

RAYONIER ADVANCED MATERIALS INC.

Form 10-Q

November 08, 2018

Table of Contents

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 September 29, 2018

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 001-36285

Incorporated in the State of Delaware

I.R.S. Employer Identification No. 46-4559529

1301 RIVERPLACE BOULEVARD, SUITE 2300

JACKSONVILLE, FL 32207

(Principal Executive Office)

Telephone Number: (904) 357-4600

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.

Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐ 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 ☒

The registrant had 51,060,954 shares of common stock, \$.01 par value per share, outstanding as of November 1, 2018.

Table of Contents

Item	Page
Part I — Financial Information	
1. <u>Financial Statements (unaudited)</u>	
<u>Condensed Consolidated Statements of Income and Comprehensive Income for the Three and Nine Months Ended September 29, 2018 and September 23, 2017</u>	<u>1</u>
<u>Condensed Consolidated Balance Sheets as of September 29, 2018 and December 31, 2017</u>	<u>2</u>
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 29, 2018 and September 23, 2017</u>	<u>3</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>4</u>
2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>19</u>
3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>33</u>
4. <u>Controls and Procedures</u>	<u>34</u>
Part II — Other Information	
1. <u>Legal Proceedings</u>	<u>35</u>
1A. <u>Risk Factors</u>	<u>35</u>
2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>36</u>
6. <u>Exhibits</u>	<u>37</u>
<u>Signature</u>	<u>38</u>

Table of Contents

Part I. Financial Information

Item 1. Financial Statements

Rayonier Advanced Materials Inc.

Condensed Consolidated Statements of Income and Comprehensive Income

(Unaudited)

(Dollars in thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 2018	September 2017	September 2018	September 2017
Net Sales	\$544,339	\$ 209,717	\$1,608,051	\$ 612,358
Cost of Sales	(448,426)	(177,597)	(1,330,307)	(508,573)
Gross Margin	95,913	32,120	277,744	103,785
Selling, general and administrative expenses	(31,002)	(12,475)	(78,927)	(40,138)
Duties	(816)	—	(20,680)	—
Other operating income (expense), net	(7,945)	(871)	(9,507)	(3,322)
Operating Income	56,150	18,774	168,630	60,325
Interest expense	(14,973)	(9,337)	(45,137)	(27,374)
Interest income and other, net	(394)	987	5,013	2,122
Other components of net periodic benefit costs	2,159	(1,117)	6,553	(3,349)
Adjustment to gain on bargain purchase	6,175	—	20,836	—
Gain on derivative instrument	—	14,087	—	16,149
Income Before Income Taxes	49,117	23,394	155,895	47,873
Income tax expense (Note 13)	(11,181)	(7,722)	(40,114)	(17,986)
Net Income Attributable to Rayonier Advanced Materials Inc.	37,936	15,672	115,781	29,887
Mandatory convertible stock dividends	(3,441)	(3,441)	(10,284)	(10,057)
Net Income Available to Rayonier Advanced Materials Inc. Common Stockholders	\$34,495	\$ 12,231	\$105,497	\$ 19,830
Earnings Per Share of Common Stock (Note 10)				
Basic earnings per share	\$0.68	\$ 0.29	\$2.07	\$ 0.47
Diluted earnings per share	\$0.60	\$ 0.28	\$1.82	\$ 0.46
Dividends Declared Per Common Share	\$0.07	\$ 0.07	\$0.21	\$ 0.21
Comprehensive Income:				
Net Income	\$37,936	\$15,672	\$115,781	\$29,887
Other Comprehensive Income, net of tax (Note 9)				
Foreign currency translation adjustments	(2,014)	—	(10,265)	—
Unrealized gain on derivative instruments	6,126	—	(936)	—
Net gain from pension and postretirement plans	2,398	2,032	7,193	6,093
Total other comprehensive income	6,510	2,032	(4,008)	6,093
Comprehensive Income	\$44,446	\$17,704	\$111,773	\$35,980
See Notes to Condensed Consolidated Financial Statements.				

Table of Contents

Rayonier Advanced Materials Inc.
Condensed Consolidated Balance Sheets
(Unaudited)
(Dollars in thousands)

	September 29, 2018	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 105,976	\$ 96,235
Accounts receivable, net (Note 2)	197,931	181,298
Inventory (Note 3)	332,058	302,086
Prepaid and other current assets	87,074	66,918
Total current assets	723,039	646,537
Property, Plant and Equipment (net of accumulated depreciation of \$1,392,487 for 2018 and \$1,309,192 for 2017)	1,378,379	1,407,762
Deferred Tax Assets	377,047	402,846
Intangible Assets, net	54,212	59,869
Other Assets	135,093	125,597
Total Assets	\$ 2,667,770	\$ 2,642,611
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$ 147,992	\$ 157,925
Accrued and other current liabilities (Note 4)	136,266	127,040
Current maturities of long-term debt (Note 5)	12,425	9,425
Current liabilities for disposed operations (Note 6)	14,534	13,181
Total current liabilities	311,217	307,571
Long-Term Debt (Note 5)	1,191,979	1,232,179
Long-Term Liabilities for Disposed Operations (Note 6)	148,287	150,905
Pension and Other Postretirement Benefits	201,460	212,810
Deferred Tax Liabilities	28,722	32,607
Other Non-Current Liabilities	9,249	12,783
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock, 10,000,000 shares authorized at \$0.01 par value, 1,725,000 issued and outstanding as of September 29, 2018 and December 31, 2017, aggregate liquidation preference \$172,500	17	17
Common stock, 140,000,000 shares authorized at \$0.01 par value, 51,062,175 and 51,717,142 issued and outstanding, as of September 29, 2018 and December 31, 2017, respectively	511	517
Additional paid-in capital	398,859	392,353
Retained earnings	457,628	377,020
Accumulated other comprehensive income (loss) (Note 9)	(80,159)	(76,151)
Total Stockholders' Equity	776,856	693,756
Total Liabilities and Stockholders' Equity	\$ 2,667,770	\$ 2,642,611

