Core-Mark Holding Company, Inc.
Form 10-Q
May 10, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(MARK ONE)

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

For the quarterly period ended March 31, 2016

o 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: 000-51515

Core-Mark Holding Company, Inc.
(Exact name of registrant as specified in its charter)

Delaware	20-1489747
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
395 Oyster Point Boulevard, Suite 415 South San Francisco, CA	94080
(Address of principal executive offices)	(Zip Code)

(650) 589-9445
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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 x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of May 6, 2016, 23,133,068 shares of the registrant's common stock, $0.01 par value per share, were outstanding.

FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2016
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except share and per share data)
(Unaudited)

	March 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$11.5	$12.5
Restricted cash	8.7	8.5
Accounts receivable, net of allowance for doubtful accounts of $11.3 and $10.9 as of March 31, 2016 and December 31, 2015, respectively	337.2	272.7
Other receivables, net	71.5	69.4
Inventories, net (Note 3)	389.3	407.4
Deposits and prepayments	78.4	65.0
Deferred income taxes	1.8	1.8
Total current assets	898.4	837.3
Property and equipment, net	158.2	159.5
Goodwill	22.9	22.9
Other intangible assets, net	30.0	29.5
Other non-current assets, net	28.3	28.1
Total assets	$1,137.8	$1,077.3
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$201.3	$129.6
Book overdrafts	30.2	29.2
Cigarette and tobacco taxes payable	190.2	193.6
Accrued liabilities	128.3	106.9
Deferred income taxes	0.3	0.3
Total current liabilities	550.3	459.6
Long-term debt (Note 4)	28.0	60.4
Deferred income taxes	19.4	18.6
Other long-term liabilities	10.5	10.6
Claims liabilities	26.8	26.6
Pension liabilities	7.4	7.5
Total liabilities	642.4	583.3
Contingencies (Note 5)		
Stockholders' equity:		
Common stock, $0.01 par value (100,000,000 shares authorized, 26,097,193 and 25,976,677 shares issued; 23,156,234 and 23,058,335 shares outstanding at March 31, 2016 and December 31, 2015, respectively)	0.3	0.3
Additional paid-in capital	271.0	271.8
Treasury stock at cost (2,940,959 and 2,918,342 shares of common stock at March 31, 2016 and December 31, 2015, respectively)	(63.5)	(61.8)
Retained earnings	301.9	300.0

Accumulated other comprehensive loss	(14.3)	(16.3)
Total stockholders' equity	495.4	494.0
Total liabilities and stockholders' equity	$1,137.8	$1,077.3

See accompanying notes to condensed consolidated financial statements.

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CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share data)
(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Net sales	$3,011.3	$2,452.3
Cost of goods sold	2,860.2	2,315.0
Gross profit	151.1	137.3
Warehousing and distribution expenses	91.6	79.5
Selling, general and administrative expenses	49.4	47.3
Amortization of intangible assets	0.9	0.6
Total operating expenses	141.9	127.4
Income from operations	9.2	9.9
Interest expense	(0.8)	(0.6)
Interest income	0.1	0.2
Foreign currency transaction gains (losses), net	0.7	(0.4)
Income before income taxes	9.2	9.1
Provision for income taxes (Note 6)	(3.5)	(3.6)
Net income	$5.7	$5.5
Basic and diluted net income per common share (Note 8)	$0.24	$0.24
Basic weighted-average shares (Note 8)	23.2	23.2
Diluted weighted-average shares (Note 8)	23.3	23.3
Dividends declared and paid per common share (Note 10)	$0.16	$0.13

See accompanying notes to condensed consolidated financial statements.

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CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Net income	$5.7	$5.5
Other comprehensive income (loss), net of tax:		
Defined benefit plan adjustments	0.1	0.1
Foreign currency translation gain (loss)	1.9	(2.7)
Other comprehensive income (loss), net of tax	2.0	(2.6)
Comprehensive income	$7.7	$2.9

See accompanying notes to condensed consolidated financial statements.

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CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Three Months Ended March 31, 2016	2015
Cash flows from operating activities:		
Net income	$ 5.7	$ 5.5
Adjustments to reconcile net income to net cash provided by operating activities:		
LIFO and inventory provisions	3.4	2.4
Amortization of debt issuance costs	0.1	0.1
Stock-based compensation expense	1.9	1.9
Bad debt expense, net	0.4	0.5
Depreciation and amortization	9.6	8.7
Foreign currency transaction (gains)/losses, net	(0.7)	0.4
Deferred income taxes	0.8	(0.7)
Changes in operating assets and liabilities:		
Accounts receivable, net	(63.6)	(6.2)
Other receivables, net	(0.1)	0.1
Inventories, net	17.1	116.9
Deposits, prepayments and other non-current assets	(13.6)	(14.0)
Excess tax deductions associated with stock-based compensation	(2.4)	(1.9)
Accounts payable	70.3	13.4
Cigarette and tobacco taxes payable	(5.2)	(36.1)
Pension, claims, accrued and other long-term liabilities	25.5	(8.9)
Net cash provided by operating activities	49.2	82.1

