

NACCO INDUSTRIES INC
Form 10-Q
May 01, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark
One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the quarterly period ended March 31, 2019

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 1-9172

NACCO INDUSTRIES, INC.
(Exact name of registrant as specified in its
charter)

DELAWARE
(State or other jurisdiction of incorporation
or organization)

34-1505819
(I.R.S. Employer
Identification No.)

5875 LANDERBROOK DRIVE, SUITE
220, CLEVELAND, OHIO
(Address of principal executive offices)

44124-4069
(Zip code)

(440) 229-5151
(Registrant's telephone number, including area
code)

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 every Interactive Data File required to be submitted 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 such files).

YES NO

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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 <input type="radio"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="radio"/>	Smaller reporting company <input type="checkbox"/>	Emerging growth company <input type="radio"/>
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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

Number of shares of Class A Common Stock outstanding at April 26, 2019: 5,417,906

Number of shares of Class B Common Stock outstanding at April 26, 2019: 1,568,810

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Part I

FINANCIAL INFORMATION

Item 1. Financial Statements

NACCO INDUSTRIES, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	MARCH 31 2019	DECEMBER 31 2018
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	\$79,058	\$ 85,257
Trade accounts receivable, net	19,341	20,817
Accounts receivable from affiliates	8,805	7,999
Inventories	32,799	31,209
Assets held for sale	5,130	4,330
Prepaid expenses and other	18,898	14,562
Total current assets	164,031	164,174
Property, plant and equipment, net	125,842	124,554
Intangibles, net	39,869	40,516
Investments in unconsolidated subsidiaries	23,268	20,091
Deferred costs	3,215	3,244
Operating lease right-of-use assets	12,479	—
Other non-current assets	25,083	24,412
Total assets	\$393,787	\$ 376,991
LIABILITIES AND EQUITY		
Accounts payable	\$8,224	\$ 7,746
Accounts payable to affiliates	637	1,653
Revolving credit agreements	4,000	4,000
Current maturities of long-term debt	573	654
Asset retirement obligations	1,826	1,826
Accrued payroll	13,515	19,853
Deferred compensation	13,465	—
Other current liabilities	7,330	6,516
Total current liabilities	49,570	42,248
Long-term debt	7,448	6,367
Operating lease liabilities	13,305	—
Asset retirement obligations	36,384	35,877
Pension and other postretirement obligations	10,067	10,429
Deferred income taxes	6,026	2,846
Deferred compensation	—	12,939
Other long-term liabilities	6,720	15,581
Total liabilities	129,520	126,287
Stockholders' equity		
Common stock:		
Class A, par value \$1 per share, 5,417,906 shares outstanding (December 31, 2018 - 5,352,590 shares outstanding)	5,418	5,352
Class B, par value \$1 per share, convertible into Class A on a one-for-one basis, 1,568,810 shares outstanding (December 31, 2018 - 1,568,810 shares outstanding)	1,569	1,569

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Capital in excess of par value	6,573	7,042
Retained earnings	264,217	250,352
Accumulated other comprehensive loss	(13,510)	(13,611)
Total stockholders' equity	264,267	250,704
Total liabilities and equity	\$393,787	\$ 376,991

See notes to Unaudited Condensed Consolidated Financial Statements.

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NACCO INDUSTRIES, INC. AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED MARCH 31	
	2019	2018
	(In thousands, except per share data)	
Revenues	\$40,097	\$31,200
Cost of sales	26,712	25,776
Gross profit	13,385	5,424
Earnings of unconsolidated operations	16,270	15,555
Operating expenses		
Selling, general and administrative expenses	12,653	10,627
Amortization of intangible assets	647	684
Gain on sale of assets	(18)	(53)
	13,282	11,258
Operating profit	16,373	9,721
Other (income) expense		
Interest expense	231	646
Interest income	(553)	(113)
Income from other unconsolidated affiliates	(322)	(315)
Closed mine obligations	366	379
(Gain) loss on equity securities	(698)	98
Other, net	11	46
	(965)	741
Income before income tax provision	17,338	8,980
Income tax provision	2,320	804
Net income	\$15,018	\$8,176
Earnings per share:		
Basic earnings per share	\$2.16	\$1.19
Diluted earnings per share	\$2.15	\$1.18
Basic weighted average shares outstanding	6,949	6,894
Diluted weighted average shares outstanding	6,998	6,939

See notes to Unaudited Condensed Consolidated Financial Statements.

