News from the Wires

Covalence Specialty Materials Reports Fiscal 2006 Fourth Quarter and Annual Results

2006-12-18 | 08:30

BEDMINSTER, N.J., Dec. 18 /PRNewswire/ -- Covalence Specialty Materials Corp. ("Covalence" or the "Company") today announced results for its fourth fiscal quarter and fiscal year ended September 29, 2006.

The Company reported net revenue for the three months ended September 29, 2006 of $444.1 million and a net loss for the same period of $5.6 million. After giving effect to the Acquisition Transaction (as defined below), Adjusted EBITDA (as defined below under "Non-GAAP Financial Measures") for the fourth fiscal quarter of 2006 was $35.2 million. Management believes that presenting this non-GAAP measure is important for investors to better understand the Company's underlying operational and financial performance, to facilitate comparison of results between periods and to monitor the Company's compliance with certain financial covenants in its credit facilities.

For the year ended September 29, 2006, the Company reported net revenue of $1.759 billion and a net loss for the same period of $8.3 million. After giving effect to the Acquisition Transaction, Adjusted EBITDA for the year ended September 29, 2006 was $138.0 million.

"Our fourth fiscal quarter Adjusted EBITDA represents a significant sequential improvement on our third fiscal quarter results and was consistent with our expectations. I am proud of this performance given the challenging plastics industry conditions. Although our Plastics operating segment produced strong sequential quarterly growth in Adjusted EBITDA we continue to work to improve volume and profitability in that business," said Kip Smith, President and Chief Executive Officer. "A softening polyethylene resin market, a mild hurricane season and continued efforts by customers to structurally reduce inventories together with increases in certain non-resin raw materials, freight and other conversion costs resulted in a very challenging environment."

Results of Operations - Fourth Fiscal Quarter Ended September 29, 2006

Net revenue for the three months ended September 29, 2006 was $444.1 million, an increase of $6.2 million, or 1.4%, compared to $437.9 million in the fourth quarter of fiscal 2005. The increase was primarily due to higher selling prices implemented to offset inflation in raw materials, particularly in polyethylene resin, and partially offset by lower volume in our Plastics operating segment.

Gross profit for the three months ended September 29, 2006 was $50.7 million, a decrease of $17.0 million compared to $67.7 million in the fourth quarter of fiscal 2005. The decrease in gross profit was due to lower sales volume, significant raw materials inflation and a $3.5 million increase in depreciation resulting from the purchase method of accounting attributable to the Acquisition Transaction in the fiscal 2006 period. Excluding the purchase accounting adjustments described above, gross profit for the three months ended September 29, 2006 would have been $54.2 million.

Selling, general and administrative expenses for the three months ended September 29, 2006 were $43.8 million, an increase of $16.7 million compared to $27.1 million for the fourth quarter of fiscal 2005. The increase was mainly the result of $8.4 million of additional depreciation and amortization expense from the purchase method of accounting attributable to the Acquisition Transaction. The increase was also attributable to additional corporate support expenses required by the Acquisition Transaction, severance costs and general inflation. These increases were partially offset by the July 2005 cost reduction program and the elimination of costs incurred in fiscal 2005 in connection with the Company's initial Sarbanes-Oxley compliance implementation efforts.

Operating income for the three months ended September 29, 2006 was $6.7 million, a $29.2 million decrease compared to $35.9 million in the fourth quarter of fiscal 2005. The decrease was primarily driven by the factors described above. This decrease was partially offset by the elimination of charges and allocations from Tyco. Excluding the purchase accounting adjustments and severance costs described above, operating income for the three months ended September 29, 2006 would have been $19.3 million.

Results of Operations - Year Ended September 29, 2006

Net revenue for the year ended September 29, 2006 was $1.759 billion, an increase of $34.0 million, or 2.0%, compared to $1.725 billion in fiscal 2005. The increase was primarily due to higher selling prices implemented to offset inflation in raw materials, particularly in polyethylene resin, and partially offset by lower volume in our Plastics operating segment.

Gross profit for the year ended September 29, 2006 was $199.6 million, a decrease of $48.2 million, or 19.5%, compared to $247.8 million in fiscal 2005. The decrease in gross profit was due to lower sales volume, significant raw materials inflation, and a $15.2 million increase in depreciation and inventory fair value step-up resulting from the purchase method of accounting attributable to the Acquisition Transaction in the fiscal 2006 period. Excluding the purchase accounting adjustments, gross profit for the year ended September 29, 2006 would have been $214.8 million.

