

WestRock Co
Form 10-Q
August 09, 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 June 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 001-37484

WestRock Company

(Exact Name of Registrant as Specified in Its Charter)

Delaware 47-3335141

(State or Other Jurisdiction of (I.R.S. Employer

Incorporation or Organization) Identification No.)

501 South 5th Street, Richmond, Virginia 23219-0501

(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code: (804) 444-1000

N/A

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report.)

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 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 (check one):

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if smaller reporting company) 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class Outstanding as of July 29, 2016

Common Stock, \$0.01 par value 251,494,672

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Glossary of Terms

The following terms or acronyms used in this Form 10-Q are defined below:

Term or Acronym	Definition
2016 Incentive Stock Plan	WestRock Company Incentive Stock Plan
Adjusted Earnings from Continuing Operations Per Diluted Share	As defined on p. 52
Adjusted Income from Continuing Operations	As defined on p. 52
A/R Sales Agreement	As defined on p. 29
Antitrust Litigation	As defined on p. 36
ASC	FASB's Accounting Standards Codification
ASU	Accounting Standards Update
BSF	Billion square feet
Boiler MACT	As defined on p. 34
Business Combination Agreement	The Second Amended and Restated Business Combination Agreement, dated as of April 17, 2015 and amended as of May 5, 2015 by and among WestRock, RockTenn, MWV, RockTenn Merger Sub, and MWV Merger Sub
CERCLA	The Comprehensive Environmental Response, Compensation, and Liability Act of 1980
Clean Power Plan Code	As defined on p. 35
Combination	The Internal Revenue Code of 1986, as amended Pursuant to the Business Combination Agreement, (i) RockTenn Merger Sub was merged with and into RockTenn, with RockTenn surviving the merger as a wholly owned subsidiary of WestRock, and (ii) MWV Merger Sub was merged with and into MWV, with MWV surviving the merger as a wholly owned subsidiary of WestRock, which occurred on July 1, 2015
Common Stock	WestRock common stock, par value \$0.01 per share
containerboard	Linerboard and corrugating medium
Credit Agreement	As defined on p. 28
Credit Facility	As defined on p. 28
EPA	U.S. Environmental Protection Agency
ESPP	WestRock Company Employee Stock Purchase Plan
FASB	Financial Accounting Standards Board
Farm Loan Credit Agreement	As defined on p. 28
FIFO	First-in first-out inventory valuation method
Fiscal 2015 Form 10-K	WestRock's Annual Report on Form 10-K for the fiscal year ended September 30, 2015
GAAP	Generally accepted accounting principles in the U.S.
GHG	Greenhouse gases
GPS	Green Power Solutions of Georgia, LLC
Grupo Gondi	Gondi, S.A. de C.V.
IDBs	Industrial Development Bonds
Ingevity	Ingevity Corporation, formerly the Specialty Chemicals business of WestRock Company
LIFO	Last-in first-out inventory valuation method
MWV	WestRock MWV, LLC, formerly MeadWestvaco Corporation
MWV Merger Sub	Milan Merger Sub, LLC

MMSF

Millions of square feet

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Term or Acronym	Definition
Packaging Acquisition	The January 19, 2016 acquisition of certain legal entities formerly owned by Cenveo Inc., in a stock purchase
Pension Act	Pension Protection Act of 2006
PRPs or PRP	Potentially responsible parties
PSD	Prevention of Significant Deterioration
Receivables Facility	Our \$700.0 million receivables-backed financing facility that expires on July 22, 2019
RockTenn	WestRock RKT Company, formerly Rock-Tenn Company
RockTenn Merger Sub	Rome Merger Sub, Inc.
SEC	Securities and Exchange Commission
Separation	The May 15, 2016 distribution of the outstanding common stock, par value \$0.01 per share, of Ingevity to WestRock's shareholders.
SG&A	Selling, general and administrative expenses
Smurfit-Stone	Smurfit-Stone Container Corporation
Smurfit-Stone Acquisition	The May 27, 2011 acquisition of Smurfit-Stone by Rock-Tenn Company
SP Fiber	SP Fiber Holdings, Inc.
SP Fiber Acquisition	The October 1, 2015 acquisition of SP Fiber
SARs	Stock appreciation rights
Title V permit	Operating permits issued under Title V of the Clean Air Act
U.S.	United States
WestRock	WestRock Company
WestRock MWV, LLC	Formerly named MWV
WestRock RKT Company	Formerly named RockTenn

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PART I: FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS (UNAUDITED)

WESTROCK COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In Millions, Except Per Share Data)

