

OIL DRI CORP OF AMERICA  
Form 10-K  
October 07, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended July 31, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

\_\_\_\_\_

Commission File Number 001-12622

OIL-DRI CORPORATION OF AMERICA

Delaware 36-2048898  
(State or other jurisdiction of (IRS. Employer Identification No.)  
incorporation or organization)

410 North Michigan Avenue, Suite 400, Chicago, Illinois 60611-4213

(312) 321-1515

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.10 per share	New York Stock Exchange

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act:

Yes  No

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes  No

The aggregate market value of Oil-Dri's Common Stock owned by non-affiliates as of January 31, 2016 was \$184,774,000.

Number of shares of each class of Oil-Dri's capital stock outstanding as of September 30, 2016:

Common Stock – 5,071,613 shares

Class B Stock – 2,188,771 shares

Class A Common Stock – 0 shares

#### DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference: Oil-Dri's Proxy Statement for its 2016 Annual Meeting of Stockholders ("Proxy Statement"), which will be filed with the Securities and Exchange Commission ("SEC") not later than November 28, 2016 (120 days after the end of Oil-Dri's fiscal year ended July 31, 2016), is incorporated into Part III of this Annual Report on Form 10-K, as indicated herein.



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FORWARD-LOOKING STATEMENTS

Certain statements in this report, including those under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and those statements elsewhere in this report and other documents we file with the SEC, contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about our future performance, our business, our beliefs and our management’s assumptions. In addition, we, or others on our behalf, may make forward-looking statements in press releases or written statements, or in our communications and discussions with investors and analysts in the normal course of business through meetings, webcasts, phone calls and conference calls. Words such as “expect,” “outlook,” “forecast,” “would,” “could,” “should,” “project,” “intend,” “plan,” “continue,” “believe,” “seek,” “estimate,” “anticipate,” “may,” “assume,” variations of such words and similar expressions are intended to identify such forward-looking statements, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

Such statements are subject to certain risks, uncertainties and assumptions that could cause actual results to differ materially, including those described in Item 1A “Risk Factors” below and other documents we file with the SEC. Should one or more of these or other risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, intended, expected, believed, estimated, projected or planned. Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Except to the extent required by law, we do not have any intention or obligation to update publicly any forward-looking statements after the distribution of this report, whether as a result of new information, future events, changes in assumptions or otherwise.

TRADEMARK NOTICE

Agsorb, Amlan, Calibrin, Cat’s Pride, ConditionAde, Flo-Fre, Fresh & Light, Fresh & Light Ultimate Care, Jonny Cat, KatKit, Oil-Dri, Pel-Unite, Perform, Pro Mound, Pro's Choice Sports Field Products, Pure-Flo, Rapid Dry, Select, Terra-Green, Ultra-Clear and Verge are all U.S. registered trademarks of Oil-Dri Corporation of America or of its subsidiaries. Sular is a Canadian registered trademark of Oil-Dri Corporation of America. MD-09, Snow & Go and Varium are trademarks of Oil-Dri Corporation of America. Fresh Step is a registered trademark of The Clorox Company (“Clorox”).

## PART I

### ITEM 1 – BUSINESS

In 1969, Oil-Dri Corporation of America was incorporated in Delaware as the successor to an Illinois corporation incorporated in 1946; the Illinois corporation was the successor to a partnership that commenced business in 1941. Except as otherwise indicated herein or as the context otherwise requires, references to “Oil-Dri,” the “Company,” “we,” “us” or “our” refer to Oil-Dri Corporation of America and its subsidiaries.

#### GENERAL BUSINESS DEVELOPMENTS

Increased net sales for fiscal year 2016 were driven by our fluid purification and animal health products in global markets, as well as by domestic sales of our agriculture products. Net sales of our cat litter products were challenged by the weakening of the coarse litter segment of the market and our decision not to pursue continued business with two major low margin customers. Instead, we focused our resources to gain sales of our lightweight scoopable cat litter in this growing and competitive segment of the market. We launched an integrated marketing campaign to promote our lightweight cat litter in fiscal year 2016 and incurred significantly higher advertising expense compared to fiscal 2015.

Our greatly improved gross profit during fiscal year 2016 reflected a shift in sales to more value-added products in both operating segments and lower commodity costs. Also contributing to our net income growth was a lower effective tax rate on earnings due to the full release of a previously established valuation allowance associated with the deferred tax asset for domestic Alternative Minimum Tax (“AMT”) credits.

Our balance sheet at fiscal year-end 2016 remained strong. Total cash, cash equivalents and short-term investments increased from fiscal year-end 2015 even as we spent heavily for advertising, invested in capital at our plants, paid higher dividends and reduced our notes payable.

