

SCHWEITZER MAUDUIT INTERNATIONAL INC  
Form 10-Q  
May 01, 2019  
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 March 31, 2019

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

1-13948

(Commission file number)

SCHWEITZER-MAUDUIT INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization) 62-1612879 (I.R.S. Employer Identification No.)

100 North Point Center East, Suite 600

Alpharetta, Georgia

(Address of principal executive offices)

30022

(Zip Code)

1-800-514-0186

(Registrant's telephone number, including area code)

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

Title of each class Trading Symbol Name of each exchange on which registered

Common stock, \$0.10 par value SWM New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  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 Company had 30,892,300 shares of common stock issued and outstanding as of May 1, 2019.

---

---

SCHWEITZER-MAUDUIT INTERNATIONAL, INC.

TABLE OF CONTENTS

	Page
Part I. - Financial Information	
Item 1. <u>Financial Statements</u>	<u>1</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>29</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>41</u>
Item 4. <u>Controls and Procedures</u>	<u>41</u>
Part II. - Other Information	
Item 1. <u>Legal Proceedings</u>	<u>42</u>
Item 1A. <u>Risk Factors</u>	<u>42</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>42</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>42</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>42</u>
Item 5. <u>Other Information</u>	<u>42</u>
Item 6. <u>Exhibits</u>	<u>43</u>
<u>Signatures</u>	<u>44</u>
<u>Glossary of Terms</u>	<u>45</u>

---

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(dollars in millions, except per share amounts)

(Unaudited)

	Three Months Ended	
	March 31,	March 31,
	2019	2018
Net sales	\$258.0	\$ 261.9
Cost of products sold	190.1	189.9
Gross profit	67.9	72.0
Selling expense	8.6	9.1
Research expense	3.3	4.1
General expense	25.6	23.4
Total nonmanufacturing expenses	37.5	36.6
Restructuring and impairment expense	—	0.4
Operating profit	30.4	35.0
Interest expense	7.8	6.2
Other expense, net	(0.6 )	(0.3 )
Income from continuing operations before income taxes and income from equity affiliates	22.0	28.5
Provision for income taxes	4.4	7.3
Loss from equity affiliates, net of income taxes	(0.2 )	(0.3 )
Income from continuing operations	17.4	20.9
Loss from discontinued operations	—	(0.4 )
Net income	\$17.4	\$ 20.5
Net income per share - basic:		
Income per share from continuing operations	\$0.57	\$ 0.68
Loss per share from discontinued operations	—	(0.01 )
Net income per share – basic	\$0.57	\$ 0.67
Net income per share – diluted:		
Income per share from continuing operations	\$0.56	\$ 0.68
Loss per share from discontinued operations	—	(0.01 )
Net income per share – diluted	\$0.56	\$ 0.67
Weighted average shares outstanding:		
Basic	30,620,600	30,488,600
Diluted	30,716,700	30,619,700

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.



SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(dollars in millions)

(Unaudited)

	Three Months Ended	
	March 31, 2019	March 31, 2018
Net income	\$17.4	\$ 20.5
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	0.9	8.6
Less: Reclassification adjustment for realized translation adjustments	(0.2 )	(0.2 )
Unrealized gains on derivative instruments	0.4	2.5
Less: Reclassification adjustment for gains on derivative instruments included in net income	(0.9 )	(0.8 )
Reclassification adjustment for amortization of postretirement benefit plans' costs included in net periodic benefit cost	0.5	0.7
Other comprehensive income	0.7	10.8
Comprehensive income	\$18.1	\$ 31.3

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in millions, except per share amounts)  
(Unaudited)

	March 31, 2019	December 31, 2018
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$83.4	\$ 93.8
Accounts receivable, net	164.2	154.6
Inventories	154.5	151.5
Income taxes receivable	8.6	12.2
Assets held for sale	11.9	12.0
Other current assets	7.8	5.1
Total current assets	430.4	429.2
Property, plant and equipment, net	333.4	340.3
Deferred income tax benefits	0.4	0.3
Investment in equity affiliates	52.2	51.9
Goodwill	338.3	338.1
Intangible assets	266.6	272.8
Other assets	64.4	33.9
Total assets	\$1,485.7	\$ 1,466.5
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Current debt		
Accounts payable	\$3.1	\$ 3.3
Income taxes payable	72.1	65.7
Accrued expenses	1.4	1.6
Total current liabilities	63.1	72.9
Long-term debt	139.7	143.5
Long-term income tax payable	617.2	618.8
Pension and other postretirement benefits	25.6	27.0
Deferred income tax liabilities	28.0	28.2
Other liabilities	47.0	48.0
Total liabilities	66.1	43.1
Stockholders' equity:	923.6	908.6
Preferred stock, \$0.10 par value; 10,000,000 shares authorized; none issued or outstanding	—	—
Common stock, \$0.10 par value; 100,000,000 shares authorized; 30,889,589 and 30,771,244 shares issued and outstanding at March 31, 2019 and December 31, 2018, respectively	3.1	3.1
Additional paid-in-capital	72.0	71.1
Retained earnings	610.8	608.2
Accumulated other comprehensive loss, net of tax	(123.8 )	(124.5 )
Total stockholders' equity	562.1	557.9
Total liabilities and stockholders' equity	\$1,485.7	\$ 1,466.5

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.





SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
 (dollars in millions, except per share amounts)  
 (Unaudited)

	Common Stock Issued		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)		Total
	Shares	Amount					
Balance, December 31, 2017	30,711,299	\$ 3.1	\$ 66.3	\$ 566.7	\$ (89.4	)	\$ 546.7
Cumulative effects of changes in accounting standards	—	—	—	(1.7	)	—	(1.7 )
Net income	—	—	—	20.5	—	—	20.5
Other comprehensive income, net of tax	—	—	—	—	10.8	—	10.8
Dividends declared (\$0.43 per share)	—	—	—	(13.2	)	—	(13.2 )
Restricted stock issuances, net	117,828	—	—	—	—	—	—
Stock-based employee compensation expense	—	—	1.4	—	—	—	1.4
Stock issued to directors as compensation	1,404	—	0.1	—	—	—	0.1
Purchases and retirement of common stock	(62,634 )	—	—	(2.5	)	—	(2.5 )
Balance, March 31, 2018	30,767,897	\$ 3.1	\$ 67.8	\$ 569.8	\$ (78.6	)	\$ 562.1
Balance, December 31, 2018	30,771,244	\$ 3.1	\$ 71.1	\$ 608.2	\$ (124.5	)	\$ 557.9
Cumulative effects of changes in accounting standards	—	—	—	(0.3	)	—	(0.3 )
Net income	—	—	—	17.4	—	—	17.4
Other comprehensive income, net of tax	—	—	—	—	0.7	—	0.7
Dividends declared (\$0.44 per share)	—	—	—	(13.6	)	—	(13.6 )
Restricted stock issuances, net	141,021	—	—	—	—	—	—
Stock-based employee compensation expense	—	—	0.9	—	—	—	0.9
Stock issued to directors as compensation	1,696	—	—	—	—	—	—
Purchases and retirement of common stock	(24,372 )	—	—	(0.9	)	—	(0.9 )
Balance, March 31, 2019	30,889,589	\$ 3.1	\$ 72.0	\$ 610.8	\$ (123.8	)	\$ 562.1

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(dollars in millions)

(Unaudited)

	Three Months Ended	
	March 31, 2019	March 31, 2018
Operating		
Net income	\$ 17.4	\$ 20.5
Less: Loss from discontinued operations	—	(0.4 )
Income from continuing operations	17.4	20.9
Non-cash items included in net income:		
Depreciation and amortization	14.4	15.6
Deferred income tax provision	(0.5 )	0.8
Pension and other postretirement benefits	0.7	1.0
Stock-based compensation	0.9	1.5
Loss from equity affiliates	0.2	0.3
Other items	1.9	0.3
Changes in operating working capital, net of assets acquired:		
Accounts receivable	(12.5 )	(13.1 )
Inventories	(4.0 )	1.7
Prepaid expenses	(2.7 )	(2.7 )
Accounts payable	7.5	2.1
Accrued expenses	(11.7 )	(9.6 )
Accrued income taxes	1.4	3.2
Net changes in operating working capital	(22.0 )	(18.4 )
Net cash provided by operating activities of:		
- Continuing operations	13.0	22.0
- Discontinued operations	—	—
Net cash provided by operations	13.0	22.0
Investing		
Capital spending	(7.3 )	(6.0 )
Capitalized software costs	(1.4 )	(0.4 )
Other investing	1.1	(0.8 )
Net cash used in investing	(7.6 )	(7.2 )

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW  
 (dollars in millions)  
 (Unaudited)

	Three Months Ended	
	March 31, 2019	March 31, 2018
Financing		
Cash dividends paid to SWM stockholders	(13.6 )	(13.2 )
Changes in short-term debt	(0.2 )	(1.4 )
Payments on long-term debt	(0.6 )	(9.7 )
Purchases of common stock	(0.9 )	(2.5 )
Net cash used in financing	(15.3 )	(26.8 )
Effect of exchange rate changes on cash and cash equivalents	(0.5 )	1.2
Decrease in cash and cash equivalents	(10.4 )	(10.8 )
Cash and cash equivalents at beginning of period	93.8	106.9
Cash and cash equivalents at end of period	\$83.4	\$ 96.1
Supplemental Cash Flow Disclosures		
Cash paid for interest	\$3.5	\$ 6.3
Cash paid for taxes, net	\$3.3	\$ 3.4
Change in capital spending in accounts payable and accrued liabilities	\$1.7	\$ 1.0

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. General

Nature of Business

Schweitzer-Mauduit International, Inc., or SWM or the Company, headquartered in the United States of America, is a multinational diversified producer of highly engineered solutions and advanced materials for a variety of industries. The Company maintains two operating product line segments: Advanced Materials & Structures and Engineered Papers.

The Advanced Materials & Structures segment, or AMS, produces mostly resin-based rolled goods such as nets, films and meltblown materials, typically through an extrusion process or other non-woven technologies. These products are used in a variety of specialty applications across the filtration, construction and infrastructure, transportation, industrial and medical end-markets.

The Engineered Papers segment, or EP, primarily serves the tobacco industry with production of various cigarette papers and reconstituted tobacco products, or "recon". Traditional reconstituted tobacco leaf, or "RTL", is used as a blend with virgin tobacco in cigarettes and used as wrappers and binders for cigars. Recon, as well as LIP (low ignition propensity) cigarette paper, a specialty product with fire-safety features, are two key profit drivers, which together account for more than half of segment net sales. The EP segment also produces non-tobacco papers for both premium applications, such as energy storage and industrial commodity paper grades.

We conduct business in over 90 countries and operate 22 production locations worldwide, with facilities in the U.S., Canada, United Kingdom, France, Luxembourg, Belgium, Russia, Brazil, China and Poland. We also have a 50% equity interest in two joint ventures in China. The first, China Tobacco Mauduit (Jiangmen) Paper Industry Ltd., or CTM, produces cigarette and porous plug wrap papers and the second, China Tobacco Schweitzer (Yunnan) Reconstituted Tobacco Co. Ltd., or CTS, produces RTL.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements and the notes thereto have been prepared in accordance with the instructions of Form 10-Q and Rule 10-01 of Regulation S-X of the Securities and Exchange Commission, or the SEC, and do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America, or U.S. GAAP. However, such information reflects all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair statement of results for the interim periods including the results of a business reclassified as a discontinued operation which is more fully described in Note 5. Discontinued Operations.

The results of operations for the three months ended March 31, 2019 are not necessarily indicative of the results to be expected for the full year. The unaudited condensed consolidated financial statements and these notes thereto included herein should be read in conjunction with the audited consolidated financial statements and the related notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, as filed with the SEC on March 1, 2019.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned, majority-owned and controlled subsidiaries. The Company's share of the net income of its 50%-owned joint ventures in China is included in the condensed consolidated statements of income as Income from equity affiliates, net of income taxes. Intercompany balances and transactions have been eliminated.