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
			(recast)	
Net sales	\$3,596.5	\$2,538.9	\$10,560.1	\$7,508.7
Cost of goods sold	2,869.2	2,012.6	8,520.8	6,055.8
Gross profit	727.3	526.3	2,039.3	1,452.9
Selling, general and administrative, excluding intangible amortization	341.5	224.7	1,019.4	676.5
Selling, general and administrative intangible amortization	53.3	22.1	159.4	66.6
Pension lump sum settlement and retiree medical curtailment, net	—	(0.4)	—	11.5
Restructuring and other costs, net	43.1	13.1	317.0	35.7
Operating profit	289.4	266.8	543.5	662.6
Interest expense	(64.0)	(22.6)	(193.2)	(68.9)
Interest income and other income (expense), net	20.9	(0.7)	43.2	(1.0)
Equity in income of unconsolidated entities	5.8	2.7	6.8	7.3
Income from continuing operations before income taxes	252.1	246.2	400.3	600.0
Income tax expense	(99.7)	(88.3)	(159.1)	(206.1)
Income from continuing operations	152.4	157.9	241.2	393.9
Loss from discontinued operations (net of income tax benefit of \$46.2, \$0, \$39.0 and \$0)	(58.7)	—	(539.4)	—
Consolidated net income (loss)	93.7	157.9	(298.2)	393.9
Less: Net income attributable to noncontrolling interests	(1.4)	(1.5)	(6.1)	(2.6)
Net income (loss) attributable to common stockholders	\$92.3	\$156.4	\$(304.3)	\$391.3
Basic earnings per share from continuing operations	\$0.60	\$1.11	\$0.94	\$2.78
Basic loss per share from discontinued operations	(0.23)	—	(2.13)	—
Basic earnings (loss) per share attributable to common stockholders	\$0.37	\$1.11	\$(1.19)	\$2.78
Diluted earnings per share from continuing operations	\$0.59	\$1.10	\$0.93	\$2.74
Diluted loss per share from discontinued operations	(0.23)	—	(2.11)	—
Diluted earnings (loss) per share attributable to common stockholders	\$0.36	\$1.10	\$(1.18)	\$2.74
Cash dividends paid per share	\$0.375	\$0.3205	\$1.125	\$0.8286

See Accompanying Notes to Condensed Consolidated Financial Statements

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WESTROCK COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(In Millions)

	Three Months Ended		Nine Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2016	2015	2016	2015
Consolidated net income (loss)	\$ 93.7	\$ 157.9	\$(298.2)	\$393.9
Other comprehensive income (loss), net of tax:				
Foreign currency:				
Foreign currency translation gain (loss)	35.6	2.2	133.3	(45.0)
Reclassification adjustment of net loss on foreign currency translation included in earnings	20.2	—	20.2	—
Derivatives:				
Deferred gain (loss) on cash flow hedges	0.1	—	(0.5)	—
Reclassification adjustment of net loss on cash flow hedges included in earnings	0.4	—	1.0	—
Defined benefit pension plans:				
Net actuarial (loss) gain arising during the period	—	(0.5)	1.4	(3.3)
Amortization and settlement recognition of net actuarial loss, included in pension cost	1.5	6.3	4.9	29.1
Prior service credit (cost) arising during the period	—	0.7	—	(13.2)
Amortization and curtailment recognition of prior service cost (credit), included in pension cost	0.2	—	0.8	(4.9)
Other comprehensive income (loss)	58.0	8.7	161.1	(37.3)
Comprehensive income (loss)	151.7	166.6	(137.1)	356.6
Less: Comprehensive income attributable to noncontrolling interests	(1.5)	(1.7)	(6.3)	(2.6)
Comprehensive income (loss) attributable to common stockholders	\$ 150.2	\$ 164.9	\$(143.4)	\$354.0

See Accompanying Notes to Condensed Consolidated Financial Statements

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WESTROCK COMPANY
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited)
 (In Millions, Except Share Data)

