

POLYONE CORP  
Form 10-Q  
April 26, 2018

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended March 31, 2018

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 1-16091

POLYONE CORPORATION  
(Exact name of registrant as specified in its charter)

Ohio 34-1730488  
(State or other jurisdiction (I.R.S. Employer Identification No.)  
of incorporation or organization)

33587 Walker Road, Avon Lake, Ohio 44012  
(Address of principal executive offices) (Zip Code)  
Registrant's telephone number, including area code: (440) 930-1000

Former name, former address and former fiscal year, if changed since last report: Not Applicable  
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No  
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  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. (Check one):  
Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) 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 number of the registrant's outstanding common shares, \$0.01 par value, as of March 31, 2018 was 79,971,013.



## Part I — Financial Information

## Item 1. Financial Statements

## PolyOne Corporation

## Condensed Consolidated Statements of Income (Unaudited)

(In millions, except per share data)

|   | Three Months<br>Ended March 31, |         |
|---|---------------------------------|---------|
|   | 2018                            | 2017    |
| Sales   | \$901.6                         | \$796.7 |
| Cost of sales   | 703.1                           | 614.5   |
| Gross margin  | 198.5                           | 182.2   |
| Selling and administrative expense  | 119.7                           | 100.2   |
| Operating income  | 78.8                            | 82.0    |
| Interest expense, net   | (15.5 )                         | (14.6 ) |
| Debt extinguishment costs   | —                               | (0.3 )  |
| Other income, net   | 1.1                             | 0.9     |
| Income from continuing operations before income taxes                                   | 64.4                            | 68.0    |
| Income tax expense  | (16.7 )                         | (19.7 ) |
| Net income from continuing operations   | 47.7                            | 48.3    |
| Loss from discontinued operations, net of income taxes                                  | (0.8 )                          | (1.4 )  |
| Net income attributable to PolyOne common shareholders                                  | \$46.9                          | \$46.9  |
| Earnings (loss) per common share attributable to PolyOne common shareholders - Basic:   |                                 |         |
| Continuing operations   | \$0.59                          | \$0.58  |
| Discontinued operations   | (0.01 )                         | (0.01 ) |
| Total   | \$0.58                          | \$0.57  |
| Earnings (loss) per common share attributable to PolyOne common shareholders - Diluted: |                                 |         |
| Continuing operations   | \$0.59                          | \$0.58  |
| Discontinued operations   | (0.01 )                         | (0.01 ) |
| Total   | \$0.58                          | \$0.57  |
| Weighted-average shares used to compute earnings per common share:                      |                                 |         |
| Basic   | 80.4                            | 82.1    |
| Plus dilutive impact of share-based compensation  | 0.9                             | 0.6     |
| Diluted   | 81.3                            | 82.7    |
| Anti-dilutive shares not included in diluted common shares outstanding                  | 0.1                             | 0.3     |
| Cash dividends declared per share of common stock                                       | \$0.175                         | \$0.135 |

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

PolyOne Corporation  
 Consolidated Statements of Comprehensive Income (Unaudited)  
 (In millions)

|  | Three<br>Months<br>Ended<br>March 31, |        |
|--|---------------------------------------|--------|
|  | 2018                                  | 2017   |
| Net income   | \$46.9                                | \$46.9 |
| Other comprehensive income                                       |                                       |        |
| Translation adjustments  | 10.6                                  | 6.4    |
| Other  | —                                     | 0.1    |
| Comprehensive income attributable to PolyOne common shareholders | \$57.5                                | \$53.4 |

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

PolyOne Corporation  
Condensed Consolidated Balance Sheets  
(In millions)

|                           | (Unaudited)<br>March 31,<br>2018 | December<br>31, 2017 |
|---------------------------|----------------------------------|----------------------|
| Assets                    |                                  |                      |
| Current assets:           |                                  |                      |
| Cash and cash equivalents | \$ 165.5                         | \$ 243.6             |
| Accounts receivable, net  | 490.8                            | 392.4                |
| Inventories, net          | 322.0                            | 327.8                |
| Other current assets      | 57.0                             | 102.8                |
| Total current assets      | 1,035.3                          | 1,066.6              |
| Property, net             | 486.5                            | 461.6                |
| Goodwill                  | 635.6                            | 610.5                |
| Intangible assets, net    | 426.6                            | 400.0                |
| Other non-current assets  | 159.9                            | 166.6                |
| Total assets              | \$ 2,743.9                       | \$ 2,705.3           |

Liabilities and Shareholders' Equity

|  |            |            |
|--|------------|------------|
| Current liabilities:                             |            |            |
| Short-term and current portion of long-term debt | \$ 35.1    | \$ 32.6    |
| Accounts payable                                 | 416.2      | 388.9      |
| Accrued expenses and other current liabilities   | 120.6      | 149.1      |
| Total current liabilities                        | 571.9      | 570.6      |
| Non-current liabilities:                         |            |            |
| Long-term debt                                   | 1,318.8    | 1,276.4    |
| Pension and other post-retirement benefits       | 62.4       | 62.3       |
| Other non-current liabilities                    | 205.7      | 196.6      |
| Total non-current liabilities                    | 1,586.9    | 1,535.3    |
| Shareholders' equity:                            |            |            |
| PolyOne shareholders' equity                     | 584.2      | 598.5      |
| Noncontrolling interests                         | 0.9        | 0.9        |
| Total equity                                     | 585.1      | 599.4      |
| Total liabilities and shareholders' equity       | \$ 2,743.9 | \$ 2,705.3 |

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

PolyOne Corporation  
Condensed Consolidated Statements of Cash Flows (Unaudited)  
(In millions)

|   | Three Months<br>Ended March 31, |          |
|---|---------------------------------|----------|
|   | 2018                            | 2017     |
| Operating Activities  |                                 |          |
| Net income  | \$46.9                          | \$46.9   |
| Adjustments to reconcile net income to net cash used by operating activities:             |                                 |          |
| Depreciation and amortization   | 22.4                            | 26.1     |
| Accelerated depreciation and fixed asset charges associated with restructuring activities | —                               | 0.4      |
| Debt extinguishment costs   | —                               | 0.3      |
| Share-based compensation expense  | 2.7                             | 2.4      |
| Change in assets and liabilities, net of the effect of acquisitions:                      |                                 |          |
| Increase in accounts receivable   | (82.4 )                         | (86.7 )  |
| Decrease (increase) in inventories  | 17.0                            | (22.4 )  |
| Increase in accounts payable  | 16.6                            | 38.5     |
| Decrease in pension and other post-retirement benefits                                    | (2.3 )                          | (3.3 )   |
| Increase (decrease) in accrued expenses and other assets and liabilities - net            | 5.8                             | (25.9 )  |
| Net cash provided (used) by operating activities  | 26.7                            | (23.7 )  |
| Investing Activities  |                                 |          |
| Capital expenditures  | (12.9 )                         | (15.5 )  |
| Business acquisitions, net of cash acquired   | (73.0 )                         | (20.9 )  |
| Sale of and proceeds from other assets  | —                               | 0.9      |
| Net cash used by investing activities   | (85.9 )                         | (35.5 )  |
| Financing Activities  |                                 |          |
| Borrowings under credit facilities  | 286.6                           | 288.8    |
| Repayments under credit facilities  | (249.1 )                        | (248.4 ) |
| Purchase of common shares for treasury  | (42.2 )                         | (34.3 )  |
| Cash dividends paid   | (14.2 )                         | (11.3 )  |
| Repayment of long-term debt   | (1.6 )                          | (1.6 )   |
| Payments of withholding tax on share awards   | (1.6 )                          | (2.3 )   |
| Debt financing costs  | —                               | (1.9 )   |
| Net cash used by financing activities   | (22.1 )                         | (11.0 )  |
| Effect of exchange rate changes on cash   | 3.2                             | 1.2      |
| Decrease in cash and cash equivalents   | (78.1 )                         | (69.0 )  |
| Cash and cash equivalents at beginning of period  | 243.6                           | 226.7    |
| Cash and cash equivalents at end of period  | \$165.5                         | \$157.7  |
| See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.      |                                 |          |