See Notes to Condensed Consolidated Financial Statements.

2

Table of Contents

Rayonier Advanced Materials Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(Dollars in thousands)

	Nine Months Ended	
	September 30, 2018	September 23, 2017
Operating Activities		
Net income	\$ 115,781	\$ 29,887
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	107,521	63,884
Stock-based incentive compensation expense	10,146	6,489
Amortization of capitalized debt costs, discount and premium	942	1,401
Deferred income tax	30,748	18,499
Gain on bargain purchase	(19,458)	—
Unrealized gain on derivative instrument	—	(16,149)
Net periodic benefit cost of pension and postretirement plans	4,097	7,608
Gain on foreign currency exchange	(6,525)	—
Other	5,317	2,841
Changes in operating assets and liabilities:		
Receivables	(17,861)	(5,244)
Inventories	(33,306)	11,797
Accounts payable	(1,873)	15,255
Accrued liabilities	4,562	6,004
All other operating activities	(25,854)	(9,211)
Contributions to pension and other postretirement benefit plans	(8,326)	(12,019)
Expenditures for disposed operations	(5,549)	(3,418)
Cash Provided by Operating Activities	160,362	117,624
Investing Activities		
Capital expenditures	(92,591)	(44,075)
Proceeds from sale of resin operations	16,143	—
Other	5	—
Cash Used for Investing Activities	(76,443)	(44,075)
Financing Activities		
Repayment of debt	(34,141)	(4,398)
Dividends paid on common stock	(11,030)	(6,124)
Dividends paid on preferred stock	(10,350)	(10,350)
Proceeds from the issuance of common stock	452	—
Common stock repurchased	(17,784)	(153)
Cash Used for Financing Activities	(72,853)	(21,025)
Cash and Cash Equivalents		
Change in cash and cash equivalents	11,066	52,524
Net effect of foreign exchange on cash and cash equivalents	(1,325)	—
Balance, beginning of year	96,235	326,655
Balance, end of period	\$ 105,976	\$ 379,179

See Notes to Condensed Consolidated Financial Statements.

3

Table of Contents

Rayonier Advanced Materials Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

1. Basis of Presentation and New Accounting Pronouncements

Basis of Presentation

The unaudited condensed consolidated financial statements and notes thereto of Rayonier Advanced Materials Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). In the opinion of management, these financial statements and notes reflect all adjustments (all of which are normal recurring adjustments) necessary for a fair presentation of the results of operations, financial position and cash flows for the periods presented. These statements and notes should be read in conjunction with the financial statements and supplementary data included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC.

New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, Leases. The update requires entities to recognize assets and liabilities arising from finance and operating leases and to classify those finance and operating lease payments in the financing or operating sections, respectively, of the statement of cash flows. It is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Company is evaluating the impact of this standard on its consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, Reclassification of Tax Effects from AOCI. This guidance permits the reclassification of certain pension or other post employment benefit dangling debits and credits ("dangles") from Accumulated Other Comprehensive Income (Loss) ("AOCI") to retained earnings. The applicable dangles are those recorded as a result of H.R.1, passed on December 22, 2017 (the "Tax Cuts and Jobs Act"), which reduced the U.S. federal tax rate applicable to the Company. The ASU is effective for fiscal years beginning after December 15, 2018 with early adoption permitted. The Company has approximately \$22 million in applicable dangling debits recorded in AOCI and has not yet determined whether or not it will reclassify this amount.

Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, as amended and/or clarified by ASU Nos. 2016-08, 2016-10, 2016-12, and 2016-20, a comprehensive new revenue recognition standard. The core principle is that a company should recognize revenue when it transfers control of goods or services to customers for an amount that reflects the consideration to which the company expects to be entitled to in exchange for those goods or services. The Company adopted the standard on a modified retrospective basis in the first quarter of 2018, generally recognizing revenue when it transfers control at a point in time. The adoption did not have a material impact to the individual financial statement line items on the Company's consolidated financial statements because the new standard is not materially different than its previous revenue recognition practices. The following is a discussion of our revenue recognition policy effective January 1, 2018.

Accounting Policy

Revenue is recognized when performance obligations under the terms of a contract with a customer are satisfied. The majority of the Company's contracts have a single performance obligation to transfer products. Accordingly, the Company recognizes revenue when title and risk of loss have been transferred to the customer. Generally, title passes upon delivery to the customer at the agreed upon location. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring products and is generally based upon contractual arrangements with customers or published indices. The Company sells its products both directly to customers and through distributors and agents typically under agreements with payment terms less than 90 days.

