ENNIS, INC.
Form 10-Q
October 06, 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 August 31, 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 1-5807

ENNIS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Texas (State or Other Jurisdiction of Incorporation or Organization)	75-0256410 (I.R.S. Employer Identification No.)
2441 Presidential Pkwy., Midlothian, Texas (Address of Principal Executive Offices)	76065 (Zip code)

(972) 775-9801

(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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Date 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 check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 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

As of September 29, 2017, there were 25,417,035 shares of the Registrant's common stock outstanding.

ENNIS, INC. AND SUBSIDIARIES

FORM 10-Q

FOR THE PERIOD ENDED AUGUST 31, 2017

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

ENNIS, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	August 31, 2017	February 28, 2017
Assets		
Current assets		
Cash and cash equivalents	$83,865	$80,466
Accounts receivable, net of allowance for doubtful receivables of $1,318 at August 31, 2017 and $1,674 at February 28, 2017	38,171	37,368
Prepaid expenses	819	1,351
Prepaid income taxes	1,513	855
Inventories	29,228	27,965
Assets held for sale	1,320	1,245
Total current assets	154,916	149,250
Property, plant and equipment		
Plant, machinery and equipment	135,476	136,584
Land and buildings	53,559	53,821
Other	23,548	23,644
Total property, plant and equipment	212,583	214,049
Less accumulated depreciation	164,822	164,054
Net property, plant and equipment	47,761	49,995
Goodwill	70,603	70,603
Intangible assets, net	52,235	53,927
Other assets	385	510
Total assets	$325,900	$324,285

See accompanying notes to consolidated financial statements.

ENNIS, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except for par value and share amounts)

	August 31, 2017	February 28, 2017
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	$10,753	$14,202
Accrued expenses		
Employee compensation and benefits	13,125	13,515
Taxes other than income	668	225
Other	1,750	2,026
Total current liabilities	26,296	29,968
Long-term debt	30,000	30,000
Liability for pension benefits	4,846	4,846
Deferred income taxes	7,257	6,953
Other liabilities	1,521	1,163
Total liabilities	69,920	72,930
Commitments and contingencies		
Shareholders' equity		
Preferred stock $10 par value, authorized 1,000,000 shares; none issued	—	—
Common stock $2.50 par value, authorized 40,000,000 shares; issued 30,053,443 shares at August 31 and February 28, 2017	75,134	75,134
Additional paid-in capital	120,675	121,525
Retained earnings	157,457	150,685
Accumulated other comprehensive income (loss):		
Minimum pension liability, net of taxes	(14,765)	(15,261)
Total accumulated other comprehensive income (loss)	(14,765)	(15,261)
Treasury stock	(82,521)	(80,728)
Total shareholders' equity	255,980	251,355
Total liabilities and shareholders' equity	$325,900	$324,285

See accompanying notes to consolidated financial statements.

ENNIS, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except share and per share amounts)

	Three months ended August 31,		Six months ended August 31,	
	2017	2016	2017	2016
Net sales	$94,887	$91,246	$189,477	$181,656
Cost of goods sold	64,100	64,208	128,771	127,924
Gross profit margin	30,787	27,038	60,706	53,732
Selling, general and administrative	17,096	16,057	34,468	32,128
(Gain) loss from disposal of assets	48	(4)	63	2
Income from operations	13,643	10,985	26,175	21,602
Other income (expense)				
Interest expense	(204)	(231)	(394)	(233)
Other, net	117	11	130	4
	(87)	(220)	(264)	(229)
Earnings from continuing operations before income taxes	13,556	10,765	25,911	21,373
Provision for income taxes	5,016	3,981	9,587	7,906
Earnings from continuing operations	8,540	6,784	16,324	13,467
Income from discontinued operations, net of tax	—	—	—	2,481
Loss on sale of discontinued operations, net of tax	—	—	—	(26,042)
Loss from discontinued operations, net of tax	—	—	—	(23,561)
Net earnings (loss)	$8,540	$6,784	$16,324	$(10,094)
Weighted average common shares outstanding				
Basic	25,342,747	25,893,218	25,388,292	25,847,051
Diluted	25,366,001	25,910,375	25,405,863	25,868,799
Earnings (loss) per share - basic and diluted				
Continuing operations	$0.34	$0.26	$0.64	$0.52
Discontinued operations	$—	$—	$—	$(0.91)
Net earnings (loss)	$0.34	$0.26	$0.64	$(0.39)
Cash dividends per share	$0.20	$1.675	$0.375	$1.85

See accompanying notes to consolidated financial statements.