Selling, general and administrative expenses for the year ended September 29, 2006 were $152.6 million, an increase of $28.0 million compared to $124.6 million for fiscal 2005. The increase was mainly the result of $16.5 million of additional depreciation and amortization expense from the purchase method of accounting attributable to the Acquisition Transaction. The increase was also attributable to additional corporate support expenses required by the Acquisition Transaction, severance costs and general inflation. These increases were partially offset by the July 2005 cost reduction program and the elimination of costs incurred in fiscal 2005 in connection with the Company's initial Sarbanes-Oxley compliance implementation efforts.

Operating income for the year ended September 29, 2006 was $35.5 million, a decrease of $28.0 million compared to $63.5 million for fiscal 2005. The decrease was primarily driven by the factors described above. This decrease was partially offset by the elimination of charges and allocations from Tyco. Excluding the purchase accounting adjustments and severance costs described above, operating income for the year ended September 29, 2006 would have been $70.8 million, or 11.5% higher than fiscal 2005.

The Acquisition Transaction

Affiliates of Apollo and senior management of the Company completed their acquisition of substantially all of the assets and liabilities of the Company from Tyco on February 16, 2006 (the "Acquisition Transaction").

Non-GAAP Financial Matters

In addition to disclosing financial results that are determined in accordance with GAAP, Covalence discloses Segment EBITDA and Adjusted EBITDA, all of which are non-GAAP measures. You should not consider Segment EBITDA or Adjusted EBITDA as an alternative to operating or net income, determined in accordance with GAAP, as an indicator of Covalence's operating performance, or as an alternative to cash flows from operating activities, determined in accordance with GAAP, as an indicator of cash flows, or as a measure of liquidity.

Segment EBITDA is calculated by the sum of earnings before interest, taxes, historical charges from Tyco, restructuring and impairment charges, minority interest and depreciation and amortization. Segment EBITDA is commonly used in the financial community, and Covalence presents Segment EBITDA to enhance your understanding of its operating performance. Covalence uses Segment EBITDA as one criterion for evaluating its performance relative to that of its peers. Covalence believes that Segment EBITDA is an operating performance measure, and not a liquidity measure, that provides investors and analysts with a measure of operating results unaffected by differences in capital structures, capital investment cycles and ages of related assets among otherwise comparable companies. However, Segment EBITDA is not a measurement of financial performance under accounting principles generally accepted in the United States, and Covalence's Segment EBITDA may not be comparable to similarly titled measures of other companies.

The Company's credit facilities have certain covenants that use ratios utilizing a measure referred to as Adjusted EBITDA ("Adjusted EBITDA"). The supplementary adjustments to Segment EBITDA to derive Adjusted EBITDA may not be in accordance with current SEC practices or the rules and regulations adopted by the SEC that apply to periodic reports filed under the Securities Exchange Act of 1934. Accordingly, the SEC may require that Adjusted EBITDA be presented differently in filings made with the SEC than as presented in this release, or not be presented at all.

The most directly comparable GAAP measure to Segment EBITDA and Adjusted EBITDA is net income (loss). Included in this release are a reconciliation of net income (loss) to Segment EBITDA and a reconciliation of Segment EBITDA to Adjusted EBITDA.

Fourth Fiscal Quarter 2006 Conference Call

Management will host its fourth fiscal quarter 2006 conference call on Wednesday, December 20, 2006, at 11:00am ET. The toll-free number for the call is (888) 390-0957 (Passcode: Covalence). A replay of the call will be available until December 31, 2006, by dialing (800) 964-3292.

About Covalence

Covalence, with a workforce of approximately 7,000 people in 37 manufacturing facilities, is a major producer of a wide range of products, including polyethylene-based films, industrial tapes, medical specialties, packaging, heat-shrinkable coatings and specialty laminates. Covalence is the number one producer domestically of trash bags, duct tape and niche laminated and coated products. Among its leading brands are Ruffies(R) and Rhino-X(R) trash bags; Film-Gard(R) plastic sheeting; Nashua(R) tapes; Covalence Raychem(R) (Raychem(R) is a trademark of Tyco Electronics Corporation and Nashua (R) is a trademark of Nashua Corporation; each are used under license by Covalence) heat-shrinkable coatings; Polyken(R) pipeline coatings; Thermo- ply(R) and Energy-Brace(R) wall sheathing; as well as R-Wrap(R) and Barricade(R) housewraps. For more information, please visit http://www.covcorp.com.