The Company has elected to account for shipping and handling as activities to fulfill the promise to transfer the goods. As such, shipping and handling costs incurred are recorded in cost of sales. The Company has elected to exclude from

net sales any value add, sales and other taxes which it collects concurrent with revenue-producing activities. These accounting policy elections are consistent with the manner in which the Company historically recorded shipping and handling fees and taxes.

Table of Contents

Rayonier Advanced Materials Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

Contract Estimates

The nature of certain of the Company's contracts gives rise to variable consideration, which may be constrained, including volume-based rebates to certain customers. The Company issues rebates to customers when they purchase a certain volume level, primarily retrospective volume-based rebates, which are applied retroactively to prior purchases. The Company estimates the level of volumes based on anticipated purchases at the beginning of the period and records a rebate accrual for each purchase toward the requisite rebate volume. These estimated rebates are included in the transaction price of the Company's contracts with customers as a reduction to net sales and are included in accrued customer incentives and prepayments in the consolidated balance sheets (see Note 4 - Accrued and Other Current Liabilities). This methodology is consistent with the manner in which the Company historically estimated and recorded volume-based rebates.

The majority of the Company's revenue is derived from contracts (i) with an original expected length of one year or less and (ii) for which it recognizes revenue at the amount in which it has the right to invoice as product is delivered. The Company has elected the practical expedient not to disclose the value of remaining performance obligations associated with these types of contracts.

The Company has certain contracts which contain performance obligations which are not significant in the context of the contract with the customer. The Company has elected the practical expedient not to assess whether these promised goods or services are performance obligations.

Contract Balances

Contract liabilities primarily relate to prepayments received from the Company's customers before revenue is recognized and volume rebates payable to customers. These amounts are included in accrued customer incentives and prepayments in the consolidated balance sheets (see Note 4 - Accrued and Other Current Liabilities). The Company does not have any material contract assets as of September 29, 2018.

Disaggregated Revenue

In general, the Company's product-lines within its segments are aligned according to the nature and economic characteristics of its products and customer relationships and provide meaningful disaggregation of each business segment's results of operations. Disaggregation of net sales by business segment and product-line are included in Note 14 - Segment Information.

Recently Adopted Accounting Pronouncements

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments. The update was issued to reduce diversity in practice regarding the presentation of eight specific types of cash receipts and cash payments in the statement of cash flows. The update is effective for fiscal years beginning after December 15, 2017. The Company adopted the update as of January 1, 2018. The adoption did not have a material impact on the Company's consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, Compensation - Retirement Benefits. The update was issued to improve the presentation of net periodic pension and post retirement benefit cost. The Company adopted the provisions of this guidance in the first quarter of 2018 using the retrospective method. As a result of this update, the Company presented the components of periodic pension and post retirement costs, other than service costs, separately outside of operating income in "Other components of net periodic benefit costs" on the condensed consolidated statement of income. The Company presented the service costs component of net periodic benefit cost in cost of sales and selling, general and administrative expense, which correlates with the related employee compensation costs arising from services rendered during the period. Also in accordance with the new guidance, only the service cost component of the net periodic benefit cost are eligible for capitalization in assets. The update resulted in a change to previously reported amounts, with an increase in 2017 operating income of \$1 million for the third quarter and \$3 million year-to-date, which was offset by a corresponding increase in other components of net periodic benefits costs of \$1 million for the quarter and \$3 million year-to-date, reflecting the impact of presenting interest cost, expected

return on plan assets, amortization of prior service costs and actuarial gains and losses components in non-operating income. The adoption of this guidance had no impact on previously reported net income.

In May 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Compensation. The update provides guidance on how to account for changes to the terms or conditions of stock compensation awards. It is effective for fiscal years beginning after December 15, 2017. The Company adopted the update as of January 1, 2018. The adoption did not have a material impact on the Company's consolidated financial statements.

Table of Contents

Rayonier Advanced Materials Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The update provides guidance to better align the financial reporting for hedging activities with the economic objectives of those activities. For public business entities, it is effective for fiscal years beginning after December 15, 2018, with early adoption, including adoption in an interim period, permitted. The update requires a modified retrospective transition method which will result in the recognition of a cumulative effect of the change on the opening balance of each affected component of equity in the statement of financial position as of the date of adoption. The Company elected to early adopt the new guidance as of January 1, 2018. The adoption did not have a material impact on the Company's consolidated financial statements.

Adjustment to Gain on Bargain Purchase

In connection with the acquisition of Tembec Inc. ("Tembec") on November 17, 2017 (the "Acquisition"), the Company recognized a \$317 million preliminary gain on bargain purchase, which represented the excess of the estimated fair value of the net assets acquired and liabilities assumed over the total purchase consideration. The final bargain purchase gain is subject to adjustment during the measurement period of the transaction, pending finalization of the valuations of acquired assets and liabilities no later than one year from the purchase date.