ENNIS, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in thousands)

	Three months ended August 31,		Six months ended August 31,	
	2017	2016	2017	2016
Net earnings (loss)	$8,540	$6,784	$16,324	$(10,094)
Foreign currency translation adjustment, net of deferred taxes	—	—	—	9,940
Adjustment to pension, net of deferred taxes	248	—	496	—
Comprehensive income (loss)	$8,788	$6,784	$16,820	$(154)

See accompanying notes to consolidated financial statements.

ENNIS, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Dollars in thousands, except share and per share amounts)

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	Treasury Stock		
	Shares	Amount	Capital	Earnings	Income (Loss)	Shares	Amount	Total
Balance March 1, 2017	30,053,443	$75,134	$121,525	$150,685	$ (15,261)	(4,686,821)	$(80,728)	$251,355
Net earnings	—	—	—	16,324	—	—	—	16,324
Adjustment to pension, net of deferred tax of $304	—	—	—	—	496	—	—	496
Dividends paid ($0.375 per share)	—	—	—	(9,552)	—	—	—	(9,552)
Stock based compensation	—	—	667	—	—	—	—	667
Exercise of stock options and restricted stock	—	—	(1,517)	—	—	88,105	1,517	—
Stock repurchases	—	—	—	—	—	(191,033)	(3,310)	(3,310)
Balance August 31, 2017	30,053,443	$75,134	$120,675	$157,457	$ (14,765)	(4,789,749)	$(82,521)	$255,980

See accompanying notes to consolidated financial statements.

ENNIS, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Six months ended August 31, 2017	2016
Cash flows from operating activities:		
Net earnings (loss)	$16,324	$(10,094)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Depreciation	3,996	4,002
Amortization of deferred finance charges	57	9
Amortization of intangible assets	3,077	2,321
Pre-tax loss on sale of discontinued operations	—	36,775
Operating cash flows of discontinued operations	—	538
Loss from disposal of assets	63	2
Bad debt expense, net of recoveries	(248)	103
Stock based compensation	667	679
Changes in operating assets and liabilities, net of the effects of acquisitions:		
Accounts receivable	(555)	(426)
Prepaid expenses and income taxes	(126)	(4,199)
Inventories	(1,182)	(373)
Other assets	67	(281)
Accounts payable and accrued expenses	(4,122)	(1,265)
Other liabilities	358	9
Liability for pension benefits	800	1,278
Net cash provided by operating activities	19,176	29,078
Cash flows from investing activities:		
Capital expenditures	(1,590)	(927)
Purchase of businesses, net of cash acquired	(1,350)	(907)
Proceeds from sale of discontinued operations	—	107,354
Investing cash flows of discontinued operations	—	(279)
Proceeds from disposal of plant and property	25	12
Net cash provided by (used in) investing activities	(2,915)	105,253
Cash flows from financing activities:		
Repayment of debt	—	(10,000)
Dividends	(9,552)	(48,187)
Purchase of treasury stock	(3,310)	(1,786)
Proceeds from exercise of stock options	—	2,910
Net cash used in financing activities	(12,862)	(57,063)
Net change in cash and cash equivalents	3,399	77,268
Cash and cash equivalents at beginning of period	80,466	7,957
Cash and cash equivalents at end of period	$83,865	$85,225

See accompanying notes to consolidated financial statements.

ENNIS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED AUGUST 31, 2017

1. Significant Accounting Policies and General Matters

Basis of Presentation

These unaudited consolidated financial statements of Ennis, Inc. and its subsidiaries (collectively referred to as the "Company," "Registrant," "Ennis," or "we," "us," or "our") for the period ended August 31, 2017 have been prepared in accordance with generally accepted accounting principles for interim financial reporting. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended February 28, 2017, from which the accompanying consolidated balance sheet at February 28, 2017 was derived. All intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, all adjustments considered necessary for a fair presentation of the interim financial information have been included and are of a normal recurring nature. In preparing the financial statements, the Company is required to make estimates and assumptions that affect the disclosure and reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company evaluates these estimates and judgments on an ongoing basis, including those related to bad debts, inventory valuations, property, plant and equipment, intangible assets, pension plan, accrued liabilities, and income taxes. The Company bases estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. The results of operations for any interim period are not necessarily indicative of the results of operations for a full year.

