controlled at June 30, 2018	
Chemicals	Kronos	80	%
Component products	CompX	87	%
Real estate management and development	BMI and LandWell	63% - 77	%

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Our control of Kronos includes 50% we hold directly and 30% held directly by NL. We own 83% of NL. Our control of CompX is through NL. We own 63% of BMI. Our control of LandWell includes the 27% we hold directly and 50% held by BMI.

	Three months ended		Six months ended	
	June 30,	June 30,	June 30,	June 30,
	2017	2018	2017	2018
	(unaudited)			
	(In millions)			
Net sales:				
Chemicals	\$441.4	\$471.8	\$ 811.2	\$ 902.2
Component products	30.1	32.4	60.0	60.8
Real estate management and development	10.3	6.0	15.9	13.2
Total net sales	\$481.8	\$510.2	\$ 887.1	\$ 976.2
Cost of sales:				
Chemicals	\$309.6	\$300.5	\$ 573.8	\$ 556.6
Component products	20.5	21.2	40.8	40.1
Real estate management and development	7.9	4.5	12.1	10.2
Total cost of sales	\$338.0	\$326.2	\$ 626.7	\$ 606.9
Gross margin:				
Chemicals	\$131.8	\$171.3	\$ 237.4	\$ 345.6
Component products	9.6	11.2	19.2	20.7
Real estate management and development	2.4	1.5	3.8	3.0
Total gross margin	\$143.8	\$184.0	\$ 260.4	\$ 369.3
Operating income:				
Chemicals	\$77.2	\$123.6	\$ 136.3	\$ 234.2
Component products	4.6	6.0	9.1	10.4
Real estate management and development	1.3	.4	1.8	4.2
Total operating income	83.1	130.0	147.2	248.8
General corporate items:				
Securities earnings	7.1	8.5	14.1	16.8
Insurance recoveries	—	.2	.1	.4
Gain on land sales	—	—	—	12.5
Other components of net periodic pension and OPEB expense	(4.3)	(3.8)	(8.4)	(7.5)
Litigation settlement expense	—	(62.0)	—	(62.0)
General expenses, net	(8.7)	(14.9)	(19.2)	(29.2)
Interest expense	(14.7)	(16.0)	(29.2)	(31.4)
Income from continuing operations before income taxes	\$62.5	\$42.0	\$ 104.6	\$ 148.4

Segment results we report may differ from amounts separately reported by our various subsidiaries due to purchase accounting adjustments and related amortization or differences in the way we define operating income. Intersegment

sales are not material.

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Note 3—Business disposition — Waste Control Specialists LLC:

Pursuant to an agreement we entered into in December 2017, on January 26, 2018 we completed the sale of our Waste Management Segment to JFL-WCS Partners, LLC ("JFL Partners"), an entity sponsored by certain investment affiliates of J.F. Lehman & Company, for consideration consisting of the assumption of all of WCS' third-party indebtedness and other liabilities. Our Waste Management Segment, which operated in the low-level radioactive, hazardous, toxic and other waste disposal industry historically struggled to generate sufficient recurring disposal volumes to generate positive operating results or cash flows. We believe the sale will enable us to focus more effort on continuing to develop our remaining segments which we believe have greater opportunity for higher returns than our Waste Management segment.

In accordance with GAAP, the Waste Management Segment has been classified as discontinued operations in our Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Income for all periods presented. Also in accordance with GAAP, we have not reclassified our Condensed Consolidated Statement of Cash Flows to reflect the Waste Management Segment as discontinued operations. We recognized a pre-tax gain of approximately \$58 million primarily in the first quarter of 2018 on the transaction (\$38.6 million, or \$.11 per diluted share, net of tax) because the carrying value of the liabilities of the business assumed by the purchaser exceeded the carrying value of the assets sold at the time of the sale in large part due to the previously-reported long-lived asset impairment of \$170.6 million recognized in the second quarter of 2017, as discussed in the 2017 Annual Report. The net assets of the disposed Waste Management Segment at the time we completed the sale on January 26, 2018 were not materially different as compared to December 31, 2017. The income tax benefit associated with discontinued operations recognized in the second quarter of 2018 relates principally to a change in the amount of the deferred income tax asset valuation allowance recognized during 2018 allocated to discontinued operations under the intra-period guidance of ASC 740 associated with the business interest expense deduction limitation discussed in Note 13. Selected financial data for the operations of the disposed Waste Management Segment for periods prior to completing the sale is presented below. Current assets at December 31, 2017 consist principally of trade accounts receivable.

