

TREDEGAR CORP  
Form 10-K  
March 18, 2019

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 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 1-10258

TREDEGAR CORPORATION

(Exact name of registrant as specified in its charter)

Virginia 54-1497771  
(State or other jurisdiction (I.R.S. Employer  
of incorporation or organization) Identification No.)

1100 Boulders Parkway, 23225  
Richmond, Virginia  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: 804-330-1000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class Name of Each Exchange on Which Registered

Common Stock New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 at least 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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):  
Large accelerated filer  Accelerated filer  Smaller reporting company

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

Aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2018 (the last business day of the registrant’s most recently completed second fiscal quarter): \$608,660,223\*

Number of shares of Common Stock outstanding as of January 31, 2019: 33,176,024 (33,189,073 as of June 30, 2018)

In determining this figure, an aggregate of 7,288,638 shares of Common Stock beneficially owned by Floyd D. Gottwald, Jr., John D. Gottwald, William M. Gottwald and the members of their immediate families has been excluded because the shares are deemed to be held by affiliates. The aggregate market value has been computed based on the closing price in the New York Stock Exchange on June 30, 2018.

Documents Incorporated By Reference

Portions of the Tredegar Corporation Proxy Statement for the 2019 Annual Meeting of Shareholders (the “Proxy Statement”) are incorporated by reference into Part III of this Form 10-K.

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Year Ended December 31, 2018

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## PART I

### Item 1. BUSINESS

#### Description of Business

Tredegear Corporation (“Tredegear”), a Virginia corporation incorporated in 1988, is engaged, through its subsidiaries, in the manufacture of polyethylene (“PE”) plastic films, polyester (“PET”) films and aluminum extrusions. Unless the context requires otherwise, all references herein to “Tredegear,” “the Company,” “we,” “us” or “our” are to Tredegear Corporation and its consolidated subsidiaries.

The Company's reportable business segments are PE Films, Flexible Packaging Films and Aluminum Extrusions.

#### PE Films

PE Films manufactures plastic films, elastics and laminate materials primarily utilized in personal care materials, surface protection films, and specialty and optical lighting applications. These products are manufactured at facilities in the United States (“U.S.”), The Netherlands, Hungary, China, Brazil and India. PE Films competes in all of its markets on the basis of product innovation, quality, service and price.

Personal Care. Tredegear’s Personal Care unit is a global supplier of apertured, elastic and embossed films, laminate materials, and polyethylene and polypropylene overwrap films for personal care markets, including:

Apertured film and laminate materials for use as topsheet in feminine hygiene products, baby diapers and adult incontinence products (including materials sold under the Sure&Soft,<sup>TM</sup>ComfortAire,<sup>TM</sup>ComfortFeel<sup>TM</sup> and FreshFeel<sup>TM</sup> brand names);

Elastic materials for use as components for baby diapers, adult incontinence products and feminine hygiene products (including components sold under the ExtraFlex<sup>TM</sup> and FlexAire<sup>TM</sup> brand names);

Three-dimensional apertured film transfer layers for baby diapers and adult incontinence products sold under the AquiSoft,<sup>TM</sup>AquiDry<sup>®</sup> and AquiDry Plus<sup>TM</sup> brand names;

Thin-gauge films that are readily printable and convertible on conventional processing equipment for overwrap for bathroom tissue and paper towels; and

Polypropylene films for various industrial applications, including tape and automotive protection.

In 2018, 2017 and 2016, personal care materials accounted for approximately 22%, 27% and 30% of Tredegear’s consolidated net sales (sales less freight) from continuing operations, respectively.

Surface Protection. Tredegear’s Surface Protection unit produces single- and multi-layer surface protection films sold under the UltraMask<sup>®</sup>, ForceField,<sup>TM</sup>ForceField PEARL<sup>®</sup> and Pearl A<sup>TM</sup> brand names. These films are used in high-technology applications, most notably protecting high-value components of flat panel displays used in televisions, monitors, notebooks, smart phones, tablets, e-readers, automobiles and digital signage, during the manufacturing and transportation process. In 2018, 2017 and 2016, surface protection films accounted for approximately 10%, 11% and 11%, respectively, of Tredegear’s consolidated net sales from continuing operations.

Bright View Technologies. Tredegear’s Bright View Technologies unit designs and manufactures a range of advanced film-based components that provide specialized functionality for the global engineered optics market. By leveraging multiple platforms, including film capabilities and its patented microstructure technology, Bright View Technologies offers high performance solutions for a variety of LED-based applications such as lighting, consumer electronics, automotive, and other optical management markets.

PE Films' net sales by market segment over the last three years is shown below:

% of PE Films Net Sales by Market

Segment \*

	2018	2017	2016
Personal Care	68%	70%	72%
Surface Protection	30%	28%	25%
Bright View	2%	2%	3%
Total	100%	100%	100%

\* See previous discussion by market segment for comparison of net sales to the Company's consolidated net sales for each of the years presented.

**Raw Materials.** The primary raw materials used by PE Films in films are low density, linear low density and high density polyethylene and polypropylene resins. These raw materials are obtained from domestic and foreign suppliers at competitive prices. PE Films believes that there will be an adequate supply of polyethylene and polypropylene resins in the foreseeable future. PE Films also buys polypropylene-based nonwoven fabrics based on the resins previously noted and styrenic block copolymers, and it believes there will be an adequate supply of these raw materials in the foreseeable future.