7

---

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and related disclosures of contingent assets and liabilities in the condensed consolidated financial statements and accompanying notes. Estimates are used for, but not limited to, inventory valuation, useful lives of tangible and intangible assets, fair values, sales returns and rebates, receivables valuation, pension, postretirement and other benefits, restructuring and impairment, taxes and contingencies. Actual results could differ materially from those estimates.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842): Amendments to the FASB Accounting Standards Codification." The new standard establishes a right-of-use model that requires a lessee to record a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than twelve months. Leases will be classified as either financing or operating, with classification affecting the pattern of expense recognition in the income statement. This guidance was effective for annual reporting periods beginning after December 15, 2018, and interim periods thereafter. In July 2018, the FASB issued ASU 2018-11, "Leases (Topic 842) - Targeted Improvements," providing companies with the option to adopt the provisions of the standard prospectively without adjusting comparative periods; the Company has elected this option for transition and adopted the standard on January 1, 2019. The Company adopted the transition package of practical expedients permitted within the new standard, which among other things, allows the Company to carryforward historical lease classifications. In addition, the Company elected the hindsight practical expedient to determine the reasonably certain lease term for existing leases. The Company made an accounting policy election that will keep leases with an initial term of 12 months or less off of the balance sheet and will result in recognition of those lease payments in the Consolidated Statements of Income on a straight-line basis over the lease term. The impact of the adoption of this standard to the consolidated balance sheets, resulted in approximately \$25 million in right-of-use assets and corresponding lease obligation liabilities of approximately \$27 million as of January 1, 2019. Adoption resulted in an immaterial cumulative-effect adjustment to the opening balance of retained earnings and did not materially impact the consolidated statements of income. Additionally, the adoption of the new lease standard did not have an impact on the Company's debt covenant compliance under its current debt and indenture agreements.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." The amendment eliminates the second step of the analysis that required the measurement of a goodwill impairment by comparing the implied value of a reporting unit's goodwill and the goodwill's carrying amount. This guidance is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company is currently in the process of evaluating the impact of the pronouncement and does not expect the adoption of this guidance to have a material impact on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurements." The new standard modifies the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, based on the concepts in the Concepts Statement, including the consideration of costs and benefits. The provisions of this ASU are effective for years beginning after December 15, 2019, with early adoption permitted. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be

applied retrospectively to all periods presented upon their effective date. The Company is currently in the process of evaluating the impact of the pronouncement and does not expect the adoption of this guidance to have a material impact on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, "Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans." The new standard modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The provisions of this ASU are effective for years beginning after December 15, 2020, with early adoption permitted. The new standard requires the amendments to be applied on a retrospective basis for all

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

periods presented. The Company is currently in the process of evaluating the impact of the pronouncement and does not expect the adoption of this guidance to have a material impact on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, "Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract." The new standard provides updated guidance surrounding implementation costs associated with cloud computing arrangements that are service contracts. The provisions of this ASU are effective for years beginning after December 15, 2020, with early adoption permitted. The Company elected to early adopt this guidance as of January 1, 2019. The adoption of this guidance did not materially impact the consolidated financial statements or materially affect our financial position.

#### Note 2. Revenue Recognition

The Company has two main sources of revenue: product sales and materials conversion. The Company recognizes product sales revenues when control of a product is transferred to the customer. For the majority of product sales, transfer of control occurs when the products are shipped from one of the Company's manufacturing facilities to the customer. The cost of delivering finished goods to the Company's customers is recorded as a component of cost of products sold. Those costs include the amounts paid to a third party to deliver the finished goods. Any freight costs billed to and paid by a customer are included in net sales. The Company also provides services to customers through the conversion of customer-owned raw materials into processed finished goods. In these transactions, the Company generally recognizes revenue as processing is completed.

Revenue is recognized when performance obligations under the terms of a contract with a customer are satisfied, which generally occurs when control of the promised goods or services is transferred to the customer, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. Generally, the Company considers collectability of amounts due under a contract to be probable upon inception of a sale based on an evaluation of the credit worthiness of each customer. If collectability is not considered to be probable, the Company defers recognition of revenue on satisfied performance obligations until the uncertainty is resolved. Any variable consideration, such as discounts or price concessions, is set forth in the terms of the contract at inception, and is included in the assessment of the transaction price at the outset of the arrangement. The transaction price is allocated to the individual performance obligations due under the contract based on the relative stand-alone fair value of the performance obligations identified in the contract. The Company typically uses an observable price to determine the stand-alone selling price for separate performance obligations.

The Company does not typically include extended payment terms or significant financing components in our contracts with customers. Certain product sales contracts may include cash-based incentives (volume rebates or credits), which are accounted for as variable consideration. We estimate these amounts at least quarterly based on the expected forecast quantities to be provided to customers and reduce revenues recognized accordingly. Incidental items that are immaterial in the context of the contract are recognized as expense in the period incurred. The Company generally expenses sales commissions when incurred because the amortization period is one year or less. These costs are recorded within sales and marketing expenses. The Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed. As a practical expedient, the Company treats shipping and handling activities that occur after control of the good transfers as fulfillment activities, and therefore, does not account for shipping and handling costs as a separate performance obligation.





SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Following is the Company's net sales disaggregated by revenue source (\$ in millions). Sales and usage-based taxes are excluded from net sales.

	Three Months Ended					
	March 31, 2019			March 31, 2018		
	AMS	EP	Total	AMS	EP	Total
Product revenues	\$117.5	\$121.2	\$238.7	\$108.4	\$120.8	\$229.2
Materials conversion revenues	1.9	14.9	16.8	6.2	24.7	30.9
Other revenues	1.1	1.4	2.5	0.7	1.1	1.8
Total revenues (1)	\$120.5	\$137.5	\$258.0	\$115.3	\$146.6	\$261.9

(1) Revenues include net hedging gains and losses for the three months ended March 31, 2019 and 2018.

Net sales are attributed to the following geographic locations based on the location of the Company's direct customers (\$ in millions):

	Three Months Ended					
	March 31, 2019			March 31, 2018		
	AMS	EP	Total	AMS	EP	Total
United States	\$83.3	\$47.4	\$130.7	\$78.1	\$49.7	\$127.8
Europe and the former Commonwealth of Independent States	13.2	45.1	58.3	15.8	57.6	73.4
Asia/Pacific (including China)	17.2	20.4	37.6	14.6	21.3	35.9
Latin America	2.0	11.1	13.1	3.2	11.5	14.7
Other foreign countries	4.8	13.5	18.3	3.6	6.5	10.1
Total revenues (1)	\$120.5	\$137.5	\$258.0	\$115.3	\$146.6	\$261.9

(1) Revenues include net hedging gains and losses for the three months ended March 31, 2019 and 2018.

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Other Comprehensive Income

Comprehensive income includes net income, as well as certain items charged and credited directly to stockholders' equity, which are excluded from net income. The Company has presented comprehensive income in the condensed consolidated statements of comprehensive income (loss). Reclassification adjustments of derivative instruments are presented in Net sales, Other (expense) income, net, or Interest expense in the condensed consolidated statements of income. See Note 12. Derivatives for additional information. Amortization of accumulated pension and other post-employment benefit, or OPEB, liabilities are included in the computation of net periodic pension and OPEB costs, which are more fully discussed in Note 14. Postretirement and Other Benefits.

Components of Accumulated other comprehensive loss, net of tax, were as follows (\$ in millions):

	March 31, 2019	December 31, 2018
Accumulated pension and OPEB liability adjustments, net of income tax benefit of \$12.5 million and \$11.4 million at March 31, 2019 and December 31, 2018, respectively	\$(27.7 )	\$(28.2 )
Accumulated unrealized loss on derivative instruments, net of income tax benefit of \$1.6 million and \$1.6 million at March 31, 2019 and December 31, 2018, respectively	(1.1 )	(0.6 )
Accumulated unrealized foreign currency translation adjustments, net of income tax benefit of \$4.0 million and \$1.7 million at March 31, 2019 and December 31, 2018, respectively	(95.0 )	(95.7 )
Accumulated other comprehensive loss	\$(123.8 )	\$(124.5 )

Changes in the components of Accumulated other comprehensive loss were as follows (\$ in millions):

	Three Months Ended					
	March 31, 2019			March 31, 2018		
	Pre-tax	Tax	Net of Tax	Pre-tax	Tax	Net of Tax
Net (loss) gain on pension and OPEB liability adjustments	\$(0.6)	\$1.1	\$0.5	\$1.1	\$(0.4)	\$0.7
Unrealized (loss) gain on derivative instruments	(0.5 )	—	(0.5 )	1.8	(0.1 )	1.7
Unrealized (loss) gain on foreign currency translation	(1.6 )	2.3	0.7	9.5	(1.1 )	8.4
Total	\$(2.7)	\$3.4	\$0.7	\$12.4	\$(1.6)	\$10.8

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Leases

The Company adopted the guidance contained in ASC 842, Leases, on January 1, 2019 using the modified retrospective approach permitted by ASU 2018-11, Leases (Topic 842): Targeted Improvements. Under this method, the Company applied the new leases standard at the adoption date and recognized a cumulative-effect adjustment to the opening balance of retained earnings as of January 1, 2019. The comparative period presented in the condensed consolidated financial statements for 2018 continue to be presented in accordance with previous GAAP as codified in ASC Topic 840, Leases.

The Company leases certain office space, warehouses, manufacturing facilities, land, and equipment. The Company elected the practical expedient which allows that leases with an initial term of 12 months or less are not recorded on the balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term. For leases without lease terms (i.e. month-to-month leases), lease expense is recognized as incurred and no asset or liability is recorded for these leases.

The Company accounts for lease components (e.g., fixed payments including rent, real estate taxes and insurance costs) separately from non-lease components (e.g., common-area maintenance costs). Most leases include one or more options to renew, with renewal terms that can extend the lease term. The exercise of lease renewal options is at our sole discretion. Lease assets and liabilities are determined based on the lease term including those periods for which renewal options are considered reasonably certain to be exercised. Certain leases also include options to purchase the leased property, although we are unlikely to do so in most cases. The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise. When available, the Company uses the rate implicit in the lease to discount lease payments to present value; however, most of the Company's leases do not provide a readily determinable implicit rate. Therefore, the Company must estimate its incremental borrowing rate to discount the lease payments based on information available at lease commencement.