PolyOne Corporation

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 1 — BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Form 10-Q instructions and in the opinion of management contain all adjustments, including those that are normal recurring, necessary to present fairly the financial position, results of operations and cash flows for the periods presented. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. These interim financial statements should be read in conjunction with the financial statements and accompanying notes included in the annual report on Form 10-K for the year ended December 31, 2017 of PolyOne Corporation. When used in this quarterly report on Form 10-Q, the terms “we,” “us,” “our”, "PolyOne" and the “Company” mean PolyOne Corporation and its consolidated subsidiaries.

Operating results for the three months ended March 31, 2018 are not necessarily indicative of the results that may be attained in subsequent periods or for the year ending December 31, 2018. Historical information has been retrospectively adjusted to reflect the classification of discontinued operations. Discontinued operations are further detailed in Note 3, Discontinued Operations in our annual report on Form 10-K for the year ended December 31, 2017.

Accounting Standards Adopted

On January 1, 2018, the Company adopted Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers and all related amendments (the Standard), for all contracts using the modified retrospective method. The Standard implements a five-step process for revenue recognition that focuses on transfer of control and defines a contract as “an agreement between two or more parties that creates legally enforceable rights and obligations.” The adoption of the Standard did not significantly impact the timing and measurement of revenue recognition. Additionally, we concluded that the methodology for which we historically estimated and recognized variable consideration (e.g. rebates) is consistent with the requirements of the Standard. As a result, we did not recognize a cumulative effect adjustment to the opening balance of retained earnings.

At contract inception, PolyOne assesses the goods and services promised to a customer and identifies a performance obligation for each promised good or service that is distinct. Our contracts, generally in the form of a purchase order or written contract, specifies the product or service that is promised to the customer. The typical contract life is less than 12 months and contains only one performance obligation, to provide conforming goods or services to the customer. Revenue is recognized at the point in time when control of the product is transferred to the customer, which typically occurs when products are shipped from our facilities with the exception of certain contract manufacturing arrangements.

Within the Performance Products & Solutions (PP&S) segment, there are certain contract manufacturing arrangements where PolyOne charges the customer a conversion fee for processing raw materials that are owned and controlled by the customer. PolyOne will recognize revenue for these contract manufacturing arrangements over time, as we convert customer owned material, and have elected the “right to invoice” practical expedient available within ASC 606-10-55-18 as our measure of progress. Order fulfillment cycles are short and at any given time we have a right to payment from a customer in an amount that corresponds directly with the value of our performance completed to-date. The revenue streams within the Company are consistent with those disclosed for our reportable segments, within Note 8, Segment Information. For descriptions of our product offerings and segments see Note 14, Segment Information in our annual report on Form 10-K for the year ended December 31, 2017. We offer more than 35,000 polymer solutions to over 10,000 customers across the world. No customer accounts for more than 3% of our consolidated revenues and we do not have a high concentration of business in one particular end market.

In October 2016, the FASB issued Accounting Standards Update (ASU) 2016-16, Income Taxes (Topic 740), Intra-Entity Transfers of Assets Other than Inventory (ASU 2016-16), which requires companies to recognize the income tax effects of intercompany sales or transfers of assets, other than inventory, in the income statement as

income tax expense (or benefit) in the period the sale or transfer occurs. We recognized an adjustment of \$17.0 million to beginning retained earnings upon adoption of this standard on January 1, 2018 from transactions completed as of December 31, 2017.

In March 2017, the FASB issued ASU 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (ASU 2017-07). This standard



requires the presentation of the service cost component of the net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. All other components of net periodic benefit cost must be presented below operating income. The Company has adopted ASU 2017-07 as of January 1, 2018.

ASU 2017-07 provides a practical expedient to utilize previously disclosed components of net periodic benefit costs as an estimate for retrospective presentation. Utilizing this practical expedient, the Company reclassified non-service components of net periodic benefit cost from Cost of sales and Selling and administrative expense into Other income, net on the Consolidated Statements of Income. The adoption of ASU 2017-07 resulted in \$1.4 million and \$2.0 million of the non-service components of net periodic benefit gain presented in Other income, net for the three months ended March 31, 2018 and 2017, respectively. For additional detail on the components of our annual net periodic benefit cost please see Note 10, Employee Benefit Plans in our annual report on Form 10-K for the year ended December 31, 2017.

#### Accounting Standards Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) (ASU 2016-02), which requires a lessee to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases with a lease term of more than twelve months. Leases will continue to be classified as either financing or operating, with classification affecting the recognition, measurement and presentation of expenses and cash flows arising from a lease. The Company will adopt ASU 2016-02 no later than the required date of January 1, 2019. The implementation team is analyzing our current lease portfolio and assessing the transition method and impact this standard will have on our Consolidated Financial Statements as well as future disclosure requirements.

#### Note 2 — BUSINESS COMBINATIONS

On January 2, 2018, the Company acquired the outstanding shares of IQAP Masterbatch Group S.L. (IQAP) for \$73.0 million, net of cash acquired. IQAP is an innovative provider of specialty colorants and additives based in Spain with customers throughout Europe. The IQAP results are reported in the Color, Additives and Inks segment. The preliminary purchase price allocation resulted in intangible assets of \$31.9 million, property, plant and equipment of \$24.1 million, goodwill of \$23.8 million, other liabilities of \$21.1 million and net working capital of \$14.4 million. Goodwill is not deductible for tax purposes. The intangible assets that have been acquired are being amortized over a period of 13 to 20 years. IQAP's sales included in our three month ended March 31, 2018 results were \$16.7 million.