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NACCO INDUSTRIES, INC. AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	THREE MONTHS ENDED MARCH 31	
	2019	2018
	(In thousands)	
Net income	\$15,018	\$8,176
Reclassification of pension and postretirement adjustments into earnings, net of \$24 and \$35 tax benefit in the three months ended March 31, 2019 and March 31, 2018, respectively.	101	140
Total other comprehensive income	\$101	\$140
Comprehensive income	\$15,119	\$8,316

See notes to Unaudited Condensed Consolidated Financial Statements.

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NACCO INDUSTRIES, INC. AND SUBSIDIARIES	
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS	
THREE MONTHS	
ENDED	
MARCH 31	
	2019 2018
	(In thousands)
Operating activities	
Net cash used for operating activities	\$(544) \$(8,029)
Investing activities	
Expenditures for property, plant and equipment	(4,252) (2,452)
Proceeds from the sale of property, plant and equipment	18 55
Other	(13) 309
Net cash used for investing activities	(4,247) (2,088)
Financing activities	
Additions to long-term debt	1,206 1,269
Reductions of long-term debt	(161) (8,205)
Cash dividends paid	(1,153) (1,144)
Purchase of treasury shares	(1,300) —
Net cash used for financing activities	(1,408) (8,080)
Cash and cash equivalents	
Total decrease for the period	(6,199) (18,197)
Balance at the beginning of the period	85,257 101,600
Balance at the end of the period	\$79,058 \$83,403
See notes to Unaudited Condensed Consolidated Financial Statements.	

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NACCO INDUSTRIES, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Class A Common Stock	Class B Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Gain (Loss) on Equity Securities	Other Comprehensive Income (Loss) Deferred Pension and Postretirement Plan Adjustment	Total Stockholders' Equity
(In thousands, except per share data)							
Balance, January 1, 2018	\$5,282	\$ 1,570	\$4,447	\$216,490	\$2,727	\$ (11,068)	\$ 219,448
ASC 606 adoption (See Note 2)	—	—	—	(2,075)	—	—	(2,075)
ASU 2016-01 adoption	—	—	—	2,727	(2,727)	—	—
ASU 2018-02 adoption	—	—	—	2,339	—	(2,179)	160
Stock-based compensation	87	—	90	—	—	—	177
Net income	—	—	—	8,176	—	—	8,176
Cash dividends on Class A and Class B common stock: \$0.1650 per share	—	—	—	(1,144)	—	—	(1,144)
Reclassification adjustment to net income, net of tax	—	—	—	—	—	140	140
Balance, March 31, 2018	\$5,369	\$ 1,570	\$4,537	\$226,513	\$—	\$ (13,107)	\$ 224,882
Balance, January 1, 2019	\$5,352	\$ 1,569	\$7,042	\$250,352	\$—	\$ (13,611)	\$ 250,704
Stock-based compensation	102	—	795	—	—	—	897
Purchase of treasury shares	(36)	—	(1,264)	—	—	—	(1,300)
Net income	—	—	—	15,018	—	—	15,018
Cash dividends on Class A and Class B common stock: \$0.1650 per share	—	—	—	(1,153)	—	—	(1,153)
Reclassification adjustment to net income, net of tax	—	—	—	—	—	101	101
Balance, March 31, 2019	\$5,418	\$ 1,569	\$6,573	\$264,217	\$—	\$ (13,510)	\$ 264,267

See notes to Unaudited Condensed Consolidated Financial Statements.