	June 30, 2016	September 30, 2015 (recast)
ASSETS		
Current assets:		
Cash and cash equivalents	\$258.7	\$ 207.8
Restricted cash	7.3	7.3
Accounts receivable (net of allowances of \$38.5 and \$29.5)	1,596.6	1,575.4
Inventories	1,691.1	1,761.0
Other current assets	331.5	261.7
Current assets of discontinued operations	—	362.8
Total current assets	3,885.2	4,176.0
Property, plant and equipment, net	9,345.2	9,159.8
Goodwill	4,788.0	4,647.1
Intangibles, net	2,651.3	2,794.9
Restricted assets held by special purpose entities	1,295.4	1,302.1
Prepaid pension asset	545.1	532.9
Other assets	936.2	503.9
Long-term assets of discontinued operations	—	2,255.7
	\$23,446.4	\$ 25,372.4
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of debt	\$345.2	\$ 63.7
Accounts payable	1,109.5	1,231.4
Accrued compensation and benefits	376.1	354.9
Other current liabilities	476.3	410.2
Current liabilities of discontinued operations	—	118.6
Total current liabilities	2,307.1	2,178.8
Long-term debt due after one year	5,513.9	5,558.2
Pension liabilities, net of current portion	278.4	316.0
Postretirement benefit liabilities, net of current portion	145.3	143.0
Non-recourse liabilities held by special purpose entities	1,172.3	1,179.6
Deferred income taxes	3,283.0	3,189.7
Other long-term liabilities	709.3	647.2
Long-term liabilities of discontinued operations	—	361.8
Commitments and contingencies (Note 15)		
Redeemable noncontrolling interests	14.3	14.2
Equity:		
Preferred stock, \$0.01 par value; 30.0 million shares authorized; no shares outstanding	—	—
Common Stock, \$0.01 par value; 600.0 million shares authorized; 251.5 million and 257.0 million shares outstanding at June 30, 2016 and September 30, 2015, respectively	2.5	2.6
Capital in excess of par value	10,438.7	10,767.8
Retained earnings	83.3	1,661.6
Accumulated other comprehensive loss	(611.4) (780.2)

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Total stockholders' equity	9,913.1	11,651.8
Noncontrolling interests	109.7	132.1
Total equity	10,022.8	11,783.9
	\$23,446.4	\$ 25,372.4

See Accompanying Notes to Condensed Consolidated Financial Statements

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WESTROCK COMPANY
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)
 (In Millions)

	Nine Months Ended June 30,	
	2016	2015
Operating activities:		
Consolidated net (loss) income	\$(298.2)	\$393.9
Adjustments to reconcile consolidated net (loss) income to net cash provided by operating activities:		
Depreciation, depletion and amortization	867.7	459.5
Cost of real estate sold	50.1	—
Deferred income tax expense	35.4	152.1
Share-based compensation expense	51.8	28.5
Loss on disposal of plant, equipment and other, net	1.9	1.3
Equity in income of unconsolidated entities	(6.8)	(7.3)
Pension and other postretirement funding (more) than expense (income)	(69.0)	(120.6)
Gain on Grupo Gondi investment	(12.1)	—
Cash surrender value increase in excess of premiums paid	(23.7)	—
Impairment adjustments	191.3	3.0
Other non-cash items	(34.1)	(6.0)
Impairment of Specialty Chemicals goodwill and intangibles	579.4	—
Change in operating assets and liabilities, net of acquisitions and divestitures:		
Accounts receivable	51.0	69.0
Inventories	25.8	(7.8)
Other assets	(79.3)	(111.9)
Accounts payable	(104.1)	(41.8)
Income taxes	(13.0)	(10.5)
Accrued liabilities and other	92.7	15.2
Net cash provided by operating activities	1,306.8	816.6
Investing activities:		
Capital expenditures	(614.7)	(358.9)
Cash (paid) received for purchase of businesses, net of cash acquired	(376.4)	3.7
Debt purchased in connection with an acquisition	(36.5)	—
Investment in unconsolidated entities	(178.5)	—
Return of capital from unconsolidated entities	5.4	0.8
Proceeds from sale of subsidiary and affiliates	10.2	—
Proceeds from sale of property, plant and equipment	10.9	22.8
Net cash used for investing activities	(1,179.6)	(331.6)
Financing activities:		
Additions (repayments) to revolving credit facilities	180.6	(84.9)
Additions to debt	1,458.3	221.3
Repayments of debt	(1,012.2)	(473.9)
Other financing additions	2.5	2.0
Debt issuance costs	(3.6)	(0.1)
Specialty Chemicals spin-off of cash and trust funding	(118.9)	—
Issuances of common stock, net of related minimum tax withholdings	(3.8)	(24.6)

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Purchases of common stock	(285.1)	(8.7)
Excess tax benefits from share-based compensation	0.1	16.7
Repayments to unconsolidated entity	(1.0)	(0.8)
Cash dividends paid to shareholders	(286.3)	(116.6)
Cash distributions paid to noncontrolling interests	(21.8)	(2.1)
Net cash used for financing activities	(91.2)	(471.7)
Effect of exchange rate changes on cash and cash equivalents	(5.6)	(2.7)
Increase in cash and cash equivalents	30.4	10.6
Cash and cash equivalents from continuing operations, at beginning of period	207.8	32.6
Cash and cash equivalents from discontinued operations, at beginning of period	20.5	—
Balance of cash and cash equivalents at beginning of period	228.3	32.6
Cash and cash equivalents from continuing operations, at end of period	258.7	43.2
Cash and cash equivalents from discontinued operations, at end of period	—	—
Balance of cash and cash equivalents at end of period	\$258.7	\$43.2