Components of right-of-use assets and lease liabilities presented in the balance sheet are as follows (\$ in million):

Assets	Classification	March 31, 2019
Operating lease right-of-use assets	Other assets	\$ 24.1
Finance lease right-of-use assets	Property, plant and equipment, net	2.8
Liabilities	Classification	March 31, 2019
Current operating lease obligation	Accrued expenses	\$ 4.8
Long-term operating lease obligation	Other liabilities	20.6
Total operating lease obligation		\$ 25.4
Current finance lease obligation	Current debt	\$ 0.2
Long-term finance lease obligation	Long-term debt	3.0
Total finance lease obligation		\$ 3.2

Assets	March 31, 2019		
	Finance	Operating	Total
Land and improvements	\$—	\$ 0.1	\$0.1
Buildings and improvements	3.0	21.7	24.7
Machinery and equipment	0.2	4.4	4.6

Gross property, plant and equipment	3.2	26.2	29.4
Less: Accumulated depreciation	(0.4 )	(2.1 )	(2.5 )
Right-of-use assets	\$2.8	\$ 24.1	\$26.9

12

---

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Components of lease expense incurred by the Company are as follow (\$ in millions):

Lease Cost	Three Months Ended March 31, 2019
Finance lease cost (cost resulting from lease payments)	
Interest expense on lease liabilities	\$ —
Amortization of right-of-use assets	0.1
Operating lease cost	1.5
Short-term lease expense	0.1
Total Lease Cost	\$ 1.7

The following table represents future contractual lease liabilities for the next five years and thereafter for finance and operating leases (\$ in millions):

Maturity of Lease Liabilities	Finance	Operating	Total
Remainder of 2019	\$ 0.3	\$ 4.7	\$5.0
2020	0.5	5.8	6.3
2021	0.4	5.1	5.5
2022	0.5	3.9	4.4
2023	0.5	2.7	3.2
2024	0.4	2.3	2.7
Thereafter	1.5	7.1	8.6
Total Lease Payments	\$ 4.1	\$ 31.6	\$35.7
Less: Interest	0.9	6.2	7.1
Present Value of Lease Liabilities	\$ 3.2	\$ 25.4	\$28.6

Lease Term and Discount Rate	March 31, 2019
Weighted-average remaining lease term (years)	
Operating leases	7.2
Finance leases	8.6
Weighted-average discount rate	
Operating leases	5.99%
Finance leases	5.26%



SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Other Information (millions)	Three Months Ended March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$ 1.5
Operating cash flows from finance leases	—
Financing cash flows from finance leases	—
Leased assets obtained in exchange for new finance lease liabilities	0.1
Leased assets obtained in exchange for new operating lease liabilities	2.9

Future minimum obligations under non-cancelable operating leases having an initial or remaining term in excess of one year as of December 31, 2018 were as follows (\$ in millions):

2019	\$5.8
2020	5.0
2021	4.4
2022	3.6
2023	3.0
Thereafter	8.1
Total	\$29.9



SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Discontinued Operations

The Company's former paper mill in San Pedro, Philippines has been reported as a discontinued operation since 2013. This operation was previously presented as a component of the EP segment. The physical assets at the Philippines paper mill were sold during the fourth quarter of 2013. For all periods presented, results of this operation have been removed from each individual line within the statements of income and the operating activities section of the statements of cash flow. In each case, a separate line has been added for the net results of discontinued operations.

Included in Other current assets, Other assets and Accrued expenses within the condensed consolidated balance sheet are the following major classes of assets and liabilities, respectively, associated with the discontinued operations (\$ in millions):

	March 31, December 31,	
	2019	2018
Assets of discontinued operations:		
Current assets	\$ 0.8	\$ 0.8
Other assets	1.2	1.2
Liabilities of discontinued operations:		
Current liabilities	—	0.1

Summary financial results of discontinued operations were as follows (\$ in millions):

	Three Months Ended March 31,	
	2019	2018
Net sales	\$ —	\$ —
Other income (expense)	—	(0.4 )
Loss from discontinued operations before income taxes	—	(0.4 )
Income tax (provision) benefit	—	—
Loss from discontinued operations	—	(0.4 )

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Net Income Per Share

The Company uses the two-class method to calculate earnings per share. The Company has granted restricted stock that contains non-forfeitable rights to dividends on unvested shares. Since these unvested shares are considered participating securities under the two-class method, the Company allocates earnings per share to common stock and participating securities according to dividends declared and participation rights in undistributed earnings.

Diluted net income per common share is computed based on net income divided by the weighted average number of common and potential common shares outstanding. Potential common shares during the respective periods are those related to dilutive stock-based compensation, including long-term stock-based incentive compensation and directors' accumulated deferred stock compensation, which may be received by the directors in the form of stock or cash. A reconciliation of the average number of common and potential common shares outstanding used in the calculations of basic and diluted net income per share follows (\$ in millions, shares in thousands):

	Three Months Ended March 31, 2019 2018	
Numerator (basic and diluted):		
Net income	\$ 17.4	\$ 20.5
Less: Dividends paid to participating securities	(0.1 )	(0.1 )
Less: Undistributed earnings available to participating securities	—	—
Undistributed and distributed earnings available to common stockholders	\$ 17.3	\$ 20.4
Denominator:		
Average number of common shares outstanding	30,620.6	30,488.6
Effect of dilutive stock-based compensation	96.1	131.1
Average number of common and potential common shares outstanding	30,716.7	30,619.7

Note 7. Inventories

Inventories are valued at the lower of cost (using the First-In, First-Out and weighted average methods) or net realizable value. The Company's costs included in inventory primarily include resins, pulp, chemicals, direct labor, utilities, maintenance, depreciation, finishing supplies and an allocation of certain overhead costs. Machine start-up costs or abnormal machine shut downs are expensed in the period incurred and are not reflected in inventory. The Company reviews inventories at least quarterly to determine the necessity of write-offs for excess, obsolete or unsalable inventory. The Company estimates write-offs for inventory obsolescence and shrinkage based on its judgment of future realization. These reviews require the Company to assess customer and market demand. The following schedule details inventories by major class (\$ in millions):

	March 31, December 31, 2019 2018	
Raw materials	\$ 54.0	\$ 50.2
Work in process	23.8	22.4
Finished goods	67.4	69.9
Supplies and other	9.3	9.0
Total	\$ 154.5	\$ 151.5



SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Goodwill

The changes in the carrying amount of goodwill by segment for the three months ended March 31, 2019 were as follows (\$ in millions):

	Advanced Materials & Structures	Engineered Papers	Total
Goodwill as of December 31, 2018	\$ 333.1	\$ 5.0	\$338.1
Foreign currency translation adjustments	0.3	(0.1 )	0.2
Goodwill as of March 31, 2019	\$ 333.4	\$ 4.9	\$338.3

Note 9. Intangible Assets

The gross carrying amount and accumulated amortization for intangible assets consisted of the following (\$ in millions):

	March 31, 2019			Accumulated	Net
	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairments	Foreign Exchange	Carrying Amount
Amortized Intangible Assets					
Advanced Materials & Structures					
Customer relationships	\$276.3	\$ 54.7	\$ —	\$ 1.6	\$ 220.0
Developed technology	34.0	9.1	—	0.3	24.6
Trade names	21.8	0.8	20.7	0.3	—
Non-compete agreements	2.9	1.9	—	—	1.0
Patents	1.5	0.4	—	—	1.1
Total	\$336.5	\$ 66.9	\$ 20.7	\$ 2.2	\$ 246.7
Unamortized Intangible Assets (Advanced Materials & Structures)					
Trade names	\$20.0	\$ —	\$ 0.1	\$ —	\$ 19.9

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	December 31, 2018				
	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairments	Accumulated Foreign Exchange	Net Carrying Amount
<b>Amortized Intangible Assets</b>					
<b>Advanced Materials &amp; Structures</b>					
Customer relationships	\$276.3	\$ 50.4	\$ —	\$ 0.7	\$ 225.2
Developed technology	34.0	8.5	—	0.2	25.3
Trade names	21.8	0.8	20.7	0.3	—
Non-compete agreements	2.9	1.7	—	—	1.2
Patents	1.5	0.4	—	—	1.1
Total	\$336.5	\$ 61.8	\$ 20.7	\$ 1.2	\$ 252.8

**Unamortized Intangible Assets (Advanced Materials & Structures)**

Trade names	\$20.0	\$ —	\$ 0.1	\$ (0.1 )	\$ 20.0
-------------	--------	------	--------	-----------	---------

Amortization expense of intangible assets was \$5.1 million and \$5.2 million for the three months ended March 31, 2019 and 2018, respectively. Finite-lived intangibles in the AMS segment are expensed using the straight-line amortization method. The estimated average aggregate amortization expense is \$20.1 million in each of the next five years.

**Note 10. Restructuring and Impairment Activities**

The Company incurred Restructuring and impairment expense of \$0.0 million and \$0.4 million in the three months ended March 31, 2019 and 2018, respectively.

In the AMS segment, Restructuring and impairment expense was \$0.0 million and \$0.4 million for the three months ended March 31, 2019 and 2018, respectively. In the three months ended March 31, 2018, Restructuring and impairment expense consisted of severance accruals for employees at our U.S. manufacturing operations.

Restructuring liabilities were classified within Accrued expenses in each of the condensed consolidated balance sheets as of March 31, 2019 and December 31, 2018. Changes in the restructuring liabilities, substantially all of which are employee-related, during the periods ended March 31, 2019 and December 31, 2018 are summarized as follows (\$ in millions):

	Three Months Ended		Year Ended	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Balance at beginning of year	\$ 1.4	\$ 1.7		
Accruals for announced programs	—	1.3		
Cash payments	(0.6 )	(3.3 )		
Other	—	1.8		
Exchange rate impacts	—	(0.1 )		
Balance at end of period	\$ 0.8	\$ 1.4		

Long-lived assets to be sold are classified as held for sale in the period in which all of the following criteria are met: management, having the authority to approve the action, commits to a plan to sell the assets; the assets are available for immediate sale in present condition subject only to terms that are usual and customary for sales of such assets; an active program to locate a buyer and other actions required to complete the plan to sell the assets have been initiated; the sale of the assets is probable, and transfer of the assets is expected to qualify for recognition as a completed sale within one year, except if events or circumstances beyond our control extend the period of time required to sell the assets beyond one year; the assets are being actively marketed for sale at a price that is reasonable in relation to current

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

fair value; and actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

A long-lived asset that is classified as held for sale is initially measured at the lower of its carrying value or fair value less any costs to sell. Any loss resulting from this measurement is recognized in the period in which the held for sale criteria are met. Conversely, gains are not recognized on the sale of a long-lived asset until the date of sale. The fair value of a long-lived asset less any costs to sell is assessed each reporting period it remains classified as held for sale and any reduction in fair value is reported as an adjustment to the carrying value of the asset. Upon being classified as held for sale, depreciation is ceased. Long-lived assets to be disposed of other than by sale continue to be depreciated. Upon determining that a long-lived asset meets the criteria to be classified as held for sale, the assets and liabilities of the disposal group, if material, are reported in the line item Assets held for sale in our condensed consolidated balance sheets.

In early 2015, the Company made the decision to dispose of the Company's mothballed RTL facility and related equipment in the Philippines. These assets are included in the EP segment. During 2015, the Company reclassified the balance of the equipment, along with the land and building associated with the property, at this location from Property, plant and equipment, net, to Assets held for sale on the consolidated balance sheets. The reclassifications were made for all assets that are expected to be sold within one year of the balance sheet date and, as of March 31, 2019, all of the physical assets of this entity are classified as Assets held for sale. The Company incurred no impairment charges related to these assets during the three months ended March 31, 2019 or 2018.

Note 11. Debt

The components of total debt are summarized in the following table (\$ in millions):

	March 31, December 31,	
	2019	2018
Revolving credit facility - U.S. dollar borrowings	\$ 76.0	\$ 76.0
Term loan facility	199.0	199.5
6.875% senior unsecured notes due October 1, 2026, net of discount of \$7.5 million and \$7.6 million at March 31, 2019 and December 31, 2018, respectively	342.5	342.4
French employee profit sharing	6.5	6.6
Finance lease and capital lease obligations, respectively	3.2	4.7
Other	—	0.1
Debt issuance costs	(6.9 )	(7.2 )
Total debt	620.3	622.1
Less: Current debt	(3.1 )	(3.3 )
Long-term debt	\$ 617.2	\$ 618.8

Credit Facility

On September 25, 2018, the Company entered into a \$700.0 million credit agreement (the "New Credit Agreement"), which replaces the Company's existing senior secured credit facilities and provides for a five-year \$500.0 million revolving line of credit (the "Revolving Credit Facility") and a seven-year \$200.0 million bank term loan facility (the "Term Loan Facility"). Subject to certain conditions, including the absence of a default or event of default under the New Credit Agreement, the Company may request incremental loans to be extended under the Revolving Credit Facility or the Term Loan Facility so long as the Company is in pro forma compliance with the financial covenants set

forth in the New Credit Agreement and the aggregate of such increases does not exceed \$400.0 million.