During the first nine months of 2018, the Company determined that provisional amounts included in the preliminary valuation required adjustments to reflect new information obtained. As a result, in the second quarter of 2018, the Company recorded an increase in the bargain purchase gain of \$15 million, including the removal of a \$13 million tax reserve related to a previously disposed location and \$2 million for the favorable settlement of a contingent liability. In the third quarter of 2018, the Company sold its resins operations, which was included in its High Purity Cellulose segment, to a third party for approximately \$18 million resulting in a gain of approximately \$7 million. The sale of the resins operations is subject to working capital adjustments which could impact the recognized gain. These non-operating gains were included in the adjustment to gain on bargain purchase on the condensed consolidated statements of income.

Subsequent Events

Events and transactions subsequent to the balance sheet date have been evaluated for potential recognition and disclosure through November 8, 2018, the date these financial statements were available to be issued. The following subsequent events warranting disclosure were identified.

On October 4, 2018, the Company's board of directors declared a fourth quarter cash dividend of \$2.00 per share of mandatory convertible preferred stock and \$0.07 per share of common stock. The preferred stock dividend will be paid on November 15, 2018 to mandatory convertible preferred stockholders of record as of November 1, 2018. The common stock dividend is payable on December 31, 2018 to common stockholders of record on December 17, 2018.

2. Accounts Receivable, Net

As of September 29, 2018 and December 31, 2017, the Company's accounts receivable included the following:

	September 29, December 31,	
	2018	2017
Accounts receivable, trade	\$ 145,343	\$ 134,523
Accounts receivable, other (a)	53,393	47,368
Allowance for doubtful accounts (805) (593)		
Total accounts receivable, net	\$ 197,931	\$ 181,298

(a) Accounts receivable, other consists primarily of value added/consumption taxes, grants receivable and accrued billings due from government agencies.

Table of Contents

Rayonier Advanced Materials Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

3. Inventory

As of September 29, 2018 and December 31, 2017, the Company's inventory included the following:

	September 29, 2018	December 31, 2017
Finished goods	\$ 223,149	\$ 190,140
Work-in-progress	20,468	18,889
Raw materials	77,875	82,940
Manufacturing and maintenance supplies	10,566	10,117
Total inventory	\$ 332,058	\$ 302,086

4. Accrued and Other Current Liabilities

As of September 29, 2018 and December 31, 2017, the Company's accrued and other current liabilities included the following:

	September 29, 2018	December 31, 2017
Accrued customer incentives and prepayments	\$ 41,528	\$ 53,522
Accrued payroll and benefits	31,730	33,133
Accrued interest	10,196	3,188
Other current liabilities	52,812	37,197
Total accrued and other current liabilities	\$ 136,266	\$ 127,040

5. Debt and Capital Leases

As of September 29, 2018 and December 31, 2017, the Company's debt and capital leases include the following:

	September 29, 2018	December 31, 2017
U.S. Revolver of \$100 million maturing in November 2022, \$91 million available after taking into account outstanding letters of credit, bearing interest at LIBOR plus 2.00% at September 29, 2018	\$ —	\$ —
Multi-currency Revolver of \$150 million maturing in November 2022, \$125 million available after taking into account outstanding letters of credit, bearing interest at LIBOR plus 2.00% at September 29, 2018	—	—
Term A-1 Loan Facility borrowings maturing through November 2022 bearing interest at LIBOR plus 2.00%, interest rate of 4.22% at September 29, 2018	160,000	180,000
Term A-2 Loan Facility borrowings maturing through November 2024 bearing interest at LIBOR plus 1.65 (after consideration of 0.60% patronage benefit), interest rate of 4.47% at September 29, 2018	438,875	450,000
Senior Notes due 2024 at a fixed interest rate of 5.50%	506,412	506,412
Canadian dollar, fixed interest rate term loans with rates ranging from 5.50% to 6.86% and maturity dates ranging from March 2020 through April 2028, secured by certain assets of the Temiscaming plant	96,420	100,881
Other loans	4,118	5,946
Capital lease obligation	3,197	3,409
Total debt principal payments due	1,209,022	1,246,648
Less: Debt premium, original issue discount and issuance costs	(4,618)	(5,044)
Total debt	1,204,404	1,241,604
Less: Current maturities of long-term debt	(12,425)	(9,425)
Long-term debt	\$ 1,191,979	\$ 1,232,179

Table of Contents

Rayonier Advanced Materials Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

During the nine months ended September 29, 2018, the Company made \$20 million and \$11 million in principal repayments on the Term A-1 Loan Facility and Term A-2 Loan Facility, respectively.

As of September 29, 2018, debt and capital lease payments due during the next five years and thereafter are as follows:

	Capital Lease			
	Minimum	Less:	Net	Debt
	Lease	Interest	Present	Principal
	Payments		Value	Payments
Remaining 2018	\$ 129	\$ 56	\$ 73	\$ 1,095
2019	515	209	306	13,425
2020	515	187	328	20,849
2021	515	163	352	12,724
2022	515	138	377	190,253
Thereafter	2,018	257	1,761	967,479
Total principal payments	\$4,207	\$ 1,010	\$ 3,197	\$ 1,205,825

6. Liabilities for Disposed Operations

An analysis of the liabilities for disposed operations for the nine months ended September 29, 2018 is as follows:

Balance, December 31, 2017	\$ 164,086
Expenditures charged to liabilities	(5,549)
Increase to liabilities	4,837
Change in currency rate	(553)
Balance, September 29, 2018	162,821
Less: Current portion	(14,534)
Long-term liabilities for disposed operations	\$ 148,287