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	Nine Months Ended June 30, 2016 2015	
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes, net of refunds	\$ 118.5	\$ 47.6
Interest, net of amounts capitalized	167.3	47.0

Supplemental schedule of non-cash operating and investing activities:

The formation of the Grupo Gondi joint venture consisted of a contribution of \$175.0 million in cash and the stock of an entity that owns three corrugated packaging facilities in Mexico in return for a 25.0 percent equity participation in the joint venture valued at approximately \$0.3 billion. The entity was deconsolidated as of April 1, 2016, which resulted in the derecognition and recognition of the following non-cash items:

	Nine Months Ended June 30, 2016 (In millions)
Derecognized:	
Accounts receivable	\$ 34.7
Inventories	\$ 25.8
Other assets	\$ 86.3
Accounts payable	\$(15.4)
Income taxes	\$(1.0)
Accrued liabilities and other	\$(18.8)

Recognized:

Investment in unconsolidated entities \$(123.7)

Supplemental schedule of non-cash investing and financing activities:

Liabilities assumed in the nine months ended June 30, 2016 relate to the SP Fiber Acquisition and the Packaging Acquisition. For additional information regarding these acquisitions, see "Note 5. Merger, Acquisitions and Investment".

	Nine Months Ended June 30, 2016 (In millions)
Fair value of assets acquired, including goodwill	\$ 583.4
Cash consideration for the purchase of businesses, net of cash acquired	\$ 376.4
Debt purchased in connection with an acquisition	\$ 36.5

Liabilities assumed	\$ 170.5
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Included in liabilities assumed is the following item:

Debt assumed in acquisitions	\$ 15.0
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See Accompanying Notes to Condensed Consolidated Financial Statements

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WESTROCK COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Nine Month Periods Ended June 30, 2016

(Unaudited)

Unless the context otherwise requires, “we”, “us”, “our”, “WestRock” and “the Company” refer to the business of WestRock Company, its wholly-owned subsidiaries and its partially-owned consolidated subsidiaries.

We are one of North America’s leading providers of packaging solutions and manufacturers of containerboard and paperboard. We operate locations in North America, South America, Europe and Asia. We also develop real estate in Charleston, SC.

Note 1. Interim Financial Statements

Our independent registered public accounting firm has not audited our accompanying interim financial statements. We derived the Condensed Consolidated Balance Sheet at September 30, 2015 from the audited Consolidated Financial Statements included in our Fiscal 2015 Form 10-K. In the opinion of our management, the Condensed Consolidated Financial Statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair presentation of our statements of operations for the three and nine months ended June 30, 2016 and June 30, 2015, our comprehensive income (loss) for the three and nine months ended June 30, 2016 and June 30, 2015, our financial position at June 30, 2016 and September 30, 2015, and our cash flows for the nine months ended June 30, 2016 and June 30, 2015.

On May 15, 2016, WestRock distributed 100% of the outstanding common stock, par value \$0.01 per share, of Ingevity to WestRock’s shareholders and completed the separation of our Specialty Chemicals business from WestRock. Ingevity is now an independent public company trading under the symbol “NGVT” on the New York Stock Exchange. With the completion of the Separation, we disposed of the former Specialty Chemicals segment in its entirety and ceased to consolidate its assets, liabilities and results of operations in our Condensed Consolidated Financial Statements. Accordingly, we have presented the financial position and results of operations of our former Specialty Chemicals segment as discontinued operations in the accompanying Condensed Consolidated Financial Statements for all periods presented. See “Note 6. Discontinued Operations” for more information.

We have condensed or omitted certain notes and other information from the interim financial statements presented in this Quarterly Report on Form 10-Q. Therefore, these interim statements should be read in conjunction with our Fiscal 2015 Form 10-K. The results for the three and nine months ended June 30, 2016 are not necessarily indicative of results that may be expected for the full year.

Note 2. New Accounting Standards

Recently Adopted Standards

In November 2015, the FASB issued ASU 2015-17 “Balance Sheet Classification of Deferred Taxes”, which amends certain provisions of ASC 740 “Income Taxes”. The ASU requires that all deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. In addition, companies will no longer allocate valuation allowances between current and noncurrent deferred tax assets because those allowances also will be classified as noncurrent. The ASU is effective for annual periods, and for interim periods within those annual periods, beginning after December 15, 2016. Early adoption was permitted for all companies in any interim or annual period. The guidance may be adopted on either a prospective or retrospective basis. We adopted these provisions prospectively on December 31, 2015, and prior periods were not retrospectively adjusted. The adoption did not have a material effect on our consolidated financial statements.