#### Note 3 — GOODWILL AND INTANGIBLE ASSETS

Goodwill as of March 31, 2018 and December 31, 2017, and changes in the carrying amount of goodwill by segment were as follows:

| (In millions)                              | Specialty<br>Engineered<br>Materials | Color,<br>Additives and<br>Inks | Performance<br>Products<br>and<br>Solutions | PolyOne<br>Distribution | Total   |
|--|--------------------------------------|---------------------------------|---|-------------------------|---------|
| Balance December 31, 2017                  | \$ 173.2                             | \$ 424.5                        | \$ 11.2                                     | \$ 1.6                  | \$610.5 |
| Acquisition of businesses                  | —                                    | 23.8                            | —   | —                       | 23.8    |
| Currency translation and other adjustments | —                                    | 1.3                             | —   | —                       | 1.3     |
| Balance March 31, 2018                     | \$ 173.2                             | \$ 449.6                        | \$ 11.2                                     | \$ 1.6                  | \$635.6 |

Indefinite and finite-lived intangible assets consisted of the following:

| (In millions)                 | As of March 31, 2018 | Acquisition<br>Cost | Accumulated<br>Amortization | Currency<br>Translation | Net |
|-------------------------------|----------------------|---------------------|-----------------------------|-------------------------|-----|
| Customer relationships        | \$269.9              | \$ (64.8 )          | \$ 0.5                      | \$205.6                 |     |
| Patents, technology and other | 177.5                | (57.4 )             | 0.6                         | 120.7                   |     |
| Indefinite-lived trade names  | 100.3                | —                   | —                           | 100.3                   |     |
| Total                         | \$547.7              | \$ (122.2 )         | \$ 1.1                      | \$426.6                 |     |



| (In millions)                 | As of December 31, 2017 |                          |                      |         |
|-------------------------------|-------------------------|--------------------------|----------------------|---------|
|                               | Acquisition Cost        | Accumulated Amortization | Currency Translation | Net     |
| Customer relationships        | \$257.3                 | \$ (61.5 )               | \$ 0.1               | \$195.9 |
| Patents, technology and other | 158.2                   | (54.4 )                  | —                    | 103.8   |
| Indefinite-lived trade names  | 100.3                   | —                        | —                    | 100.3   |
| Total                         | \$515.8                 | \$ (115.9 )              | \$ 0.1               | \$400.0 |

## Note 4 — INVENTORIES, NET

Components of Inventories, net are as follows:

| (In millions)              | March 31, December 31, |          |
|----------------------------|------------------------|----------|
|                            | 2018                   | 2017     |
| Finished products          | \$ 190.1               | \$ 203.3 |
| Work in process            | 7.7                    | 5.1      |
| Raw materials and supplies | 124.2                  | 119.4    |
| Inventories, net           | \$ 322.0               | \$ 327.8 |

## Note 5 — PROPERTY, NET

Components of Property, net are as follows:

| (In millions)                                  | March 31, December 31, |          |
|--|------------------------|----------|
|  | 2018                   | 2017     |
| Land and land improvements <sup>(1)</sup>      | \$ 48.4                | \$ 40.7  |
| Buildings <sup>(2)</sup>                       | 327.0                  | 303.5    |
| Machinery and equipment                        | 1,088.0                | 1,038.0  |
| Property, gross                                | 1,463.4                | 1,382.2  |
| Less accumulated depreciation and amortization | (976.9 )               | (920.6 ) |
| Property, net                                  | \$ 486.5               | \$ 461.6 |

(1) Land and land improvements include properties under capital leases of \$1.7 million as of March 31, 2018 and December 31, 2017.

(2) Buildings include properties under capital leases of \$16.5 million as of March 31, 2018 and December 31, 2017.

## Note 6 — INCOME TAXES

The Tax Cuts and Jobs Act (TCJA) was enacted on December 22, 2017. Among other things, effective in 2018, the TCJA reduces the U.S. federal corporate tax rate from 35% to 21%, exempts from U.S. federal income taxation dividends from certain foreign corporations to their U.S. shareholders, eliminates or reduces the effect of various federal tax deductions and creates new taxes on certain outbound payments and future foreign earnings generated after 2017. The TCJA also requires U.S. companies to pay a one-time transition tax on earnings of foreign corporate subsidiaries that are at least ten-percent owned by such U.S. companies and that were previously deferred from U.S. taxation.

We have not completed our accounting for the tax effects of the enactment of the TCJA; however, in compliance with the SEC's amendment to Staff Accounting Bulletin (SAB) 118 (issued December 22, 2017), we have made a reasonable estimate of the effects on our existing deferred income tax balances and the one-time transition tax, which was included as a component of income tax expense from continuing operations for the year ending December 31, 2017. Accordingly, we have not made any additional measurement period adjustments related to these items during the three months ended March 31, 2018. Once we have finalized our 2017 tax returns, we will update our estimates based on our completed review, including the consideration of additional clarifications on the TCJA from the U.S. government. Any adjustments to our provisional amounts will be disclosed in our respective filings within the one-year measurement period provided by SAB 118.

We have elected to recognize the resulting tax on the global intangible low-taxed income (GILTI) as a period expense in the period the tax is incurred and we have included a provisional estimate for GILTI in our estimated annual effective tax rate.

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During the three months ended March 31, 2018, the Company's effective tax rate of 25.9% was above the Company's U.S. federal statutory rate of 21.0%. This was primarily a result of a foreign withholding tax liability associated with the repatriation of certain foreign earnings (5.3%) and contemplation of GILTI to our current year operations (1.5%), which was partially offset by lower statutory tax rate differences on foreign earnings.

During the three months ended March 31, 2017, the Company's effective tax rate of 29.0% was below the Company's federal statutory rate of 35.0% primarily due to lower statutory tax rate differences on foreign earnings.

#### Note 7 — FINANCING ARRANGEMENTS

Debt consists of the following instruments:

|   | Principal<br>Amount | Unamortized<br>discount and<br>debt<br>issuance<br>cost | Net Debt  | Weighted<br>average<br>interest<br>rate |
|---|---------------------|---|-----------|---|
| As of March 31, 2018 (In millions)                    |                     |   |           |   |
| Senior secured revolving credit facility due 2022     | \$94.2              | \$ —  | \$94.2    | 3.22 %                                  |
| Senior secured term loan due 2022                     | 635.9               | 8.0   | 627.9     | 3.59 %                                  |
| 5.25% senior notes due 2023                           | 600.0               | 5.7   | 594.3     | 5.25 %                                  |
| Other debt <sup>(1)</sup>                             | 37.5                | —   | 37.5      |   |
| Total debt  | \$1,367.6           | \$ 13.7   | \$1,353.9 |   |
| Less short-term and current portion of long-term debt | 35.1                | —   | 35.1      |   |
| Total long-term debt, net of current portion          | \$1,332.5           | \$ 13.7   | \$1,318.8 |   |
| As of December 31, 2017 (In millions)                 |                     |   |           |   |
| Senior secured revolving credit facility due 2022     | \$56.5              | \$ —  | \$56.5    | 2.77 %                                  |
| Senior secured term loan due 2022                     | 637.5               | 8.5   | 629.0     | 3.27 %                                  |
| 5.25% senior notes due 2023                           | 600.0               | 6.0   | 594.0     | 5.25 %                                  |
| Other debt <sup>(1)</sup>                             | 29.5                | —   | 29.5      |   |
| Total debt  | \$1,323.5           | \$ 14.5   | \$1,309.0 |   |
| Less short-term and current portion of long-term debt | 32.6                | —   | 32.6      |   |
| Total long-term debt, net of current portion          | \$1,290.9           | \$ 14.5   | \$1,276.4 |   |

(1) Other debt includes capital lease obligations of \$17.8 million as of March 31, 2018 and December 31, 2017.