Borrowings under the Revolving Credit Facility will initially bear interest, at the Company's option, at either (i) 1.75% in excess of a reserve adjusted London Interbank Offered Rate ("LIBOR") or (ii) 0.75% in excess of an alternative base rate. Borrowings under the Term Loan Facility will initially bear interest, at the Company's option, at either (i)



SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2.00% in excess of a reserve adjusted LIBOR rate or (ii) 1.00% in excess of an alternative base rate. The Term Loan amortizes at the rate of 1.0% per year and will mature on September 25, 2025.

Under the terms of the New Credit Agreement, the Company will be required to maintain certain financial ratios and comply with certain financial covenants, including maintaining a net debt to EBITDA ratio, as defined in the New Credit Agreement, calculated on a trailing four fiscal quarter basis, not greater than 4.50 and an interest coverage ratio, also as defined in the New Credit Agreement, of not less than 3.00. In addition, borrowings and loans made under the New Credit Agreement are secured by substantially all of the Company's and the guarantors' personal property, excluding certain customary items of collateral, and will be guaranteed by the Company's existing and future wholly-owned material domestic subsidiaries and by SWM Luxembourg. The Company was in compliance with all of its covenants under the New Credit Agreement at March 31, 2019.

Indenture for 6.875% Senior Unsecured Notes Due 2026

On September 25, 2018, the Company closed a private offering of \$350.0 million of 6.875% senior unsecured notes due 2026 (the "Notes"). The Notes were sold in a private placement in reliance on Rule 144A and Regulation S under the Securities Act of 1933, as amended, pursuant to a purchase agreement between the Company, certain subsidiaries of the Company and J.P. Morgan Securities LLC, as representative of the initial purchasers. The Notes are guaranteed on a senior unsecured basis by each of the Company's existing and future wholly-owned subsidiaries that is a borrower under or that guarantees obligations under the New Credit Agreement (as defined below) or that guarantees certain other indebtedness, subject to certain exceptions.

The Notes were issued pursuant to an Indenture (the "Indenture"), dated as of September 25, 2018, by and among the Company, the guarantors listed therein and Wilmington Trust, National Association, as trustee. The Indenture provides that interest on the Notes will accrue from September 25, 2018 and is payable semi-annually in arrears on April 1 and October 1 of each year, beginning on April 1, 2019, and the Notes mature on October 1, 2026.

The Company may redeem some or all of the Notes at any time on or after October 1, 2021, at the redemption prices set forth in the Indenture, together with accrued and unpaid interest, if any, to, but excluding, the redemption date. Prior to October 1, 2021, the Company may redeem some or all of the Notes at a price equal to 100% of the principal amount thereof, plus a "make-whole" premium as set forth in the Indenture. The Company may redeem up to 35% of the original aggregate principal amount of the Notes on or prior to October 1, 2021 with the proceeds of certain equity offerings at a redemption price equal to 106.875% of the principal amount of the Notes. If the Company sells certain assets or consummates certain change of control transactions, the Company will be required to make an offer to repurchase the Notes, subject to certain conditions.

The Indenture contains certain covenants that, among other things, limit the Company's ability and the ability of its restricted subsidiaries to incur additional indebtedness, make certain dividends, repurchase Company stock or make other distributions, make certain investments, create liens, transfer or sell assets, merge or consolidate and enter into transactions with the Company's affiliates. Such covenants are subject to a number of exceptions and qualifications set forth in the Indenture. The Indenture also contains certain customary events of default, including failure to make payments in respect of the principal amount of the Notes, failure to make payments of interest on the Notes when due and payable, failure to comply with certain covenants and agreements and certain events of bankruptcy or insolvency. The Company was in compliance with all of its covenants under the Indenture at March 31, 2019.

As of March 31, 2019, the average interest rate was 4.00% on outstanding US Revolving Credit Facility borrowings and 4.25% on outstanding Term Loan Facility borrowings. The effective rate on the 6.875% senior unsecured notes

due 2026 was 7.248%. The weighted average effective interest rate on the Company's debt facilities, including the impact of interest rate hedges, was approximately 4.42% and 3.44% for the three months ended March 31, 2019 and 2018, respectively.

As of March 31, 2019 and December 31, 2018, the Company's total deferred debt issuance costs, net of accumulated amortization, were \$6.9 million and \$7.2 million, respectively. Amortization expense of \$0.3 million and \$0.5 million was recorded during the three months ended March 31, 2019 and 2018, respectively, and has been included as a component of Interest expense in the accompanying consolidated statements of income.

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Principal Repayments

Under the New Credit Agreement, the Company selects an "interest period" for each of its borrowings from the Revolving Credit Facility. The Company can repay such borrowings and borrow again at a subsequent date if it chooses to do so, providing it flexibility and efficient use of any excess cash. The Company currently has the intent and ability to allow its debt balances to remain outstanding and expects to continue to file notices of continuation related to its borrowings outstanding at March 31, 2019 such that those amounts are not expected to be repaid prior to the September 2023 expiration of the Revolving Credit Facility. Following are the expected maturities for the Company's debt obligations as of March 31, 2019 (\$ in millions):

2019	\$4.1
2020	3.2
2021	3.8
2022	3.7
2023	78.9
Thereafter	541.0
Total	\$634.7

### Fair Value of Debt

At March 31, 2019 and December 31, 2018, the fair market value of the Company's 6.875% senior unsecured notes was \$354.4 million and \$331.6 million, respectively. The fair market value for the senior unsecured notes was determined using quoted market prices, which are directly observable Level 1 inputs. The fair market value of all other debt as of March 31, 2019 and December 31, 2018 approximated the respective carrying amounts as the interest rates are variable and based on current market indices.

### Note 12. Derivatives

In the normal course of business, the Company is exposed to foreign currency exchange rate risk and interest rate risk on its variable-rate debt. To manage these risks, the Company utilizes a variety of practices including, where considered appropriate, derivative instruments. The Company has no derivative instruments for trading or speculative purposes or derivatives with credit risk-related contingent features. All derivative instruments used by the Company are either exchange traded or are entered into with major financial institutions in order to reduce credit risk and risk of nonperformance by third parties. The fair values of the Company's derivative instruments are determined using observable inputs and are considered Level 2 assets or liabilities.

The Company utilizes currency forward, swap and, to a lesser extent, option contracts to selectively hedge its exposure to foreign currency risk when it is practical and economical to do so. The use of these contracts minimizes transactional exposure to exchange rate changes. We designate certain of our foreign currency hedges as cash flow hedges. Changes in the fair value of cash flow hedges are reported as a component of other comprehensive income (loss) and reclassified into earnings when the forecasted transaction affects earnings. For foreign exchange contracts not designated as cash flow hedges, changes in the contracts' fair values are recorded to net income each period.

The Company selectively hedges its exposure to interest rate increases on variable-rate, long-term debt when it is practical and economical to do so. Changes in the fair value of interest rate contracts considered cash flow hedges are

reported as a component of other comprehensive income (loss) and reclassified into earnings when the forecasted transaction affects earnings.

On January 20, 2017, the Company entered into an interest rate swap transaction with JPMorgan Chase Bank, N.A. for a three-year term on a notional amount of \$315 million. The interest rate swap is intended to manage the Company's interest rate risk by fixing the interest rate on a portion of the Company's debt currently outstanding under its credit

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

facility that was previously subject to a floating interest rate equal to 1-month LIBOR plus a credit spread. The swap provides for the Company to pay a fixed rate of 1.65% per annum in addition to the credit spread on such portion of its outstanding debt in exchange for receiving a variable interest rate based on 1-month LIBOR. On September 25, 2018, in conjunction with the debt refinancing discussed in Note 11. Debt, the Company settled a notional amount of \$130 million which resulted in a gain of \$1.8 million as of the settlement date. This gain will be amortized on a ratable basis from Accumulated other comprehensive income into income as interest expense over the remaining term of the interest rate swap.

On January 20, 2017, the Company also entered into a three-year cross-currency swap with JPMorgan Chase Bank, N.A. designated as a hedge of a portion of the Company's net investment in certain Euro-denominated subsidiaries. The terms of the cross-currency swap provide for an exchange of principal on a notional amount of \$100 million swapped to €93.7 million at maturity. The Company will receive from our swap counterparty U.S. dollar interest at a fixed rate of 1.65% per annum and pay to our swap counterparty Euro interest at a fixed rate of -0.18% per annum.

On October 24, 2018, the Company also entered into a three-year cross-currency swap with a major financial institution designated as a hedge of a portion of the Company's net investment in certain Euro-denominated subsidiaries. The terms of the cross-currency swap provide for an exchange of principal on a notional amount of \$75 million swapped to €65.4 million at maturity. The Company will receive from our swap counterparty U.S. dollar interest at a fixed rate of 6.875% per annum and pay to our swap counterparty Euro interest at a fixed rate of 3.6725% per annum.

On January 29, 2019, the Company entered into a cross-currency swap with a major financial institution designated as a hedge of a portion of the Company's net investment in certain Euro-denominated subsidiaries. The terms of the cross-currency swap provide for an exchange of principal on a notional amount of \$75 million swapped to €66.0 million at maturity. The Company will receive from our swap counterparty U.S. dollar interest at a fixed rate of 6.875% per annum and pay to our swap counterparty Euro interest at a fixed rate of 4.0525% per annum. The cross-currency swap will mature on October 1, 2021.

The following table presents the fair value of asset and liability derivatives and the respective balance sheet locations at March 31, 2019 (\$ in millions):

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedges:				
Foreign exchange contracts	Accounts receivable, net	\$ 1.6	Accrued expenses	\$ 1.1
Foreign exchange contracts	Other assets	4.7	Other liabilities	6.0
Interest rate contracts	Other assets	1.2	Other liabilities	—
Total derivatives designated as hedges		7.5		7.1
Derivatives not designated as hedges:				
Foreign exchange contracts	Accounts receivable, net	—	Accrued expenses	0.1
Total derivatives not designated as hedges		—		0.1
Total derivatives		\$ 7.5		\$ 7.2



SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the fair value of asset and liability derivatives and the respective balance sheet locations at December 31, 2018 (\$ in millions):

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedges:				
Foreign exchange contracts	Accounts receivable, net	\$ 2.0	Accrued expenses	\$ 1.3
Foreign exchange contracts	Other assets	1.0	Other liabilities	8.8
Interest rate contracts	Other assets	1.8	Other liabilities	—
Total derivatives designated as hedges		4.8		10.1
Derivatives not designated as hedges:				
Foreign exchange contracts	Accounts receivable, net	0.1	Accounts payable	—
Total derivatives not designated as hedges		0.1		—
Total derivatives		\$ 4.9		\$ 10.1

The following table provides the gross effect that derivative instruments in cash flow hedging relationships had on accumulated other comprehensive income (loss), or AOCI, and results of operations (\$ in millions):

Derivatives Designated as Cash Flow Hedging Relationships	Unrealized Gain (Loss) Recognized in AOCI on Derivatives, Net of Tax		Location of Gain (Loss) Reclassified from AOCI	Gain (Loss) Reclassified from AOCI	
	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018		Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Foreign exchange contracts	\$0.1	\$0.4	Net sales	\$(0.2)	\$0.6
Foreign exchange contracts	(0.3 )	(0.1 )	Other income, net	(0.4 )	(0.2 )
Interest rate contracts	0.6	2.2	Interest expense	1.5	0.4
Total	\$0.4	\$2.5		\$0.9	\$0.8

The Company's designated derivative instruments are highly effective. As such, related to the hedge ineffectiveness or amounts excluded from hedge effectiveness testing, there were no gains or losses recognized immediately in income for the three months ended March 31, 2019 or 2018, other than those related to the cross-currency swap, noted below.