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NACCO INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2019
(In thousands, except as noted and per share amounts)

NOTE 1—Nature of Operations and Basis of Presentation

Nature of Operations: The accompanying Unaudited Condensed Consolidated Financial Statements include the accounts of NACCO Industries, Inc. (the “parent company” or “NACCO”) and its wholly owned subsidiaries (collectively, “NACCO Industries, Inc. and Subsidiaries” or the “Company”). Intercompany accounts and transactions are eliminated in consolidation. NACCO is the public holding company for The North American Coal Corporation (“NACoal”). In the first quarter of 2019, the Company changed its segment reporting to three operating segments: Coal Mining, North American Mining (“NAMining”) and Minerals Management. The Company also has unallocated items not directly attributable to a reportable segment. Prior to January 1, 2019, NACoal was the Company’s operating segment. NACCO and Other, which included parent company operations and Bellaire Corporation (“Bellaire”), was the Company’s non-operating segment. Historical financial information for 2018 has been recast to conform to the current presentation. See Note 9 to the Unaudited Condensed Consolidated Financial Statements for further discussion of segment reporting.

The Company’s operating segments are further described below:

Coal Mining Segment

The operating coal mines are: Bisti Fuels LLC (“Bisti”), Caddo Creek Resources Company, LLC (“Caddo Creek”), Camino Real Fuels, LLC (“Camino Real”), The Coteau Properties Company (“Coteau”), Coyote Creek Mining Company, LLC (“Coyote Creek”), Demery Resources Company, LLC (“Demery”), The Falkirk Mining Company (“Falkirk”), Mississippi Lignite Mining Company (“MLMC”) and The Sabine Mining Company (“Sabine”). Liberty Fuels Company, LLC (“Liberty”) ceased all mining and delivery of lignite in 2017 and commenced final mine reclamation in 2018. Centennial Natural Resources (“Centennial”), located in Alabama, ceased coal production at the end of 2015.

At all operating coal mines other than MLMC, the Company operates as a contract miner pursuant to a “management fee” contract. Under these long-term contracts, the customer is responsible for funding all mine operating costs and directly or indirectly provides all of the capital required to build and operate the mine. Debt financing provided by or supported by the customers is without recourse to NACCO and NACoal. As a result, these contracts meet the definition of a variable interest entity (“VIE”). NACCO is not the primary beneficiary of the VIE as it does not exercise financial control; therefore, NACCO does not consolidate the results of these operations within its financial statements. Instead, these contracts are accounted for as equity method investments. The income before income taxes is reported as Earnings of unconsolidated operations on the income statement and the Company’s investment is reported on the line Investments in Unconsolidated Subsidiaries in the Consolidated Balance Sheet. The mines that meet the definition of a VIE are referred to collectively as the “Unconsolidated Subsidiaries.” For tax purposes, the Unconsolidated Subsidiaries are included within the NACCO consolidated U.S. tax return; therefore, the income tax expense line on the statement of operations includes taxes related to these entities. All of the Unconsolidated Subsidiaries are accounted for under the equity method. See Note 7 for further discussion. MLMC and Centennial are consolidated operations.

The coal reserves at Coteau, Falkirk, Coyote, MLMC and Centennial are owned or controlled by the Company. The coal reserves at all other mines are owned or controlled by the respective mine’s customer. The Unconsolidated Subsidiaries are paid a management fee per ton of coal or heating unit (MMBtu) delivered. Each contract specifies the indices and mechanics by which fees change over time, generally in line with broad measures of U.S. inflation. This contract structure eliminates exposure to spot coal market price fluctuations.

NAMining Segment

NAMining operates primarily at limestone quarries in Florida, but is focused on expanding outside of Florida and into mining materials other than limestone. NAMining operates under both management fee contracts and contracts that provide for a fixed per ton sales price. Income before income taxes for NAMining locations are consolidated within NACCO's consolidated financial statements or are unconsolidated and included on the line Earnings of unconsolidated operations, depending on how each contract is structured. All of the Unconsolidated Subsidiaries are accounted for under the equity method. See Note 7 for further discussion.