#### PRINCIPAL PRODUCTS

We are a leader in developing, manufacturing and/or marketing sorbent products. Our sorbent products are principally produced from clay minerals, primarily consisting of montmorillonite and attapulgite and, to a lesser extent, other clay-like sorbent materials, such as Antelope shale, which we refer to collectively as our “clay” or our “minerals.” Our sorbent technologies include absorbent and adsorbent products. Absorbents, like sponges, draw liquids up into their many pores. Examples of our absorbent clay products are Cat’s Pride and Jonny Cat branded premium cat litter, as well as other private label cat litters. We also produce Oil-Dri branded floor absorbents, Amlan branded animal health and nutrition solutions for livestock, and Agsorb and Verge agricultural chemical carriers. Adsorbent products attract impurities in liquids, such as metals and surfactants, and form low-level chemical bonds. Examples of our adsorbent products are Pure-Flo, Perform and Select bleaching clay products, which act as a filtration media for edible oils, fats and tallows. Also, our Ultra-Clear product serves as a purification aid for petroleum-based oils and by-products. We also sell some nonclay-based products, such as our Oil-Dri synthetic sorbents used for industrial cleanup. Our principal products are described in more detail below.

##### Agricultural and Horticultural Products

We produce a wide range of granular and powdered mineral absorbent products that are used for crop protection chemical carriers, drying agents, bulk processing aids, growing media components and seed enhancement media. Our brands include: Agsorb, an agricultural chemical carrier and drying agent; Verge, an engineered granule agricultural



chemical carrier; Flo-Fre, a highly absorbent microgranule flowability aid; and Terra-Green, a growing media supplement.

Agsorb and Verge carriers are used as an alternative to agricultural sprays. The clay granules absorb active ingredients and are then delivered directly into, or on top of, the ground providing a more precise application than chemical sprays. Verge carriers are spherical, uniform-sized granules with very low dust. Agsorb drying agent is blended into fertilizer-pesticide blends applied by farmers to absorb moisture and improve flowability. Agsorb also acts as a flowability aid for fertilizers and chemicals used in the lawn and garden market. Flo-Fre microgranules are used by grain processors and other large handlers of bulk products to soak up excess moisture, which prevents caking. We employ technical sales people to market these products in the United States.

### Animal Health and Nutrition Products

We produce, or use contract processors to produce, Amlan brand name and private label products that are used in various livestock feed industries, such as swine, poultry, shrimp and dairy cattle. Our Calibrin and ConditionAde products are used in animal feed and have different attributes that improve animal health and development, such as adsorbing naturally occurring mycotoxins or managing intestinal bacterial and fungal biotoxins. Our new Varium product was introduced in fiscal year 2016 to promote intestinal health in poultry. Our MD-09 moisture manager product is another feed additive for the reduction of wet droppings in poultry. In addition, our Pel-Unite and Pel-Unite Plus products are specialized animal feed pellet binders.

Our animal health and nutrition products are sold primarily through a network of distributors to livestock producers, feed mill operators, nutritionists and veterinarians in the United States, Latin America, Africa, the Middle East and Asia. The sales force for our subsidiary located in Shenzhen, China also sells these products, as further described in Foreign Operations below.

### Bleaching Clay and Purification Aid Products

We produce an array of bleaching, purification and filtration applications used by edible oil, jet fuel and other petroleum-based product processors around the world. Bleaching clays are used by edible oil processors to adsorb soluble contaminants that create oxidation problems. Our Pure-Flo and Perform bleaching clays remove impurities, such as trace metals, chlorophyll and color bodies, in various types of edible oils. Perform products provide increased activity for hard-to-bleach oils. Our Select adsorbents are used to remove contaminants in vegetable oil processing and can be used to prepare oil prior to the creation of biodiesel fuel. Our Ultra-Clear product is used as a filtration and purification medium for jet fuel and other petroleum-based products. These products are sold in the United States and in international markets by our team of technical sales employees, distributors and sales agents.

### Cat Litter Products

Branded products. We produce two types of mineral-based cat litter products, traditional coarse and scoopable, both of which have absorbent and odor controlling characteristics. Scoopable litters have the additional characteristic of clumping when exposed to moisture, allowing the consumer to selectively dispose of the used portion of the litter. Our coarse and scoopable products are sold under our Cat's Pride and Jonny Cat brand names. Our Cat's Pride Fresh & Light product line offers superior performance with the added convenience of being lighter to carry and pour. These products created the lightweight scoopable litter segment, which experienced the highest growth rate in the cat litter market during fiscal year 2016. In addition, we offer our coarse litter in a pre-packaged, disposable tray under the Cat's Pride KatKit and Jonny Cat brands. Moreover, we offer litter box liners under the Cat's Pride and Jonny Cat product lines. These products are sold through independent food brokers and by our sales force to major grocery, drug, dollar store, mass-merchandise and pet outlets.

Private label products. We also produce private label traditional coarse and scoopable cat litters for certain customers. We added scoopable lightweight cat litters to our private label offerings during fiscal year 2015.

Co-packaged products. We have two long-term supply arrangements (one of which is material to our business) under which we manufacture branded traditional litters for other marketers. Under these co-manufacturing relationships, the marketer controls all aspects of sales, marketing, and distribution, as well as the odor control formula, and we are responsible for manufacturing. The long-term supply agreement that is material to our business is with Clorox, under which we have the exclusive right to supply Clorox's requirements for Fresh Step coarse cat litter up to certain levels.