In addition to the estimated liabilities, the Company is subject to the risk of reasonably possible additional liabilities in excess of the established reserves due to potential changes in circumstances and future events, including, without limitation, changes to current laws and regulations; changes in governmental agency personnel, direction, philosophy and/or enforcement policies; developments in remediation technologies; increases in the cost of remediation, operation, maintenance and monitoring of its disposed operations sites; changes in the volume, nature or extent of contamination to be remediated or monitoring to be undertaken; the outcome of negotiations with governmental agencies and non-governmental parties; and changes in accounting rules or interpretations. Based on information available as of September 29, 2018, the Company estimates this exposure could range up to approximately \$67 million, although no assurances can be given that this amount will not be exceeded given the factors described above. These potential additional costs are attributable to several sites and other applicable liabilities. Further, this estimate excludes reasonably possible liabilities which are not currently estimable primarily due to the factors discussed above. Subject to the previous paragraph, the Company believes established liabilities are sufficient for probable costs expected to be incurred over the next 20 years with respect to its disposed operations. However, no assurances are given they will be sufficient for the reasons described above, and additional liabilities could have a material adverse effect on the Company's financial position, results of operations and cash flows.

7. Derivative Instruments

The Company's earnings and cash flows are subject to fluctuations due to changes in interest rates and foreign currency exchange rates. The Company allows for the use of derivative financial instruments to manage interest rate and foreign currency exchange rate exposure, but does not allow derivatives to be used for speculative purposes.

All derivative instruments are recognized on the consolidated balance sheets at their fair value and are either designated as a hedge of a forecasted transaction or undesignated. Changes in the fair value of a derivative designated as a hedge are recorded in

8

Table of Contents

Rayonier Advanced Materials Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

other comprehensive income until earnings are affected by the hedged transaction, and are then reported in current earnings. Changes in the fair value of undesignated derivative instruments and the ineffective portion of designated derivative instruments are reported in current earnings.

Interest Rate Risk

The Company's primary debt obligations utilize variable-rate LIBOR, exposing the Company to variability in interest payments due to changes in interest rates. The Company entered into interest rate swap agreements to reduce the volatility of financing costs, achieve a desired proportion of fixed-rate versus floating-rate debt and to hedge the variability in cash flows attributable to interest rate risks caused by changes in the LIBOR benchmark.

The Company designated the swaps as cash flow hedges and is assessing their effectiveness using the hypothetical derivative method in conjunction with regression. Effective gains and losses, deferred to AOCI, are reclassified into earnings over the life of the associated hedge.

Foreign Currency Exchange Rate Risk

Foreign currency fluctuations affect investments in foreign subsidiaries and foreign currency cash flows related to third party purchases, product shipments, and foreign-denominated debt. The Company is also exposed to the translation of foreign currency earnings to the U.S. dollar. Management uses foreign currency forward contracts to selectively hedge its foreign currency cash flow exposure and manage risk associated with changes in currency exchange rates. The Company's principal foreign currency exposure is to the Canadian dollar, and to a lesser extent, the euro.

The notional amounts of outstanding derivative instruments as of September 29, 2018 and December 31, 2017 are presented below.

	September 29, December 31,	
	2018	2017
Interest rate swaps (a)	\$ 200,000	\$ 200,000
Foreign exchange forward contracts (b)	\$ 398,248	\$ 240,591
Foreign exchange forward contracts (c)	\$ 96,810	\$ —

(a) Maturity date of December 2020

(b) Monthly maturity dates through September 2019

(c) Various maturity dates in 2020, 2022 and 2028

Table of Contents

Rayonier Advanced Materials Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

The fair values of derivative instruments included in the consolidated balance sheet as of September 29, 2018 and December 31, 2017 are provided in the below table. See Note 8 — Fair Value Measurements for additional information related to the Company's derivatives.

	Balance Sheet Location	September 29, 2018	December 31, 2017
Assets:			
Derivatives designated as hedging instruments:			
Interest rate swaps	Other current assets	\$ 1,332	\$ —
Interest rate swaps	Other assets	2,624	749
Foreign exchange forward contracts	Other current assets	1,293	—
Foreign exchange forward contracts	Other assets	756	—
Derivatives not designated as hedging instruments:			
Foreign exchange forward contracts	Other current assets	68	427

Liabilities:

Derivatives designated as hedging instruments:

Foreign exchange forward contracts	Other current liabilities	(4,662)	—
Total derivatives		\$ 1,411	\$ 1,176

The effects of derivative instruments designated as cash flow hedges, the related changes in AOCI and the gains and losses in income for the three and nine months ended September 29, 2018 are presented below. The Company did not have any derivatives designated as hedges during the three and nine months ended September 23, 2017.