	December 31, 2017 (In millions)
ASSETS	
Current assets	\$ 11.2
Restricted cash	27.2
Property and equipment, net	6.0
Other noncurrent assets	7.6
Total noncurrent assets	40.8
Total assets	\$ 52.0
LIABILITIES	
Current portion of long-term debt	\$ 3.0
Payable to Contran	36.1
Other current liabilities	8.2
Total current liabilities	47.3

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Long-term debt	65.0
Deferred income taxes	(43.8)
Accrued noncurrent closure and post closure costs	31.7
Total noncurrent liabilities	52.9
Total liabilities	\$ 100.2

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	Three months ended		Six months ended	
	June 30, 2017	2018	June 30, 2017	2018 ⁽¹⁾
	(In millions)			
Net sales	\$20.5	\$ —	\$ 42.0	\$ 4.6
Operating loss ⁽²⁾	\$(171.6)	\$ —	(171.0)	(.4)
Termination fee	4.0	—	4.0	—
Other expense, net	(5.8)	—	(7.7)	—
Interest expense, net	(1.2)	—	(2.4)	(.3)
Loss before taxes	(174.6)	—	(177.1)	(.7)
Income tax benefit	(66.4)	—	(67.2)	(.1)
Net loss	(108.2)	—	(109.9)	(.6)
Pre-tax gain on disposal	—	—	—	58.4
Income tax expense (benefit)	—	(.4)	—	19.8
After-tax gain on disposal	—	.4	—	38.6
Total	\$(108.2)	\$.4	\$(109.9)	\$ 38.0
Net cash provided by operating activities			\$ 8.8	\$ 2.3
Net cash used in investing activities			\$(2.6)	\$(.1)

(1) Includes results of the Waste Management Segment through January 26, 2018, the date of the sale.

(2) Operating results in the second quarter and first six months of 2017 includes a \$170.6 million long-lived asset impairment.

In connection with the January 2018 sale, JFL Partners did not assume WCS' trade payable owed to Contran, which consisted primarily of intercorporate service fees charged to WCS by Contran which WCS did not pay to Contran for several years. Immediately prior to the closing of the sale of WCS, Contran transferred its associated receivable of \$36.3 million from WCS to Valhi, in return for a deemed \$36.3 million borrowing by Valhi under its revolving credit facility with Contran, see Note 8. Valhi subsequently contributed such receivable from WCS to WCS's equity, and the trade payable obligation of WCS was deemed paid in full.

Note 4—Accounts and other receivables, net:

	December 31, 2017	June 30, 2018
	(In millions)	
Trade accounts receivable:		
Kronos	\$301.4	\$350.8
CompX	10.5	13.8

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BMI and LandWell	1.6	1.9
VAT and other receivables	20.7	26.6
Insurance recovery receivable – NL	—	15.0
Refundable income taxes	.5	.7
Receivable from affiliates:		
Contran – trade items	1.0	.9
Contran – income taxes	19.4	—
LPC – trade items	8.9	—
Other – trade items	3.3	3.3
Allowance for doubtful accounts	(1.5)	(1.4)
Total	\$365.8	\$411.6

The insurance recovery receivable due to NL is discussed in Note 17.

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Note 5—Inventories, net:

	June	
	December 31,	2018
	2017	
	(In millions)	
Raw materials:		
Chemicals	\$106.9	\$89.3
Component products	2.7	2.7
Total raw materials	109.6	92.0
Work in process:		
Chemicals	20.8	33.1
Component products	9.8	10.6
Total in-process products	30.6	43.7
Finished products:		
Chemicals	192.2	226.4
Component products	2.8	3.3
Total finished products	195.0	229.7
Supplies (chemicals)	63.2	64.0
Total	\$398.4	\$429.4

Note 6—Marketable securities:

Our marketable securities consist of marketable equity and debt securities. Prior to 2018, any unrealized gains or losses on equity securities were recognized through other comprehensive income, net of deferred income taxes. Beginning on January 1, 2018 with the adoption of Accounting Standards Update (“ASU”) 2016-01, our marketable equity securities will continue to be carried at fair value as noted above, but any unrealized gains or losses on the securities are now recognized as a component of other income included in the securities transactions, net on our Condensed Consolidated Statements of Income. See Note 19.

	Market	Cost	Unrealized
	value	basis	losses, net
	(In millions)		
December 31, 2017:			
Current assets	\$3.0	3.0	—
Noncu			