In January 2018, the Company early adopted the guidance in ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." Upon adoption of this standard, the Company elected to de-designate the original hedging relationship of its pay-EUR, receive-USD cross currency swap and re-designate the cross currency swap with the terms based on the spot rate of the EUR. Prospectively, future changes in the components related to the spot change on the notional will be recorded in OCI and remain there until the hedged subsidiaries are substantially liquidated. Starting with the adoption date, all coupon payments will be recorded in earnings and the initial value of excluded components currently recorded in AOCI as an unrealized translation adjustment will be amortized into interest expense over the remaining 25 months of the swap, resulting in a positive

impact to Net income. As of March 31, 2019, the loss, net of taxes, recognized in Other comprehensive income on the cross currency swap derivative was \$0.6 million. For the three months ended March 31, 2019, \$0.2 million was reclassified from Accumulated other comprehensive income into income as interest expense and \$0.5 million was recognized in income as derivative amounts excluded from effectiveness testing as Interest expense.



SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table provides the effect that derivative instruments not designated as cash flow hedging instruments had on net income (\$ in millions):

Derivatives Not Designated as Cash Flow Hedging Instruments	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income Three Months Ended March 31, 2019	March 31, 2018
Foreign exchange contracts	Other income, net	\$(0.1)	\$ 0.5

Note 13. Commitments and Contingencies

Litigation

Brazil

Imposto sobre Circulação de Mercadorias e Serviços ("ICMS") a form of value-added tax in Brazil, was assessed to our Brazilian subsidiary, Schweitzer-Mauduit do Brasil Indústria e Comércio de Papel Ltda. ("SWM-B"), in December of 2000. SWM-B received two assessments from the tax authorities of the State of Rio de Janeiro (the "State") for unpaid ICMS taxes on certain raw materials from January 1995 through November 2000 (collectively, the "Raw Materials Assessments").

The Raw Materials Assessments concerned the accrual and use by SWM-B of ICMS tax credits generated from the production and sale of certain non-tobacco related grades of paper sold domestically. SWM-B has contested the Raw Materials Assessments based on Article 150, VI of the Brazilian Federal Constitution of 1988, which grants immunity from ICMS taxes to papers intended for printing books, newspapers and periodicals, or immune papers, and thus to the raw material inputs used to produce immune papers. The Federal Supreme Court decided the first Raw Materials Assessment in favor of SWM-B. SWM-B's appeal on the merits concerning Assessment 2 in the amount of approximately \$11.1 million was denied by a single justice in a different chamber of the Federal Supreme Court of Brazil on April 9, 2018, and SWM-B appealed his decision to the full chamber of the Federal Supreme Court on May 11, 2018.

SWM-B received assessments from the tax authorities of the State for unpaid ICMS and Fundo Estadual de Combate à Pobreza ("FECP", a value-added tax similar to ICMS) taxes on interstate purchases of electricity. The State issued four sets of assessments against SWM-B, one for May 2006 - November 2007, a second for January 2008 - December 2010, a third for September 2011 - September 2013, which was replaced by a smaller assessment for January - June 2013, and a fourth for July 2013 - December 2017 (collectively the "Electricity Assessments"). SWM-B challenged all Electricity Assessments in administrative proceedings before the State tax council (in the first-level court Junta de Revisão Fiscal and the appellate court (the "Conselho de Contribuintes")) based on Resolution 1.610/89, which defers these taxes on electricity purchased by an "electricity-intensive consumer." In 2014, a majority of the Conselho de Contribuintes sitting en banc ruled against SWM-B in each of the first and second electricity assessments (\$4.6 million and \$8.4 million, respectively, based on the foreign currency exchange rate at March 31, 2019), and SWM-B is now pursuing challenges to these assessments in the State judicial system. Different chambers of the judicial court granted SWM-B preliminary injunctions against enforcement of these two assessments in the State judicial system.

The Conselho de Contribuintes unanimously upheld SWMB's challenge to the third Electricity Assessment and dismissed this Electricity Assessment on technical grounds after the State admitted the tax did not apply as it had asserted. Instead, in August 2018, the State filed a revised Electricity Assessment in the amount of \$0.7 million for ICMS on electricity purchased during part of 2013. In August 2018, the State filed a fourth Electricity Assessment in the amount of \$9.7 million pertaining to ICMS and FECP on electricity purchased from July 2013 to December 2017. SWM-B filed challenges to these recent assessments in the first-level administrative court on the same grounds as the older cases. On December 19, 2018, the Junta de Revisão Fiscal ruled against SWM-B in the last two Electricity Assessments. SWM-B has appealed these rulings to the Conselho de Contribuintes. The State issued a new regulation effective January 1, 2018 that only specific industries are “electricity-intensive consumers,” a list that excludes paper

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

manufacturers. SWM-B contends this regulation shows that paper manufacturers were electricity-intensive consumers eligible to defer ICMS before 2018.

SWM-B believes that both the remaining Raw Materials Assessment and the Electricity Assessments will ultimately be resolved in its favor. No liability has been recorded in our consolidated financial statements for these assessments based on our evaluation of these matters under the facts and law as presently understood. The Company can give no assurance as to the ultimate outcome of such proceedings.

#### France

In December 2016, the Conseil de Prud'hommes d'Orange (a French court dealing with labor matters) rendered a decision by which the Company's wholly owned subsidiary, Schweitzer Mauduit France ("SWM France"), was ordered to pay approximately €1.3 million to 18 former employees of Malaucène Industries, another wholly owned subsidiary, on the grounds, among other things, that SWM France was a "co-employer" of the plaintiffs, and, as a result, liable for certain obligations of Malaucène Industries with respect to such employees. Malaucène Industries stopped production in 2009. The Company believes that SWM France, which is a corporate holding company and indirect corporate parent of Malaucène Industries, is not a "co-employer" of any person and that the other claims are also without merit. The Company has no liability recorded in the consolidated financial statements for this matter, believing that the chances of SWM France to reverse the decision on appeal are sufficient that no such reserve is warranted. There can be no assurance, however, that the court of appeals will decide in favor of SWM France on any of the questions pending before the court.

#### Environmental Matters

The Company's operations are subject to various nations' federal, state and local laws, regulations and ordinances relating to environmental matters. The nature of the Company's operations exposes it to the risk of claims with respect to various environmental matters, and there can be no assurance that material costs or liabilities will not be incurred in connection with such claims. While the Company has incurred in the past several years, and will continue to incur, capital and operating expenditures in order to comply with environmental laws and regulations, it believes that its future cost of compliance with environmental laws, regulations and ordinances, and its exposure to liability for environmental claims and its obligation to participate in the remediation and monitoring of certain hazardous waste disposal sites, will not have a material effect on its financial condition, results of operations or cash flows. However, future events, such as changes in existing laws and regulations (including the enforcement thereof), or unknown contamination of sites owned, operated or used for waste disposal by the Company (including contamination caused by prior owners and operators of such sites or other waste generators), or similar circumstances arising at our unconsolidated joint ventures, may give rise to additional costs which could have a material effect on the Company's financial condition or results of operations.

#### General Matters

In the ordinary course of its business activities, the Company and its subsidiaries are involved in certain other judicial, administrative and regulatory proceedings involving both private parties and governmental authorities. These proceedings include insured and uninsured regulatory, employment, general and commercial liability, environmental, intellectual property rights and other matters. At this time, the Company does not expect any of these proceedings to have a material adverse effect on its reputation, business, financial condition, results of operations or cash flows. However, as the outcomes of such proceedings are unpredictable, the Company can give no assurance that the results of any such proceedings will not materially affect its reputation, business, financial condition, results of operations or

cash flows.

25

---

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14. Postretirement and Other Benefits

The Company sponsors pension benefits in the United States, France and Canada and OPEB benefits related to postretirement healthcare and life insurance in the United States and Canada. The Company's Canadian pension and OPEB benefits are not material and therefore are not included in the following disclosures.

Pension and OPEB Benefits

The components of net pension and OPEB benefit costs for U.S. employees and net pension benefit costs for French employees during the three months ended March 31, 2019 and 2018 were as follows (\$ in millions):

	Three Months Ended March 31,					
	U.S. Pension Benefits		French Pension Benefits		U.S. OPEB Benefits	
	2019	2018	2019	2018	2019	2018
Service cost	\$—	\$—	\$0.2	\$0.3	\$—	\$—
Interest cost	1.2	1.1	0.1	0.1	—	—
Expected return on plan assets	(1.5)	(1.5)	—	—	—	—
Amortizations and other	0.5	0.9	0.2	0.2	—	0.1
Net periodic benefit cost	\$0.2	\$0.5	\$0.5	\$0.6	\$—	\$0.1

The components of net periodic benefit cost other than the service cost component are included in Other income (expense), net in the Condensed Consolidated Statements of Income. During the fiscal year ending December 31, 2019, the Company expects to recognize approximately \$1.9 million for amortization of accumulated other comprehensive loss related to its U.S. pension and OPEB plans and approximately \$0.8 million for its French pension plans.

Note 15. Income Taxes

For interim financial reporting, the Company estimates the annual tax rate based on projected taxable income for the full year and records a quarterly income tax provision in accordance with ASC No. 740-270 "Accounting for Income Taxes in Interim Periods." These interim estimates are subject to variation due to several factors, including the ability of the Company to accurately forecast pre-tax and taxable income and loss by jurisdiction, changes in laws or regulations, and expenses or losses for which tax benefits are not recognized. Jurisdictions with a projected loss for the year or an actual year-to-date loss where no tax benefit can be recognized are excluded from the estimated annual effective tax rate. The impact of including these jurisdictions on the quarterly effective tax rate calculations could result in a higher or lower effective tax rate during a particular quarter, based upon the mix and timing of actual earnings versus annual projections.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 ("Tax Act") was enacted into law effective January 1, 2018. The new legislation contains several key tax provisions that affected the Company, which include but are not limited to a one-time deemed repatriation tax on post-1986 accumulated earnings and profits of the undistributed earnings of foreign subsidiaries ("transition tax"), a reduction of the federal corporate income tax rate from 35% to 21%, and other U.S. reform items. Due to the timing and significance of the Tax Act, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118"), which provided a measurement period of up to one year through December 31, 2018 to report the

impact of the new US tax law. In 2018, the Company decreased its provisional estimates of transition tax, related currency implications, state taxes and deferred tax rate change effect of the new law by \$13.9 million. The reduction from the provisional 2017 amounts were primarily due to further transition tax analysis of accumulated earnings and foreign taxes paid. As of December 31, 2018, the Company had completed its accounting for the tax effects of the Tax Act.

Prior to the passage of the Tax Act, the Company asserted that substantially all of the undistributed earnings of its foreign subsidiaries were considered indefinitely reinvested and accordingly, no deferred taxes were provided. Due to the Tax Act, the Company has significant previously taxed income from its foreign subsidiaries, as a result of transition

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

tax, that is generally able to be repatriated free of U. S. federal tax. In addition, future earnings of foreign subsidiaries are generally expected to be able to be repatriated free of U.S. federal income tax because these earnings were taxed in the U.S. under the GILTI regime or would be eligible for a dividends received deduction. Therefore, the Company does not intend to assert indefinite reinvestment on future cash earnings. While the Company will have to provide for withholding taxes and U.S. state taxes on the future earnings, these amounts are not expected to be significant.

All unrecognized tax positions could impact the Company's effective tax rate if recognized. With respect to penalties and interest incurred from income tax assessments or related to unrecognized tax benefits, the Company's policy is to classify penalties as provision for income taxes and interest as interest expense in its consolidated statement of income. There were no material income tax penalties or interest accrued during the three months ended March 31, 2019 or 2018.

The Company's effective tax rate from continuing operations was 20.0% and 25.6% for the three months ended March 31, 2019 and 2018, respectively. The decrease was materially due to favorable mix of earnings by jurisdiction and favorable discrete items in the current year, offset by a decrease in US foreign tax credits.