Cash flows from investing activities:				
Acquisition of business, net of cash acquired	—		(8.0	)
Change in restricted cash	(0.1	)	2.0	
Additions to property and equipment, net	(8.8	)	(2.7	)
Capitalization of software and related development costs	(2.2	)	(1.9	)
Proceeds from sale of fixed assets	—		0.3	
Net cash used in investing activities	(11.1	)	(10.3	)
Cash flows from financing activities:				
Repayments under revolving credit facility, net	(32.3	)	(54.9	)
Dividends paid	(3.8	)	(3.1	)
Payments on capital leases	(0.6	)	(0.6	)
Repurchases of common stock	(1.7	)	(3.0	)
Proceeds from exercise of common stock options	—		0.3	
Tax withholdings related to net share settlements of restricted stock units	(5.1	)	(3.1	)
Excess tax deductions associated with stock-based compensation	2.4		1.9	
Increase (decrease) in book overdrafts	1.0		(6.2	)
Net cash used in financing activities	(40.1	)	(68.7	)
Effects of changes in foreign exchange rates	1.0		(1.0	)
Change in cash and cash equivalents	(1.0	)	2.1	
Cash and cash equivalents, beginning of period	12.5		14.4	
Cash and cash equivalents, end of period	$ 11.5		$ 16.5	

Supplemental disclosures:				
Cash paid during the period for:				
Income taxes, net	$	0.3	$	0.8
Interest	$	0.5	$	0.3
Non-cash capital lease obligations incurred	$	0.2	$	5.2
Unpaid property and equipment purchases included in accrued liabilities	$	1.4	$	0.4

See accompanying notes to condensed consolidated financial statements.

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CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Summary of Company Information

Business

Core-Mark Holding Company, Inc., together with its subsidiaries (referred to herein as “the Company” or “Core-Mark”), is one of the largest marketers of fresh and broad-line supply solutions to the convenience retail industry in North America. The Company offers a full range of products, marketing programs and technology solutions to approximately 39,000 customer locations in the United States (“U.S.”) and Canada. The Company’s customers include traditional convenience stores, drug stores, grocery stores, liquor stores and other specialty and small format stores that carry convenience products. The Company’s product offering includes cigarettes, other tobacco products, candy, snacks, fast food, groceries, fresh products, dairy, bread, beverages, general merchandise and health and beauty care products. The Company operates a network of 28 distribution centers, including twenty-four distribution centers in the U.S. and four in Canada (excluding two distribution facilities it operates as a third party logistics provider).

2. Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated balance sheet as of March 31, 2016, the unaudited condensed consolidated statements of operations and comprehensive income for the three months ended March 31, 2016 and 2015, and the unaudited condensed consolidated statements of cash flows for the three months ended March 31, 2016 and 2015, have been prepared in accordance with the requirements of the U.S. Securities and Exchange Commission (“SEC”) for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by generally accepted accounting principles in the U.S. ("GAAP") can be condensed or omitted. The condensed consolidated balance sheet as of December 31, 2015 has been derived from the Company’s audited financial statements, which are included in its 2015 Annual Report on Form 10-K, filed with the SEC on February 26, 2016.

The unaudited condensed consolidated interim financial statements should be read in conjunction with the Company’s audited consolidated financial statements in its Annual Report on Form 10-K, for the year ended December 31, 2015. The unaudited condensed consolidated interim financial statements include all adjustments necessary for the fair presentation of its consolidated results of operations, financial position, comprehensive income and cash flows. Results for the interim periods are not necessarily indicative of results to be expected for the full year or any other future periods.

The unaudited condensed consolidated interim financial statements include Core-Mark and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in the unaudited condensed consolidated interim financial statements.

Concentration of Credit Risks

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash investments, accounts receivable and other receivables. The Company places its cash and cash equivalents in short-term instruments with high quality financial institutions and limits the amount of credit exposure in any one financial instrument. The Company pursues amounts and incentives due from vendors in the normal course of business and is often allowed to deduct these amounts and incentives from payments made to vendors.

A credit review is completed for new customers and ongoing credit evaluations of each customer’s financial condition are performed periodically, with reserves maintained for potential credit losses. Credit limits given to customers are based on a risk assessment of their ability to pay and other factors. Accounts receivable are typically not collateralized, but the Company may require prepayments or other guarantees whenever deemed necessary.

Alimentation Couche-Tard, Inc. (“Couche-Tard”), the Company’s largest customer, accounted for approximately 12.4% and 14.5% of the Company’s total net sales in the three months ended March 31, 2016 and March 31, 2015, respectively. Couche-Tard accounted for approximately 12.6% of the Company's total net accounts receivable as of March 31, 2016. No single customer accounted for 10% or more of the Company’s accounts receivables as of December 31, 2015.