Derivatives in Cash Flow Hedging Relationships	Three Months Ended September 29, 2018		Location on Statement of Income
	Gain		
	(Loss)	Gain (Loss)	
	Recognized in OCI on Derivative	Reclassified from AOCI into Income	
Interest rate swaps	\$530	\$ 74	Interest Expense
Foreign exchange forward contracts	5,002	60	Other operating income (expense), net
Foreign exchange forward contracts	1,399	(1,399)	Cost of sales
Foreign exchange forward contracts	1,570	1,529	Interest income and other, net

	Nine Months Ended September 29, 2018		
	Gain (Loss)	Gain (Loss)	
Derivatives in Cash Flow Hedging Relationships	Recognized in OCI on Derivative	Reclassified from AOCI into Income	Location on Statement of Income
Interest rate swaps	\$3,095	\$ (112)	Interest Expense
Foreign exchange forward contracts	(5,406)	1,188	Other operating income (expense), net
Foreign exchange forward contracts	1,466	(1,466)	Cost of sales

Foreign exchange forward contracts	181	973	Interest income and other, net
------------------------------------	-----	-----	--------------------------------

10

Table of Contents

Rayonier Advanced Materials Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

The effects of derivative instruments not designated as hedging instruments on the statement of income for the three and nine months ended September 29, 2018 and September 23, 2017 were as follows:

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months Ended		Nine Months Ended	
		September 29, 2018	September 23, 2017	September 29, 2018	September 23, 2017
Foreign exchange contracts	Other operating income (expense), net	\$(250)	\$ —	\$(3,791)	\$ —
Foreign currency collar	Other non-operating income	—	14,087	—	16,149

The after-tax amounts of unrealized gains (losses) in AOCI related to hedge derivatives at September 29, 2018 and December 31, 2017 are presented below:

	September 29, 2018	December 31, 2017
Interest rate cash flow hedges	\$ 3,086	\$ 619
Foreign exchange cash flow hedges	(3,403)	—

The amount of future reclassifications from AOCI will fluctuate with movements in the underlying markets.

8. Fair Value Measurements

The following table presents the carrying amount, estimated fair values and categorization under the fair value hierarchy for financial instruments held by the Company at September 29, 2018 and December 31, 2017, using market information and what management believes to be appropriate valuation methodologies:

	September 29, 2018			December 31, 2017		
	Carrying Amount	Fair Value Level 1	Fair Value Level 2	Carrying Amount	Fair Value Level 1	Fair Value Level 2
Assets:						
Cash and cash equivalents	\$105,976	\$105,976	\$ —	\$96,235	\$96,235	\$ —
Interest rate swaps (a)	3,956	—	3,956	749	—	749
Foreign currency forward contracts (a)	2,117	—	2,117	427	—	427
Liabilities (b):						
Foreign currency forward contracts (a)	4,662	—	4,662	—	—	—
Fixed-rate long-term debt	601,806	—	589,486	606,529	—	611,308
Variable-rate long-term debt	599,400	—	602,993	631,666	—	635,946

(a) These items represent derivative instruments.

(b) Liabilities exclude capital lease obligation.

The Company uses the following methods and assumptions in estimating the fair value of its financial instruments:

Cash and cash equivalents — The carrying amount is equal to fair market value.

Derivative instruments — The fair value is calculated based on standard valuation models using quoted prices and market observable data of similar instruments. The interest rate derivatives are based on the LIBOR swap rate, which is observable at commonly quoted intervals for the full term of the swap and therefore is considered Level 2. The foreign currency derivatives are contracts to buy foreign currency at a fixed rate on a specified future date. The foreign exchange rate is observable for the full term of the swap and is therefore considered Level 2. See Note 7 — Derivative Instruments for additional information related to the derivative instruments.

Table of Contents

Rayonier Advanced Materials Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

Debt — The fair value of fixed rate debt is based upon quoted market prices for debt with similar terms and maturities. The variable rate debt adjusts with changes in the market rate, therefore the carrying value approximates fair value.

9. Accumulated Other Comprehensive Income (Loss)

The components of AOCI are as follows:

	Nine Months Ended	
	September 29, 2018	September 23, 2017
Unrecognized components of employee benefit plans, net of tax:		
Balance, beginning of year	\$(81,638)	\$(110,080)
Other comprehensive gain (loss) before reclassifications	—	—
Income tax on other comprehensive loss	—	—
Reclassifications to earnings: (a)		
Amortization of losses	8,907	8,989
Amortization of prior service costs	429	572
Amortization of negative plan amendment	(115)	(115)
Income tax on reclassifications	(2,028)	(3,353)
Net comprehensive gain (loss) on employee benefit plans, net of tax	7,193	6,093
Balance, end of quarter	(74,445)	(103,987)
Unrealized gain (loss) on derivative instruments, net of tax:		
Balance, beginning of year	619	—
Other comprehensive income before reclassifications	(664)	—
Income tax on other comprehensive income	281	—
Reclassifications to earnings: (b)		
Interest rate contracts	112	—
Foreign exchange contracts	(695)	—
Income tax on reclassifications	30	—
Net comprehensive gain (loss) on derivative instruments, net of tax	(936)	—
Balance, end of quarter	(317)	—
Foreign currency translation adjustments:		
Balance, beginning of year	4,868	—
Foreign currency translation adjustment	(10,265)	—
Balance, end of quarter	(5,397)	—

Accumulated other comprehensive income (loss), end of quarter \$(80,159) \$(103,987)

(a) The AOCI components for defined benefit pension and post-retirement plans are included in the computation of net periodic benefit cost. See Note 12 — Employee Benefit Plans for additional information.