Recently Issued Standards

In June 2016, the FASB issued ASU 2016-13 “Financial Instruments - Credit losses: Measurement of Credit Losses on Financial Instruments”, which amends certain provisions of ASU 326, “Financial Instruments-Credit Loss”. The ASU changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, held to maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking “expected loss” model that generally will result in the earlier recognition of allowances for losses. For available for sale debt securities with unrealized losses, entities will be required to measure credit losses in a manner similar to what they do today, except that losses will be recognized as allowances rather than reductions in the amortized cost of the securities. Additionally, entities will have to disclose significantly more information, including information used to track credit quality by year or origination for most financing receivables. The ASU is effective for annual reporting periods beginning after December 15, 2019, including interim periods within those annual

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

periods, and will be applied as a cumulative effect adjustment to retained earnings as of the beginning of the first reporting period for which the guidance is effective. We expect to adopt these provisions on October 1, 2020, including interim periods subsequent to the date of adoption. We do not expect that the adoption of these provisions will have a material effect on our consolidated financial statements.

In May 2016, the FASB issued ASU 2016-12 “Revenue from Contracts with Customer, Narrow-Scope Improvements and Practical Expedients”, which amends its new revenue recognition guidance on transitioning to the new revenue recognition standard, collectibility, non-cash consideration and the presentation of sales and other similar taxes. The ASU clarifies that, for a contract to be considered completed at transition, all (or substantially all) of the revenue must have been recognized under legacy GAAP. The ASU also clarifies how an entity should evaluate the collectibility threshold and when an entity can recognize nonrefundable consideration received as revenue if an arrangement does not meet the standard’s contract criteria. The ASU is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those annual periods, and can be applied using a full retrospective or modified retrospective approach. We expect to adopt these provisions on October 1, 2018, including interim periods subsequent to the date of adoption. We are evaluating the impact of these provisions.

In March 2016, the FASB issued ASU 2016-09 “Compensation—Stock Compensation: Improvements To Employee Share Based Payment Accounting”, which amends certain provisions of ASU 718, “Compensation - Stock Compensation”. The ASU will require all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. It also will allow an employer to repurchase more of an employee’s shares than it can today for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. The provisions are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. We expect to adopt these provisions on October 1, 2017, and based on our current stock compensation awards, the adoption is not expected to have a material effect on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-08 “Revenue from Contracts with Customer, Principal versus Agent Considerations (Reporting Revenue Gross versus Net)” to clarify the principal versus agent guidance in its new revenue recognition standard. The amendments clarify how an entity should identify the unit of accounting for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements, such as service transactions. These provisions also clarify the indicators to determine when an entity is acting as a principal or an agent. The ASU is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those annual periods, and can be applied using a full retrospective or modified retrospective approach. We expect to adopt these provisions on October 1, 2018, including interim periods subsequent to the date of adoption. We are evaluating the impact of these provisions.

In March 2016, the FASB issued ASU 2016-07 “Investments—Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting”, which amends certain provisions of ASU 323 “Investments-Equity Method and Joint Ventures”. The ASU eliminates the requirement that an investor retrospectively apply equity method accounting when an investment that it had accounted for by another method initially qualifies for the equity method. The guidance will be applied prospectively and is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. We expect to adopt these provisions on October 1, 2017, including interim periods subsequent to the date of adoption. We do not expect that the adoption of these provisions will have a material effect on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-05 “Derivatives and Hedging--Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships”, which amends certain provisions of ASU 815 “Derivatives and Hedging”.

The ASU clarifies that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument under ASC 815 does not, in and of itself, require de-designation of the instrument if all other hedge criteria continue to be met. These provisions are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, and can be adopted using a prospective or modified retrospective approach. Early adoption is permitted. We expect to adopt these provisions on October 1, 2017, including interim periods subsequent to the date of adoption, and do not expect that these provisions will have a material effect on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 "Leases", which is codified in ASC 842 "Leases" and supersedes current lease guidance in ASC 840. These provisions require lessees to put a right-of-use asset and lease liability on their balance sheet for operating and financing leases that have a term of more than one year. Expense will be recognized in the income statement similar to current accounting guidance. For lessors, the ASU modifies the classification criteria and the accounting for sales-type and direct financing leases. Entities will need to disclose qualitative and quantitative information about their leases, including characteristics and amounts recognized in the financial statements. These provisions are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. We expect to adopt these provisions on October 1, 2019, including interim periods subsequent to the date of adoption. Entities are required to use a modified

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

retrospective approach upon adoption to recognize and measure leases at the beginning of the earliest comparative period presented in the financial statements. We are evaluating the impact of these provisions.