On May 25, 2016, the Company sold Alstyle Apparel, LLC and its subsidiaries, which constituted the Company's apparel segment (the "Apparel Segment"), to Gildan Activewear Inc. As a result of this action, the current year and prior year disclosures reflect these operations as discontinued operations and prior year financial information has been restated to reflect this accounting treatment.

Recent Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment ("ASU 2017-04"), which simplifies how an entity is required to measure goodwill impairment. The amendments in ASU 2017-04 require that goodwill impairment will be measured using the difference between the carrying amount and the fair value of the reporting unit and the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The amendments in ASU 2017-04 should be applied on a prospective basis and are effective for annual or any interim goodwill impairment tests in annual reporting periods beginning after December 15, 2019. The Company adopted ASU 2017-04 on June 1, 2017, which had no impact on the Company's consolidated financial statements at the time of adoption.

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718) ("ASU 2016-09"), which makes several modifications to the accounting for employee share-based payment transactions, including the requirement to recognize the income tax effects of awards that vest or settle as income tax expense. The amendments in ASU 2016-09 also clarify the presentation of certain components of share-based awards in the statement of cash flows. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2016. The Company adopted ASU 2016-09 in fiscal year 2018 beginning in March of 2017. The adoption of ASU 2016-09 did not have a material impact on the Company's consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"), which requires lessees to put most leases on the balance sheet but recognize expense on the income statement in a manner similar to current accounting. For lessors, ASU 2016-02 also modifies the classification criteria and the accounting for sales-type and direct financing leases. The standard requires a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements and is effective in the first quarter of fiscal year 2019. Early adoption of ASU 2016-02 is permitted. The Company is currently evaluating the impact the adoption of ASU 2016-02 will have on its consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"), which institutes a number of modifications to the reporting of financial assets and liabilities. These modifications include: (i) measurement of non-equity method assets and liabilities at fair value, with changes to fair value recognized through net income, (ii) performance of qualitative impairment assessments of equity investments without readily determinable fair values at each reporting period, (iii) elimination of the requirement to disclose methods and significant assumptions used in calculating the fair value of financial instruments measured at amortized cost, (iv) measurement of the fair value of financial instruments measured at amortized cost using the exit price notion consistent with Topic 820, Fair Value Measurement, (v) separate presentation in other comprehensive income of the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk, (vi) separate presentation of financial assets and financial liabilities by measurement category and form of financial asset, and (vii) evaluation of the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. This ASU is effective for financial statements issued with fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The Company is currently evaluating the impact the adoption of ASU 2016-01 will have on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. ASU 2014-09 supersedes most existing revenue recognition guidance in U.S. GAAP. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date ("ASU 2015-14"), which defers the effective date of ASU 2014-09 to March 1, 2018 for the Company. Early adoption of ASU 2014-09 became permitted in the first quarter of fiscal year 2017. The Company expects to adopt ASU 2014-09 in the first quarter of fiscal year 2019. The guidance permits the use of either the retrospective or cumulative effect transition method. We have not yet selected a transition method, and we continue to evaluate the effect that the updated standard will have on our consolidated financial condition, results of operations and cash flows; however, we do not expect adoption of the guidance to have a material impact on our financial results. We primarily earn our revenue by made to order business forms, as required by our customers primarily through purchase orders. We generally do not have significant customer contracts and do not provide post-delivery services. As such, adoption of the new guidance is not expected to result in a significant change in the amount of revenue recognized or the timing of when such revenue is recognized.

2. Accounts Receivable and Allowance for Doubtful Receivables

Accounts receivable are reduced by an allowance for an estimate of amounts that are uncollectible. Substantially all of the Company's receivables are due from customers in the United States. The Company extends credit to its customers based upon its evaluation of the following factors: (i) the customer's financial condition, (ii) the amount of credit the customer requests, and (iii) the customer's actual payment history (which includes disputed invoice resolution). The Company does not typically require its customers to post a deposit or supply collateral. The Company's allowance for doubtful receivables is based on an analysis that estimates the amount of its total customer receivable balance that is not collectible. This analysis includes assessing a default probability to customers' receivable balances, which is influenced by several factors including (i) current market conditions, (ii) periodic review of customer creditworthiness, and (iii) review of customer receivable aging and payment trends.

The Company writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance in the period the payment is received. Credit losses from continuing operations have consistently been within management's expectations.

The following table presents the activity in the Company's allowance for doubtful receivables (in thousands):

	Three months ended August 31,		Six months ended August 31,	
	2017	2016	2017	2016
Balance at beginning of period	$1,442	$1,787	$1,674	$2,041
Bad debt expense, net of recoveries	(82)			