SCHWEITZER-MAUDUIT INTERNATIONAL, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Segment Information

The Company's two operating product line segments are also the Company's reportable segments: Advanced Materials & Structures and Engineered Papers. The AMS segment primarily produces engineered resin-based rolled goods such as nets, films and other non-wovens for use in high-performance applications in the filtration, infrastructure and construction, transportation, medical and industrial end-markets. It consists of the operations of various acquisitions. The EP segment primarily produces various cigarette papers and recon for sale to cigarette manufacturers. The EP segment also includes non-tobacco paper for battery separators, printing and writing, drinking straw wrap and furniture laminates.

Information about Net Sales and Operating Profit

The accounting policies of these segments are the same as those described in Note 2. Summary of Significant Accounting Policies in the notes to the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2018. The Company primarily evaluates segment performance and allocates resources based on operating profit. Expense amounts not associated with segments are referred to as unallocated expenses.

(\$ in millions)	Net Sales			
	Three Months Ended			
	March 31, 2019		March 31, 2018	
Advanced Materials & Structures	\$120.5	46.7 %	\$115.3	44.0 %
Engineered Papers	137.5	53.3	146.6	56.0
Total Consolidated	\$258.0	100.0%	\$261.9	100.0%

(\$ in millions)	Operating Profit			
	Three Months Ended			
	March 31, 2019		March 31, 2018	
Advanced Materials & Structures	\$14.9	49.0 %	\$10.6	30.3 %
Engineered Papers	28.7	94.4	33.9	96.9
Unallocated	(13.2 )	(43.4 )	(9.5 )	(27.2 )
Total Consolidated	\$30.4	100.0 %	\$35.0	100.0 %

(\$ in millions)	Segment Assets	
	March 31, December 31,	
	2019	2018
Advanced Materials & Structures	\$807.1	\$ 796.1
Engineered Papers	527.5	527.4
Unallocated	151.1	143.0
Total Consolidated	\$1,485.7	\$ 1,466.5



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is a discussion of our financial condition and results of operations. This discussion should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included elsewhere in this report and the audited consolidated financial statements and related notes and the selected financial data included in our Annual Report on Form 10-K for the year ended December 31, 2018. The discussion of our financial condition and results of operations includes various forward-looking statements about our markets, the demand for our products, our future prospects and other matters. These statements are based on certain assumptions and estimates that we consider reasonable. For information about risks and exposures relating to us and our business, you should read the section entitled "Risk Factors" in Part 1, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018 and the sections entitled "Forward-Looking Statements" at the end of this Item 2 and "Risk Factors" in Part II, Item 1A of this report. Unless the context indicates otherwise, references to "SWM", "we", "us", "our", the "Company" or similar terms include Schweitzer-Mauduit International, Inc. and our consolidated subsidiaries.

This Management's Discussion and Analysis of Financial Condition and Results of Operations is designed to provide a reader of our financial statements with an understanding of our recent performance, our financial condition and our prospects.

## SUMMARY

(\$ in millions, except per share amounts)	Three Months Ended			
	March 31,		Percent of Net Sales	
	2019	2018	2019	2018
Net sales	\$258.0	\$261.9	100.0%	100.0 %
Gross profit	67.9	72.0	26.3	27.5
Restructuring & impairment expense	—	0.4	—	0.2
Operating profit	30.4	35.0	11.8	13.4
Interest expense	7.8	6.2	3.0	2.4
Income from continuing operations	17.4	20.9	6.7	8.0
Income (loss) from discontinued operations	—	(0.4 )	—	(0.2 )
Net income	\$17.4	\$20.5	6.7 %	7.8 %
Diluted earnings per share from continuing operations	\$0.56	\$0.68		
Diluted earnings per share	\$0.56	\$0.67		
Cash provided by operations	\$13.0	\$22.0		
Capital spending	\$7.3	\$6.0		

## RESULTS OF OPERATIONS

Three Months Ended March 31, 2019 Compared with the Three Months Ended March 31, 2018

Net Sales  
(\$ in millions)

	Three Months Ended		Change	Percent Change
	March 31, 2019	March 31, 2018		
Advanced Materials & Structures	\$ 120.5	\$ 115.3	\$ 5.2	4.5 %
Engineered Papers	137.5	146.6	(9.1 )	(6.2 )
Total	\$258.0	\$ 261.9	\$ (3.9 )	(1.5 )%

Net sales were \$258.0 million in the three months ended March 31, 2019 compared with \$261.9 million in the prior-year period. The decrease in net sales consisted of the following (\$ in millions):

	Amount	Percent
Changes in volume, product mix and selling prices	\$ 3.0	1.1 %
Changes due to net foreign currency impacts	(7.2 )	(2.7 )
Changes due to royalties	0.3	0.1
Total	\$ (3.9 )	(1.5 )%

AMS segment net sales were \$120.5 million for the three months ended March 31, 2019 compared to \$115.3 million during the prior-year period. The increase of \$5.2 million or 4.5% was primarily due to strong growth in transportation and filtration, as well as increases in medical products.

EP segment net sales during the three months ended March 31, 2019 of \$137.5 million decreased by \$9.1 million, or 6.2%, versus net sales of \$146.6 million in the prior-year quarter. Compared to the prior-year period, the decrease in net sales was primarily the result of lower sales volume and the negative impact of unfavorable foreign currency movements, partially offset by the combined improvement in average selling prices and mix of products sold.

Gross Profit  
(\$ in millions)

	Three Months Ended		Change	Percent Change	Percent of Net Sales	
	March 31, 2019	March 31, 2018			2019	2018
Net sales	\$258.0	\$ 261.9	\$ (3.9 )	(1.5 )%	100.0 %	100.0 %
Cost of products sold	190.1	189.9	0.2	0.1	73.7	72.5
Gross profit	\$67.9	\$ 72.0	\$ (4.1 )	(5.7 )%	26.3 %	27.5 %

Gross profit decreased by \$4.1 million during the three months ended March 31, 2019 to \$67.9 million versus the prior-year period of \$72.0 million. AMS gross profit increased by \$2.8 million, primarily due to higher sales volume, lower resin input costs, and reduced fixed costs from the closure of one of our manufacturing sites in late 2018. In the EP segment, gross profit decreased by \$6.9 million, primarily due to higher input costs, reduced manufacturing efficiencies as a result of lower volume, and unfavorable currency movements.

Nonmanufacturing Expenses  
(\$ in millions)

	Three Months Ended		Change	Percent Change	Percent of Net Sales	
	March 2019	March 31, 2018			2019	2018
Selling expense	\$8.6	\$ 9.1	\$ (0.5 )	(5.5 )%	3.3 %	3.5 %
Research expense	3.3	4.1	(0.8 )	(19.5)	1.3	1.6
General expense	25.6	23.4	2.2	9.4	9.9	8.9
Nonmanufacturing expenses	\$37.5	\$ 36.6	\$ 0.9	2.5 %	14.5%	14.0%

Nonmanufacturing expenses in the three months ended March 31, 2019 increased by \$0.9 million to \$37.5 million from \$36.6 million in the prior-year period. The increase is primarily the result of higher IT expenses and higher deferred compensation expense, which increased due to stock price volatility during the first quarter of 2019.

Restructuring and Impairment Expense  
(\$ in millions)

	Three Months Ended		Change	Percent Change	Percent of Net Sales	
	March 2019	March 31, 2018			2019	2018
Advanced Materials & Structures	\$ —	\$ 0.4	\$ (0.4 )	(100.0)%	<del>%</del> 0.3%	
Engineered Papers	—	—	—	N/A	—	—
Unallocated expenses	—	—	—	N/A		
Total	\$ —	\$ 0.4	\$ (0.4 )	(100.0)%	<del>%</del> 0.2%	

The Company incurred total restructuring and impairment expense of \$0.0 million and \$0.4 million in the three months ended March 31, 2019 and 2018, respectively. In the 2018 period, the restructuring expense primarily related to \$0.4 million in severance accruals for employees at our AMS manufacturing operations in the U.S.

Operating Profit  
(\$ in millions)

	Three Months Ended			Percent Change	Return on Net Sales	
	March 31, 2019	March 31, 2018	Change		2019	2018
Advanced Materials & Structures	\$14.9	\$ 10.6	\$ 4.3	40.6 %	12.4 %	9.2 %
Engineered Papers	28.7	33.9	(5.2 )	(15.3)	20.9	23.1
Unallocated expenses	(13.2 )	(9.5 )	(3.7 )	(38.9)		
Total	\$30.4	\$ 35.0	\$ (4.6 )	(13.1)%	11.8 %	13.4 %

Operating profit was \$30.4 million in the three months ended March 31, 2019 compared with \$35.0 million during the prior-year period.

The AMS segment's operating profit in the three months ended March 31, 2019 was \$14.9 million compared to \$10.6 million in the prior-year period. The increase of \$4.3 million, or 40.6%, was primarily due to higher sales volume, lower raw materials costs, and reduced fixed costs from the closure of one of our manufacturing sites in late 2018.

The EP segment's operating profit in the three months ended March 31, 2019 was \$28.7 million, a decrease of \$5.2 million, or 15.3%, from \$33.9 million in the prior-year period. The decrease was primarily due to higher input costs, reduced manufacturing efficiencies as a result of lower volume, and unfavorable currency movements.

Unallocated expenses in the three months ended March 31, 2019 were \$13.2 million compared to \$9.5 million in the prior-year period, an increase of \$3.7 million, or 38.9%. The increase is primarily the result of higher deferred compensation expense and higher IT expenses.

#### Non-Operating Expenses

Interest expense was \$7.8 million in the three months ended March 31, 2019, an increase from \$6.2 million in the prior-year period. The weighted average effective interest rate on our debt facilities was approximately 4.42% and 3.44% for the three months ended March 31, 2019 and 2018, respectively. As of March 31, 2019 compared to the prior-year period, a higher average interest rate as a result of the bond issuance in the third quarter of 2018 was primarily responsible for the increase.

Other expense, net, was \$0.6 million during the three months ended March 31, 2019. The \$0.3 million increase compared to Other expense, net, of \$0.3 million during the three months ended March 31, 2018 was due primarily to a favorable litigation settlement in Luxembourg in the three months ended March 31, 2018, partially offset by lower losses on net currency effects in the three months ended March 31, 2019.

#### Income Taxes

A \$4.4 million provision for income taxes in the three months ended March 31, 2019 resulted in an effective tax rate of 20.0% compared with 25.6% in the prior-year period. The decrease was primarily due to the favorable mix of earnings by jurisdiction and favorable discrete items in the current year, offset by a decrease in US foreign tax credits.

#### Loss from Equity Affiliates

Loss from equity affiliates, which reflects the results of operations of CTM and CTS, was \$0.2 million in the three months ended March 31, 2019 compared with a loss of \$0.3 million during the prior-year period.



## Discontinued Operations

Because we closed our Philippines paper mill as previously reported, the results of this mill were reported as discontinued operations for all periods presented. Consequently, this mill's results have been removed from each line of the statements of income and the operating activities section of the statements of cash flow. In each case, a separate line has been added for the net results of the discontinued operation. Loss from discontinued operations was \$0.0 million and \$0.4 million for the three months ended March 31, 2019 and 2018, respectively. This loss is the result of the Company's efforts to dispose of the remaining assets and liabilities of the discontinued operation.

## Net Income and Income per Share

Net income in the three months ended March 31, 2019 was \$17.4 million, or \$0.56 per diluted share, compared with \$20.5 million, or \$0.67 per diluted share, during the prior-year period. The decrease in net income was primarily due to lower sales and higher input costs in the EP segment, higher deferred compensation expenses and higher interest expense, partially offset by sales and operating profit growth in the AMS segment and a lower provision for income taxes.

## LIQUIDITY AND CAPITAL RESOURCES

A major factor in our liquidity and capital resource planning is our generation of cash flow from operations, which is sensitive to changes in the mix of products sold, sales volume and selling prices of our products, as well as changes in our production volumes, costs, foreign currency exchange rates and working capital. Our liquidity is supplemented by funds available under our Amended Credit Agreement with a syndicate of banks that is used as either operating conditions or strategic opportunities warrant.