Reclassifications of interest rate contracts are recorded in interest expense. Reclassifications of foreign currency (b) exchange contracts are recorded in cost of sales, other operating income or non-operating income as appropriate.

See Note 7 — Derivative Instruments for additional information.

Table of Contents

Rayonier Advanced Materials Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

10. Earnings Per Share of Common Stock

The following table provides details of the calculations of basic and diluted earnings per share:

	Three Months Ended		Nine Months Ended	
	September 29, 2018	September 23, 2017	September 29, 2018	September 23, 2017
Net income	\$37,936	\$ 15,672	\$115,781	\$ 29,887
Preferred Stock dividends	(3,441)	(3,441)	(10,284)	(10,057)
Net income available for common stockholders	\$34,495	\$ 12,231	\$105,497	\$ 19,830
Shares used for determining basic earnings per share of common stock	50,603,498	42,427,437	51,005,206	42,388,762
Dilutive effect of:				
Stock options	3,620	—	4,127	—
Performance and restricted stock	1,266,588	1,025,228	1,297,024	896,066
Preferred stock	11,371,718	12,582,057	11,371,718	—
Shares used for determining diluted earnings per share of common stock	63,245,426	56,034,722	63,678,075	43,284,828
Basic earnings per share (not in thousands)	\$0.68	\$ 0.29	\$2.07	\$ 0.47
Diluted earnings per share (not in thousands)	\$0.60	\$ 0.28	\$1.82	\$ 0.46

Anti-dilutive instruments excluded from the computation of diluted earnings per share:

	Three Months Ended		Nine Months Ended	
	September 29, 2018	September 23, 2017	September 29, 2018	September 23, 2017
Stock options	263,184	376,434	263,184	376,434
Performance and restricted stock	11,687	7,612	398,576	13,025
Preferred stock	—	—	—	12,582,057
Total anti-dilutive instruments	274,871	384,046	661,760	12,971,516

On January 29, 2018, the Board of Directors authorized a share buyback program pursuant to which the Company may, from time to time, purchase shares of its common stock with an aggregate purchase price of up to \$100 million. During the nine months ended September 29, 2018, the Company repurchased and retired 802,040 shares of common stock under this buyback program at an average price of \$18.32 per share, excluding commissions, for an aggregate purchase price of approximately \$15 million. The repurchase and retirement of these shares was included in the calculation of weighted-average shares outstanding at September 29, 2018.

11. Incentive Stock Plans

The Company's total stock based compensation cost for the nine months ended September 29, 2018 and September 23, 2017 was \$10 million and \$6 million, respectively.

The Company made new grants of restricted stock units and performance-based stock units to certain employees during the first nine months of 2018. The 2018 restricted stock unit awards vest over three years. The 2018 performance-based stock unit awards are measured against an internal return on invested capital target and a synergy target set in connection with the 2017 acquisition of Tembec, Inc. Depending on performance against the targets, the awards will pay out in common stock amounts between 0 and 200 percent of the performance-based stock units awarded. The total number of common stock awards granted will be adjusted up or down 25 percent, for certain participants, based on stock price performance relative to a peer group over the term of the plan, which could result in a final common stock issuance of 0 to 250 percent of the performance-based stock units awarded.

Table of Contents

Rayonier Advanced Materials Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

In March 2018, the performance-based share units granted in 2015 were settled at an average of 152 percent of the performance-based stock units awarded, resulting in the issuance of approximately 288,703 shares of common stock. The following table summarizes the activity on the Company's incentive stock awards for the nine months ended September 29, 2018:

	Stock Options		Restricted Stock and Stock Units		Performance-Based Stock Units	
	Options	Weighted Average Exercise Price	Awards	Weighted Average Grant Date Fair Value	Awards	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2018	373,058	\$ 32.25	848,371	\$ 12.47	1,080,067	\$ 11.58
Granted	—	—	301,384	19.78	449,838	22.75
Forfeited	—	—	(14,004)	11.64	(12,247)	11.42
Exercised or settled	(26,045)	17.34	(216,378)	17.34	(190,320)	17.50
Expired or cancelled	(55,864)	30.40	—	—	—	—
Outstanding at September 29, 2018	291,149	\$ 34.10	919,373	\$ 13.71	1,327,338	\$ 14.69

12. Employee Benefit Plans

The Company has defined benefit pension and other postretirement plans covering certain union and non-union employees, primarily in the U.S., Canada and France. The defined benefit pension plans are closed to new participants. Employee defined benefit plan liabilities are calculated using actuarial estimates and management assumptions. These estimates are based on historical information, along with certain assumptions about future events. The components of net periodic benefit costs from defined benefit plans that have been recorded are shown in the following table:

Components of Net Periodic Benefit Cost	Pension Three Months Ended		Postretirement Three Months Ended	
	September 29, 2018	September 23, 2017	September 29, 2018	September 23, 2017
Service cost	\$3,059	\$ 1,184	\$330	\$ 236
Interest cost	8,149	3,318	312	198
Expected return on plan assets	(13,695)	(5,548)	—	—
Amortization of prior service cost	143	190	—	—
Amortization of losses	2,913	2,913	57	83
Amortization of negative plan amendment	—	—	(38)	(38)
Total net periodic benefit cost	\$569	\$ 2,057	\$661	\$ 479