On April 11, 2018, the Company entered into a fifth amendment to its senior secured term loan. Under the terms of the amended senior secured term loan, the margin was reduced by 25 basis points to 175 basis points. At the Company's discretion, interest is based upon (i) a margin rate of 175 basis points plus the 1-, 2-, 3-, or 6-month LIBOR, subject to a floor of 75 basis points or (ii) a margin rate of 75 basis points plus a Prime Rate, subject to a floor of 175 basis points.

The agreements governing our senior secured revolving credit facility and our senior secured term loan, and the indentures and credit agreements governing other debt, contain a number of customary financial and restrictive covenants that, among other things, limit our ability to: consummate asset sales, incur additional debt or liens, consolidate or merge with any entity or transfer or sell all or substantially all of our assets, pay dividends or make certain other restricted payments, make investments, enter into transactions with affiliates, create dividend or other payment restrictions with respect to subsidiaries, make capital investments and alter the business we conduct. As of March 31, 2018, we were in compliance with all covenants.

The estimated fair value of PolyOne's debt instruments at March 31, 2018 and December 31, 2017 was \$1,372.6 million and \$1,343.3 million, respectively, compared to carrying values of \$1,353.9 million and \$1,309.0 million as of March 31, 2018 and December 31, 2017, respectively. The fair value of PolyOne's debt instruments was estimated using prevailing market interest rates on debt with similar creditworthiness, terms and maturities and represent Level 2 measurements within the fair value hierarchy.

#### Note 8 — SEGMENT INFORMATION

Operating income is the primary measure that is reported to our chief operating decision maker (CODM) for purposes of allocating resources to the segments and assessing their performance. Operating income at the segment level does

not include: corporate general and administrative expenses that are not allocated to segments; intersegment sales and profit eliminations; charges related to specific strategic initiatives such as the consolidation of operations; restructuring activities, including employee separation costs resulting from personnel reduction programs, plant realignment costs; executive separation agreements; share-based compensation costs; asset impairments; environmental remediation costs and other liabilities for facilities no longer owned or closed in prior years; gains and losses on the divestiture of joint ventures and equity investments; actuarial gains and losses associated with our pension and other post-retirement benefit plans; and certain other items that are not included in the measure of segment

profit or loss that is reported to and reviewed by our chief operating decision maker. These costs are included in Corporate and eliminations.

PolyOne has four reportable segments: (1) Color, Additives and Inks; (2) Specialty Engineered Materials; (3) Performance Products and Solutions; and (4) PolyOne Distribution.

Segment information for the three months ended March 31, 2018 and 2017 is as follows:

| (In millions)                      | Three Months Ended<br>March 31, 2018 |                |                     | Three Months Ended March<br>31, 2017 |                |                     |
|------------------------------------|--------------------------------------|----------------|---------------------|--------------------------------------|----------------|---------------------|
|                                    | Sales<br>to<br>External<br>Customers | Total<br>Sales | Operating<br>Income | Sales<br>to<br>External<br>Customers | Total<br>Sales | Operating<br>Income |
| Color, Additives and Inks          | \$269.1                              | \$270.9        | \$ 42.1             | \$206.5                              | \$ 211.8       | \$ 35.1             |
| Specialty Engineered Materials     | 150.7                                | 163.1          | 20.1                | 146.6                                | 159.1          | 22.9                |
| Performance Products and Solutions | 170.6                                | 191.0          | 22.7                | 162.2                                | 183.7          | 22.1                |
| PolyOne Distribution               | 311.2                                | 315.5          | 18.2                | 281.4                                | 286.1          | 18.6                |
| Corporate and eliminations         | —                                    | (38.9 )        | (24.3 )             | —                                    | (44.0 )        | (16.7 )             |
| Total                              | \$901.6                              | \$901.6        | \$ 78.8             | \$796.7                              | \$ 796.7       | \$ 82.0             |

| (In millions)                      | Total Assets      |                      |
|------------------------------------|-------------------|----------------------|
|                                    | March 31,<br>2018 | December 31,<br>2017 |
| Color, Additives and Inks          | \$1,275.1         | \$ 1,146.8           |
| Specialty Engineered Materials     | 559.9             | 545.1                |
| Performance Products and Solutions | 291.0             | 275.8                |
| PolyOne Distribution               | 260.0             | 250.9                |
| Corporate and eliminations         | 357.9             | 486.7                |
| Total assets                       | 2,743.9           | 2,705.3              |

#### Note 9 — COMMITMENTS AND CONTINGENCIES

Environmental — We have been notified by federal and state environmental agencies and by private parties that we may be a potentially responsible party (PRP) in connection with the environmental investigation and remediation of certain sites. While government agencies frequently assert that PRPs are jointly and severally liable at these sites, in our experience, the interim and final allocations of liability costs are generally made based on the relative contribution of waste. We may also initiate corrective and preventive environmental projects of our own to ensure safe and lawful activities at our operations. We believe that compliance with current governmental regulations at all levels will not have a material adverse effect on our financial position, results of operations or cash flows.

In September 2007, the United States District Court for the Western District of Kentucky in the case of Westlake Vinyls, Inc. v. Goodrich Corporation, et al., held that PolyOne must pay the remediation costs at the former Goodrich Corporation Calvert City facility (now largely owned and operated by Westlake Vinyls), together with certain defense costs of Goodrich Corporation. The rulings also provided that PolyOne can seek indemnification for contamination attributable to Westlake Vinyls.

Following the Court rulings, the parties to the litigation agreed to settle all claims regarding past environmental costs incurred at the site. The settlement agreement provides a mechanism to pursue allocation of future remediation costs at the Calvert City site to Westlake Vinyls. We will adjust our accrual, in the future, consistent with any such future allocation of costs. Additionally, we continue to pursue available insurance coverage related to this matter and recognize gains as we receive reimbursement.

The environmental obligation at the site arose as a result of an agreement between The B.F. Goodrich Company (n/k/a Goodrich Corporation) and our predecessor, The Geon Company, at the time of the initial public offering in 1993. Under the agreement, The Geon Company agreed to indemnify Goodrich Corporation for certain environmental costs at the site. Neither PolyOne nor The Geon Company ever operated the facility.

Since 2009, PolyOne, along with respondents Westlake Vinyls, Inc., and Goodrich Corporation, have worked with the United States Environmental Protection Agency (USEPA) on the investigation of contamination at the site as well as evaluation of potential remedies to address the contamination. As recently as November 2017, the USEPA indicated



it supported a containment remedy that is technologically feasible and would protect human health and the environment, minimize disruption to the ongoing operations at the site, and appropriately balance cost with effectiveness.