In September 2015, the FASB issued ASU 2015-16 “Simplifying the Accounting for Measurement-Period Adjustments”, which amends certain provisions of ASC 805 “Business Combinations”. The ASU mandates that measurement-period adjustments be recorded by the acquirer in the period these amounts are determined, and eliminates the requirement to record them retrospectively. These provisions are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years, applied prospectively to open measurement periods. We expect to adopt these provisions on October 1, 2016, including interim periods subsequent to the date of adoption. We are evaluating the impact of these provisions.

In July 2015, the FASB issued ASU 2015-11 “Simplifying the Measurement of Inventory”, which amends certain provisions of ASC 330 “Inventory”. The ASU requires inventory to be measured at the lower of cost and net realizable value. These provisions do not apply to inventory that is measured using LIFO or the retail inventory method. These provisions apply to all other inventory, which includes inventory that is measured using FIFO or average cost. These provisions are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, applied prospectively. Early adoption is permitted as of the beginning of an interim or annual reporting period. We expect to adopt these provisions on October 1, 2017, including interim periods subsequent to the date of adoption, prospectively. Given that the majority of our inventory is measured using LIFO, we do not expect that the adoption of these provisions will have a material effect on our consolidated financial statements.

In May 2015, the FASB issued ASU 2015-07 “Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share”. The ASU amends ASC 820 “Fair Value Measurement” and eliminates the requirement to categorize within the fair value hierarchy investments for which fair value is measured using the net asset value (or its equivalent) practical expedient. Investments for which fair value is measured at net asset value per share using the practical expedient should not be categorized in the fair value hierarchy. However, disclosures on investments for which fair value is measured at net asset value as a practical expedient should continue to be disclosed to help users understand the nature and risks of the investments and whether the investments, if sold, are probable of being sold at amounts different from net asset value. The ASU is effective for annual periods, and for interim periods within those annual periods, beginning after December 15, 2015. We expect to adopt these provisions on October 1, 2016, including interim periods subsequent to the date of adoption, applied retrospectively to all periods presented. We do not expect that the adoption of these provisions will have a material effect on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05 “Customers Accounting for Fees Paid in a Cloud Computing Arrangement”, which amends ASC 350 “Intangibles-Goodwill and Other Internal-Use Software”. The ASU requires entities to record a software license intangible asset if a hosting arrangement for internal-use software allows the entity to take possession of the software, and it is feasible that the entity can run the software on its own hardware, or contract a vendor to host the software. These provisions are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. We expect to adopt these provisions on October 1, 2016, including interim periods subsequent to the date of adoption. We are evaluating the impact of these provisions.

In April 2015, the FASB issued ASU 2015-04 “Practical Expedient for the Measurement Date of an Employer’s Defined Benefit Obligation and Plan Assets”. The ASU amends ASC 715 “Retirement Plans” and allows entities to use a practical expedient to measure defined benefit plan assets and obligations using a month-end that is closest to the entity’s fiscal year end, as well as the option to use the closest date to a significant event when plan assets and obligations are remeasured. These provisions are effective for annual periods, and for interim periods within those annual periods, beginning after December 15, 2015. Early application is permitted. We expect to adopt these

provisions on October 1, 2016, including interim periods subsequent to the date of adoption. We do not expect that the adoption of these provisions will have a material effect on our consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02 “Consolidation-Amendments to the Consolidation Analysis”, which amends certain provisions of ASC 810 “Consolidation”. The amendment requires the consideration of additional criteria in (i) the analysis and determination of whether limited partnerships and similar legal entities are variable interest entities or voting interest entities and (ii) primary beneficiary determinations. The ASU also eliminates certain fees from the consolidation analysis of reporting entities that are involved with variable interest entities. The ASU is effective for annual periods, and for interim periods within those annual periods, beginning after December 15, 2015. We expect to adopt these provisions on October 1, 2016, including interim periods subsequent to the date of adoption. We do not expect that the adoption of these provisions will have a material effect on our consolidated financial statements.