Components of Net Periodic Benefit Cost	Pension Nine Months Ended		Postretirement Nine Months Ended	
	September 29, 2018	September 23, 2017	September 29, 2018	September 23, 2017
Service cost	\$9,246	\$ 3,552	\$1,404	\$ 707
Interest cost	24,612	9,954	961	594
Expected return on plan assets	(41,347)	(16,645)	—	—
Amortization of prior service cost	429	571	—	1

Amortization of losses	8,735	8,739	172	250
Amortization of negative plan amendment	—	—	(115)	(115)
Total net periodic benefit cost	\$1,675	\$ 6,171	\$2,422	\$ 1,437

14

Table of Contents

Rayonier Advanced Materials Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

Service cost is included in cost of sales and selling, general and administrative expenses in the statements of income, as appropriate. Interest cost, expected return on plan assets, amortization of prior service cost, amortization of losses and amortization of negative plan amendment are included in other components of net periodic benefit costs on the condensed consolidated statement of income.

13. Income Taxes

The Company's effective tax rates for the three months ended September 29, 2018 and September 23, 2017 were 22.8 percent and 33.0 percent, respectively. The Company's effective tax rates for the nine months ended September 29, 2018 and September 23, 2017 were 25.7 percent and 37.6 percent, respectively. The statutory rate in 2018 is 21 percent compared to 35 percent in 2017 due to the passage of the Tax Cuts and Jobs Act in December 2017 in the United States.

The current quarter and year-to-date effective rates differ from the federal statutory rate of 21 percent primarily due to different statutory tax rates of foreign operations and the U.S. taxes associated from the inclusion of certain foreign income described as Global Intangible Low-Taxed Income ("GILTI"), partially offset by a nontaxable bargain purchase adjustment included in pretax income and a return to accrual adjustment related to previously filed tax returns.

The Company has the option to either treat taxes due on future GILTI income as a current period expense when incurred (the "period cost method") or factor in such amounts in the Company's measurement of its deferred taxes (the "deferred method"). The Company has determined it will record GILTI income as a current period expense when incurred.

In the second quarter of 2018, a previously unrecognized tax benefit of \$13 million was recognized as an adjustment to bargain purchase (see Note 1 - Basis of Presentation and New Accounting Pronouncements). There have been no other material changes to the balance of unrecognized tax benefits reported at December 31, 2017.

14. Segment Information

The Company has currently divided its operations into five reportable segments: High Purity Cellulose, Forest Products, Pulp, Paper and Corporate. The Corporate operations consist primarily of senior management, accounting, information systems, human resources, treasury, tax and legal administrative functions that provide support services to the operating business units. The Company does not currently allocate the cost of maintaining these support functions to its operating units.

The Company evaluates the performance of its segments based on operating income. Intersegment sales consist primarily of wood chips sales from Forest Products to High Purity Cellulose, Pulp and Paper segments and high-yield pulp sales from Pulp to Paper. Intersegment sales prices are at rates that approximate market.

Table of Contents

Rayonier Advanced Materials Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

Net sales, disaggregated by product-line, was comprised of the following for the three and nine months ended:

	Three Months Ended		Nine Months Ended	
	September 29, 2018	September 23, 2017	September 29, 2018	September 23, 2017
High Purity Cellulose				
Cellulose Specialties	\$217,538	\$ 167,341	\$625,864	\$ 482,124
Commodity Products	56,448	40,229	153,220	123,588
Other sales (a)	34,001	2,147	96,535	6,646
Total High Purity Cellulose	307,987	209,717	875,619	612,358
Forest Products				
Lumber	68,713	—	228,686	—
Other sales (b)	17,242	—	53,551	—
Total Forest Products	85,955	—	282,237	—
Pulp				
High-yield pulp	89,440	—	265,495	—
Paper				
Paperboard	50,675	—	149,100	—
Newsprint	27,698	—	88,958	—
Total Paper	78,373	—	238,058	—
Eliminations	(17,416)	—	(53,358)	—
Total net sales	\$544,339	\$ 209,717	\$1,608,051	\$ 612,358

(a) Other sales include sales of electricity, resins, lignin and other by-products to third-parties

(b) Other sales include sales of logs, wood chips and other by-products to other segments and third-parties

Operating income by segment was comprised of the following for the three and nine months ended:

	Three Months Ended		Nine Months Ended	
	September 29, 2018	September 23, 2017	September 29, 2018	September 23, 2017
High Purity Cellulose	\$33,922	\$ 30,188	\$83,288	\$ 95,944
Forest Products	7,986	—	35,159	—
Pulp	26,035	—	74,970	—
Paper	13,648	—	23,465	—
Corporate	(25,441)	(11,414)	(48,252)	(35,619)
Total operating income	\$56,150	\$ 18,774	\$168,630	\$ 60,325

Identifiable assets by segment were as follows:

	September 29, 2018	December 31, 2017
High Purity Cellulose	\$ 1,648,355	\$ 1,671,107
Forest Products	173,906	154,258
Pulp	92,469	83,081
Paper	256,624	245,746
Corporate	496,416	488,419
Total identifiable assets	\$ 2,667,770	\$ 2,642,611