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This press release contains certain forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) relating to Covalence that are based on the beliefs of Covalence's management. When used in this press release, the words "may," "will," "should," "expect," "intend," "estimate," "anticipate," "believe," "predict," "potential" or "continue" or similar expressions identify forward-looking statements. Such statements reflect the current views of Covalence's management with respect to the Company's operations and results of operations regarding the plastic film industry, economy, interest rates, availability of consumer credit, employment trends, levels of consumer confidence, consumer preferences, raw material costs and availability, industry acceptance of price increases, national and regional trends, level of competition within its industry, availability of alternative plastics film products, its level of indebtedness, costs of environmental compliance, increase in capital expenditure requirements, shifts in industry demand, and general economic conditions. These statements are subject to certain risks and uncertainties. Should one or more of these risks or uncertainties materialize, or should underlying assumptions or estimates prove incorrect, actual results may vary materially from those described herein as expected, intended, estimated, anticipated, believed or predicted.

COVALENCE SPECIALTY MATERIALS CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, In Millions)

	Three Months Ended		Year Ended	
	Sept. 30, 2005	Sept. 29, 2006	Sept. 30, 2005	Sept. 29, 2006
Net revenue	$437.9	$444.1	$1,725.2	$1,759.3
Cost of goods sold	370.2	393.4	1,477.4	1,559.7
Gross profit	67.7	50.7	247.8	199.6
Charges and allocations from Tyco	1.3	-	56.4	10.4
Selling, general and administrative expenses	27.1	43.8	124.6	152.6
Restructuring and impairment charges, net	3.4	0.2	3.3	1.1
Operating income	35.9	6.7	63.5	35.5
Other income	-	(0.7)	-	(1.3)
Interest expense, net	0.9	16.5	4.5	51.8
Interest expense, net - Tyco	2.9	-	11.2	5.5
Income (loss) before income tax expense	32.1	(9.1)	47.8	(20.5)
Income tax expense (benefit)	0.5	(3.5)	3.8	(12.2)
Net income (loss)	$31.6	$(5.6)	$44.0	$(8.3)

COVALENCE SPECIALTY MATERIALS CORP.

RECONCILIATION OF NET INCOME TO SEGMENT EBITDA (*)
(Unaudited, In Millions)

	Three Months Ended		Year Ended	
	Sept. 30, 2005	Sept. 29, 2006	Sept. 30, 2005	Sept. 29, 2006
Net income (loss)	$31.6	$(5.6)	$44.0	$(8.3)
Add:				
Depreciation and amortization	10.8	23.3	41.6	66.6
Income tax expense (benefit)	0.5	(3.5)	3.8	(12.2)
Interest expense, net	3.8	15.8	15.7	56.0
Tyco charges	1.3	-	56.4	10.4
Restructuring and impairment charges, net	3.4	0.2	3.3	1.1
Segment EBITDA	$51.4	$30.2	$164.8	$113.6

(*) Segment EBITDA is a non-GAAP financial measure. For more information regarding Segment EBITDA and non-GAAP financial measures, generally, see "Non-

GAAP Financial Measures."

RECONCILIATION OF SEGMENT EBITDA TO ADJUSTED EBITDA (*)
(Unaudited, In Millions)

	Three Months Ended		Year Ended	
	Sept. 30, 2005	Sept. 29, 2006	Sept. 30, 2005	Sept. 29, 2006
Segment EBITDA	$51.4	$30.2	$164.8	$113.6
Add:				
Headcount reductions savings	-	-	7.5	-
Inventory fair value step-up	-	-	-	6.8
Estimated stand-alone costs	(2.1)	-	(7.8)	(2.9)
Discontinued Operations	0.1	0.2	0.4	1.5
Non-recurring severance and non-cash equity based compensation	0.6	1.9	4.1	6.8
Monitoring fee	-	0.1	-	1.6
Transition and Other, net	(1.0)	2.8	0.5	10.6
Adjusted EBITDA	$49.0	$35.2	$169.5	$138.0

(*) Each of Segment EBITDA and Adjusted EBITDA is a non-GAAP financial

measure. For more information regarding Segment EBITDA, Adjusted EBITDA and non-GAAP financial measures, generally, see "Non-GAAP Financial Measures."

COVALENCE SPECIALTY MATERIALS CORP.

SELECTED BALANCE SHEET DATA
(Unaudited, In Millions)

	As of September 29, 2006
Cash & Cash Equivalents	$66.8
Accounts Receivable, net	195.7
Inventory	233.9
Accounts Payable	170.4
Accrued Liabilities	77.3
Total Debt	739.3