### Industrial and Automotive Products

We manufacture and/or sell products made from clay, polypropylene and recycled cotton materials that absorb oil, grease, water and other types of spills. These products are used in industrial, home and automotive environments. Our clay-based sorbent products, such as Oil-Dri branded and private label floor absorbents, are used for floor maintenance in industrial applications to provide a non-slip and non-flammable surface for workers. These floor absorbents are also used in automotive repair facilities, car dealerships and other industrial applications, as well as for home use in garages and driveways. Our Oil-Dri branded polypropylene-based and cotton-based products are sold in various forms, such as pads, rolls, socks, booms and spill kits. Snow & Go, a product made with a combination of clay and salt, serves as a winter traction aid that melts snow and ice and then absorbs the melted water before it can re-freeze.

Industrial and automotive sorbent products are sold through a distribution network that includes industrial, auto parts, safety, sanitary supply, chemical and paper distributors. These products are also sold through environmental service companies, mass-merchandisers, catalogs and the Internet.

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## Sports Products

We manufacture and sell both branded and private label sports products. Pro's Choice Sports Field Products are used on baseball, softball, football and soccer fields. Pro's Choice soil conditioners are used in field construction or as top dressing to absorb moisture, suppress dust and improve field performance. Pro Mound packing clay is used to construct pitcher's mounds and batter's boxes. Rapid Dry drying agent is used to dry up puddles and slick spots after rain. Sports products are used at all levels of play, including professional, college and high school and on municipal fields. These products are sold through a network of distributors specializing in sports turf products.

## BUSINESS SEGMENTS

We have two reportable operating segments for financial reporting derived from the different characteristics of our two major customer groups: Retail and Wholesale Products Group and Business to Business Products Group. The Retail and Wholesale Products Group customers include mass merchandisers, wholesale clubs, drugstore chains, pet specialty retail outlets, dollar stores, retail grocery stores, distributors of industrial cleanup and automotive products, environmental service companies and sports field product users. The Business to Business Products Group customers include: processors and refiners of edible oils, petroleum-based oils and biodiesel fuel; manufacturers of animal feed and agricultural chemicals; distributors of animal health and nutrition products; and marketers of consumer products. Certain financial information on both segments is contained in Note 3 of the Notes to the Consolidated Financial Statements and is incorporated herein by reference.

We do not manage our business, allocate resources or generate revenue data by product line. Any of our products may be sold in one or both of our operating segments. Information concerning total revenue of classes of similar products accounting for more than 10% of consolidated revenues in any of the last three fiscal years is not separately provided because it would be impracticable to do so.

## FOREIGN OPERATIONS

Our wholly-owned subsidiary, Amlan Trading (Shenzhen) Company, Ltd., located in Shenzhen, China, is dedicated to animal health and provides natural disease management solutions for livestock. This subsidiary sells animal health and nutrition products under our Amlan brand name and under private label arrangements.

Our wholly-owned subsidiary, Oil-Dri Canada ULC, is a manufacturer, distributor and marketer of branded and private label cat litter in the Canadian marketplace. Among its leading brands are Saular, Cat's Pride and Jonny Cat. Our Canadian business also manufactures or purchases and sells industrial granule floor absorbents, synthetic polypropylene sorbent materials and agricultural chemical carriers.

Our wholly-owned subsidiary, Oil-Dri (U.K.) Limited, is a manufacturer, distributor and marketer of industrial floor absorbents, bleaching earth and cat litter. These products are marketed in the United Kingdom and Western Europe. Oil-Dri (U.K.) Limited also sells synthetic polypropylene sorbent materials, filtration units and plastic containment products.

Our wholly-owned subsidiary, Oil-Dri SARL, is a Swiss company that performs various management, customer service and administrative functions for some of the international customers of our domestic operations.

Our foreign operations are subject to the normal risks of doing business overseas, such as currency fluctuations, restrictions on the transfer of funds and import/export duties. Our operating results have not historically been materially impacted by these foreign currency fluctuations; however, they did have some bearing on our fiscal year 2015 results. See Item 7A "Quantitative and Qualitative Disclosures About Market Risk" for further information about

our foreign markets risks. Certain financial information about our foreign operations is contained in Note 3 of the Notes to the Consolidated Financial Statements and is incorporated herein by reference.

#### CUSTOMERS

Sales to Wal-Mart Stores, Inc. (“Walmart”) and its affiliates accounted for approximately 19%, 18% and 19% of our total net sales for fiscal years 2016, 2015 and 2014, respectively. Walmart is a customer in our Retail and Wholesale Products Group. There are no customers in the Business to Business Products Group with sales equal to or greater than 10% of our total sales; however, sales to Clorox (a customer in our Business to Business Products Group) and its affiliates accounted for approximately 6% of total net sales for each of fiscal years 2016, 2015 and 2014. The degree of margin contribution of our significant customers in the Business to Business Products Group varies, with certain customers having a greater effect on our operating results. The

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loss of any customer other than those described in this paragraph would not be expected to have a material adverse effect on our business.

#### COMPETITION