As of March 31, 2019, \$52.9 million of the Company's \$83.4 million of cash and cash equivalents was held by foreign subsidiaries. We believe that our sources of liquidity and capital, including cash on-hand, cash generated from operations and our existing credit facilities, will be sufficient to finance our continued operations and growth strategy.

## Cash Requirements

As of March 31, 2019, we had net operating working capital of \$210.4 million and cash and cash equivalents of \$83.4 million, compared with net operating working capital of \$195.2 million and cash and cash equivalents of \$93.8 million as of December 31, 2018. These changes primarily reflect the impacts of changes in currency exchange rates, net repayments of debt and changes in operating working capital presented on the unaudited condensed consolidated statements of cash flow contained in this report.

Cash Flows from Operating Activities (\$ in millions)	Three Months Ended	
	March 31, 2019	March 31, 2018
Net income	\$17.4	\$ 20.5
Less: Loss from discontinued operations	—	(0.4 )
Income from continuing operations	17.4	20.9
Non-cash items included in net income:		
Depreciation and amortization	14.4	15.6
Deferred income tax provision	(0.5 )	0.8
Pension and other postretirement benefits	0.7	1.0
Stock-based compensation	0.9	1.5
Loss (income) from equity affiliates	0.2	0.3
Other items	1.9	0.3
Net changes in operating working capital	(22.0 )	(18.4 )
Net cash provided by (used in) operating activities of:		
Continuing operations	13.0	22.0
Discontinued operations	—	—
Net cash provided by operations	\$13.0	\$ 22.0

Net cash provided by operations was \$13.0 million in the three months ended March 31, 2019 compared with \$22.0 million in the prior-year period. Net cash provided by operations decreased primarily due to a \$3.5 million year-over-year decrease in net income from continuing operations and a \$3.6 million unfavorable year-over-year impact of net changes in operating working capital.

Operating Working Capital (\$ in millions)	Three Months Ended	
	March 31, 2019	March 31, 2018
Changes in operating working capital		
Accounts receivable	\$(12.5)	\$(13.1 )
Inventories	(4.0 )	1.7
Prepaid expenses	(2.7 )	(2.7 )
Accounts payable	7.5	2.1
Accrued expenses	(11.7 )	(9.6 )
Accrued income taxes	1.4	3.2
Net changes in operating working capital	\$(22.0)	\$(18.4 )

In the three months ended March 31, 2019, net changes in operating working capital used cash of \$22.0 million compared to the prior-year period, in which net changes in operating working capital used cash of \$18.4 million. This change in working capital outflows compared to the three months ended March 31, 2018 was primarily driven by reduced cash flows related to higher inventories and accrued expenses, partially offset by increased cash flows related to accounts payable.

Cash Flows from Investing Activities (\$ in millions)	Three Months Ended	
	March 31, 2019	March 31, 2018
Capital spending	\$(7.3)	\$(6.0)
Capitalized software costs	(1.4)	(0.4)
Other	1.1	(0.8)
Cash used for investing	\$(7.6)	\$(7.2)

Cash used for investing activities during the three months ended March 31, 2019 was \$7.6 million, compared to \$7.2 million in the prior-year period, and consisted primarily of capital spending in both periods.

Cash Flows from Financing Activities (\$ in millions)	Three Months Ended	
	March 31, 2019	March 31, 2018
Cash dividends paid to SWM stockholders	\$(13.6)	\$(13.2)
Net repayments of short-term and long-term debt	(0.8)	(11.1)
Purchases of common stock	(0.9)	(2.5)
Cash (used in) provided by financing	\$(15.3)	\$(26.8)

During the three months ended March 31, 2019, financing activities consisted of \$13.6 million in cash paid for dividends declared to SWM stockholders in the first three months of 2019, \$0.8 million in net repayments on short-term and long-term debt and share repurchases of \$0.9 million. In the prior-year period, financing activities consisted of \$13.2 million in cash paid for dividends declared to SWM stockholders in the first three months of 2018, \$11.1 million in net repayments on short-term and long-term debt and share repurchases of \$2.5 million.

The Company presently believes that the sources of liquidity discussed above are sufficient to meet its anticipated funding needs for the foreseeable future.

#### Dividend Payments

We have declared and paid cash dividends on our common stock every fiscal quarter since the second quarter of 1996. On May 1, 2019, we announced a cash dividend of \$0.44 per share payable on June 21, 2019 to stockholders of record as of May 24, 2019. The covenants contained in our Indenture and New Credit Agreement (as defined below) require that we maintain certain financial ratios, as disclosed in Note 11. Debt, of the notes to the unaudited condensed consolidated financial statements, none of which under normal business conditions we would expect to materially limit our ability to pay such dividends. We plan to continue to assess our dividend policy in light of our capital allocation strategy, cash generation, debt levels and ongoing requirements for cash to fund operations and to pursue possible strategic opportunities.

#### Share Repurchases

In the three months ended March 31, 2019, we repurchased and retired 24,372 shares of our common stock at a cost of \$0.9 million for the value of employees' stock-based compensation share awards surrendered to satisfy their personal statutory income tax withholding obligations. See Part II, Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.



In the three months ended March 31, 2018, we repurchased and retired 62,634 shares of our common stock for \$2.5 million for the value of employees' stock-based compensation share awards surrendered to satisfy their personal statutory income tax withholding obligations.

## Debt Instruments and Related Covenants

	Three Months Ended	
(\$ in millions)	March 31, 2019	March 31, 2018
Changes in short-term debt	\$ (0.2)	\$ (1.4)
Payments on long-term debt	(0.6)	(9.7)
Net repayments of borrowings	\$ (0.8)	\$ (11.1)

Net repayments on borrowings were \$0.8 million during the three months ended March 31, 2019.

On September 25, 2018, the Company closed a private offering of \$350.0 million of 6.875% senior unsecured notes due 2026 (the “Notes”). The Notes were sold in a private placement in reliance on Rule 144A and Regulation S under the Securities Act of 1933, as amended, pursuant to a purchase agreement between the Company, certain subsidiaries of the Company and J.P. Morgan Securities LLC, as representative of the initial purchasers. The Notes are guaranteed on a senior unsecured basis by each of the Company’s existing and future wholly-owned subsidiaries that is a borrower under or that guarantees obligations under the New Credit Agreement (as defined below) or that guarantees certain other indebtedness, subject to certain exceptions.

The Notes were issued pursuant to an Indenture (the “Indenture”), dated as of September 25, 2018, by and among the Company, the guarantors listed therein and Wilmington Trust, National Association, as trustee. The Indenture provides that interest on the Notes will accrue from September 25, 2018 and is payable semi-annually in arrears on April 1 and October 1 of each year, beginning on April 1, 2019, and the Notes mature on October 1, 2026.

The Company may redeem some or all of the Notes at any time on or after October 1, 2021, at the redemption prices set forth in the Indenture, together with accrued and unpaid interest, if any, to, but excluding, the redemption date. Prior to October 1, 2021, the Company may redeem some or all of the Notes at a price equal to 100% of the principal amount thereof, plus a “make-whole” premium as set forth in the Indenture. The Company may redeem up to 35% of the original aggregate principal amount of the Notes on or prior to October 1, 2021 with the proceeds of certain equity offerings at a redemption price equal to 106.875% of the principal amount of the Notes. If the Company sells certain assets or consummates certain change of control transactions, the Company will be required to make an offer to repurchase the Notes, subject to certain conditions.

On September 25, 2018, the Company entered into a \$700.0 million credit agreement (the “New Credit Agreement”), which replaces the Company’s existing senior secured credit facilities and provides for a five-year \$500.0 million revolving line of credit (the “Revolving Credit Facility”) and a seven-year \$200.0 million bank term loan facility (the “Term Loan Facility”). Subject to certain conditions, including the absence of a default or event of default under the New Credit Agreement, the Company may request incremental loans to be extended under the Revolving Credit Facility or the Term Loan Facility so long as the Company is in pro forma compliance with the financial covenants set forth in the New Credit Agreement and the aggregate of such increases does not exceed \$400.0 million.

Borrowings under the Revolving Credit Facility will initially bear interest, at the Company’s option, at either (i) 1.75% in excess of a reserve adjusted London Interbank Offered Rate (“LIBOR”) or (ii) 0.75% in excess of an alternative base rate. Borrowings under the Term Loan Facility will initially bear interest, at the Company’s option, at either (i) 2.00% in excess of a reserve adjusted LIBOR rate or (ii) 1.00% in excess of an alternative base rate. The Term Loan amortizes at the rate of 1.0% per year and will mature on September 25, 2025. Unused borrowing capacity under the New Credit Agreement was \$419.6 million as of March 31, 2019. We also had availability under our bank overdraft facilities of \$6.1 million as of March 31, 2019.

The Company was in compliance with all of its covenants under the Indenture and New Credit Agreement at March 31, 2019. With the current level of borrowing and forecasted results, we expect to remain in compliance with our credit agreement financial covenants.

Our total debt to capital ratios, as calculated under the New Credit Agreement, at March 31, 2019 and December 31, 2018 were 52.5% and 52.7%, respectively.

36

---

## Off-Balance Sheet Arrangements

As of March 31, 2019, we did not have any significant off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

## OTHER FACTORS AFFECTING LIQUIDITY AND CAPITAL RESOURCES

Our pension obligations are funded by our separate pension trusts, which held \$115.2 million in assets at December 31, 2018. The combined projected benefit obligation of our U.S. and French pension plans was underfunded by \$26.6 million as of December 31, 2018. We make contributions to our pension trusts based on many factors, including regulatory guidelines, investment returns of the trusts and availability of cash for pension contributions compared to other priorities. The Company is not required to contribute during 2019 to its U.S. and French pension plans although, it may make discretionary contributions dependent on market conditions to remain aligned with its investment policy statement.

The EP segment's PDM Industries plant has a minimum annual commitment of approximately \$1.5 million per year for calcium carbonate purchases, a raw material used in the manufacturing of some paper products, which totals approximately \$9.1 million through 2024. Future purchases are expected to be at levels that exceed such minimum levels under these contracts.

The Company has agreements with an energy co-generation supplier in France whereby the supplier constructed and operates a co-generation facility at certain plants and supplies steam that is used in the operation of these plants. The Company is committed to purchasing minimum annual amounts of steam generated by these facilities under the agreements through 2030. These minimum annual commitments total approximately \$7.5 million. The Company's current and expected requirements for steam at these facilities are at levels that exceed the minimum levels under the contracts.

The EP segment's Brazilian plant, SWM-B, has an agreement for the transmission and distribution of energy that covers all of the plant's consumption of electrical energy valued at approximately \$3.1 million annually through 2020. Additionally, SWM-B has an agreement for natural gas valued at approximately \$7.0 million annually through 2020. The French plants have contracts for natural gas to be distributed to and consumed at PdM, LTRI and St. Girons. The value of the natural gas and distribution to be provided under these contracts is estimated at approximately \$3.1 million annually through 2021. Additionally, the French plants have contracts for electricity to be distributed to and consumed at PdM, LTRI and St. Girons. The value of the electricity and distribution to be provided under these contracts is estimated at approximately \$6.4 million in 2019. The Spay, France plant has a contract to consume biomass at approximately \$1.7 million in 2019.

## FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of Private Securities Litigation Reform Act of 1995 that are subject to the safe harbor created by that Act and other legal protections. Forward-looking statements, include, without limitation, those regarding 2019 outlook and future performance, mergers and acquisitions, future market trends, future RTL sales and volume trends, smoking attrition rates, synergies or growth from acquisitions, incurrence of additional debt, adoption of LIP standards in new regions, reverse osmosis water filtration and global drinking water demands, integration, and growth prospects (including international growth), the deductibility of goodwill associated with the Conwed acquisition, impact of our restructuring actions, post-retirement healthcare and life insurance payments, impact of the LIP intellectual property litigation and opposition proceedings, the amount of capital spending and/or common stock repurchases, the profitability of CTS, pricing pressures (including related to LIP), future cash flows, benefits associated with our global asset realignment (including possible non-recurrence of

one-time tax benefits, lower or higher effective tax rates), purchase accounting impacts, impacts of our ongoing operational excellence and other cost-reduction initiatives, increasing revenues coming from our non-tobacco operations, and other statements generally identified by words such as "believe," "expect," "intend," "plan," "potential," "anticipate," "project," "appear," "should," "could," "may," "will," "typically" and similar words. These statements are not guarantees of future performance and involve certain risks and uncertainties that may cause actual results to differ

37

---

materially from our expectations as of the date of this report. These risks include, among other things, those set forth in Part I, Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2018, as well as the following factors:

Recent changes to U.S. federal income tax law, the overall impact and interpretation of which remain uncertain and could be material, in addition to the extent to which states may conform to the newly enacted federal tax law as well as the impact of the tax reform on holders of our common stock;

Changes in sales or production volumes, pricing and/or manufacturing costs of Recon products, cigarette paper (including for LIP cigarettes), including any change by our customers in their tobacco and tobacco-related blends for their cigarettes, their target inventory levels and/or the overall demand for their products, new technologies such as e-cigarettes, inventory adjustments and rebalancings in our EP segment. Additionally, competition and changes in AMS end-market products due to changing customer demands;

Changes in the Chinese economy, including relating to the demand for reconstituted tobacco, premium cigarettes and netting;

Risks associated with the implementation of our strategic growth initiatives, including diversification, and the Company's understanding of, and entry into, new industries and technologies;

Changes in the source and intensity of competition in our commercial segments. We operate in highly competitive markets in which alternative supplies and technologies may attract our customers away from our products. In addition, our customers may, in some cases, produce for themselves the components that the Company sells to them for incorporation into their products, thus reducing or eliminating their purchases from us;

Our ability to attract and retain key personnel, due to our prior restructuring actions, the tobacco industry in which we operate or otherwise;

Weather conditions, including potential impacts, if any, from climate change, known and unknown, seasonality factors that affect the demand for virgin tobacco leaf and natural disasters or unusual weather events;

Seasonal or cyclical market and industry fluctuations which may result in reduced net sales and operating profits during certain periods;

Increases in commodity prices and lack of availability of such commodities, including energy, wood pulp and resins, could impact the sales and profitability of our products;

Adverse changes in the oil, gas, automotive, construction and infrastructure, and mining sectors impacting key AMS segment customers;

Increases in operating costs due to inflation or otherwise, such as labor expense, compensation and benefits costs;

Employee retention and labor shortages;

Changes in employment, wage and hour laws and regulations in the U.S., France and elsewhere, including loi de Sécurisation de l'emploi, unionization rule and regulations by the National Labor Relations Board, equal pay initiatives, additional anti-discrimination rules or tests and different interpretations of exemptions from overtime laws;

Labor strikes, stoppages, disruptions or other disruptions at our facilities;

The impact of tariffs, and the imposition of any future tariffs and other trade barriers, and the effects of retaliatory trade measures;

38

---

Existing and future governmental regulation and the enforcement thereof, for example relating to the tobacco industry, taxation and the environment (including the impact thereof on our Chinese joint ventures);

New reports as to the effect of smoking on human health or the environment;

Changes in general economic, financial and credit conditions in the U.S., Europe, China and elsewhere, including the impact thereof on currency exchange rates (including any weakening of the euro and Real) and on interest rates;

Changes in the method pursuant to which LIBOR rates are determined and the potential phasing out of LIBOR after 2021;

Changes in the manner in which we finance our debt and future capital needs, including potential acquisitions;

The success of, and costs associated with, our current or future restructuring initiatives, including the granting of any needed governmental approvals and the occurrence of work stoppages or other labor disruptions;

Changes in the discount rates, revenue growth, cash flow growth rates or other assumptions used by the Company in its assessment for impairment of assets and adverse economic conditions or other factors that would result in significant impairment charges;

The failure of one or more material suppliers, including energy, resin and pulp suppliers, to supply materials as needed to maintain our product plans and cost structure;

International conflicts and disputes, such as those involving the Russian Federation, Korea and the Middle East, which restrict our ability to supply products into affected regions, due to the corresponding effects on demand, the application of international sanctions, or practical consequences on transportation, banking transactions, and other commercial activities in troubled regions;

Compliance with the FCPA and other anti-corruption laws or trade control laws, as well as other laws governing our operations;

The pace and extent of further international adoption of LIP cigarette standards and the nature of standards so adopted;

Risks associated with our 50%-owned, non-U.S. joint ventures relating to control and decision-making, compliance, accounting standards, transparency and customer relations, among others;

A failure in our risk management and/or currency or interest rate swaps and hedging programs, including the failures of any insurance company or counterparty;

The number, type, outcomes (by judgment or settlement) and costs of legal, tax, regulatory or administrative proceedings, litigation and/or amnesty programs, including those in Brazil, France and Germany;

The outcome and cost of LIP-related intellectual property infringement and validity litigation in Europe and the Glatz's German Patent Court invalidation proceedings;

Risks associated with our technological advantages in our intellectual property and the likelihood that our current technological advantages are unable to continue indefinitely;





Risks associated with acquisitions or other strategic transactions, including acquired liabilities and restrictions, retaining customers from businesses acquired, achieving any expected results or synergies from acquired businesses, complying with new regulatory frameworks, difficulties in integrating acquired businesses or implementing strategic transactions generally and risks associated with international acquisition transactions, including in countries where we do not currently have a material presence;

Risks associated with dispositions, including post-closing claims being made against us, disruption to our other businesses during a sale process or thereafter, credit risks associated with any buyer of such disposed assets and our ability to collect funds due from any such buyer;

Risks associated with our global asset realignment initiatives, including: changes in tax law, treaties, interpretations, or regulatory determinations; audits made by applicable regulatory authorities and/or our auditor; and our ability to operate our business in a manner consistent with the regulatory requirements for such realignment;

- Increased taxation on tobacco-related products;

Costs and timing of implementation of any upgrades or changes to our information technology systems;

Failure by us to comply with any privacy or data security laws or to protect against theft of customer, employee and corporate sensitive information;

Changes in tax rates, the adoption of new U.S. or international tax legislation or exposure to additional tax liabilities;

Changes in construction and infrastructure spending and its impact on demand for certain products;

Potential loss of consumer awareness and demand for acquired companies' products if it is decided to rebrand those products under the Company's legacy brand names; and

Other factors described elsewhere in this document and from time to time in documents that we file with the SEC.

All forward-looking statements made in this document are qualified by these cautionary statements. Forward-looking statements herein are made only as of the date of this document, and we do not undertake any obligation, other than as may be required by law, to update or revise any forward-looking or cautionary statements to reflect changes in assumptions, the occurrence of events, unanticipated or otherwise, or changes in future operating results over time or otherwise.

Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance unless expressed as such, and should only be viewed as historical data.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our market risk exposure at March 31, 2019 is consistent with, and not materially different than, the market risk and discussion of exposure presented under the caption “Quantitative and Qualitative Disclosures about Market Risk” in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2018.

### Item 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

We currently have in place systems relating to disclosure controls and procedures designed to ensure the timely recording, processing, summarizing and reporting of information required to be disclosed in periodic reports under the Securities Exchange Act of 1934, as amended. These disclosure controls and procedures include those designed to ensure that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions about required disclosure. Upon completing our review and evaluation of the effectiveness of our disclosure controls and procedures as of March 31, 2019, our Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures were effective as of March 31, 2019.

#### Changes in Internal Control Over Financial Reporting

No changes in our internal control over financial reporting were identified as having occurred in the fiscal quarter ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

## Item 1. Legal Proceedings

The Company is involved in various legal proceedings and disputes. See Note 19. Commitments and Contingencies of the notes to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2018 and Note 13. Commitments and Contingencies of the notes to the unaudited condensed consolidated financial statements included in this report. Except as may have been referenced elsewhere in this report, there have been no material developments with regard to these matters.

## Item 1A. Risk Factors

As of March 31, 2019, there were no material changes in the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## Purchases of Equity Securities By the Issuer and Affiliated Purchasers

The following table indicates the cost of and number of shares of the Company's common stock it repurchased during 2019:

## Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Programs
			(# shares)	(\$ in millions)
January 1 - 31, 2019	2,345	\$ 25.05	—	—
February 1 - 28, 2019	21,363	38.97	—	—
March 1 - 31, 2019	664	37.55	—	—
Total Year-to-Date 2019	24,372	\$ 37.59	—	—

From time to time, the Company uses corporate 10b5-1 plans to allow for share repurchases to be made at predetermined stock price levels, without restricting such repurchases to specific windows of time. Any future common stock repurchases will be dependent upon various factors, including the Company's stock price, strategic opportunities and cash availability.

## Item 3. Defaults Upon Senior Securities

Not applicable.

## Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

42

---

Item 6. Exhibits

Exhibit  
Number Exhibit

- 3.1 Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 10-Q for the quarter ended September 30, 2009).
- 3.2 Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on February 22, 2019).
- 10.1 Annual Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 22, 2019).
- 10.2 Letter of Agreement, dated March 26, 2019, between Schweitzer-Mauduit International, Inc. and Michael L. Schmit (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 29, 2019).
- 31.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15(d)-14(a) of the Securities Exchange Act of 1934, as amended.
- 31.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15(d)-14(a) of the Securities Exchange Act of 1934, as amended.
- 32 Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Statements of Comprehensive Income (Loss), (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Changes in Stockholders' Equity, (v) the Condensed Consolidated Statements of Cash Flow, and (vi) Notes to Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Schweitzer-Mauduit International, Inc.  
(Registrant)

By: /s/ Andrew Wamser  
Andrew Wamser  
Executive Vice President and  
Chief Financial Officer  
(duly authorized officer and principal accounting and financial officer)

May 1, 2019

## GLOSSARY OF TERMS

The following are definitions of certain terms that may be used in this Quarterly Report on Form 10-Q filing:

- "Flax" is a cellulose fiber from a flax plant used as a raw material in the production of certain cigarette papers.
- "Net debt to EBITDA ratio" is a financial measurement used in bank covenants where "Net Debt" is defined as consolidated total debt minus unrestricted domestic cash and cash equivalents and 65% of non-domestic unrestricted domestic cash and cash equivalents, in excess of \$15 million, and "EBITDA" is defined as net income plus the sum of interest expense, income tax expense, depreciation and amortization, non-cash restructuring and impairment charges less amortization of deferred revenue and interest in the earnings of equity affiliates to the extent such earnings are not distributed to the Company.
- "Total debt to capital ratio" is total debt divided by the sum of total debt and total stockholders' equity.
- "Net operating working capital" is accounts receivable, inventory, income taxes receivable and prepaid expense, less accounts payable, accrued expenses and income taxes payable.
- "Polyurethane" is a polymer composed of organic units joined by carbamate (urethane) links.
- "Reconstituted tobacco" is produced in two forms: leaf, or reconstituted tobacco leaf, and wrapper and binder products. Reconstituted tobacco leaf is blended with virgin tobacco as a design aid to achieve certain attributes of finished cigarettes. Wrapper and binder are reconstituted tobacco products used by manufacturers of cigars.
- "Reverse osmosis" is a water purification technology that uses a semipermeable membrane to remove larger particles from drinking water.
- "Thermoplastics" are a plastic material, polymer, that becomes pliable or moldable above a specific temperature and solidifies upon cooling.
- "Tobacco paper" includes cigarette paper which wraps the column of tobacco within a cigarette and has varying properties such as basis weight, porosity, opacity, tensile strength, texture and burn rate, as well as plug wrap paper which wraps the outer layer of a cigarette filter and is used to hold the filter materials in a cylindrical form, and tipping paper which joins the filter element to the tobacco-filled column of the cigarette and is both printable and glueable at high speeds.