Contrary to prior understanding, the USEPA issued a proposed plan for the site on December 1, 2017 identifying significant remedial actions beyond containment. The public comment period for the USEPA's proposed plan ended on February 13, 2018. During the public comment period, we had meaningful discussions with the USEPA regarding an alternative remedy, performed additional technical analysis to support our remedy, and have provided this information to the USEPA in our formal comment response. We believe this alternative is equally protective of human health and the environment, can commence contamination removal much more quickly, is less disruptive to the business operating at the site, and is more cost effective. These discussions, along with our technical analysis of an alternative remedy, give us reason to believe that there are two likely outcomes, the EPA's proposed plan and our proposed alternative remedy, with neither outcome being more likely than the other. As such, we have not adjusted our current reserve of \$107.0 million, which reflects the low end of the range of these two outcomes. Based on the USEPA's proposed plan issued on December 1, 2017, the cost estimate for their proposed remedy is \$244.0 million. The USEPA is expected to issue its Record of Decision in 2018, and if the USEPA determines our alternative remedy is not appropriate, there could be an adjustment to increase our current reserve based on the proposed plan issued on December 1, 2017.

On March 13, 2013, PolyOne acquired Spartech Corporation (Spartech). One of Spartech's subsidiaries, Franklin-Burlington Plastics, Inc. (Franklin-Burlington), operated a plastic resin compounding facility in Kearny, New Jersey, located adjacent to the Passaic River. The USEPA requested that companies located in the area of the lower Passaic River, including Franklin-Burlington, cooperate in an investigation of contamination of approximately 17 miles of the lower Passaic River Study Area (the LPRSA). In response, Franklin-Burlington and approximately 70 other companies (collectively, the Cooperating Parties) agreed, pursuant to an Administrative Order on Consent (AOC) with the USEPA, to assume responsibility for development of a Remedial Investigation and Feasibility Study (RIFS) of the LPRSA. The RIFS costs are exclusive of any costs that may ultimately be required to remediate the LPRSA or costs associated with natural resource damages that may be assessed. By agreeing to bear a portion of the cost of the RIFS, Franklin-Burlington did not admit to any liability or agree to bear any such remediation or natural resource damage costs.

In 2015, the Cooperating Parties submitted to the USEPA a remedial investigation report and feasibility study for the LPRSA, and are currently engaged in technical discussions with the USEPA regarding those documents. Neither of those documents contemplates who is responsible for remediation or how such costs might be allocated to PRPs. In March 2016, the USEPA issued a Record of Decision selecting a remedy for an eight-mile portion of the LPRSA at an estimated and discounted cost of \$1.4 billion. On March 31, 2016, the USEPA sent a Notice of Potential Liability to over 100 companies, including Franklin-Burlington, and several municipalities for this eight-mile portion. In September 2016, the USEPA reached an agreement with Occidental Chemical Corporation (OCC), which orders OCC to perform the remedial design for the lower eight mile portion of the Passaic River. In September 2017, the USEPA sent a letter to over 80 companies, including Franklin-Burlington indicating that the USEPA would engage the recipients in an allocation process for the lower eight miles of the LPRSA and has engaged a third party allocator as part of that process. Franklin-Burlington is participating in the development of the allocation process with the other parties and the allocator identified by the USEPA, and any allocation for the lower eight miles of the LPRSA is expected to continue into at least 2019.

Based on the currently available information, we have found no evidence that Franklin-Burlington contributed any of the primary contaminants of concern to the lower Passaic River. A timeline as to when an allocation of the remedial costs may be determined is not yet known and any allocation to Franklin-Burlington has not been determined. As a result of these uncertainties, we are unable to estimate a liability related to this matter and, as of March 31, 2018, we have not accrued for costs of remediation related to the lower Passaic River.

During the three months ended March 31, 2018 and 2017, PolyOne recognized \$3.1 million and \$2.2 million, respectively, of expense related to environmental remediation activities. During the three months ended March 31, 2018 PolyOne received \$0.7 million of insurance recoveries for previously incurred environmental costs. These

expenses and insurance recoveries are included within Cost of sales within our Condensed Consolidated Statements of Income. Insurance recoveries are recognized as a gain when received.

Our Consolidated Balance Sheet includes accruals totaling \$116.5 million and \$117.1 million as of March 31, 2018 and December 31, 2017, respectively, based on our estimates of probable future environmental expenditures relating to previously contaminated sites. These undiscounted amounts are included in Accrued expenses and other liabilities and Other non-current liabilities on the accompanying Consolidated Balance Sheets. The accruals represent our best estimate of probable future costs that we can reasonably estimate, based upon currently available information and technology and our view of the most likely remedy. Depending upon the results of future testing, completion and results

of remedial investigation and feasibility studies, the ultimate remediation alternatives undertaken, changes in regulations, technology development, new information, newly discovered conditions and other factors, it is reasonably possible that we could incur additional costs in excess of the amount accrued at March 31, 2018. However, such additional costs, if any, cannot be currently estimated.

Note 10 — EQUITY

Changes in accumulated other comprehensive loss year-to-date as of March 31, 2018 and 2017 were as follows:

| (In millions)              | Cumulative<br>Translation<br>Adjustment | Pension and<br>Other<br>Post-Retirement<br>Benefits | Other  | Total    |
|----------------------------|---|---|--------|----------|
| Balance at January 1, 2018 | \$ (58.6 )                              | \$ 5.2  | \$ —   | \$(53.4) |
| Translation adjustments    | 10.6                                    | —   | —      | 10.6     |
| Balance at March 31, 2018  | \$ (48.0 )                              | \$ 5.2  | \$ —   | \$(42.8) |
| Balance at January 1, 2017 | \$ (99.8 )                              | \$ 5.2  | \$ 0.4 | \$(94.2) |
| Translation adjustments    | 6.4                                     | —   | —      | 6.4      |
| Unrecognized gain          | —                                       | —   | 0.1    | 0.1      |
| Balance at March 31, 2017  | \$ (93.4 )                              | \$ 5.2  | \$ 0.5 | \$(87.7) |

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Our Business

We are a premier provider of specialized polymer materials, services and solutions with operations in specialty engineered materials, advanced composites, color and additive systems and polymer distribution. We are also a highly specialized developer and manufacturer of performance enhancing additives, liquid colorants, and fluoropolymer and silicone colorants. Headquartered in Avon Lake, Ohio, we have employees at manufacturing sites and distribution facilities in North America, South America, Europe and Asia. We provide value to our customers through our ability to link our knowledge of polymers and formulation technology with our manufacturing and supply chain capabilities to provide value-added solutions to designers, assemblers and processors of plastics (our customers). When used in this quarterly report on Form 10-Q, the terms "we," "us," "our", "PolyOne" and the "Company" mean PolyOne Corporation and its consolidated subsidiaries.