In June 2014, the FASB issued ASU 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 ASU amends ASC 718 “Compensation - Stock Compensation” and clarifies that a performance target in a share-based payment that affects vesting and that could be achieved

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

after the requisite service period should be accounted for as a performance condition and impact compensation cost when it is probable the performance target will be achieved. These provisions are effective for annual periods beginning after December 15, 2015. We expect to adopt these provisions on October 1, 2016, and based on our current stock compensation awards, the adoption is not expected to have a material effect on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09 which is codified in ASC 606 “Revenue from Contracts with Customers” and supersedes both the revenue recognition requirement to ASC 605 “Revenue Recognition” and most industry-specific guidance. The core principle of ASC 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the five steps set forth in ASC 606. An entity must also disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative information about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. In August 2015, the FASB issued ASU 2015-14, “Revenue from Contracts with Customers: Deferral of the Effective Date,” which deferred the effective date of ASU 2014-09 by one year. Therefore, these provisions are effective for annual reporting periods beginning after December 15, 2017 (October 1, 2018 for us), including interim periods within that annual period, and can be applied using a full retrospective or modified retrospective approach. We are evaluating the impact of these provisions.

Note 3. Equity and Other Comprehensive (Loss) Income

Equity

The following is a summary of the changes in total equity for the nine months ended June 30, 2016 (in millions):

	WestRock Company Stockholders' Equity	Noncontrolling (1) Interests	Total Equity
Balance at September 30, 2015	\$ 11,651.8	\$ 132.1	\$ 11,783.9
Net (loss) income attributable to common stockholders	(304.3)	4.2	(300.1)
Other comprehensive income, net of tax	160.9	—	160.9
Noncontrolling interests assumed in acquisition	—	10.9	10.9
Income tax expense from share-based plans	(12.3)	—	(12.3)
Compensation expense under share-based plans	52.7	—	52.7
Cash dividends declared (per share - \$1.125) ⁽²⁾	(288.9)	—	(288.9)
Distributions and adjustments to noncontrolling interests	—	(11.2)	(11.2)
Sale of subsidiary shares from noncontrolling interest	—	(0.2)	(0.2)
Issuance of common stock, net of stock received for minimum tax withholdings	(3.2)	—	(3.2)
Purchases of common stock	(285.1)	—	(285.1)
Separation of Specialty Chemicals business	(1,058.5)	(26.1)	(1,084.6)
Balance at June 30, 2016	\$ 9,913.1	\$ 109.7	\$ 10,022.8

(1) Excludes amounts related to contingently redeemable noncontrolling interests, which are separately classified outside of permanent equity in the mezzanine section of the Condensed Consolidated Balance Sheets.

- (2) Includes cash dividends paid, and dividends declared but unpaid, related to the shares reserved but unissued to satisfy Smurfit-Stone bankruptcy claims.

Stock Repurchase Program

In July 2015, our board of directors authorized a repurchase program of up to 40.0 million shares of Common Stock, representing approximately 15 percent of our outstanding Common Stock as of July 1, 2015. The shares of Common Stock may be repurchased over an indefinite period of time at the discretion of management. As of September 30, 2015, the remaining authorization under our repurchase program was approximately 34.6 million shares. Pursuant to that repurchase program, in the nine months ended June 30, 2016, we repurchased approximately 7.0 million shares of Common Stock for an aggregate cost of \$285.1 million. As of June 30, 2016, we had approximately 27.6 million shares of Common Stock available for repurchase under the program.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

Accumulated Other Comprehensive Loss

The tables below summarize the changes in accumulated other comprehensive loss, net of tax, by component for the nine months ended June 30, 2016 and June 30, 2015 (in millions):

	Cash Flow Hedges	Defined Benefit Pension and Postretirement Plans	Foreign Currency Items	Total ⁽¹⁾
Balance at September 30, 2015	\$ (1.4)	\$ (540.7)	\$ (238.1)	\$ (780.2)
Other comprehensive (loss) income before reclassifications	(0.5)	1.4	133.4	134.3
Amounts reclassified from accumulated other comprehensive loss	1.0	5.4	20.2	26.6
Specialty Chemicals separation	0.4	1.9	5.6	7.9
Net current period other comprehensive income	0.9	8.7	159.2	168.8
Balance at June 30, 2016	\$ (0.5)	\$ (532.0)	\$ (78.9)	\$ (611.4)

⁽¹⁾ All amounts are net of tax and noncontrolling interest.

	Cash Flow Hedges	Defined Benefit Pension and Postretirement Plans	Foreign Currency Items	Total ⁽¹⁾
Balance at September 30, 2014	\$ (0.2)	\$ (498.2)	\$ 3.1	\$ (495.3)
Other comprehensive loss before reclassifications	—	(16.5)	(44.5)	(61.0)
Amounts reclassified from accumulated other comprehensive loss	—	23.8	—	23.8
Net current period other comprehensive income (loss)	—	7.3	(44.5)	(37.2)
Balance at June 30, 2015	\$ (0.2)	\$ (490.9)	\$ (41.4)	\$ (532.5)

⁽¹⁾ All amounts are net of tax and noncontrolling interest.