Minerals Management Segment

The Minerals Management segment promotes the development of the Company's oil, gas and coal reserves, generating income primarily from royalty-based lease payments from third parties. The majority of the Company's existing reserves were

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acquired as part of its historical coal mining operations. The Minerals Management segment derives income primarily by entering into contracts with third-party operators, granting them the rights to explore, produce and sell natural resources in exchange for royalty payments based on the lessees' sales of natural gas and, to a lesser extent, oil and coal. Specialized employees in the Minerals Management segment also provide surface and mineral acquisition and lease maintenance services related to Company operations.

Basis of Presentation: These financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position of the Company at March 31, 2019, the results of its operations, comprehensive income and cash flows for the three months ended March 31, 2019 and 2018 and the changes in equity for the three months ended March 31, 2019 have been included. These Unaudited Condensed Consolidated Financial Statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

The balance sheet at December 31, 2018 has been derived from the audited financial statements at that date but does not include all of the information or notes required by U.S. GAAP for complete financial statements.

NOTE 2—Recently Issued Accounting Standards

Accounting Standards Adopted in 2019: NACCO adopted Accounting Standard Update ("ASU") 2016-02, Leases (Topic 842), which is codified in Accounting Standards Codification 842, Leases ("ASC 842"), on January 1, 2019, using the modified retrospective transition method (the "guidance").

The most significant effect to the Unaudited Condensed Consolidated Balance Sheet relates to the recognition of new right-of-use assets ("ROU assets") and lease liabilities for operating leases of real estate, mining and other equipment that expire at various dates through 2031. The majority of the Company's leases are operating leases. See the table below for further information on the Unaudited Condensed Consolidated Balance Sheet. Many leases include renewal and/or fair value or bargain purchase options, which are not recognized on the Unaudited Condensed Consolidated Balance Sheet. There was no cumulative effect adjustment to the opening balance of retained earnings. The adoption of this guidance did not have a material effect on the Company's results of operations, cash flows, liquidity or debt-covenant compliance. NACCO did not apply the standard to the comparative periods presented in the year of adoption.

The Company elected many of the available practical expedients permitted under the guidance, which among other items, allow the Company to carry forward its historical lease classification and not reassess leases for the definition of a lease under the new standard. The Company also elected the practical expedient to carry forward the historical accounting treatment for existing land easement agreements. Upon the adoption of ASC 842, NACCO did not record a ROU asset and related lease liability for leases with an initial term of 12 months or less.

Leased assets and liabilities include the following:

Description Location	MARCH 31 2019
Assets	
Operating Operating lease right-of-use assets	\$ 12,479
Finance Property, plant and equipment, net ^(a)	308

Liabilities

Current

Operating Other current liabilities \$ 1,492

Finance Current maturities of long-term debt 344

Noncurrent

Operating Operating lease liabilities 13,305

^(a) Finance leased assets are recorded net of accumulated amortization of \$2.8 million as of March 31, 2019.

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The components of lease expense were as follows for the three months ended March 31, 2019:

Description	Location		
Lease expense			
Operating lease cost	Selling, general and administrative expenses	\$	625
Finance lease cost:			
Amortization of leased assets	Cost of sales		96
Interest on lease liabilities	Interest expense		3
Short-term lease expense	Selling, general and administrative expenses		20
Net lease expense		\$	744

Future minimum finance and operating lease payments were as follows at March 31, 2019:

	Finance Leases	Operating Leases	Total
remainder of 2019	\$ 328	\$ 1,803	\$ 2,131
2020	21	2,229	2,250
2021	—	2,125	2,125
2022	—	2,150	2,150
2023	—	1,659	1,659
Subsequent to 2023	—	10,951	10,951
Total minimum lease payments	349	20,917	\$ 21,266
Amounts representing interest	5	6,120	
Present value of net minimum lease payments	\$ 344	\$ 14,797	