### Highlights and Executive Summary

A summary of PolyOne's sales, operating income, net income and net income attributable to PolyOne common shareholders follows:

| (In millions)  | Three Months<br>Ended March 31, |         |
|--|---------------------------------|---------|
|  | 2018                            | 2017    |
| Sales  | \$901.6                         | \$796.7 |
| Operating income                                       | \$78.8                          | \$82.0  |
| Net income from continuing operations                  | \$47.7                          | \$48.3  |
| Loss from discontinued operations, net of income taxes | (0.8 )                          | (1.4 )  |
| Net income   | \$46.9                          | \$46.9  |
| Net income attributable to PolyOne common shareholders | \$46.9                          | \$46.9  |

### Recent Developments

On January 2, 2018, the Company completed the acquisition of IQAP Masterbatch Group S.L. (IQAP) for \$73.0 million, net of cash acquired. IQAP is an innovative provider of specialty colorants and additives based in Spain with customers throughout Europe. The IQAP results are reported in the Color, Additives and Inks segment. IQAP is expected to add approximately \$56.0 million to total sales on an annual basis.

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Results of Operations — The three months ended March 31, 2018 compared to three months ended March 31, 2017:

| (Dollars in millions, except per share data)           | Three Months Ended March 31, |         | Variances — Favorable (Unfavorable) |          |
|--|------------------------------|---------|-------------------------------------|----------|
|  | 2018                         | 2017    | Change                              | % Change |
| Sales  | \$901.6                      | \$796.7 | \$104.9                             | 13.2 %   |
| Cost of sales  | 703.1                        | 614.5   | (88.6 )                             | (14.4 )% |
| Gross margin   | 198.5                        | 182.2   | 16.3                                | 8.9 %    |
| Selling and administrative expense                     | 119.7                        | 100.2   | (19.5 )                             | (19.5 )% |
| Operating income                                       | 78.8                         | 82.0    | (3.2 )                              | (3.9 )%  |
| Interest expense, net                                  | (15.5 )                      | (14.6 ) | (0.9 )                              | (6.2 )%  |
| Debt extinguishment costs                              | —                            | (0.3 )  | 0.3                                 | 100.0 %  |
| Other income, net                                      | 1.1                          | 0.9     | 0.2                                 | 22.2 %   |
| Income from continuing operations before income taxes  | 64.4                         | 68.0    | (3.6 )                              | (5.3 )%  |
| Income tax expense                                     | (16.7 )                      | (19.7 ) | 3.0                                 | 15.2 %   |
| Net income from continuing operations                  | 47.7                         | 48.3    | (0.6 )                              | (1.2 )%  |
| Loss from discontinued operations, net of income taxes | (0.8 )                       | (1.4 )  | 0.6                                 | 42.9 %   |
| Net income attributable to PolyOne common shareholders | \$46.9                       | \$46.9  | \$—                                 | — %      |

Earnings (loss) per common share attributable to PolyOne common shareholders - Basic:

|                         |         |         |
|-------------------------|---------|---------|
| Continuing operations   | \$0.59  | \$0.58  |
| Discontinued operations | (0.01 ) | (0.01 ) |
| Total                   | \$0.58  | \$0.57  |

Earnings (loss) per common share attributable to PolyOne common shareholders - Diluted:

|                         |         |         |
|-------------------------|---------|---------|
| Continuing operations   | \$0.59  | \$0.58  |
| Discontinued operations | (0.01 ) | (0.01 ) |
| Total                   | \$0.58  | \$0.57  |

Sales

Sales increased \$104.9 million, or 13.2%, in the three months ended March 31, 2018 compared to the three months ended March 31, 2017 driven by organic sales growth of 5.9%, an increase from acquisitions of 4.4% and a favorable foreign exchange impact of 2.9%.

Cost of sales

As a percent of sales, cost of sales increased from 77.1% in the three months ended March 31, 2017 to 78.0% in the three months ended March 31, 2018, primarily as a result of raw material cost inflation and increased logistics costs in North America.

Selling and administrative expense

Selling and administrative expense increased \$19.5 million during the three months ended March 31, 2018 compared to the three months ended March 31, 2017. This increase was driven by \$6.9 million associated with acquired businesses, a \$4.3 million favorable legal settlement received in 2017, a \$3.8 million reversal of certain non-income tax reserves in 2017 due to the expiration of statute of limitations and \$2.0 million of additional compensation and employee costs, which included increases associated with our continued investment in commercial resources.

Income taxes

During the three months ended March 31, 2018, the Company's effective tax rate was 25.9% versus 29.0% for the three months ended March 31, 2017, primarily due to the enactment of the Tax Cuts and Jobs Act (TCJA), which lowered the U.S. federal corporate tax rate from 35% to 21%. Although the rate primarily decreased due to the lower U.S. rate for the three months ended March 31, 2018, the following items offset such decrease as compared to 2017: foreign withholding tax from the anticipated repatriation of certain foreign earnings and the contemplation of GILTI to our current operations.



## SEGMENT INFORMATION

Operating income is the primary measure that is reported to our chief operating decision maker for purposes of allocating resources to the segments and assessing their performance. Operating income at the segment level does not include: corporate general and administrative expenses that are not allocated to segments; intersegment sales and profit eliminations; charges related to specific strategic initiatives such as the consolidation of operations; restructuring activities, including employee separation costs resulting from personnel reduction programs, plant realignment costs; executive separation agreements; share-based compensation costs; asset impairments; environmental remediation costs and other liabilities for facilities no longer owned or closed in prior years; gains and losses on the divestiture of joint ventures and equity investments; actuarial gains and losses associated with our pension and other post-retirement benefit plans; and certain other items that are not included in the measure of segment profit or loss that is reported to and reviewed by our chief operating decision maker. These costs are included in Corporate and eliminations.

PolyOne has four reportable segments: (1) Color, Additives and Inks; (2) Specialty Engineered Materials; (3) Performance Products and Solutions; and (4) PolyOne Distribution. Our segments are further discussed in Note 8, Segment Information, to the accompanying Consolidated Financial Statements.