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Recent Accounting Standards or Updates Not Yet Effective

On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09 ("ASU 2014-09"), Revenue from Contracts with Customers: Topic 606 (“ASU 2014-09”), to supersede nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. This standard is effective for the Company beginning in 2018 and allows for either full retrospective adoption or modified retrospective adoption with cumulative effect recognized at the date of initial adoption. Earliest adoption of this standard is permitted for Core-Mark beginning in 2017. The Company is currently evaluating the impact of the adoption of ASU 2014-09 on its consolidated financial statements.

On January 5, 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities: Subtopic 825-10 (“ASU 2016-01”). The new guidance enhances the reporting model for financial instruments, which includes amendments to address aspects of recognition, measurement, presentation and disclosure. ASU 2016-01 is effective for annual periods beginning after December 15, 2017. The Company is currently evaluating the impact ASU 2016-01 will have on its consolidated financial statements.

On February 25, 2016, the FASB issued ASU No. 2016-02, Leases: Topic 842 (“ASU 2016-02”), which supersedes existing lease guidance. The new guidance increases transparency by requiring lessees to recognize right-of-use assets and corresponding lease liabilities on the balance sheet. This standard is effective for annual periods beginning after December 15, 2018, although early adoption is permitted. The Company is currently evaluating the impact ASU 2016-02 will have on its consolidated financial statements.

On March 30, 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting: Topic 718 (“ASU 2016-09”). The new guidance simplifies several aspects of how companies account for share-based compensation, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statements of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, although early adoption is permitted. The Company is currently evaluating the impact ASU 2016-09 will have on its consolidated financial statements.

3. Inventories

Inventories consist of the following (in millions):

	March 31, 2016	December 31, 2015
Inventories at FIFO, net of reserves	$ 509.9	$ 524.6
Less: LIFO reserve	(120.6)	(117.2)
Total inventories at LIFO, net of reserves	$ 389.3	$ 407.4

Cost of goods sold reflects the application of the last-in, first-out (“LIFO”) method of valuing inventories in the U.S. based upon estimated annual producer price indices. Inventories in Canada are valued on a first-in, first-out (“FIFO”) basis, as LIFO is not a permitted inventory valuation method in Canada. During periods of rising prices, the LIFO method of costing inventories generally results in higher current costs being charged against income while lower costs are retained in inventories. Conversely, during periods of decreasing prices, the LIFO method of costing inventories generally results in lower current costs being charged against income and higher stated inventories. If the FIFO method had been used for valuing inventories in the U.S., inventories would have been approximately $120.6 million and $117.2 million higher for the period ended March 31, 2016 and December 31, 2015, respectively. The Company recorded LIFO expense of $3.4 million and $2.4 million for the three months ended March 31, 2016 and 2015, respectively.

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4. Long-term Debt

Long-term debt consists of the following (in millions):

	March 31, 2016	December 31, 2015
Amounts borrowed (Credit Facility)	$ 15.0	$ 47.0
Obligations under capital leases	13.0	13.4
Total long-term debt	$ 28.0	$ 60.4

The Company has a revolving credit facility (“Credit Facility”) with a capacity of $300 million, as of March 31, 2016. The Credit Facility has an expansion feature which can be increased up to an additional $100 million limited by a borrowing base primarily consisting of eligible accounts receivable and inventories. All obligations under the Credit Facility are secured by first priority liens on substantially all of the Company’s present and future assets. The terms of the Credit Facility permit prepayment without penalty at any time (subject to customary breakage costs with respect to LIBOR or CDOR based loans prepaid prior to the end of an interest period).

On May 21, 2015, the Company entered into a sixth amendment to the Credit Facility (the "Sixth Amendment"), which extended the term of the Credit Facility from May 2018 to May 2020. The Sixth Amendment fixed the unused facility fee at 25 basis points and provided for quarterly borrowing base reporting. The margin added to the LIBOR or CDOR rate remains at a range of 125 to 175 basis points. In addition, the Sixth Amendment raised and reset the baskets for stock repurchases in aggregate of $75.0 million, not to exceed $20.0 million in any year, an aggregate of $100.0 million for dividends and up to $150.0 million for permitted acquisitions. As of March 31, 2016, the remaining balances under the Credit Facility for stock repurchases, dividends, and permitted acquisitions were $70.1 million, $86.6 million, and $150.0 million, respectively.

On January 11, 2016, the Company entered into a seventh amendment to the Credit Facility (the "Seventh Amendment"), which increased its Credit Facility from $200 million to $300 million. The Seventh Amendment also includes an expansion feature that gives the Company the option to increase the size of the Credit Facility to a total of $400 million, if exercised. The Company incurred fees of approximately $0.3 million in connection with the Seventh amendment.

Amounts borrowed, outstanding letters of credit and amounts available to borrow, net of certain reserves required under the Credit Facility, were as follows (in millions):