The net of tax amounts were determined using effective tax rates averaging approximately 34% to 35% for the nine months ended June 30, 2016 and 38% to 39% for the nine months ended June 30, 2015. Although we are impacted by a number of currencies, foreign currency translation gains recorded in accumulated other comprehensive loss for the nine months ended June 30, 2016 were primarily due to the changes in the Brazilian Real/U.S. dollar and Canadian/U.S. dollar exchange rates. Foreign currency translation gains and losses recorded in accumulated other comprehensive loss for the nine months ended June 30, 2015 were primarily due to the change in the Canadian/U.S. dollar exchange rates. For the nine months ended June 30, 2016, we recorded defined benefit net actuarial gains of \$1.4 million, net of tax of \$0.8 million, in other comprehensive (loss) income, primarily due to the partial settlement and curtailment of certain defined benefit plans. For the nine months ended June 30, 2015, we recorded defined benefit net actuarial losses and prior service costs, net of tax, in other comprehensive (loss) income of \$3.3 million and \$13.2 million, respectively, primarily due to the partial settlement, plan amendments and curtailment of certain defined benefit plans. The deferred income tax expense associated with the net actuarial losses and prior service costs was \$2.0 million and \$8.3 million, respectively. The amounts reclassified out of accumulated other comprehensive loss into earnings for these events are summarized in the reclassifications tables below.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

The following table summarizes the reclassifications out of accumulated other comprehensive loss by component (in millions):

	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
	Pretax	Tax	Net of Tax	Pretax	Tax	Net of Tax
Amortization of defined benefit pension and postretirement items ⁽¹⁾						
Actuarial losses ⁽²⁾	\$(1.9)	\$0.6	\$(1.3)	\$(9.9)	\$3.7	\$(6.2)
Prior service (costs) credits ⁽²⁾	(0.4)	0.3	(0.1)	—	—	—
Subtotal defined benefit plans	(2.3)	0.9	(1.4)	(9.9)	3.7	(6.2)
Foreign currency translation adjustments						
Sale of foreign subsidiary ⁽³⁾	(20.2)	—	(20.2)	—	—	—
Derivative Instruments ⁽¹⁾						
Commodity cash flow hedges ⁽⁴⁾	(0.3)	—	(0.3)	—	—	—
Foreign currency cash flow hedges ⁽⁵⁾	(0.5)	0.2	(0.3)	—	—	—
Subtotal derivative instruments	(0.8)	0.2	(0.6)	—	—	—
Total reclassifications for the period	\$(23.3)	\$1.1	\$(22.2)	\$(9.9)	\$3.7	\$(6.2)

(1) Amounts in parentheses indicate charges to earnings. Amounts pertaining to noncontrolling interests are excluded.

(2) Included in the computation of net periodic pension cost (See “Note 13. Retirement Plans” for additional details).

(3) Included in interest income and other income (expense), net.

(4) Included in cost of goods sold.

(5) Included in net sales.

The following table summarizes the reclassifications out of accumulated other comprehensive loss by component (in millions):

	Nine Months Ended June 30, 2016			Nine Months Ended June 30, 2015		
	Pretax	Tax	Net of Tax	Pretax	Tax	Net of Tax
Amortization of defined benefit pension and postretirement items ⁽¹⁾						
Actuarial losses ⁽²⁾	\$(6.5)	\$1.9	\$(4.6)	\$(46.2)	\$17.5	\$(28.7)
Prior service (cost) credits ⁽²⁾	(1.3)	0.5	(0.8)	8.0	(3.1)	4.9
Subtotal defined benefit plans	(7.8)	2.4	(5.4)	(38.2)	14.4	(23.8)
Foreign currency translation adjustments						
Sale of foreign subsidiary ⁽³⁾	(20.2)	—	(20.2)	—	—	—

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Derivative Instruments ⁽¹⁾						
Commodity cash flow hedges ⁽⁴⁾	(1.4)	0.5	(0.9)	—	—	—
Foreign currency cash flow hedges ⁽⁵⁾	(0.2)	0.1	(0.1)	—	—	—
Subtotal derivative instruments	(1.6)	0.6	(1.0)	—	—	—
 Total reclassifications for the period	 \$(29.6)	 \$3.0	 \$(26.6)	 \$(38.2)	 \$14.4	 \$(23.8)