Sales and Operating Income — The three months ended March 31, 2018 compared to the three months ended March 31, 2017:

| (Dollars in millions)                             | Three Months<br>Ended March 31, |                | Variances —<br>Favorable<br>(Unfavorable) |                     |
|---|---------------------------------|----------------|---|---------------------|
|   | 2018                            | 2017           | Change                                    | %<br>Change         |
| <b>Sales:</b>                                     |                                 |                |   |                     |
| Color, Additives and Inks                         | \$270.9                         | \$211.8        | \$59.1                                    | 27.9 %              |
| Specialty Engineered Materials                    | 163.1                           | 159.1          | 4.0                                       | 2.5 %               |
| Performance Products and Solutions                | 191.0                           | 183.7          | 7.3                                       | 4.0 %               |
| PolyOne Distribution                              | 315.5                           | 286.1          | 29.4                                      | 10.3 %              |
| Corporate and eliminations                        | (38.9 )                         | (44.0 )        | 5.1                                       | 11.6 %              |
| <b>Total Sales</b>                                | <b>\$901.6</b>                  | <b>\$796.7</b> | <b>\$104.9</b>                            | <b>13.2 %</b>       |
| <b>Operating income:</b>                          |                                 |                |   |                     |
| Color, Additives and Inks                         | \$42.1                          | \$35.1         | \$7.0                                     | 19.9 %              |
| Specialty Engineered Materials                    | 20.1                            | 22.9           | (2.8 )                                    | (12.2)%             |
| Performance Products and Solutions                | 22.7                            | 22.1           | 0.6                                       | 2.7 %               |
| PolyOne Distribution                              | 18.2                            | 18.6           | (0.4 )                                    | (2.2 )%             |
| Corporate and eliminations                        | (24.3 )                         | (16.7 )        | (7.6 )                                    | (45.5)%             |
| <b>Total Operating Income</b>                     | <b>\$78.8</b>                   | <b>\$82.0</b>  | <b>\$(3.2 )</b>                           | <b>(3.9 )%</b>      |
| <b>Operating income as a percentage of sales:</b> |                                 |                |   |                     |
| Color, Additives and Inks                         | 15.5 %                          | 16.6 %         | (1.1 )                                    | %<br>points         |
| Specialty Engineered Materials                    | 12.3 %                          | 14.4 %         | (2.1 )                                    | %<br>points         |
| Performance Products and Solutions                | 11.9 %                          | 12.0 %         | (0.1 )                                    | %<br>points         |
| PolyOne Distribution                              | 5.8 %                           | 6.5 %          | (0.7 )                                    | %<br>points         |
| <b>Total</b>                                      | <b>8.7 %</b>                    | <b>10.3 %</b>  | <b>(1.6 )</b>                             | <b>%<br/>points</b> |

Color, Additives and Inks

Sales increased by \$59.1 million, or 27.9%, in the three months ended March 31, 2018 compared to the three months ended March 31, 2017. Acquisitions increased sales by 16.6%, favorable foreign exchange added 5.9% and organic sales increased 5.4% driven by growth in all regions.

Operating income rose by \$7.0 million in the three months ended March 31, 2018 as compared to the three months ended March 31, 2017 as a result of the increased sales, partially offset by higher raw material costs and increased costs from our continued investment in commercial resources.



### Specialty Engineered Materials

Sales increased \$4.0 million, or 2.5%, in the three months ended March 31, 2018 compared to the three months ended March 31, 2017. Sales growth in Europe and Asia contributed 7.0% (including favorable foreign exchange of 5.8%) and was partially offset by lower sales in North America, primarily in wire and cable applications.

Operating income decreased \$2.8 million in the three months ended March 31, 2018 as compared to the three months ended March 31, 2017 due to lower sales in North America, the impact of raw material cost inflation and increased costs from our continued investment in commercial resources.

### Performance Products and Solutions

Sales increased \$7.3 million, or 4.0%, in the three months ended March 31, 2018 as compared to the three months ended March 31, 2017 due to volume growth as well as higher average selling prices, resulting from an increase in hydrocarbon based raw material costs.

Operating income increased \$0.6 million in the three months ended March 31, 2018 as compared to the three months ended March 31, 2017 as the benefit of increased sales was partially offset by raw material cost inflation, increased costs from our continued investment in commercial resources and higher logistics costs.

### PolyOne Distribution

Sales increased \$29.4 million, or 10.3%, in the three months ended March 31, 2018 as compared to the three months ended March 31, 2017 as a result of volume growth and higher overall average selling prices associated with hydrocarbon based raw material cost inflation.

Operating income decreased \$0.4 million in the three months ended March 31, 2018 as compared to the three months ended March 31, 2017 primarily as a result of increased selling and administrative expense, including our continued investment in commercial resources and higher logistics costs.

### Corporate and Eliminations

Corporate and eliminations increased \$7.6 million in the three months ended March 31, 2018 as compared to the three months ended March 31, 2017 primarily as a result of a \$4.3 million favorable legal settlement received in 2017 and a \$3.8 million reversal of certain non-income tax reserves in 2017 due to the expiration of statute of limitations.

### Liquidity and Capital Resources

Our objective is to finance our business through operating cash flow and an appropriate mix of debt and equity. We may from time to time seek to retire or purchase our outstanding debt with cash and/or exchanges for equity securities, in open market purchases, privately negotiated transactions or otherwise. We may also seek to repurchase our outstanding common shares. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved have been and may continue to be material.

The following table summarizes our liquidity as of March 31, 2018 and December 31, 2017:

| (In millions)                 | March 31, December 31, |          |
|-------------------------------|------------------------|----------|
|                               | 2018                   | 2017     |
| Cash and cash equivalents     | \$ 165.5               | \$ 243.6 |
| Revolving credit availability | 305.9                  | 330.3    |
| Liquidity                     | \$ 471.4               | \$ 573.9 |

As of March 31, 2018, approximately 91% of the Company's cash and cash equivalents resided outside the United States. Repatriation of such foreign cash and cash equivalents are exempt from domestic taxation pursuant to the enactment of the TCJA, but in certain cases may be subject to foreign taxes. During the first quarter of 2018, in contemplation of the TCJA enactment, we determined we would repatriate certain foreign earnings. This repatriation of cash is subject to foreign withholding taxes and a deferred tax liability of \$3.4 million was recorded as of March 31, 2018. As we continue to assess the impacts of the TCJA and the geopolitical environment in foreign countries, strategic repatriation opportunities may arise and could result in a recognition of additional tax liabilities.

After considering the impact of foreign tax credit carryforwards, we anticipate that the resulting cash tax payable as a result of the one-time transition tax on previously deferred foreign earnings is estimated to be less than \$10.0 million.



## Cash Flows

The following describes the significant components of cash flows from operating, investing and financing activities for the three months ended March 31, 2018 and 2017.

**Operating Activities** — In the three months ended March 31, 2018, net cash provided by operating activities was \$26.7 million as compared to net cash used by operating activities of \$23.7 million for the three months ended March 31, 2017 primarily reflecting a receipt of \$27.9 million of U.S. federal income tax refunds and a decrease in inventory during the three months ended March, 31, 2018.

Working capital as a percentage of sales, which we define as the average accounts receivable, plus average inventory, less average accounts payable, divided by sales, for the first quarter of 2018 increased to 10.6% compared to 10.1% for the first quarter of 2017. This working capital percentage increase is primarily due to the impact of recent acquisitions.

**Investing Activities** — Net cash used by investing activities during the three months ended March 31, 2018 of \$85.9 million reflects \$73.0 million for the acquisition of IQAP and \$12.9 million of capital expenditures.

Net cash used by investing activities during the three months ended March 31, 2017 of \$35.5 million reflects \$20.9 million for the acquisition of SilCoTec, Inc. and \$15.5 million of capital expenditures.