**Customers.** PE Films sells to many branded product producers throughout the world, with the top five customers, collectively, comprising 66%, 68% and 69% of its net sales in 2018, 2017 and 2016, respectively. Its largest customer is The Procter & Gamble Company ("P&G"). Net sales to P&G totaled \$107 million in 2018, \$122 million in 2017 and \$129 million in 2016 (these amounts include film sold to third parties that converted the film into materials used with products manufactured by P&G). For additional information, see "Item 1A. Risk Factors".

#### Flexible Packaging Films

Flexible Packaging Films is comprised of Terphane Holdings LLC ("Terphane"). Flexible Packaging Films produces PET-based films for use in packaging applications that have specialized properties, such as heat resistance, strength, barrier protection and the ability to accept high-quality print graphics. These differentiated, high-value films are primarily manufactured in Brazil and sold in Latin America and the U.S. under the Terphane® and Sealphane® brand names. Major end uses include food packaging and industrial applications. In 2018, 2017 and 2016, Flexible Packaging Films accounted for approximately 12%, 12% and 14%, respectively, of Tredegar's consolidated net sales from continuing operations. Flexible Packaging Films competes in all of its markets on the basis of product quality, service and price.

**Raw Materials.** The primary raw materials used by Flexible Packaging Films to produce polyester resins are purified terephthalic acid ("PTA") and monoethylene glycol ("MEG"). Flexible Packaging Films also purchases additional polyester resins directly from suppliers. All of these raw materials are obtained from domestic Brazilian suppliers and foreign suppliers at competitive prices, and Flexible Packaging Films believes that there will be an adequate supply of polyester resins as well as PTA and MEG in the foreseeable future.

#### Aluminum Extrusions

The William L. Bonnell Company, Inc., known in the industry as Bonnell Aluminum, and its operating divisions, AACOA, Inc. and Futura Industries Corporation ("Futura") (together "Aluminum Extrusions"), produce high-quality, soft-alloy and medium-strength aluminum extrusions primarily for building and construction, automotive, consumer durables, machinery and equipment, electrical and distribution markets. Aluminum Extrusions manufactures mill (unfinished), anodized and painted (finished) and fabricated aluminum extrusions for sale directly to fabricators and distributors. It also sells branded flooring trims and aluminum framing systems through its Futura operating division. Aluminum Extrusions competes primarily on the basis of product quality, service and price. Sales are made predominantly in the U.S.



The end-uses in each of Aluminum Extrusions' primary market segments include:

Major Markets	End-Uses
Building & construction - nonresidential	Commercial windows and doors, curtain walls, storefronts and entrances, walkway covers, ducts, louvers and vents, office wall panels, partitions and interior enclosures, acoustical walls and ceilings, point of purchase displays, pre-engineered structures, and flooring trims
Building & construction - residential	Shower and tub enclosures, railing and support systems, venetian blinds, swimming pools and storm shutters
Automotive	Automotive and light truck structural components, spare parts, after-market automotive accessories, grills for heavy trucks, travel trailers and recreation vehicles
Consumer durables	Furniture, pleasure boats, refrigerators and freezers, appliances and sporting goods
Machinery & equipment	Material handling equipment, conveyors and conveying systems, medical equipment, and aluminum framing systems (TSLOTS™)
Distribution (metal service centers specializing in stock and release programs and custom fabrications to small manufacturers)	Various custom profiles including storm shutters, pleasure boat accessories, theater set structures and various standard profiles (including rod, bar, tube and pipe)
Electrical	Lighting fixtures, solar panels, electronic apparatus and rigid and flexible conduits

Aluminum Extrusions' net sales by market segment over the last three years is shown below:

% of Aluminum Extrusions Net Sales by Market Segment*			
	2018	2017	2016
Building and construction:			
Nonresidential	51%	51%	59%
Residential	0%	0%	6%
Automotive	8%	8%	9%
Specialty:			
Consumer durables	12%	12%	11%
Machinery equipment	3%	7%	6%
Electrical	0%	0%	3%

~~Distribution~~ 6%

~~Total~~ 100% 100%

\*Includes Futura as of its acquisition date of February 15, 2017.

In 2018, 2017 and 2016, nonresidential building and construction accounted for approximately 28%, 26% and 27% of Tredegar's consolidated net sales from continuing operations, respectively.

Raw Materials. The primary raw materials used by Aluminum Extrusions consist of aluminum ingot, aluminum scrap and various alloys, which are purchased from domestic and foreign producers in open-market purchases and under short-term contracts. Aluminum Extrusions believes that it has adequate supply agreements for aluminum and other required raw materials and supplies in the foreseeable future.

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#### General

Intellectual Property. Tredegar considers patents, licenses and trademarks to be significant to PE Films. On December 31, 2018, PE Films held 273 patents (including 63 U.S. patents), licenses under patents owned by third parties, and 109 registered trademarks (including 8 U.S. registered trademarks). Flexible Packaging Films held 1 U.S. patent and 14 registered trademarks (including 2 U.S. registered trademarks). Aluminum Extrusions held no U.S. patents and 2 U.S. registered trademarks. On December 31, 2018, these patents had remaining terms in the range of 1 to 20 years.

Research and Development. Tredegar's spending for research and development ("R&D") activities in 2018, 2017 and 2016 was primarily related to PE Films. PE Films has technical centers in Durham, North Carolina; Richmond, Virginia; and Terre Haute, Indiana. Flexible Packaging has a technical center in Bloomfield, New York. R&D spending by the Company was approximately \$18.7 million, \$18.3 million