**Financing Activities** — Net cash used by financing activities for the three months ended March 31, 2018 of \$22.1 million reflects \$42.2 million of repurchases of our outstanding common shares and \$14.2 million of dividends paid, offset by net borrowings of \$37.5 million under our senior secured revolving credit facility.

Net cash used by financing activities for the three months ended March 31, 2017 of \$11.0 million reflects the net borrowings of \$40.4 million under our senior secured revolving credit facility, primarily offset by \$34.3 million of repurchases of our outstanding common shares and \$11.3 million of dividends paid.

## Debt

As of March 31, 2018, the principal amount of debt totaled \$1,367.6 million. Aggregate maturities of the principal amount of debt for the current year, next five years and thereafter, are as follows:

(In millions)

|                      |           |
|----------------------|-----------|
| 2018                 | \$33.4    |
| 2019                 | 6.6       |
| 2020                 | 8.0       |
| 2021                 | 7.4       |
| 2022                 | 707.3     |
| 2023                 | 600.4     |
| Thereafter           | 4.5       |
| Aggregate maturities | \$1,367.6 |

As of March 31, 2018, we were in compliance with all customary financial and restrictive covenants pertaining to our debt. For additional information regarding our debt please see Note 7, Financing Arrangements.

## Contractual Obligations

We have future obligations under various contracts relating to debt and interest payments, operating leases, pension and post-retirement benefit plans and purchase obligations. During the three months ended March 31, 2018, there were no material changes to these obligations as reported in our annual report on Form 10-K for the year ended December 31, 2017.

## CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

In this quarterly report on Form 10-Q, statements that are not reported financial results or other historical information are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements give current expectations or forecasts of future events and are not guarantees of future performance. They are based on management’s expectations that involve a number of business risks and uncertainties, any of which could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. You can identify these statements by the fact that they do not relate strictly to historic or current facts. They use words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe” and other words and terms of meaning in connection with any discussion of future operating or financial performance and/or sales. In particular, these include statements relating to future actions; prospective changes in raw material costs, product pricing or product demand; future performance; estimated capital expenditures; results of current and anticipated market conditions and market strategies; sales efforts; expenses; the outcome of contingencies such as legal proceedings and environmental liabilities; and financial results. Factors that could cause actual results to differ materially from those implied by these forward-looking statements include, but are not limited to:

- disruptions, uncertainty or volatility in the credit markets that could adversely impact the availability of credit already arranged and the availability and cost of credit in the future;
- the effect on foreign operations of currency fluctuations, tariffs and other political, economic and regulatory risks;
- changes in polymer consumption growth rates and laws and regulations regarding the disposal of plastic in jurisdictions where we conduct business;
- changes in global industry capacity or in the rate at which anticipated changes in industry capacity come online;
- fluctuations in raw material prices, quality and supply, and in energy prices and supply;
- production outages or material costs associated with scheduled or unscheduled maintenance programs;
- unanticipated developments that could occur with respect to contingencies such as litigation and environmental matters;
- information systems failures and cyberattacks;
- an inability to raise or sustain prices for products or services;
- factors affecting our business beyond our control, including, without limitation, changes in the general economy, changes in interest rates and changes in the rate of inflation; and
- other factors described in our annual report on Form 10-K for the year ended December 31, 2017 under Item 1A, “Risk Factors.”

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements. We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise, except as otherwise required by law. You are advised, however, to consult any further disclosures we make on related subjects in our reports on Forms 10-Q, 8-K and 10-K filed with the SEC. You should understand that it is not possible to predict or identify all risk factors. Consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to exposures to market risk as reported in our annual report on Form 10-K for the year ended December 31, 2017.

## ITEM 4. CONTROLS AND PROCEDURES

## Disclosure controls and procedures

PolyOne's management, under the supervision of and with the participation of its Chief Executive Officer and its Chief Financial Officer, has evaluated the effectiveness of the design and operation of PolyOne's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of the end of the period covered by this quarterly report. Based upon this evaluation, PolyOne's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this quarterly report, its disclosure controls and procedures were effective.

## Changes in internal control over financial reporting

There were no changes in PolyOne's internal control over financial reporting during the quarter ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

## PART II

## ITEM 1. LEGAL PROCEEDINGS

Information regarding certain legal proceedings can be found in Note 9, Commitments and Contingencies, to the consolidated financial statements and is incorporated by reference herein.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The table below sets forth information regarding repurchase of shares of our common shares during the period indicated.

| Period                    | Total Number of Shares Purchased | Weighted Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Program | Maximum Number of Shares that May Yet be Purchased Under the Program <sup>(1)</sup> |
|---------------------------|----------------------------------|---------------------------------------|--|---|
| January 1 to January 31   | 89,427                           | \$ 43.79                              | 89,427   | 6,396,447   |
| February 1 to February 28 | 910,573                          | 42.05                                 | 910,573  | 5,485,874   |
| March 1 to March 31       |                                  | —                                     |  | 5,485,874   |
| Total                     | 1,000,000                        | \$ 42.21                              | 1,000,000  |   |

<sup>(1)</sup> On August 18, 2008, we announced that our Board of Directors approved a common shares repurchase program authorizing PolyOne to purchase up to 10.0 million of its common shares. On October 11, 2011 and October 23, 2012, we further announced that our Board of Directors had increased the common shares repurchase authorization by an additional 5.3 million and 13.2 million, respectively. On May 16, 2016, we announced that we would increase our share buyback by 7.3 million to 10.0 million. As of March 31, 2018, approximately 5.5 million shares remain available for purchase under these authorizations. Purchases of common shares may be made by open market purchases or privately negotiated transactions and may be made pursuant to Rule 10b5-1 plans and accelerated share repurchases.

ITEM 6. EXHIBITS

EXHIBIT INDEX

| Exhibit No. | Exhibit Description  |
|-------------|--|
| <u>31.1</u> | <u>Certification of Robert M. Patterson, Chairman, President and Chief Executive Officer, pursuant to SEC Rules 13a-14(a) and 15d-14(a), adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>     |
| <u>31.2</u> | <u>Certification of Bradley C. Richardson, Executive Vice President, Chief Financial Officer, pursuant to SEC Rules 13a-14(a) and 15d-14(a), adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| <u>32.1</u> | <u>Certification pursuant to 18 U.S.C. § 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as signed by Robert M. Patterson, Chairman, President and Chief Executive Officer</u>            |
| <u>32.2</u> | <u>Certification pursuant to 18 U.S.C. § 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as signed by Bradley C. Richardson, Executive Vice President, Chief Financial Officer</u>        |
| 101.INS     | XBRL Instance Document   |
| 101.SCH     | XBRL Taxonomy Extension Schema Document  |
| 101.CAL     | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.DEF     | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB     | XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE     | XBRL Taxonomy Extension Presentation Linkbase Document   |

**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.

April 26, 2018 POLYONE CORPORATION

/s/ Bradley C. Richardson  
Bradley C. Richardson  
Executive Vice President,  
Chief Financial Officer